30 YEARS

1986 • 2016

2016 Annual Report

Celebrating Thirty Years of *Community Building Through Community Banking*

30 YEARS

THE FORESIGHT BANKS

German American State Bank

northwestbank

State Bank
Freeport, IL

STATE BANK of DAVIS

SBH
STATE BANK OF HERSCHER

LENA STATE BANK

FORESIGHT
financial group, inc.

www.foresightfg.com

Dear Stockholders,

2016 was a very strong performance year for Foresight Financial Group. We continued our outstanding earnings growth trend along with strong organic growth in deposits and loans.

In 2016 Foresight grew loans by 8% and deposit growth exceeded 5%. Core earnings increased 5.5% or $522,000 over 2015. Basic earnings per share excluding the discount purchase of $0.31 per share in 2015 increased $0.14 to $2.73. Book value increased $2.44 per share.

These results come from highly motivated employees who are engaged in their communities always looking for ways to improve the customer's banking experience.

We continue to focus on growing our relationships with our current customer base by adding value. Our hands on approach working with our customers continues to build loyalty and leads to over 60% of our loan growth and contributes to strong fee income growth.

We continue to hold the largest market share in Stephenson County. Strong growth was also experienced in Winnebago and Kankakee Counties. We look forward to increased growth in the Kankakee market as we bring more innovative products and services to our newest franchise in Herscher, IL.

We continue to look forward to the future and the continued success of Foresight Financial Group. We have positioned the company with a strong Board of Directors and management teams at all the subsidiary banks. This along with our strong capital position, we believe we will continue to out-perform our peers over the long term as we have for many years.

We remain committed to improving Shareholder value, improving our delivery systems and staying true to our mission statement of ***"Community Building through Community Banking"***.

Respectfully,

Brent Myers
President and CEO

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

We will pursue these goals while balancing shareholder
and customer interests with the ongoing welfare
of our employees and local communities.

The member banks of our group maintain
a high degree of independence and
sensitivity to the concerns of the local communities
and markets that we choose to serve.

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

In summary:

"Community Building through Community Banking"

1986

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

1989

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

German American State Bank & State Bank of Davis merge to form

Foresight Financial Group

1990

Blunt, Ellis, and Lowe becomes first market maker for FFG stock; stock split 2 for 1.

Market Value
$1.20/share

1991

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

1993

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

"Community building through community banking."

1995

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

1996

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

1998

Doug Cross joins FFG to start a new community bank for the Freeport market.

1999

A sale of new FFG common stock raises $5 million to capitalize the State Bank, Freeport, which opened in May in the former branch office of State Bank of Davis and commenced in Freeport. German American State Bank opens a branch in Pecatonica. Initial internet banking product introduced to FFG bank customers. Net income $2,493,000; total assets $287 million; corporate debt -0-; FFG stock listed on the NASDAQ bulletin board under the symbol FGFH – Market Value $10.13 per share.

Market Value
$10.13/share

2000

The Foresight operations center project is completed, with major upgrading of technology infrastructure to a state of the art mainframe and networking infrastructure. Brent Myers hired as President of State Bank of Davis. Stock split 2 for 1.

Future 8,200 square foot headquarters of Foresight Financial Group at 809 Cannell-Puri Court, Winnebago, IL.

2001

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

2003

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

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

2004

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

2005

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

2006

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

2007

Jeff Sterling promoted to President of German American State Bank succeeding Jim Schneiderman. 2007 marks the beginning of the greatest economic downturn since the Great Depression.

2008

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

2010

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

2011

Foresight celebrates 25 years with over $885 million in assets and an employee base of over 190 staff members. Stock value climbs to $12.10 per share with a 25 year growth in common stock book value per share of over 2000%.

Foresight celebrates 25 years!

2012

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

Foresight recognized in US Banker magazine as one of the top 200 community banks for the third time in five years.

2013

Mary Hartman is promoted to President of State Bank, Freeport, replacing Doug Cross who remains Chairman of the Board. State Bank of Davis opens a Loan Production Office in Kankakee, IL.

2014

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

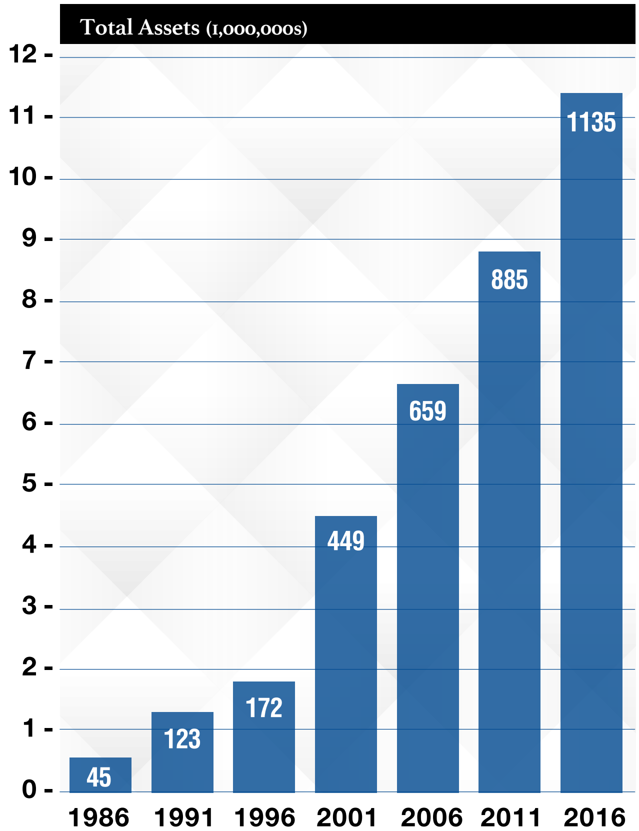
2015

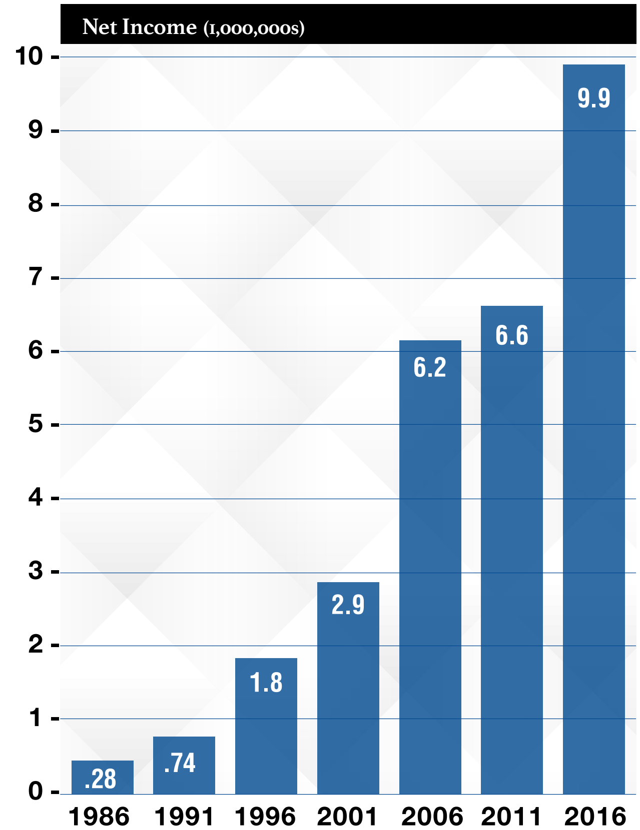
Foresight expands its geographical footprint through the acquisition of State Bank of Herscher, a $130 million, two branch community bank located in Herscher and Limestone, IL. Randy Chaplinski is named President of the newly acquired State Bank of Herscher. Record income of $10.5 million is reported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

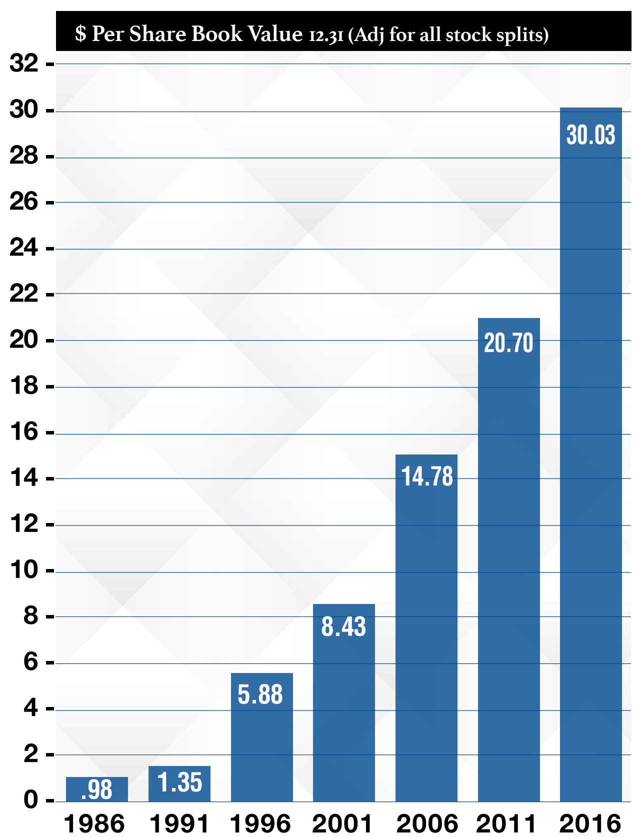
Market Value $29.75/share

2016

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


Total Assets (1,000,000s)
12 -
11 -
10 -
9 -
8 -
7 -
6 -
5 -
4 -
3 -
2 -
1 -
0 -
45
123
172
449
659
885
1135
1986
1991
1996
2001
2006
2011
2016


Net Income (1,000,000s)
10 -
9 -
8 -
7 -
6 -
5 -
4 -
3 -
2 -
1 -
0 -
.28
.74
1.8
2.9
6.2
6.6
9.9
1986
1991
1996
2001
2006
2011
2016


$ Per Share Book Value 12.31 (Adj for all stock splits)
32 -
30 -
28 -
26 -
24 -
22 -
20 -
18 -
16 -
14 -
12 -
10 -
8 -
6 -
4 -
2 -
0 -
.98
1.35
5.88
8.43
14.78
20.70
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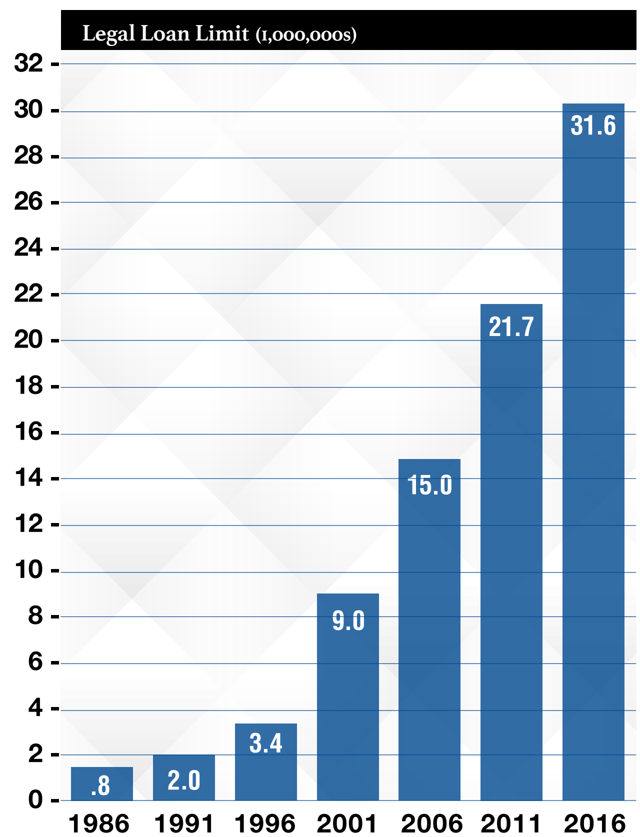
1986
1991
1996
2001
2006
2011
2016


Legal Loan Limit (1,000,000s)
32 -
30 -
28 -
26 -
24 -
22 -
20 -
18 -
16 -
14 -
12 -
10 -
8 -
6 -
4 -
2 -
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1986
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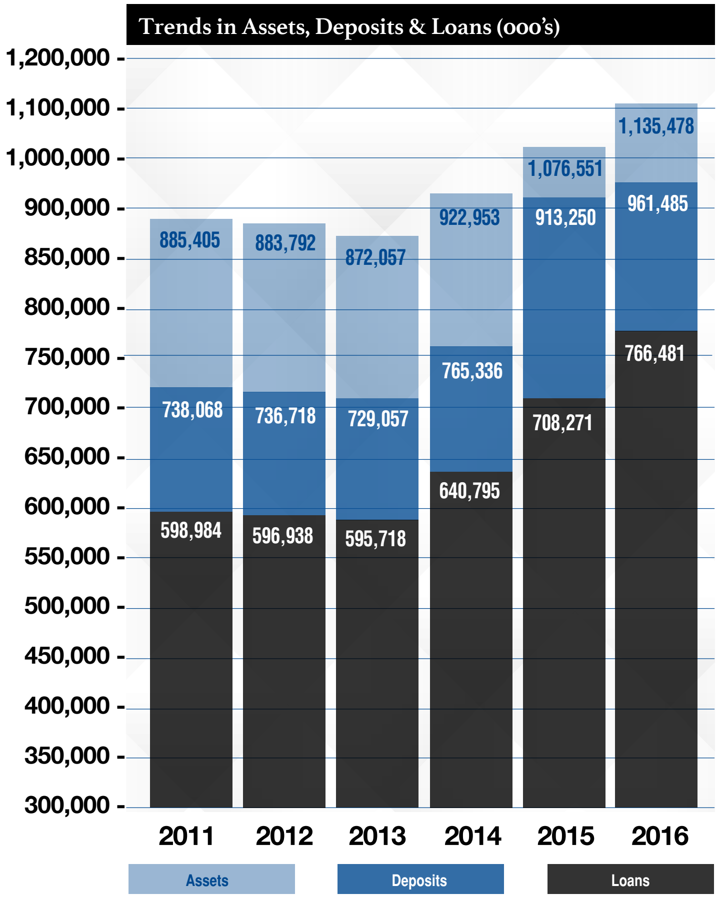
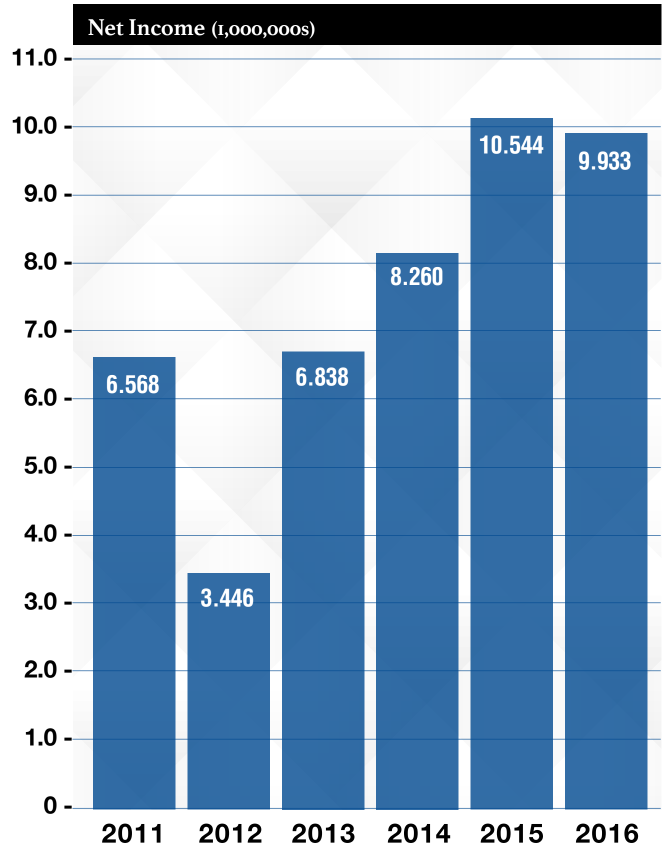
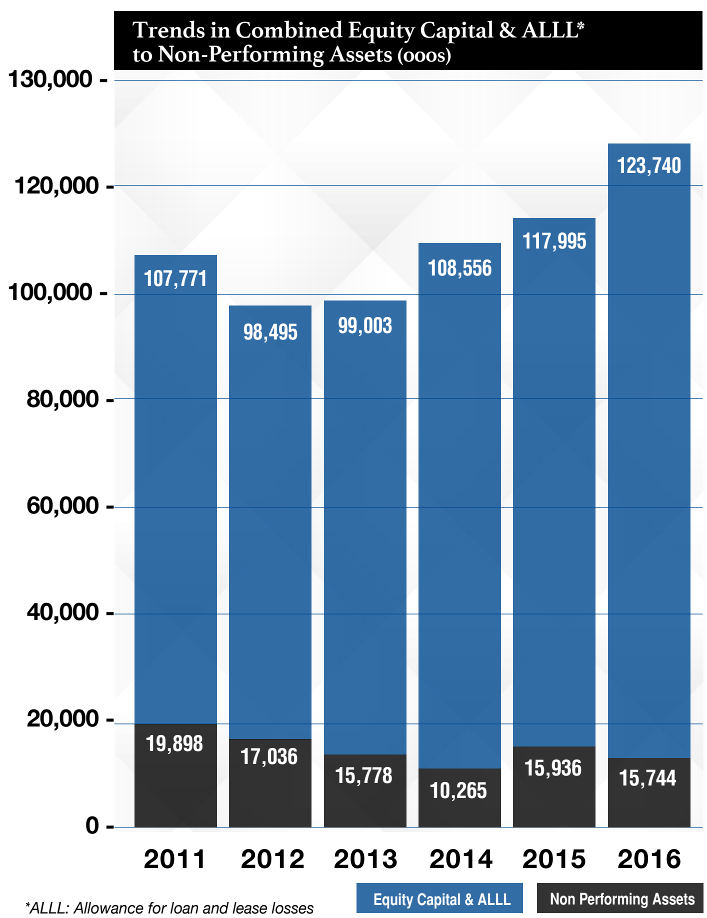
2011
2016







*ALLL: Allowance for loan and lease losses

General Information

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Foresight common stock is listed on the OTC Pink Marketplace under the trading symbol "FGFH".

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foresight Financial Group, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Foresight Financial Group, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foresight Financial Group, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Wipfli LLP

Rockford, Illinois
March 6, 2017

CONSOLIDATED BALANCE SHEETS
(000s omitted except share data)

	December 31,	
ASSETS	**2016**	2015
Cash and due from banks	**$19,974**	$21,461
Interest-bearing deposits in banks	**16,120**	5,398
Federal funds sold	**2,767**	1,047
Total cash and cash equivalents	**38,861**	27,906
Interest-bearing deposits in banks - term deposits	**10,607**	13,878
Securities:		
Securities held-to-maturity (HTM)	**732**	868
Securities available-for-sale (AFS)	**256,699**	277,300
Non-marketable equity securities, at cost	**2,852**	2,852
Loans held for sale	**2,217**	3,050
Loans, net of allowance for loan losses of $15,496 and $14,841, respectively	**766,481**	708,271
Foreclosed assets, net	**1,766**	3,106
Premises and equipment, net	**13,476**	11,694
Core deposit intangible	**1,535**	1,847
Bank owned life insurance	**21,527**	9,018
Other assets	**18,725**	16,761
Total assets	**$1,135,478**	$1,076,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	**$143,480**	$122,283
Interest-bearing	**818,005**	790,967
Total deposits	**961,485**	913,250
Federal funds purchased	**1,211**	503
Securities sold under agreements to repurchase	**25,107**	23,600
Federal Home Loan Bank (FHLB) advances and other borrowings	**23,818**	20,846
Subordinated debentures	**10,000**	10,000
Accrued interest payable and other liabilities	**5,613**	5,198
Total liabilities	**1,027,234**	973,397
Stockholders’ equity:		
Preferred stock (no par value; authorized 500,000 shares)	**0**	0
Common stock ($.25 par value; authorized 10,000,000 shares; 3,949,918 and 3,924,836 shares issued, respectively)	**988**	981
Additional paid-in capital	**8,955**	8,613
Retained earnings	**105,518**	96,385
Treasury stock, at cost (314,919 and 293,619 shares, respectively)	**(6,320)**	(5,787)
Accumulated other comprehensive (loss) income	**(897)**	2,962
Total stockholders’ equity	**108,244**	103,154
Total liabilities and stockholders’ equity	**$1,135,478**	$1,076,551

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2016	2015	2014
Interest and dividend income:			
Loans, including fees	**$36,492**	$31,908	$29,495
Debt securities:			
Taxable	**3,219**	3,437	3,076
Tax-exempt	**3,450**	3,455	3,512
Interest-bearing deposits in banks and other	**324**	223	104
Federal funds sold	**17**	16	6
Total interest and dividend income	**43,502**	39,039	36,193
Interest expense:			
Deposits	**5,813**	5,310	5,136
Federal funds purchased	**12**	10	14
Securities sold under agreements to repurchase	**102**	71	70
FHLB and other borrowings	**458**	318	188
Subordinated debentures	**602**	600	600
Total interest expense	**6,987**	6,309	6,008
Net interest and dividend income	**36,515**	32,730	30,185
Provision for loan losses	**2,917**	1,660	2,621
Net interest and dividend income, after provision for loan losses	**33,598**	31,070	27,564
Noninterest income:			
Customer service fees	**1,204**	1,165	1,150
(Loss) Gain on sales and calls of AFS securities, net	**(167)**	426	125
Gain on sales of loans, net	**1,521**	1,338	1,118
Loan servicing fees, net	**911**	740	655
Gain on acquisition bargain purchase	**0**	1,133	0
Other	**3,499**	2,854	2,364
Total noninterest income	**6,968**	7,656	5,412
Noninterest expenses:			
Salaries and employee benefits	**15,223**	14,139	12,651
Occupancy expense of premises, net	**2,406**	2,627	2,463
Outside services	**441**	236	261
Data processing	**924**	582	417
Foreclosed assets, net	**588**	601	487
Other	**7,138**	6,286	4,992
Total noninterest expenses	**26,719**	24,471	21,271
Income before income taxes	**13,847**	14,255	11,705
Income tax expense	**3,914**	3,711	3,445
Net income	**$9,933**	$10,544	$8,260
Earnings per common share:			
Basic	**$2.73**	$2.90	$2.27
Diluted	**$2.70**	$2.85	$2.24

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2016	2015	2014
Net income	**$9,933**	$10,544	$8,260
Other comprehensive (loss) income:			
Unrealized holding (gains) losses on securities available for sale, net of tax of $2,639, $182 & ($2,052), respectively	**(3,959)**	(273)	3,228
Reclassification adjustments for net securities losses (gains) recognized in income, net of tax of ($67), $169 & $50, respectively	**100**	(257)	(75)
Total other comprehensive (loss) income	**(3,859)**	(530)	3,153
Total comprehensive income	**$6,074**	$10,014	$11,413

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2014	$0	$969	$7,979	$79,037	($4,098)	$339	$84,226
Net income				8,260			8,260
Other comprehensive income						3,153	3,153
Cash dividends ($.20 per share)				(727)			(727)
Purchase of treasury stock (63,962 shares)					(1,214)		(1,214)
Stock options exercised		6	190				196
Stock-based compensation expense			91				91
Balance, December 31, 2014	0	975	8,260	86,570	(5,312)	3,492	93,985
Net income				10,544			10,544
Other comprehensive loss						(530)	(530)
Cash dividends ($.20 per share)				(729)			(729)
Purchase of treasury stock (20,000 shares)					(475)		(475)
Stock options exercised		5	226				231
Restricted stock vested (4,075 shares)		1	76				77
Stock-based compensation expense			51				51
Balance, December 31, 2015	0	981	8,613	96,385	(5,787)	2,962	103,154
Net income				9,933			9,933
Other comprehensive loss						(3,859)	(3,859)
Cash dividends ($.22 per share)				(800)			(800)
Purchase of treasury stock (21,300 shares)					(533)		(533)
Stock options exercised		5	181				186
Restricted stock vested (8,082 shares)		2	161				163
Balance, December 31, 2016	$0	$988	$8,955	$105,518	($6,320)	($897)	$108,244

See Notes to Consolidated Financial Statements.

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

	For the years ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$9,933**	$10,544	$8,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**2,917**	1,660	2,621
Provision for foreclosed asset (gains) losses	**137**	(756)	490
Depreciation	**953**	886	847
Net amortization of securities premiums	**1,635**	1,689	784
Income on bank owned life insurance	**(447)**	(235)	(215)
Deferred income tax benefit	**2,684**	318	101
Net loss (gain) on the sales and calls of AFS securities	**167**	(426)	(125)
Net gain on the sales of foreclosed assets	**(82)**	(121)	(205)
Stock-based compensation expense	**0**	51	91
Net change in:			
Loans held for sale	**833**	(1,611)	82
Other assets	**(4,336)**	(3,190)	459
Accrued interest payable and other liabilities	**415**	(1,261)	241
Net cash provided by operating activities	**14,809**	7,548	13,431
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks - term deposits	**3,271**	(8,681)	(234)
Proceeds from sales of AFS securities	**19,233**	20,475	14,601
Proceeds from maturities, calls, and paydowns of HTM securities	**170**	565	235
Proceeds from maturities, calls, and paydowns of AFS securities	**95,213**	60,813	33,021
Purchases of AFS securities	**(99,540)**	(113,401)	(41,378)
Purchases of bank owned life insurance	**(12,062)**	0	0
Purchases of non-marketable equity securities	**0**	0	(23)
Loan originations and principal collections, net	**(62,786)**	(13,815)	(48,871)
Proceeds from sales of foreclosed assets	**2,944**	2,930	2,553
Cash and cash equivalents from bank acquisition	**0**	23,756	0
Purchases of premises and equipment, net	**(2,735)**	(161)	(622)
Net cash used in investing activities	**(56,292)**	(27,519)	**(40,718)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**48,235**	23,474	36,279
Net change is securities sold under agreements to repurchase	**1,507**	94	141
Cash dividends paid	**(800)**	(729)	(727)
Net change in federal funds purchased	**708**	(2,533)	(3,274)
Stock options and restricted stock	**349**	308	196
Purchase of treasury stock	**(533)**	(475)	(1,214)
Proceeds from lines of credit and FHLB advances and other borrowings	**46,972**	41,290	54,250
Payments on lines of credit and FHLB advances and other borrowings	**(44,000)**	(43,544)	(46,500)
Net cash provided by financing activities	**52,438**	17,885	39,151
Net increase (decrease) in cash and cash equivalents	**10,955**	(2,086)	11,864
Cash and cash equivalents at beginning of year	**27,906**	29,992	17,698
Cash and cash equivalents at end of year	**$38,861**	$27,906	$29,562

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2016	2015	2014
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	**$6,919**	$6,239	$6,042
Income taxes	**$1,342**	$3,901	$2,302
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
Assets acquired in exchange for deposits and liabilities assumed	**$0**	$127,975	$0
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$1,659**	$1,878	$1,173

See Notes to Consolidated Financial Statements.

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

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Foresight Financial Group, Inc. (Company) and its wholly owned subsidiaries (Banks) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a description of the more significant accounting policies:

(a) Nature of Operations

The Company provides a variety of banking services to individuals and businesses through its facilities in the Rockford, Freeport, German Valley, Davis, Lena, Winnebago, Pecatonica, Seward, Kankakee, Loves Park, Machesney Park, and Herscher, Illinois areas. Its primary deposit products are demand deposits and certificates of deposit and its primary lending products are agriculture, agribusiness, commercial, real estate, and installment loans.

(b) Basis of Consolidation

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries: German-American State Bank (German), State Bank of Davis (Davis), State Bank (Freeport), Northwest Bank of Rockford (Northwest), Lena State Bank (Lena), and State Bank of Herscher (Herscher) (collectively the "Banks"). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 6, 2017, which is the date the financial statements were available to be issued.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, deferred tax assets, fair values of securities, foreclosed assets and financial instruments are particularly susceptible to change in the near-term.

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in banks, and federal funds sold, all of which generally mature within ninety days.

(f) Interest-bearing Deposits in Banks

Interest-bearing deposits in banks are comprised of liquid non-maturing deposits in banks but also include some balances in time deposits in banks with the maturity being the determining factor for inclusion in cash and cash equivalents with the non-maturing interest bearing deposits. Interest-bearing deposits in banks are carried at cost.

(1) Summary of Significant Accounting Policies (continued)

(g) Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity (HTM) and recorded at amortized cost. Securities not classified as HTM are classified as available for sale (AFS) and recorded at fair value, with unrealized gains or losses excluded from earnings and reported in other comprehensive income or loss. Amortization premiums and discounts are recognized in interest income using the interest method over the estimated lives of the securities. Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

(h) Non-Marketable Equity Securities

The Banks, as members of the Federal Home Loan Bank (FHLB) system, are required to maintain a minimum investment in capital stock of the FHLB in an amount equal to the greater of 0.40% of their mortgage-related assets or 4.5% of advances from the FHLB. The Banks may choose to invest in amounts greater than the minimum investment. Excess capital stock redemptions are subject to guidelines established by the FHLB. FHLB stock is reported at cost since no ready market exists and it has no quoted market value. FHLB stock is periodically evaluated for impairment based on the ultimate recovery of par value.

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(i) Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Realized gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

(j) Loans and Allowance for Loan Losses

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

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on a loan is generally discontinued when the loan becomes 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged off at an earlier date if collection of principal or interest is considered doubtful. Generally, interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

(1) Summary of Significant Accounting Policies (continued)

(j) Loans and Allowance for Loan Losses (continued)

Loan-origination fees and direct origination costs are generally recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the consolidated financial statements.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

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

(1) Summary of Significant Accounting Policies (continued)

(j) Loans and Allowance for Loan Losses (continued)

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment or loan class. These economic factors include: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and employees; national and economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

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

- Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are generally obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

- Agricultural and commercial real estate loans are dependent on the industries tied to these loans. Agricultural real estate loans are primarily for land acquisition. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

- Commercial and agricultural loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan.

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

(k) Loan Commitments

The Banks enter into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit issued to meet customer-financing needs. Loan commitments are recorded when they are funded. Standby or performance letters of credit are considered financial guarantees in accordance with Generally Accepted Accounting Standards and are recorded at fair value, if material.

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

(1) Summary of Significant Accounting Policies (continued)

(l) Loan Servicing

Mortgage servicing rights are recognized as separate assets when rights are acquired through a sale of loans and are reported in other assets. When the originating mortgage loans are sold into the secondary market, the Company allocates the total cost of the mortgage loans between mortgage servicing rights and the loans, based on their relative fair values. The cost of originated mortgage-servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. The amount of impairment is the amount by which the capitalized mortgage servicing rights exceed their fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is offset against loan servicing fee income.

(m) Rate Lock Commitments

Commitments to fund mortgage loans (interest-rate locks) to be sold into the secondary market and mandatory delivery forward commitments for the future delivery of these mortgage loans are to be accounted for as derivatives not qualifying for hedge accounting. The fair values of these mortgage derivatives are to be estimated based on the net future cash flows related to the associated servicing of the loans and on changes in mortgage interest rates from the date of the commitments. Changes in fair values on these derivatives are to be included in net gains on sales of loans. The Company has deemed the effect of these derivatives to be immaterial to the consolidated financial statements and, accordingly, has elected not to record fair values associated with these derivatives.

(n) Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated cost of disposal when acquired. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

(o) Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation, based on the estimated useful lives of the assets. Depreciation is generally computed on the straight-line method over estimated useful lives ranging from 3 to 40 years.

(p) Bank-Owned Life Insurance

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

(q) Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located in the area and communities noted above. Note 3 details the types of securities in which the Company invests. Note 4 details the types of lending in which the Company engages. The Company does not have any significant concentrations with any one industry or customer.

(1) Summary of Significant Accounting Policies (continued)

(r) Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company files consolidated Federal and State income tax returns.

The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income taxes, if applicable. No liabilities for unrecognized tax benefits from uncertain tax positions have been recorded.

(s) Comprehensive Income

Accounting principles generally require the Company to include in net income recognized revenue, expenses, gains and losses. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, net of taxes. Such items, along with net income, are components of comprehensive income.

(t) Earnings Per Share

Basic earnings per share (EPS) represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

(u) Loss Contingencies

Loss contingencies, including claims and legal actions arising from time to time in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that could have a material effect on the consolidated financial statements.

(v) Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(w) Trust Assets

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

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

(1) Summary of Significant Accounting Policies (continued)

(x) Goodwill and Intangible Assets

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

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

(y) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

(z) Stock Compensation Plans

The Company records the cost of stock-based employee compensation using the fair-value method. Compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of grant. The Company has historically assumed no projected forfeitures on its stock based compensation, since forfeitures have not been significant.

(aa) Advertising

Advertising costs are expensed as incurred.

(bb) Reclassifications

Certain amounts in the 2014 and 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

(cc) New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The objective of this standard is to provide a common revenue standard for all entities that enter into contracts with customers to transfer goods or services or contracts to transfer nonfinancial assets. This new accounting standard is effective for financial statements issued for annual reporting periods beginning after December 15, 2017. The Company is evaluating what impact this new standard will have on its financial statements.

(1) Summary of Significant Accounting Policies (continued)

(cc) New Accounting Standards (continued)

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard makes a number of changes to the recognition and measurement standards of financial instruments, including the following changes: 1) equity securities with a readily determinable fair value will have to be measured at fair value with changes in fair value recognized in net income; 2) entities that are public business entities will no longer be required to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost; and 3) entities that are public business entities will be required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This new standard is effective for consolidated financial statements issued for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company does not believe the adoption of the standard with have a significant impact on its financial statements except that it will no longer disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost as permitted by the standard.

Newly Issued Not Yet Effective Accounting Standards

In April 2016, the FASB issued ASU No. 2016-02, *Leases*. When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. This new standard is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those years. The Company is evaluating what impact this new standard will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2020. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

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

(2) Cash Equivalents and Interest Bearing Deposits

The Banks are required to maintain reserve balances, in cash or on deposit with the Federal Reserve Bank, based upon a percentage of deposits. The total required reserve balances as of December 31, 2016 and 2015 was approximately $1,122 and $625, respectively.

In the normal course of business, the Company maintains cash and due from bank balances in accounts with correspondent banks. Balances in these accounts may exceed the Federal Insurance Deposit Corporation's insured limit of $250. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is not material.

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of $250 or less and are fully insured by the FDIC. Certificates of deposit maturing in 2017 totaled $3,832 and are included with cash and cash equivalents.

Maturities of certificates of deposits at other financial institutions as of December 31, 2016 are as follows:

2018	$4,709
2019	4,434
2020	745
2021 and thereafter	719
	$10,607

(3) Securities

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

Held-to-Maturity 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$732**	**$46**	**($0)**	**$778**

Held-to-Maturity 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	**$868**	**$48**	**($0)**	**$916**

(000s omitted except share data)

(3) Securities (continued)

Available-for-Sale 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	**$36,148**	**$119**	**($1,051)**	**$35,216**
State and municipal	**116,283**	**2,192**	**(1,358)**	**117,117**
Agency mortgage-backed – residential	**105,741**	**415**	**(1,790)**	**104,366**
	$258,172	**$2,726**	**($4,199)**	**$256,699**

Available-for-Sale 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	**$69,117**	**$477**	**($214)**	**$69,380**
State and municipal	**109,054**	**4,448**	**(142)**	**113,360**
Agency mortgage-backed – residential	**94,258**	**861**	**(559)**	**94,560**
	$272,429	**$5,786**	**($915)**	**$277,300**

For the years ended December 31, 2016, 2015 and 2014, proceeds from sales of available-for-sale securities amounted to $19,233, $20,475 and $14,601, respectively. Gross realized gains and losses from the sales and calls of available-for-sale securities for the years ended December 31 are as follows:

	2016	2015	2014
Realized gains	**$332**	**$589**	$140
Realized losses	**($499)**	**($163)**	($15)

Securities with carrying amounts of approximately $145,171 and $142,769 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized costs and fair values of securities at December 31, 2016 are shown below by contractual maturities, except for U.S. agencies which are shown by contractual maturities or their expected call dates if the call dates are considered likely to occur based on present market conditions. Expected maturities may differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Held-to-Maturity	Amortized Cost	Fair Value
Due in one year or less	**$257**	**$271**
Due after one year through five years	**475**	**501**
Due after five years through ten years	**0**	**0**
Due after ten years	**0**	**0**
	$732	**$778**

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

(3) Securities (continued)

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	$12,839	$12,912
Due after one year through five years	30,575	31,294
Due after five years through ten years	63,625	62,752
Due after ten years	45,392	45,375
	152,431	152,333
Agency mortgage-backed – residential	105,741	104,366
	$258,172	$256,699

The following tables show the fair values and unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015:

2016 Available-for-Sale	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. Government sponsored entities and U.S. agencies	$25,476	$1,051	52	$0	$0	0
State and municipal	48,030	1,290	167	999	68	4
Agency mortgage-backed – residential	77,787	1,731	138	2,851	59	6
Total temporarily impaired	$151,293	$4,072	357	$3,850	$127	10

2015 Available-for-Sale	Less than 12 Months			12 Months or More		
	Fair Value	Gross Unrealized Loss	No. of Securities	Fair Value	Gross Unrealized Loss	No. of Securities
U.S. Government sponsored entities and U.S. agencies	$18,023	$114	32	$4,300	$100	14
State and municipal	10,530	79	33	1,503	63	6
Mortgage-backed - residential	53,408	474	80	4,263	85	7
Total temporarily impaired	$81,961	$667	145	$10,066	$248	27

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2016 and 2015.

Unrealized losses on securities have not been recognized into income because the bonds are of high credit quality, management has the intent and ability to hold for the foreseeable future and the decline in fair value is largely due to market interest rate fluctuations and current bond markets. The fair value is expected to recover as the bonds approach their maturity dates and/or market rates.

(000s omitted except share data)

(4) Loans

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

	2016	2015
Real estate:		
Commercial real estate	**$273,920**	$247,491
Residential real estate	**117,173**	127,936
Agricultural real estate	**99,967**	89,803
Commercial:		
Commercial and industrial	**206,609**	167,905
Agricultural production	**65,628**	73,526
Consumer and other	**18,680**	16,451
	781,977	723,112
Allowance for loan losses	**(15,496)**	(14,841)
Totals	**$766,481**	$708,271

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

	2016			
	Real Estate	**Commercial**	**Consumer**	**Total**
Balance at beginning of year	$10,851	$3,897	$93	$14,841
Provision charged to operations, net	1,004	1,818	95	2,917
Recoveries on loans previously charged-off	109	46	13	168
	11,964	5,761	201	17,926
Less loans charged-off	(1,901)	(495)	(34)	(2,430)
Balance at end of year	$10,063	$5,266	$167	$15,496
Allowance for loan losses:				
Individually evaluated for impairment	$2,822	$1,786	$21	$4,629
Collectively evaluated for impairment	7,241	3,480	146	10,867
Loans acquired with deteriorated credit	0	0	0	0
Loans acquired without deteriorated credit	0	0	0	0
Totals	$10,063	$5,266	$167	$15,496

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

(4) Loans (continued)

2015	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$10,231	$4,237	$103	$14,571
Provision charged to operations, net	1,720	(62)	2	1,660
Recoveries on loans previously charged-off	73	27	22	122
	12,024	4,202	127	16,353
Less loans charged-off	(1,173)	(305)	(34)	(1,512)
Balance at end of year	$10,851	$3,897	$93	$14,841
Allowance for loan losses:				
Individually evaluated for impairment	$3,899	$460	$6	$4,365
Collectively evaluated for impairment	6,952	3,437	87	10,476
Loans acquired with deteriorated credit	0	0	0	0
Loans acquired without deteriorated credit	0	0	0	0
Totals	$10,851	$3,897	$93	$14,841

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

(000s omitted except share data)

(4) Loans (continued)

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

	2016			
	Real Estate	**Commercial**	**Consumer**	**Total**
Loans:				
Individually evaluated for impairment	$24,518	$9,460	$63	$34,041
Collectively evaluated for impairment	466,542	262,777	18,617	747,936
Totals	$491,060	$272,237	$18,680	$781,977

	2015			
	Real Estate	**Commercial**	**Consumer**	**Total**
Loans:				
Individually evaluated for impairment	$26,788	$6,315	$108	$33,211
Collectively evaluated for impairment	438,442	235,116	16,343	689,901
Totals	$465,230	$241,431	$16,451	$723,112

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

(4) Loans (continued)

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

	2016				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$3,399	$4,823	N/A	$3,846	$177
Residential real estate	8,235	10,762	N/A	8,928	263
Agricultural real estate	3,764	4,182	N/A	4,055	121
Commercial					
Commercial & industrial	6,704	7,212	N/A	6,345	315
Agricultural production	133	367	N/A	165	16
Consumer and other	42	54	N/A	70	3
Totals	22,277	27,400		23,409	895
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	8,780	8,864	2,671	8,908	914
Residential real estate	340	382	151	365	19
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	2,623	2,656	1,786	1,786	51
Agricultural production	0	0	0	0	0
Consumer and other	21	21	21	22	2
Totals	11,764	11,923	4,629	11,081	986
Grand Totals	$34,041	$39,323	$4,629	$34,490	$1,881

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

(4) Loans (continued)

	2015				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	$4,608	$5,334	N/A	$5,323	$251
Residential real estate	7,162	10,575	N/A	9,287	226
Agricultural real estate	1,428	1,833	N/A	1,840	65
Commercial					
Commercial & industrial	5,628	11,132	N/A	12,316	306
Agricultural production	0	245	N/A	259	17
Consumer and other	92	103	N/A	120	6
Total	18,918	29,222		29,145	871
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	9,743	9,988	2,748	9,929	480
Residential real estate	3,847	4,078	1,151	3,948	68
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	653	667	455	691	31
Agricultural production	34	34	5	37	0
Consumer and other	16	15	6	16	0
Total	14,293	14,782	4,365	14,621	579
Grand Total	$33,211	$44,004	$4,365	$43,766	$1,450

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

(4) Loans (continued)

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

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The Company generally monitors credit quality indicators for all loans using the following internally prepared ratings:

'Pass' ratings are assigned to loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.

'Special Mention' ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

'Substandard' ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectability of the contractual loan payments is no longer probable.

'Doubtful' ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectability of the contractual loan payments is unlikely.

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

(4) Loans (continued)

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

	2016				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	$258,187	$5,110	$10,609	$14	$273,920
Residential real estate	108,820	883	7,418	52	117,173
Agricultural real estate	85,584	10,349	3,764	0	99,967
Commercial:					
Commercial & industrial	196,404	1,330	8,807	68	206,609
Agricultural production	57,266	8,229	133	0	65,628
Consumer and other	18,590	27	63	0	18,680
Total	$725,121	$25,928	$30,794	$134	$781,977

	2015				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	$232,449	$2,148	$12,894		$247,491
Residential real estate	117,212	1,059	9,665		127,936
Agricultural real estate	81,941	6,433	1,428		89,803
Commercial:					
Commercial & industrial	160,981	1,218	5,706		167,905
Agricultural production	67,349	6,143	34		73,526
Consumer and other	16,330	25	95		16,451
Total	$676,262	$17,026	$29,822		$723,112

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

As of December 31, 2016	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	$8,082	$232	$8,314
Residential real estate	1,848	2,636	4,484
Agricultural real estate	0	1,528	1,528
Commercial			
Commercial & industrial	280	3,811	4,091
Agricultural production	150	89	239
Consumer and other	49	13	62
Total	$10,409	$8,309	$18,718

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

(4) Loans (continued)

As of December 31, 2016	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	$8,314	$266,173	$273,920		$1,090
Residential real estate	4,484	112,689	117,173	$399	4,949
Agricultural real estate	1,528	98,439	99,967		2,938
Commercial:					
Commercial & industrial	4,091	201,951	206,609		4,467
Agricultural production	239	65,389	65,628		108
Consumer and other	62	18,618	18,680		27
Total	$18,718	$763,259	$781,977	$399	$13,579

As of December 31, 2015	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	$342	$510	$852
Residential real estate	2,267	4,860	7,127
Agricultural real estate	60	427	487
Commercial			
Commercial & industrial	2,111	809	2,920
Agricultural production	69		69
Consumer and other	25	31	55
Total	$4,874	$6,637	$11,510

As of December 31, 2015	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	$852	$246,639	$247,491	$42	$2,137
Residential real estate	7,127	120,809	127,936	554	6,446
Agricultural real estate	487	89,316	89,803		427
Commercial:					
Commercial & industrial	2,920	164,985	167,905	9	3,150
Agricultural production	69	73,457	73,526		34
Consumer and other	55	16,750	16,451	1	30
Total	$11,510	$711,956	$723,112	$606	$12,224

When, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession to the borrower that the Company would not otherwise consider; the modified loan is classified as a troubled debt restructuring. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, interest only payments for a period of time, and/or extending amortization terms. All troubled debt restructurings are classified as impaired loans.

(000s omitted except share data)

(4) Loans (continued)

The following table presents information regarding modifications of loans that are classified as troubled debt restructurings by class of loan that occurred during the years ended December 31:

	2016		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Residential real estate	1	$1,140	$800
Commercial:			
Commercial & industrial	4	$1,068	$2,779
Total	5	$2,208	$3,579

	2015		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	2	$222	$222
Residential real estate	1	59	58
Commercial:			
Commercial & industrial	1	131	131
Consumer and other	1	17	17
Total	5	$428	$427

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

	2016	
	Number of Loans	Recorded Investment
Commercial:		
Commercial & industrial	1	$176
Total	1	$176

	2015	
	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	1	$206
Residential real estate	1	34
Total	2	$240

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

(4) Loans (continued)

The Company has acquired purchased credit impaired (PCl) loans, which are loans that, at acquisition, evidenced deterioration of credit quality since origination, and the Company determined it was probable, at the acquisition date, all contractually required payments would not be collected. These loans are included in the carrying amount of loans in the Company's Balance Sheet.

The outstanding balance and carrying amount of PCI loans for the year ended December 31 follows:

	2016	2015
Outstanding balance:		
Commercial	$3,283	$9,306
Residential Real Estate	278	3,275
Total outstanding balance	$3,561	$12,581

The carrying value of the PCI loans was $1,956 and $3,970 at December 31, 2016 and 2015, respectively.

No increases to the allowance for loan losses were done for PCI loans during 2016 and 2015. No allowances for loan losses were reversed during 2016 and 2015.

A summary of the change in the accretable yield related to PCI loans during the year ended December 31 follows:

	2016	2015
Beginning balance	$276	$515
Accretion	(276)	(239)
Ending Balance	$0	$276

PCI loans acquired during the year ended December 31 follows:

	2015
Contractually required payments receivable at acquisition:	
Commercial	$9,392
Residential Real Estate	4,477
Total contractually required payments receivable at acquisition	$13,869
Cash flows expected to be collected at acquisition	$5,198
Basis in acquired loans at acquisition	$4,683

Some PCI loans are not accruing interest income because the Company cannot reasonable estimate the cash flows expected to be collected. The carrying amount of nonaccruing PCI loans was $0 and $8,755 at December 31, 2016 and 2015, respectively. The carrying amount of nonaccruing PCI loans acquired was $0 and $9,907 during 2016 and 2015, respectively.

(000s omitted except share data)

(5) Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage loans serviced for others as of December 31, 2016 and 2015, were approximately $347,152 and $349,121, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $3,498 and $3,163 at December 31, 2016 and 2015, respectively.

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

	2016	2015	2014
Balance at beginning of year	**$1,324**	$1,451	$1,615
Mortgage servicing rights capitalized	**545**	457	404
Mortgage servicing rights amortized	**(541)**	(584)	(568)
Balance at end of year	**$1,328**	$1,324	$1,451

No impairment of mortgage servicing rights existed and no valuation allowance was recognized for 2016, 2015 and 2014.

(6) Mortgage Banking Loan Commitments

The Company enters into commitments to fund residential mortgage loans (interest rate locks) at specified times in the future, with the intention that these loans will be subsequently sold to third-party investors. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60-days after inception of the rate lock. It is the Company's practice to enter into mandatory delivery forward commitments for the future delivery of residential mortgage loans to third-party investors when an interest rate lock commitment is granted. These mandatory delivery forward commitments bind the Company to deliver a residential mortgage loan to a third-party investor even if the underlying loan never funds. As of December 31, 2016 and 2015, the Company had approximately $2,269 and $1,895 in interest rate lock commitments outstanding. As of December 31, 2016 and 2015, the Company had approximately $4,537 and $3,791 in mandatory delivery forward commitments outstanding. These outstanding mortgage loan commitments are considered to be derivatives. The approximate fair values associated with these derivatives were considered to be immaterial as of December 31, 2016 and 2015.

(7) Foreclosed Assets

Foreclosed assets net of valuation allowance consist of the following at December 31:

	2016	2015
Residential real estate	**$1,155**	$244
Commercial real estate	**49**	1,112
Non-farm non-residential properties	**246**	1,184
Construction, land development and other land	**316**	533
Other repossessed assets	**0**	33
Balance at end of year	**$1,766**	$3,106

Residential real estate loans that are in process of foreclosure totaled $1,521 at December 31, 2016 and $1,367 at December 31, 2015.

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

(8) Premises and Equipment

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

	2016	2015
Land	**$2,882**	$2,252
Buildings and leasehold improvements	**15,362**	$13,638
Furniture, fixtures, and equipment	**11,510**	11,131
	29,754	27,021
Less accumulated depreciation	**16,278**	15,327
	$13,476	$11,694

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 amounted to $953, $886 and $847, respectively.

(9) Intangible Assets

The core deposit premium intangible asset had a gross carrying amount of $1,952 and accumulated amortization of $417 and $105 at December 31, 2016 and 2015, respectively.

The following table shows the estimated future amortization of the core deposit premium intangible asset for the next five years. The projections of amortization expense are based on existing asset balances as of December 31, 2016.

2017	$315
2018	315
2019	315
2020	315
2021	275

(10) Other Assets

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

	2016	2015
Accrued interest receivable	**$5,719**	$5,551
Mortgage servicing rights, net of accumulated amortization	**1,328**	1,324
Net deferred tax assets	**6,949**	7,411
Other	**4,729**	2,475
	$18,725	$16,761

(000s omitted except share data)

(11) Time Deposits

The aggregate amount of time deposits with a minimum denomination of $250 was approximately $56,863 and $40,076 at December 31, 2016 and 2015, respectively. Time deposits are included in the interest-bearing deposits for financial statement presentation.

At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	$160,048
2018	94,111
2019	57,384
2020	43,218
2021	44,432
2022	5
	399,198

(12) Employee and Director Benefit Plans

The Company and the Banks maintain a 401(k) plan with profit sharing features covering substantially all employees under which they match 50% of eligible employee contributions to a maximum employee contribution of 6% of annual salary. Total 401(k) expense was approximately $300, $257, and $241, for 2016, 2015, and 2014, respectively. Each plan participant elects how the employer contributions are invested whereby the participants choose between purchasing the Company's common stock or investing in the plan's investment funds.

In addition, the Company and the Banks maintain non-qualified deferred compensation plans whereby certain directors and officers are provided with guaranteed annual payments for periods ranging after reaching a variation of retirement ages pending participant plan. The compensation plans are funded by bank-owned life insurance policies which had an aggregate death benefit of approximately $53,710 and $17,557 as of December 31, 2016 and 2015, respectively. The Banks accrue amounts to be paid, over the participant's active service life. The accrued benefits were $1,047, $905, and $825 at December 31, 2016, 2015, and 2014, respectively. Non-qualified deferred compensation expenses were $192, $49, and $46 in 2016, 2015, and 2014, respectively.

The State Bank of Herscher sponsored a defined benefit pension plan that covered substantially all employees that was terminated in 2016. The plan called for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company and compensation rates. To be eligible, an employee must have been employed by the Company for a period of one year or more and be 21 years of age or older. Contributions to the plan reflected benefits attributed to employees' services to date as well as services expected to be earned in the future. The plan was funded in accordance with federal laws and regulations.

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

(12) Employee and Director Benefit Plans (continued)

A summary of the weighted average asset allocations of plan assets by asset type as of December 31, 2015 were as follows:

Fair values of plan assets	$1,643

Equity securities	49.1%
Debt securities	50.9%
Total	100%

Equity securities included $806 (49.1% of plan assets) at December 31, 2015.

The fair values of the Company's pension plan assets by asset category at December 31, 2015 were as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Plan assets:				
Interest-bearing cash	$255			$255
Corporate common stocks	806			806
Treasury and corporate bonds	582			582
Total	**$1,643**			**$1,643**

The investment policy included various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected guidelines consider a broad range of economic conditions. Central to the policy were target allocation ranges by major asset categories.

The objectives of the target allocations were to maintain investment portfolios that diversified risk through prudent asset allocation parameters, achieved asset returns that met or exceeded the plan's actuarial assumptions, and achieved asset returns that were competitive with like institutions employing similar investment strategies.

The investment policy was periodically reviewed by the Company and a designated third-party fiduciary for investment matters. The policy was established and administered in a manner that was compliant at all times with applicable government regulations.

The Company acquired the defined benefit pension plan in the State Bank of Herscher business combination. Prior to the acquisition, the benefits of the plan were frozen with the investment plan objectives modified as the assets were transferred to more liquid and less volatile investment types. In February 2015, the State Bank of Herscher's Board of Directors formally voted for plan termination.

(000s omitted except share data)

(12) Employee and Director Benefit Plans (continued)

Because of the imminent liquidation of the plan, the Company did not perform a computation of the benefit plan obligation at December 31, 2015; instead a range of estimates of the obligation for liquidation was computed. Management did not believe the pension benefit obligation at December 31, 2015 materially differed from the liquidation obligation estimates. As there was no certainty on the financial impact of liquidation due to various factors, including plan participant liquidation elections, the range was $1,595 to $2,511. It was estimated the most likely scenario would result in an estimated payout of approximately $1,791 based on a combination of lump sum and annuities. The Company had accrued a liability for the pension benefit liability in excess of plan assets of $168 at December 31, 2015. This included the accrual for costs associated with plan termination totaling $44 as of December 31, 2015. In 2016, the Company recorded expenses of $230 related to the final benefit expenses and other related costs, including termination.

(13) Income Taxes

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

	2016	2015	2014
Current – federal	**$614**	$2,542	$2,302
– state	**616**	851	1,042
	1,230	3,393	3,344
Deferred – federal	**2,110**	227	(131)
– state	**574**	91	232
	2,684	318	101
Total income tax expense	**$3,914**	$3,711	$3,445

A reconciliation of the differences between the statutory federal income tax rate and the effective federal income tax rate with the resulting dollar amounts is shown in the following table:

	2016		2015		2014	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$4,708**	**34.0%**	$4,847	34.0%	$3,980	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	**(1,272)**	**(9.2%)**	(1,270)	(9.5%)	(1,257)	(10.7%)
Bank-owned life insurance	**(152)**	**(1.1%)**	(80)	(0.6%)	(73)	(0.6%)
State taxes, net of federal benefit	**786**	**5.7%**	622	4.7%	841	7.2%
Bargain purchase gain	**0**	**0%**	(385)	(2.9%)	0	0.0%
Other	**(156)**	**(1.1%)**	(23)	(0.2%)	(46)	(0.4%)
Effective tax rates	**$3,914**	**28.3%**	$3,711	27.9%	$3,445	29.5%

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

(13) Income Taxes (continued)

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Deferred tax assets:		
Allowance for loan losses	**$6,062**	$5,805
Allowance for losses on foreclosed assets	**114**	1,011
Alternative minimum tax	**244**	0
Available-for-sale securities	**576**	0
Deferred compensation and other	**690**	546
Purchase accounting adjustments	**799**	3,146
Total deferred tax assets	**8,485**	10,508
Deferred tax liabilities:		
FHLB stock dividend	**168**	168
Available-for-sale securities	**0**	1,906
Depreciation	**825**	799
Mortgage servicing rights and other	**543**	224
Total deferred tax liabilities	**1,536**	3,097
Net deferred tax assets	**$6,949**	$7,411

No valuation allowance has been recorded since deferred tax assets are expected to be realized.

With few exceptions, the Company is no longer subject to federal or state examinations by tax authorities for years before 2013.

(14) Transactions with Related Parties

The Company and subsidiary banks have had, and may be expected to have in the future, loans or other banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with non-related parties.

Loans to related parties amounted to approximately $18,753 and $18,933 at December 31, 2016 and 2015, respectively. Activity for related party loans for the year ended December 31, 2016 is as follows:

	2016	**2015**	**2014**
Balance at beginning of year	**$18,933**	$21,560	$20,625
New credits	**7,820**	14,108	10,025
Participated outside the Company	**(915)**	(1,685)	(1,475)
Repayments	**(7,085)**	(15,050)	(7,615)
Balance at end of year	**$18,753**	$18,933	$21,560

Deposit accounts from related parties totaled approximately $13,721 and $13,839 at December 31, 2016 and 2015, respectively.

(000s omitted except share data)

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

Financial instruments with off-balance-sheet risk:

The Banks are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, credit lines, letters of credit, and overdraft protection. They involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets.

The Banks' exposures to credit losses in the event of nonperformance by the other parties to the financial instruments, for commitments to extend credit, and letters of credit are represented by the contractual amounts of those instruments. The Banks use the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contractual amounts of the Banks' exposure to off-balance-sheet risk as of December 31 is approximately as follows:

	2016	2015
Unused lines of credit and other loan commitments	**$203,008**	$232,231
Commercial letters of credits	**580**	571
Performance and standby letters of credit	**2,050**	758
	$205,638	$233,560

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, crops, livestock, property and equipment, residential real estate, and income-producing commercial properties.

Standby, performance and commercial letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. They are considered financial guarantees under FASB guidance. The fair value of these financial guarantees is considered immaterial.

The Company participates in the FHLB Mortgage Partnership Finance Program (the "Program"). In addition to entering into forward commitments to sell mortgage loans to a secondary market agency, the Company enters into firm commitments to deliver loans to the FHLB through the Program. Under the Program, loans are funded by the FHLB, and the Company receives an agency fee reported as a component of gain on sale of loans. The Company had no firm commitments outstanding to deliver loans through the Program at December 31, 2016. Once delivered to the Program, the Company provides a contractually agreed-upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Company is liable for losses on loans delivered to the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program subject to an agreed-upon maximum. The agreed-upon accrumulated credit enhancement provided by the Program totaled $2,859, subject to an agreed-upon maximum. The fee the Company received for this credit enhancement was not material in each of the years ended December 31, 2016, 2015 and 2014.

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(000s omitted except share data)

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

Concentration of credit risk:

The Company and its subsidiary banks provide several types of loans to customers including real estate, agricultural, commercial, and installment loans. The largest component of loans is secured by residential real estate, commercial real estate, or other interest in real property. Lending activities are conducted with customers in a wide variety of industries as well as with individuals with a wide variety of credit requirements. The Company does not have a concentration of loans in any specific industry. Credit risk, as it relates to the Company's business activities, tends to be geographically concentrated in that the majority of the customer base lies within the surrounding communities served by its subsidiary banks.

(16) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $25,107 and $23,600 at December 31, 2016 and 2015, respectively, and are collateralized by U.S. agencies, state and municipal and mortgage-backed investment securities with fair values of approximately $34,459 and $30,570. The weighted-average interest rates on these agreements were 0.45% and 0.35% at December 31, 2016 and 2015, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

	2016	2015
Fixed-rate advances with rates ranging from .91% to 2.64% and .33% to 2.64% and weighted average rates of 1.18% and 1.11% as of December 31, 2016 and 2015, respectively. Interest is payable monthly with principal due at maturity.	**$13,450**	$13,500

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately $67,382 and $75,909 as of December 31, 2016 and 2015, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by $2,846 of FHLB stock owned by the Company at December 31, 2016 and 2015.

The Banks participate in the Federal Reserve Bank of Chicago's Discount Window Lending Program. Primary advances generally mature daily and bear interest at a generally approved rate in relation to the federal funds rate. The primary advance interest rate at December 31, 2016 was 100-basis points. Outstanding advances were $0 at December 31, 2016 and 2015. Advances are collateralized by investment securities pledged totaling approximately $10,270 and $10,943 at December 31, 2016 and 2015, respectively, to the Federal Reserve Bank.

On July 2, 2015, the Company entered into a $7,000 note with Bankers' Bank for the purchase of the State Bank of Herscher. The noted is a fixed rate at 4% due July 2, 2020 and is secured by common stock of Company subsidiaries. The balance was $6,273 and $6,858 at December 31, 2016 and 2015, respectively, with payments of $214, consisting of principal and interest, due quarterly.

Other borrowings totaled $4,095 and $488 at December 31, 2016 and 2015, respectively, and mature from 2017 to 2024, at interest rates ranging from 1.60% to 3.25%.

(000s omitted except share data)

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

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

	2016	2015
2016	**$0**	$0
2017	**6,900**	8,038
2018	**6,202**	3,950
2019	**1,514**	1,250
2020	**7,023**	750
2021 and thereafter	**2,179**	6,858
	$23,818	$20,846

(18) Subordinated Debentures

The Company issued $10,000 of Subordinated Debentures in the fiscal year ended 2012 that qualify as Tier 2 regulatory capital (with certain limitations applicable) for the Company. The Company issued the Subordinated Debentures for capital raising purposes primarily for the redemption of preferred stock as part of the Troubled Asset Relief Program. The Debentures mature on August 30, 2019 and the Company may redeem some or all of the Subordinated Debentures at any time after the third anniversary of their issuance in accordance with the contract price limitations. The redemption may be subject to approval by the Federal Reserve and must be on a pro rata basis amongst all holders. The terms call for interest payments to be made quarterly in arrears on the last day of March, June, September and December. The annual rate of interest on the Subordinated Debentures is 6.00%. The interest payments can be deferred for so long as the Company or a specific Bank remains subject to any regulatory order limiting or prohibiting the payment of dividends or interest on indebtedness of the Company, including the Debentures. If interest payments are deferred, the interest will accrue until paid. The Company did not defer any interest payments and there was no deferred interest at December 31, 2016. The agreement contains certain restrictive covenants that are effective if the Company is in default on the debentures.

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(19) Fair Value Measurements

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

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

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

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

The following is a description of valuation methodologies used for assets recorded at fair value:

Securities available-for-sale: The fair values of the Company's securities available-for-sale are primarily determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The values determined by matrix pricing are considered Level 2 fair value measurements.

Collateral-dependent impaired loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. The fair value of collateral dependent impaired loans is generally based on recent real estate appraisals. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification. Non-real estate collateral may be valued using an appraisal, net book value of the borrower's financial statements or aging reports, adjusted or discounted based on management's expertise and knowledge of the borrower and borrower's business. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Foreclosed assets: Real estate acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, other real estate is initially measured at fair value (less estimated costs to sell) when it is acquired and may also be measured at fair value (less estimated costs to sell) if it becomes subsequently impaired. The fair value measurement for each property may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

(000s omitted except share data)

(19) Fair Value Measurements (continued)

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

As of December 31, 2016		**Fair Value Measurements at Reporting Date Using**		
	Total	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale	**$256,699**		**$256,699**	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	**$7,135**			**$7,135**
Foreclosed assets	**$1,766**			**$1,766**

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $11,764 with specific reserves of $4,629 as of December 31, 2016.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $1,766, which is comprised of the outstanding balance of $2,109, net of an allowance for losses of $343 as of December 31, 2016.

As of December 31, 2015		**Fair Value Measurements at Reporting Date Using**		
	Total	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale	$277,300		$277,300	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	$9,928			$9,928
Foreclosed assets	$3,106			$3,106

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $14,293 with specific reserves of $4,365 as of December 31, 2015.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $3,106, which is comprised of the outstanding balance of $5,630, net of an allowance for losses of $2,524 as of December 31, 2015.

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(19) Fair Value Measurements (continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2016:

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

FASB guidance requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates may not be realized in immediate settlement of the instrument. Accounting guidance excludes certain financial instruments and certain nonfinancial instruments from its disclosure requirements. These fair value disclosures may not represent the fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amounts are reasonable estimates of fair value (Level 1).

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

Securities: See previous description in this footnote for securities available-for-sale. The fair values of the Company's securities held-to-maturity are primarily determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Non-marketable equity securities: No ready market exists for the equity securities as they have no quoted market value. The carrying amount of equity securities approximates its fair value (Level 3).

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

Loans: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. For fair value estimates for collateral-dependent impaired loans, see previous description in this footnote (Level 3).

Cash surrender value of life insurance: The fair value is based on reported values by insurers (Level 1).

Deposits: The fair values disclosed for demand deposits, savings accounts, and certain money market deposits are, by definition, equal to the amount payable on demand at the reporting date (Level 1). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits (Level 3).

(000s omitted except share data)

(19) Fair Value Measurements (continued)

Federal funds purchased and securities sold under agreements to repurchase: The carrying amounts of federal funds and securities sold under agreements to repurchase approximate fair value (Level 2).

FHLB advances and other borrowings: The fair value of FHLB advances was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements (Level 3). The fair value of other borrowings is assumed to be materially similar to the carrying value.

Subordinated debentures: The fair value of subordinated debentures approximates their fair value based on the Company's current incremental borrowing rate approximating the instruments current fixed rate (Level 3).

Accrued interest: The carrying amounts of accrued interest approximate their fair value (Level 1).

Off-balance-sheet financial instruments: No estimated fair value is attributable to unused lines of credit and letters of credit as they are deemed immaterial (Level 3).

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$38,861**	**$38,861**	$27,906	$27,906
Interest-bearing deposits in other banks-term deposits	**10,607**	**10,607**	13,878	13,878
Securities	**257,431**	**257,477**	278,168	278,216
Non-marketable equity securities	**2,852**	**2,852**	2,243	2,243
Loans held for sale	**2,217**	**2,217**	3,050	3,050
Loans, net of allowance	**766,481**	**765,728**	708,271	709,587
Accrued interest receivable	**5,719**	**5,719**	5,551	5,551
Cash surrender value of bank-owned life Insurance	**21,525**	**21,525**	9,018	9,018
Financial liabilities:				
Demand and saving deposits	**$562,287**	**$562,287**	$532,211	$532,211
Certificates of deposits	**399,198**	**403,484**	381,039	384,334
Federal funds purchased	**1,211**	**1,211**	503	503
Securities sold under agreements to repurchase	**25,107**	**25,107**	23,600	23,600
FHLB advances and other borrowings	**23,818**	**23,781**	20,846	20,848
Subordinated Debentures	**10,000**	**10,000**	10,000	10,000
Accrued interest payable	**818**	**818**	672	672

(20) Stock-Compensation Plans

The fair value of each option award is estimated on the date of grant using a closed form option valuation model (Black-Scholes) based on the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of the grant.

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(20) Stock-Compensation Plans (continued)

No options were granted for the year ended December 31, 2016 and 2015.

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

	2016	2015	2014
Risk-free interest rate	N/A	N/A	1.64%
Expected option life	N/A	N/A	10
Expected stock-price volatility	N/A	N/A	29.71%
Dividend yield	N/A	N/A	1.05%

For the years ended December 31, 2016, 2015 and 2014, the Company recognized $24, $75 and $109 in compensation expense for stock options, respectively. No tax benefits were recognized for the three year period ended December 31, 2016. As of December 31, 2016, stock-based compensation expense not yet recognized totaled $55, and is expected to be recognized over a weighted-average remaining period of approximately three years. The intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 was $280, $284 and $168, respectively.

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31, 2016:

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Shares under option, beginning of year	124,416	$12.02	5.3	$1,565
Granted during the year	0			0
Forfeited and expired during the year	0			0
Exercised during the year	(18,624)	10.19		280
Shares under option, end of year	105,792	$12.34	4.5	$1,842
Options exercisable, end of year	90,792	$11.24	4.0	$1,681
Shares available for grant, end of year	102,203			

	Number of Options	**Weighted Average Fair Value at Grant**
Non-vested options, December 31, 2015	20,000	$4.88
Granted during the year	0	0
Vested during the year, net	(5,000)	4.88
Forfeited or expired during the year	0	0
Non-vested options, December 31, 2016	15,000	$4.88

(000s omitted except share data)

(20) Stock-Compensation Plans (continued)

The following table summarizes information about stock options outstanding at December 31, 2016:

Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
$10.00	3,893	1.0	3,893
$10.25	61,899	3.8	61,899
$10.50	15,000	3.6	15,000
$19.00	25,000	7.2	510,000
	105,792		90,792

During 2012, the Company approved an equity incentive plan to promote the long-term financial success of the Company through stock based awards to employees, directors or service providers who contribute to that success. This equity incentive plan permits Company management to approve and grant a maximum of 150,000 shares of common stock based awards in the form of any combination of stock options, stock appreciation rights, stock awards or cash incentive awards.

The following table summarizes information regarding unvested restricted stock and shares outstanding during the year ended 2016:

	Unvested Shares	Weighted Average Grant Value
Restricted stock, December 31, 2015	12,328	$20.62
Granted during the year	7,847	24.75
Forfeited during the year	(155)	20.68
Restricted shares (net for taxes)	(883)	20.23
Vested during the year	(7,199)	20.23
Restricted stock, December 31, 2016	11,938	$23.61

During 2016, 2015 and 2014, total compensation expense of $178, $142, and $59 (before tax benefits of $70, $57 and $24) was recorded from amortization of restricted shares expected to vest, respectively. Future projected compensation expense (before tax benefits) assuming all restricted shares eventually vest to employees would be $119 and $24 for years 2017 and 2018, respectively.

(21) Stock Repurchase Program

In October 2015 and October 2016, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 of common stock at market price, each year. For the years ended December 31, 2016 and 2015, the Company had repurchased 21,300 and 20,000 shares under this program, respectively.

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

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(22) Earnings Per Common Share

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

	2016	2015	2014
Net income	**$9,933**	$10,544	$8,260
Net income available to common stockholders	**$9,933**	$10,544	$8,260
Average number of common shares outstanding	**3,633,278**	3,633,369	3,638,004
Effect of dilutive options	**51,468**	60,796	57,420
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,684,746**	3,694,165	3,695,424

(23) Regulatory Matters

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

Effective January 1, 2015, the Company and Banks are subject to new capital adequacy framework called Basel III. Basel III includes several changes to the capital adequacy guidelines, including a new Common Equity Tier 1 capital requirement, increases in the minimum required Tier 1 risk-based capital ratios, and other changes to the calculation of regulatory capital and risk-weighted assets.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum regulatory capital amounts and ratios (set forth in the following table). Management believes that as of December 31, 2016, that the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notifications from the Federal Deposit Insurance Corporation (FDIC) categorized all six Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, minimum capital ratios as set forth in the table must be maintained. There are no conditions or events occurring since the FDIC notified each Bank which management believes have changed the categories of the Banks.

(23) Regulatory Matters (continued)

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount In $000s	Ratio	Amount In $000s	Ratio	Amount In $000s	Ratio
As of December 31, 2016:						
Total Capital to Risk Weighted Assets:						
Company	$122,145	13.48%	$72,477	8.00%	$90,596	10.00%
Northwest	27,991	12.66%	17,693	8.00%	22,116	10.00%
German	23,072	12.43%	14,846	8.00%	18,557	10.00%
Davis	16,621	12.63%	10,526	8.00%	13,158	10.00%
Freeport	25,943	13.21%	15,717	8.00%	19,646	10.00%
Lena	10,268	13.78%	5,960	8.00%	7,450	10.00%
Herscher	17,949	19.58%	7,335	8.00%	9,169	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Company	$106,769	11.79%	$54,358	6.00%	$72,477	8.00%
Northwest	25,220	11.40%	13,270	6.00%	17,693	8.00%
German	21,064	11.35%	11,134	6.00%	14,846	8.00%
Davis	14,970	11.38%	7,895	6.00%	10,526	8.00%
Freeport	23,469	11.95%	11,788	6.00%	15,717	8.00%
Lena	9,327	12.52%	4,470	6.00%	5,960	8.00%
Herscher	16,772	18.29%	5,501	6.00%	7,335	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Company	$106,769	11.79%	$40,768	4.50%	$58,887	6.50%
Northwest	25,220	11.40%	9,952	4.50%	14,376	6.50%
German	21,064	11.35%	8,351	4.50%	12,062	6.50%
Davis	14,970	11.38%	5,921	4.50%	8,553	6.50%
Freeport	23,469	11.95%	8,841	4.50%	12,770	6.50%
Lena	9,327	12.52%	3,352	4.50%	4,482	6.50%
Herscher	16,772	18.29%	4,126	4.50%	5,960	6.50%
Tier 1 Capital to Average Assets:						
Company	$106,769	9.42%	$45,338	4.00%	$56,673	5.00%
Northwest	25,220	9.42%	10,706	4.00%	13,383	5.00%
German	21,064	9.14%	9,220	4.00%	11,526	5.00%
Davis	14,970	9.24%	6,479	4.00%	8,099	5.00%
Freeport	23,469	9.99%	9,396	4.00%	11,745	5.00%
Lena	9,327	10.03%	3,719	4.00%	4,649	5.00%
Herscher	16,772	11.93%	5,623	4.00%	7,028	5.00%

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(23) Regulatory Matters (continued)

As of December 31, 2015:						
Total Capital to Risk Weighted Assets:						
Company	$114,995	13.74%	$66,966	8.00%	$83,708	10.00%
Northwest	26,369	13.17%	16,022	8.00%	20,028	10.00%
German	21,867	13.11%	13,347	8.00%	16,684	10.00%
Davis	15,574	11.68%	10,663	8.00%	13,329	10.00%
Freeport	24,319	13.13%	14,818	8.00%	18,522	10.00%
Lena	9,663	13.04%	5,927	8.00%	7,409	10.00%
Herscher	17,128	22.76%	6,019	8.00%	7,524	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Company	$98,467	11.76%	$50,225	6.00%	$66,966	8.00%
Northwest	23,851	11.91%	12,017	6.00%	16,022	8.00%
German	19,776	11.85%	10,010	6.00%	13,347	8.00%
Davis	13,900	10.43%	7,998	6.00%	10,663	8.00%
Freeport	21,978	11.87%	11,113	6.00%	14,818	8.00%
Lena	8,728	11.78%	4,445	6.00%	5,927	8.00%
Herscher	16,901	11.98%	4,514	6.00%	6,019	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Company	$98,467	11.76%	$37,669	4.50%	$54,410	6.50%
Northwest	23,851	11.91%	9,013	4.50%	13,018	6.50%
German	19,776	11.85%	7,508	4.50%	10,845	6.50%
Davis	13,900	10.43%	5,998	4.50%	8,664	6.50%
Freeport	21,978	11.87%	8,335	4.50%	12,039	6.50%
Lena	8,728	11.78%	3,334	4.50%	4,816	6.50%
Herscher	16,901	22.46%	3,386	4.50%	4,891	6.50%
Tier 1 Capital to Average Assets:						
Company	$98,467	9.04%	$43,549	4.00%	$54,436	5.00%
Northwest	23,851	9.58%	9,957	4.00%	12,446	5.00%
German	19,776	9.15%	8,643	4.00%	10,804	5.00%
Davis	13,900	8.35%	6,656	4.00%	8,320	5.00%
Freeport	21,978	9.80%	8,972	4.00%	11,215	5.00%
Lena	8,728	9.65%	3,618	4.00%	4,522	5.00%
Herscher	16,901	11.98%	5,642	4.00%	7,052	5.00%

(24) Dividends

State banking regulations restrict the amount of dividends that a bank may pay to its stockholders. The regulations provide that dividends are limited to the balance of undivided profits, subject to capital-adequacy requirements, plus an additional amount equal to the bank's current-year earnings through the date of any declaration of dividends.

(25) Lease Commitments

One of the banks has operating lease commitments on office space in Loves Park, Illinois. The terms of the Perryville lease location requires base lease amounts of approximately $78 per year. The lease expired September 2016 and was renewed for an additional year and remains renewable up to two additional one year terms. The terms of North Second lease location require base lease amounts of approximately $34 per year. The lease expires September 2020 and is renewable up to two additional five year terms. Rent expense of $120 and $168 was recognized in 2016 and 2015, respectively.

(000s omitted except share data)

(25) Lease Commitments (continued)

In addition, there is an operating lease agreement for bank premises in Kankakee, Illinois. There is no formal lease for the Kankakee location. The Bank is verbally agreeing to pay $7 for 2017.

The minimum lease commitments on all leases is $102 for 2017.

(26) Qualified Affordable Housing Project Investments

The Company invests in qualified affordable housing projects. At December 31, 2016 and 2015, the balance of the investment for qualified affordable housing projects was $2,215 and $1,292. These balances are reflected in the other assets line on the consolidated balance sheets.

(27) State Bank of Herscher Acquisition

On July 2, 2015, the Company purchased 100% of the outstanding common shares of the State Bank of Herscher. As a result of the acquisition, the Company expects to offer its expanded line of bank products and services to State Bank of Herscher's existing and prospective customers while reducing administrative costs through economies of scale. The Company was able to purchase State Bank of Herscher at a bargain purchase price primarily because the credit quality of State Bank of Herscher's loan portfolio shows significant deterioration. A bargain purchase gain of $1,133 was recognized in other noninterest income on the consolidated statements of income for the year ended December 31, 2015. Consideration paid for the net assets acquired included $1 of cash. Costs related to the acquisition are included in other noninterest expense on the consolidated statements of income and totaled $206 for the year ended December 31, 2015.

Recognized amounts of identifiable assets acquired and liabilities assumed:

	2015
Cash and cash equivalents	$23,756
Securities	32,798
Loans	56,810
Premise and equipment	2,033
Core deposit intangibles	1,952
Foreclosed assets	2,635
Other assets	8,232
Total assets acquired	$128,216
Deposits	124,748
Other liabilities	2,335
Total Liabilities assumed	127,083
Bargain purchase gain	1,133
Total	$128,216

The fair value of net assets includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination.

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

(27) State Bank of Herscher Acquisition (continued)

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2015. The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effected on the assumed dates.

	2015	**2014**
Net interest income	**$34,561**	$34,747
Net income	**$10,102**	$5,795
Basic earnings per share	**$2.78**	$1.59
Diluted earnings per share	**$2.73**	$1.57

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

December 31, 2016

ASSETS	German-American State Bank	State Bank of Davis	Northwest Bank
Cash and due from banks	$3,463	$1,817	$7,218
Interest-bearing deposits in banks	1,330	1,908	1,193
Federal funds sold	331	257	285
Interest-bearing deposits in banks - term deposits	3,723	1,940	0
Securities:			
Securities held-to-maturity	0	732	0
Securities available-for-sale	53,947	33,431	43,061
Non-marketable equity securities, at cost	534	313	695
Loans held for sale	0	0	2,217
Loans, net	159,686	109,460	197,983
Foreclosed assets, net	101	120	238
Premises and equipment	1,257	955	4,213
Core deposit intangible	0	0	0
Bank owned life insurance	3,064	1,773	6,019
Other assets	3,031	4,251	3,447
Investment in subsidiary banks	0	0	0
Total assets	$230,467	$156,957	$266,569
LIABILITIES AND STOCKHOLDLERS' EQUITY			
Liabilities:			
Deposits:			
Noninterest bearing	$28,036	$14,230	$39,232
Interest-bearing	176,531	116,058	193,101
Total deposits	204,567	130,288	232,333
Federal funds purchased	0	0	0
Securities sold under agreements to repurchase		11,188	1,401
Federal Home Loan Bank borrowings and other	3,750	0	6,547
Subordinated debentures	0	0	0
Accrued interest payable and other liabilities	1,150	442	1,200
Total liabilities	209,467	141,918	241,481
Stockholders' equity:			
Preferred stock	0	0	0
Common stock	400	100	1,450
Additional paid-in capital	2,856	1,612	7,286
Retained earnings	17,808	13,257	16,484
Treasury stock	0	0	0
Accumulated other comprehensive income (loss)	(64)	70	(132)
Total stockholders' equity	21,000	15,039	25,088
Total liabilities and stockholders' equity	$230,467	$156,957	$266,569

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$4,244	$1,200	$2,032	$175	($175)	$19,974
3,592	3,912	353	8,247	(4,415)	$16,120
904	990	0	0		2,767
2,219	1,338	5,219	0	(3,832)	10,607
0	0	0	0		732
52,162	25,633	48,465	0		256,699
448	253	609	0		2,852
0	0	0	0		2,217
168,166	59,872	71,148	166		766,481
0	0	1,304	3		1,766
1,605	427	1,965	3,054		13,476
0	0	1,535	0		1,535
1,372	2,232	4,238	2,829		21,527
3,101	1,351	4,863	(1,319)		18,725
0	0	0	109,677	(109,677)	
$237,813	$97,208	$141,731	$122,832	($118,099)	$1,135,478

$27,148	$4,530	$22,232	$0	$8,072	$143,480
169,236	80,822	98,751	0	(16,494)	818,005
196,384	85,352	120,983	$0	(8,422)	961,485
0	0	1,211	0		1,211
11,953	0	565	0		25,107
5,248	2,000	0	6,273		23,818
0	0	0	10,000		10,000
696	557	774	794		5,613
214,281	87,909	123,533	17,067	(8,422)	1,027,234
0	0	0	0		0
1,000	500	400	988	(3,850)	988
4,646	3,715	28,443	8,955	(48,558)	8,955
17,823	5,112	(7,360)	105,518	(63,124)	105,518
0	0	0	(6,320)		(6,320)
63	(28)	(3,285)	(3,376)	5,855	(897)
23,532	9,299	18,198	105,765	(109,677)	108,244
$237,813	$97,208	$141,731	$122,832	($118,099)	$1,135,478

For the year ended December 31, 2016

	German-American State Bank	State Bank of Davis	Northwest Bank
Interest and dividend income:			
Loans, including fees	$7,240	$4,651	$9,271
Securities:			
Taxable	729	427	429
Tax-exempt	662	655	630
Interest-bearing deposits in banks and other	71	64	54
Federal funds sold	3	3	3
Total interest and dividend income	8,705	5,800	10,387
Interest expense:			
Deposits	1,380	1,031	1,486
Federal funds purchased	3	0	3
Securities sold under agreements to repurchase	0	62	6
Federal Home Loan Bank advances and other borrowings	68	0	60
Subordinated debentures	0	0	0
Total interest expense	1,451	1,093	1,555
Net interest and dividend income	7,254	4,707	8,832
Provision for loan losses	90	154	400
Net interest and dividend income, after provision for loan losses	7,164	4,553	8,432
Noninterest income:			
Customer service fees	271	107	482
Equity in earnings of subsidiaries			
Gain on sales and calls of AFS securuties, net	(47)	29	(49)
Gain on sales of loans, net	0	0	1,521
Loan-servicing fees	0	0	830
Gain on acquisition bargain purchase	0	0	0
Other	820	239	639
Total noninterest income	1,044	375	3,423
Noninterest expenses:			
Salaries and employee benefits	2,537	1,113	4,843
Occupancy expense of premises, net	393	165	979
Outside services	180	191	166
Data processing	390	153	429
Foreclosed assets, net	(11)	2	(2)
Other	1,235	668	2,156
Total noninterest expenses	4,724	2,292	8,571
Income before income taxes	3,484	2,636	3,284
Income tax expense (benefit)	1,090	663	966
Net income	$2,394	$1,973	$2,318

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

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$7,311	$2,612	$5,406	1		$36,492
589	273	772	0		3,219
776	458	269	0		3,450
32	25	81	13	($16)	324
2	1	5	0		17
8,710	3,369	6,533	14	(16)	43,502
1,151	516	265	0	($16)	5,813
4	2	0	0		12
34	0	0	0		102
48	18	0	264		458
0	0	0	602		602
1,237	536	265	866	(16)	6,987
7,473	2,833	6,268	(852)	0	36,515
0	123	2,150	0		2,917
7,473	2,710	4,118	(852)	0	33,598
129	92	123			1,204
			$11,328	($11,328)	0
(156)	(51)	107			(167)
0	0	0			1,521
0	0	81			911
0	0	0	0		0
696	194	746	1,961	(1,796)	3,499
669	235	1,057	13,289	(13,124)	6,968
2,060	695	1,685	2,290		15,223
198	106	377	244	(56)	2,406
186	148	364	46	(840)	441
297	121	433		(899)	924
0	(37)	606	30		588
883	396	1,091	709		7,138
3,624	1,429	4,556	3,319	(1,796)	26,719
4,518	1,516	619	9,118	(11,328)	13,847
1,497	411	102	(815)		3,914
$3,021	$1,105	$517	$9,933	($11,328)	$9,933

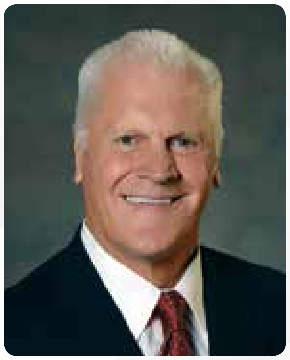
NOTES

BOARD OF DIRECTORS


John Jeschke,
Chairman


John Collman


Fred Kundert


Charles B. Kullberg


Brent Myers


Carolyn Sluiter, D.V.M.


Robert W. Stenstrom


Judd Thruman, J.D.


Douglas Wagner

30 YEARS

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