

Building on the past. *Investing in the future.*

community
building
through
community
banking





the **FORESIGHT** BANKS



LENA STATE BANK

northwestbank

State Bank
Freeport, IL

SB
STATE BANK of DAVIS

SBH
STATE BANK OF HERSCHER

German 
American
State Bank

FG FORESIGHT
financial group, inc.

www.foresightfg.com



Dear Stockholders,

“Building on the Past, Investing in the Future” seems an apt tagline to this 2017 annual report as it leads us to reflect on the successes and challenges of the past from which we can build and focus on our investment into the future. In review of 2017 performance, we are pleased to report that your company earned a net income of \$9.245 million; this is inclusive of a one-time negative tax expense adjustment of \$1.206 million resultant from the signing of the Federal Tax Cuts and Job Acts Bill on December 22, 2017. During 2017, a year of modest growth, company assets increased by 2.5% or \$28.45 million, total loans increased by 1.2% or \$9.23 million and total deposits maintained a stable balance of \$962 million.

Basic earnings per common share of \$2.53 was negatively impacted \$0.33 per share by the aforementioned tax expense adjustment. Market performance of your company stock in the past year shows a 17.80% increase in the price/earnings ratio, an 8.91% increase in market value per share and a current stock price that surpasses book value. The company’s continued solid performance through managed interest margins, credit risk and net overhead, while fulfilling our vision and purpose as a company involved with and building the communities we serve, has been recognized by the market as an investment with strong current and future value.

The content of this report focuses on past performance thus providing you, our stockholders, information necessary to evaluate the benefit of holding ownership in this company and the ability to assess your future value of maintaining that ownership. In order to instill confidence in your investment, it is incumbent that the Board and management of your company present not only past success but a forwarding looking future vision. Your company has embarked on an aggressive approach of investing in the future that began in 2017 and continues into 2018.

As a result of the Federal Tax Cuts and Job Acts Bill, it is projected that the company will realize a reduced tax burden in excess of \$1 million in 2018. Several opportunities were considered as to how best to employ this benefit to gain not only immediate but continued and sustained value in current and future years. Three key areas in the company’s strategic plan vision were targeted for our 2018 investment in the future. The areas of investment are technology, personnel and facility development and improvement. The following is a brief summary of our on-going investment in these areas.

Technology

- Anticipated capital investment of over \$3.0 million in software and hardware will provide new and enhanced products and services to our customer base. Additionally, in 2017 we added State Bank of Herscher to our existing core processing software, providing opportunity for improved efficiency through utilization of a common system. A strong commitment is engrained in current and future technology decisions to assure customer data security.



Personnel

- In 2017 the company added staff to lead the technology upgrade and conversion projects within our bank group and added a full time Corporate Director of Human Resources. We are currently seeking additional visionary leaders, relationship managers and team members to further build our strong workforce and continue the community banking mission of your company. Investment in staff, education, training and development will allow for succession planning and growth to provide shareholder return well into the future.

Facility Development and Improvement

- During 2017, renovation occurred at the new corporate headquarters of Foresight Financial Group in Winnebago, Illinois. Occupancy of this facility occurred in November 2017 and allowed corporate staff housed throughout various facilities to reside in one location. This facility is now a hub of activity and provides opportunity for improved synergy amongst corporate staff and bank management. In 2018, Northwest Bank of Rockford will be constructing a new full service facility along Perryville Road in Loves Park, Illinois. This stronger and more pronounced presence on the growing Northeast side of metro-Rockford will garner greater opportunity for continued sustainable growth for one of the few remaining local “community” banks in Rockford.

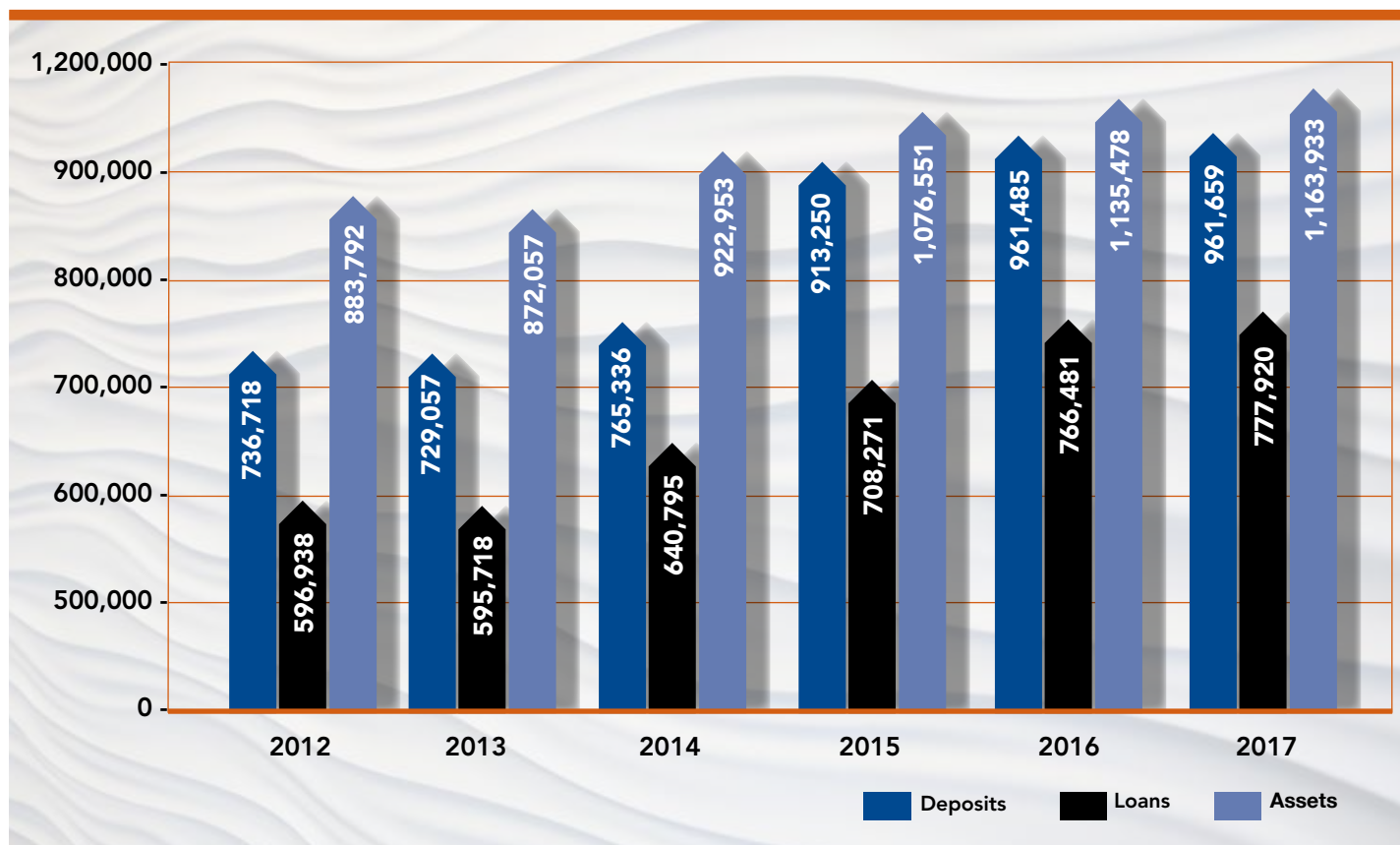
In summary, 2017 was a year of success, learning, and growth through experience. We take pride in our 2017 financial results, but realize that improved and sustained profitability and growth requires strategic investment in the future. As stewards of your investment in Foresight, we acknowledge our significant fiduciary responsibility and will consistently strive to manage it for growth and profitability while remaining true to our mission statement of “*Community Building through Community Banking*”.

Respectfully,

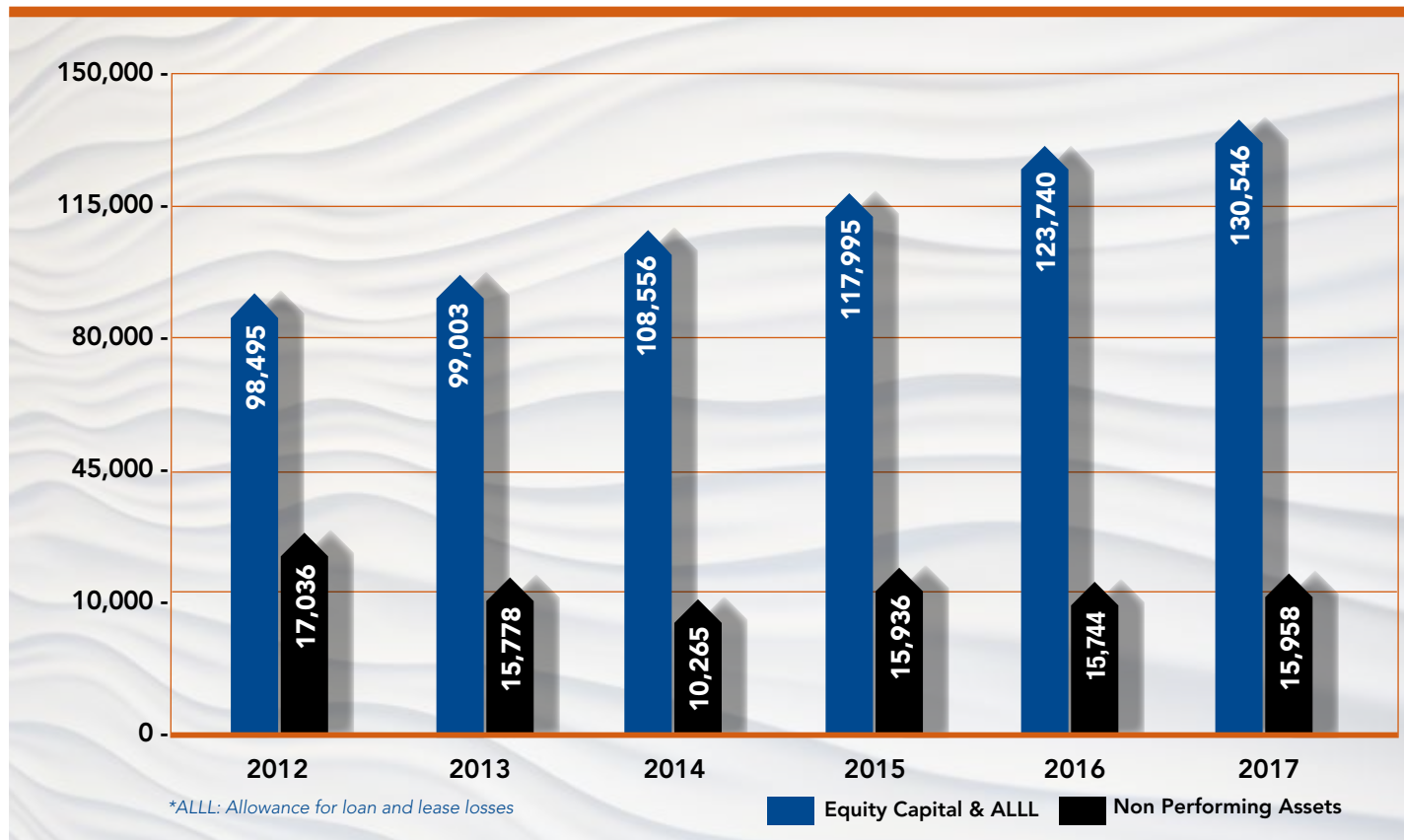
A handwritten signature in cursive script that reads 'Dean E. Cooke'.

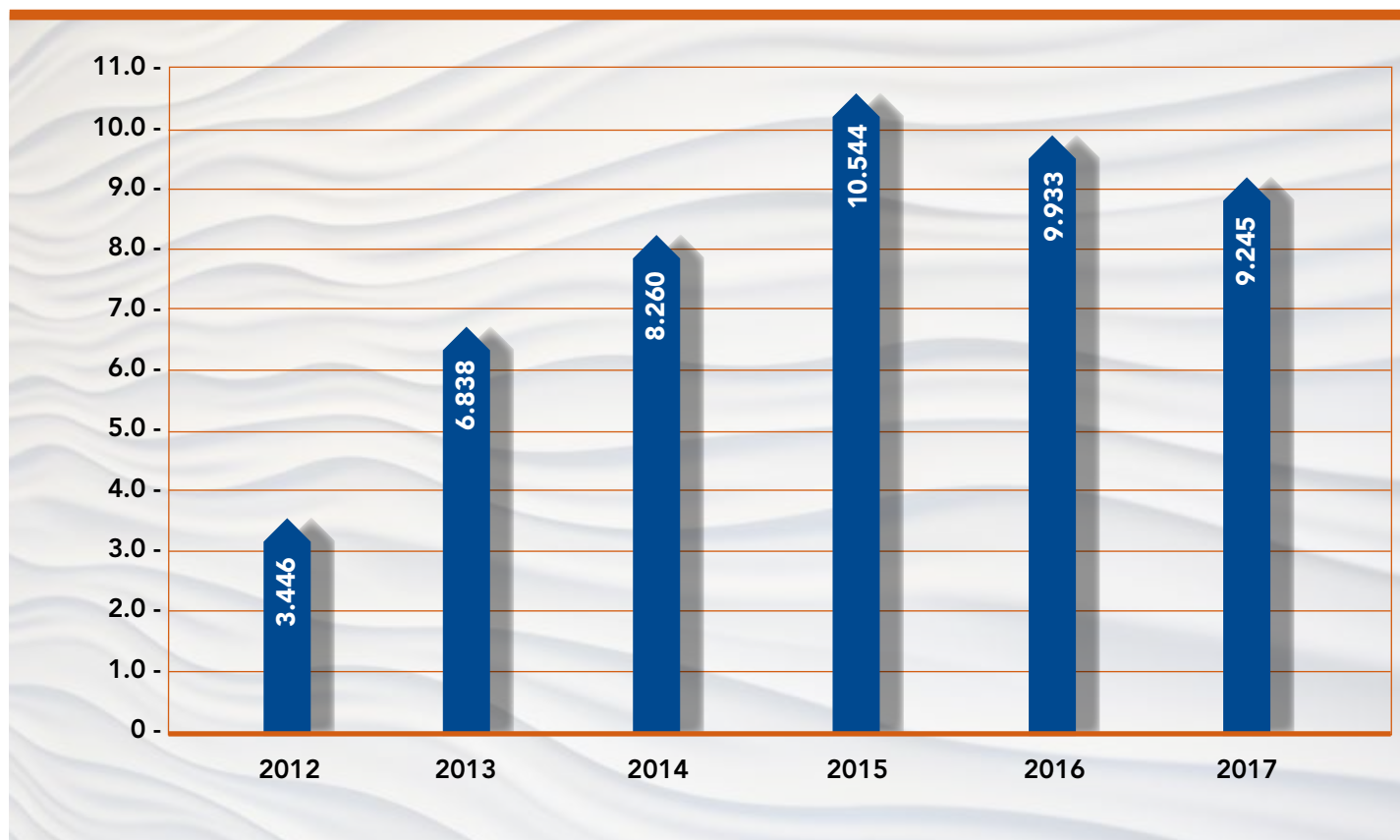
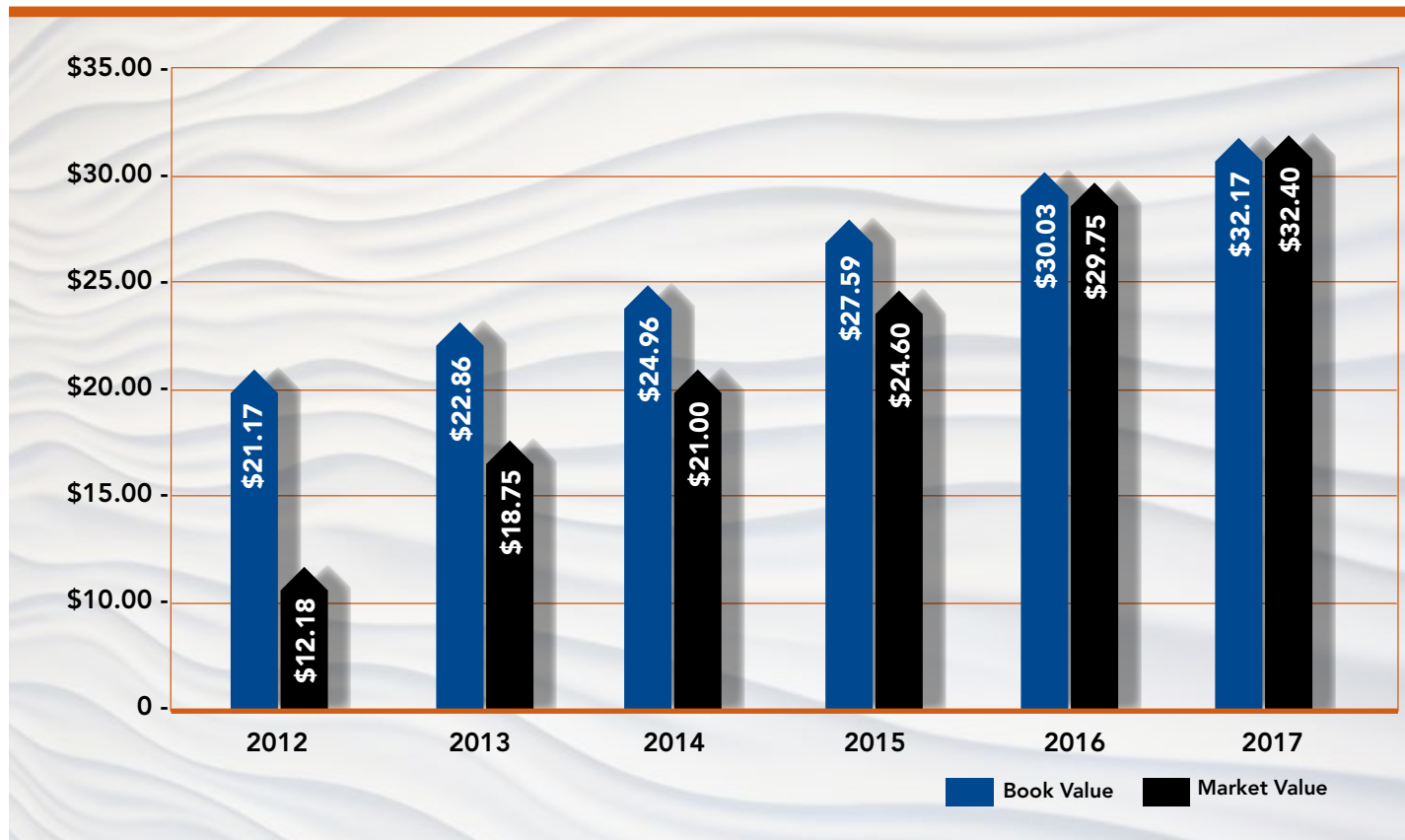
Dean E. Cooke
Chief Financial Officer

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



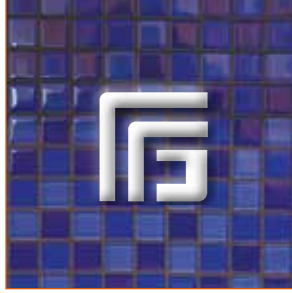
Trends in Combined Equity Capital & ALLL* to Non Performing Assets (000's)



Net Income (1,000,000,000's)**Common Stock Per Share Book & Market Value - 12/31**

foresight financial group, inc.
corporate headquarters





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"

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, 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 8, 2018

CONSOLIDATED BALANCE SHEETS
(000s omitted except share data)

December 31,

A S S E T S	2017	2016
Cash and due from banks	\$24,334	\$19,974
Interest-bearing deposits in banks	9,427	16,120
Federal funds sold	4,634	2,767
Total cash and cash equivalents	38,395	38,861
Interest-bearing deposits in banks - term deposits	10,672	10,607
Securities:		
Securities held-to-maturity (HTM)	766	732
Securities available-for-sale (AFS)	273,001	256,699
Non-marketable equity securities, at cost	950	2,852
Loans held for sale	2,339	2,217
Loans, net of allowance for loan losses of \$13,164 and \$15,496, respectively	777,920	766,481
Foreclosed assets, net	1,092	1,766
Premises and equipment, net	16,320	13,476
Core deposit intangible	1,223	1,535
Bank owned life insurance	22,168	21,527
Other assets	19,087	18,725
Total assets	\$1,163,933	\$1,135,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	\$137,697	\$143,480
Interest-bearing	823,962	818,005
Total deposits	961,659	961,485
Federal funds purchased	8,394	1,211
Securities sold under agreements to repurchase	32,434	25,107
Federal Home Loan Bank (FHLB) advances and other borrowings	28,308	23,818
Subordinated debentures	10,000	10,000
Accrued interest payable and other liabilities	5,756	5,613
Total liabilities	1,046,551	1,027,234
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares)	0	0
Common stock (\$.25 par value; authorized 10,000,000 shares; 3,979,208 and 3,949,918 shares issued, respectively)	995	988
Additional paid-in capital	9,410	8,955
Retained earnings	113,811	105,518
Treasury stock, at cost (314,919 shares)	(6,320)	(6,320)
Accumulated other comprehensive (loss)	(514)	(897)
Total stockholders' equity	117,382	108,244
Total liabilities and stockholders' equity	\$1,163,933	\$1,135,478

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2017	2016	2015
Interest and dividend income:			
Loans, including fees	\$36,241	\$36,492	\$31,908
Debt securities:			
Taxable	3,569	3,219	3,437
Tax-exempt	3,378	3,450	3,455
Interest-bearing deposits in banks and other	474	324	223
Federal funds sold	34	17	16
Total interest and dividend income	43,696	43,502	39,039
Interest expense:			
Deposits	6,401	5,813	5,310
Federal funds purchased	29	12	10
Securities sold under agreements to repurchase	229	102	71
FHLB and other borrowings	426	458	318
Subordinated debentures	600	602	600
Total interest expense	7,685	6,987	6,309
Net interest and dividend income	36,011	36,515	32,730
Provision for loan losses	868	2,917	1,660
Net interest and dividend income, after provision for loan losses	35,143	33,598	31,070
Noninterest income:			
Customer service fees	1,127	1,204	1,165
(Loss) Gain on sales and calls of AFS securities, net	0	(167)	426
Gain on sales of loans, net	1,658	1,521	1,338
Loan servicing fees, net	869	911	740
Gain on acquisition bargain purchase	0	0	1,133
Other	3,445	3,499	2,854
Total noninterest income	7,099	6,968	7,656
Noninterest expenses:			
Salaries and employee benefits	15,982	15,222	14,139
Occupancy expense of premises, net	2,096	2,406	2,627
Outside services	1,207	441	236
Data processing	946	924	582
Foreclosed assets, net	404	588	601
Other	7,109	7,138	6,286
Total noninterest expenses	27,744	26,719	24,471
Income before income taxes	14,498	13,847	14,255
Income tax expense	5,253	3,914	3,711
Net income	\$9,245	\$9,933	\$10,544
Earnings per common share:			
Basic	\$2.53	\$2.73	\$2.90
Diluted	\$2.50	\$2.70	\$2.85

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2017	2016	2015
Net income	\$9,245	\$9,933	\$10,544
Other comprehensive income (loss) :			
Unrealized holding (gains) losses on securities available for sale, net of tax of \$370, \$2,639 & \$182, respectively	383	(3,959)	(273)
Reclassification adjustments for net securities losses (gains) recognized in income, net of tax of \$0, (\$67) & \$169, respectively	0	100	(257)
Total other comprehensive income (loss)	383	(3,859)	(530)
Total comprehensive income	\$9,628	\$6,074	\$10,014

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, 2015	\$0	\$975	\$8,260	\$86,570	(\$5,312)	\$3,492	\$93,985
Net income				10,544			10,544
Other comprehensive income						(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
Net income				9,245			9,245
Other comprehensive income						383	383
Cash dividends (\$.26 per share)				(952)			(952)
Stock options exercised		5	299				304
Restricted stock vested (6,829 shares)		2	156				158
Balance, December 31, 2017	\$0	\$995	\$9,410	\$113,811	(\$6,320)	(\$514)	\$117,382

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$9,245	\$9,933	\$10,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	868	2,917	1,660
Provision for foreclosed asset (gains) losses	137	137	(756)
Depreciation	918	953	886
Net amortization of securities premiums	1,695	1,635	1,689
Income on bank owned life insurance	(641)	(447)	(235)
Deferred income tax benefit	3,321	2,684	318
Net loss (gain) on the sales and calls of AFS securities	0	167	(426)
Net gain on the sales of foreclosed assets	(134)	(82)	(121)
Stock-based compensation expense	0	0	51
Net change in:			
Loans held for sale	(122)	833	(1,611)
Other assets	(3,371)	(4,336)	(3,190)
Accrued interest payable and other liabilities	143	415	(1,261)
Net cash provided by operating activities	12,059	14,809	7,548
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks - term deposits	(65)	3,271	(8,681)
Proceeds from sales of AFS securities	0	19,233	20,475
Proceeds from maturities, calls, and paydowns of HTM securities	0	170	565
Proceeds from maturities, calls, and paydowns of AFS securities	38,549	95,213	60,813
Purchases of AFS securities	(56,197)	(99,540)	(113,401)
Purchases of bank owned life insurance	0	(12,062)	0
Redemptions of non-marketable equity securities	1,902	0	0
Loan originations and principal collections, net	(13,280)	(62,786)	(13,815)
Proceeds from sales of foreclosed assets	1,644	2,944	2,930
Cash and cash equivalents from bank acquisition	0	0	23,756
Purchases of premises and equipment, net	(3,762)	(2,735)	(161)
Net cash used in investing activities	(31,209)	(56,292)	(27,519)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	174	48,235	23,474
Net change in securities sold under agreements to repurchase	7,327	1,507	94
Cash dividends paid	(952)	(800)	(729)
Net change in federal funds purchased	7,183	708	(2,533)
Stock options and restricted stock	462	349	308
Purchase of treasury stock	0	(533)	(475)
Proceeds from lines of credit and FHLB advances and other borrowings	39,490	46,972	41,290
Payments on lines of credit and FHLB advances and other borrowings	(35,000)	(44,000)	(43,544)
Net cash provided by financing activities	18,684	52,438	17,885
Net increase (decrease) in cash and cash equivalents	(466)	10,955	(2,086)
Cash and cash equivalents at beginning of year	38,861	27,906	29,992
Cash and cash equivalents at end of year	\$38,395	\$38,861	\$27,906

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2017	2016	2015
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$7,652	\$6,919	\$6,239
Income taxes	\$3,011	\$1,342	\$3,901
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
Assets acquired in exchange for deposits and liabilities assumed	\$0	\$0	\$127,975
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	\$973	\$1,659	\$1,878

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 8, 2018, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(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 or earliest call date of the securities, as applicable. 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. 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.

(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 a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

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

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)

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 Banks have 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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

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 2015 and 2016 consolidated financial statements have been reclassified to conform to the 2017 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

(cc) New Accounting Standards (continued)

In October 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This standard simplifies various aspects of the accounting for the Company's stock option plan. The Company adopted this new accounting standard for the year ended December 31, 2017. As a result of adopting this standard, the Company will recognize current and future excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement; has made an accounting policy election to account for forfeitures when they occur and has made an accounting policy election to apply a practical expedient when estimating the term of new stock options granted.

In December 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities. This standard requires premiums on purchased callable debt securities to be amortized to the earliest call date. The Company adopted this new accounting standard for the year ended December 31, 2017. The adoption of this accounting standard did not have a significant effect on the Company's consolidated financial statements.

Newly Issued Not Yet Effective Accounting Standards

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 will 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

(cc) Newly Issued Not Yet Effective Accounting Standards (continued)

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.

(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 of Chicago, based upon a percentage of deposits. The total required reserve balances as of December 31, 2017 and 2016 was approximately \$876 and \$1,122, 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 Deposit Insurance Corporation's (FDIC) insured limit of \$250. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is not material.

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of \$250 or less and are fully insured by the FDIC. Certificates of deposit maturing in 2018 totaled \$5,307 and are included with cash and cash equivalents.

Maturities of certificates of deposits at other financial institutions as of December 31, 2017 are as follows:

2019	\$5,432
2020	996
2021	1,486
2022 and thereafter	2,758
	\$10,672

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(3) Securities

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

Held-to-Maturity 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$766	\$50	(\$0)	\$816

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

Available-for-Sale 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	\$43,288	\$58	(\$1,066)	\$42,280
State and municipal	117,481	2,068	(459)	119,090
Agency mortgage-backed – residential	112,953	304	(1,626)	111,630
	\$273,722	\$2,431	(\$3,152)	\$273,001

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

For the years ended December 31, 2017, 2016 and 2015, proceeds from sales of available-for-sale securities amounted to \$0, \$19,233 and \$20,475, 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:

	2017	2016	2015
Realized gains	\$0	\$332	\$589
Realized losses	(\$0)	(\$499)	(\$163)

Securities with carrying amounts of approximately \$153,862 and \$145,171 at December 31, 2017 and 2016, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(3) Securities (continued)

The amortized costs and fair values of securities at December 31, 2017 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	\$269	\$275
Due after one year through five years	0	0
Due after five years through ten years	497	541
Due after ten years	0	0
	\$766	\$816
Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	\$11,695	\$11,831
Due after one year through five years	37,060	37,371
Due after five years through ten years	68,666	68,294
Due after ten years	43,347	43,875
	160,769	161,371
Agency mortgage-backed – residential	112,953	111,630
	\$273,722	\$273,001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(3) Securities (continued)

The following tables show the fair values and unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016:

	2017					
	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	\$18,846	\$274	40	\$19,794	\$792	39
State and municipal	26,609	257	89	7,232	202	28
Agency mortgage-backed – residential	39,220	414	77	54,121	1,212	101
Total temporarily impaired	\$84,675	\$945	206	\$81,147	\$2,206	168

	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

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2017 and 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(4) Loans

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

	2017	2016
Real estate:		
Commercial real estate	\$277,448	\$273,920
Residential real estate	116,632	117,173
Agricultural real estate	101,027	99,967
Commercial:		
Commercial and industrial	208,868	206,609
Agricultural production	64,255	65,628
Consumer and other	22,854	18,680
	791,084	781,977
Allowance for loan losses	(13,164)	(15,496)
Totals	\$777,920	\$766,481

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

	2017			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	\$10,063	\$5,266	\$167	\$15,496
Provision charged to operations, net	734	148	(14)	868
Recoveries on loans previously charged-off	136	351	16	503
	10,933	5,765	169	16,867
Less loans charged-off	(3,261)	(423)	(19)	(3,703)
Balance at end of year	\$7,672	\$5,342	\$150	\$13,164
Allowance for loan losses:				
Individually evaluated for impairment	\$413	\$1,763	\$20	\$2,196
Collectively evaluated for impairment	7,259	3,579	130	10,968
Loans acquired with deteriorated credit	0	0	0	0
Loans acquired without deteriorated credit	0	0	0	0
Totals	\$7,672	\$5,342	\$150	\$13,164

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(4) Loans (continued)

	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

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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:

	2017			
	Real Estate	Commercial	Consumer	Total
Loans:				
Individually evaluated for impairment	\$21,649	\$14,427	\$28	\$36,104
Collectively evaluated for impairment	473,459	258,695	22,826	754,980
Totals	\$495,108	\$273,122	\$22,854	\$791,084

	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

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:

	2017				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	\$7,576	\$9,918	N/A	\$8,046	\$282
Residential real estate	5,519	7,132	N/A	6,131	148
Agricultural real estate	3,707	4,243	N/A	3,804	150
Commercial					
Commercial & industrial	6,185	7,063	N/A	6,523	146
Agricultural production	5,669	5,688	N/A	5,110	237
Consumer and other	8	9	N/A	15	0
Totals	\$28,664	\$34,053		\$29,629	\$963
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	3,825	3,916	295	4,209	112
Residential real estate	872	936	95	1,182	17
Agricultural real estate	151	234	24	427	0
Commercial					
Commercial & industrial	2,573	2,613	1,763	2,653	67
Agricultural production	0	0	0	0	0
Consumer and other	19	19	19	21	1
Totals	7,440	7,718	2,196	8,492	197
Grand Totals	\$36,104	\$41,771	\$2,196	\$38,121	\$1,160

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(4) Loans (continued)

	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

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:

	2017				Totals
	Pass	Special Mention	Substandard	Doubtful	
Real estate:					
Commercial real estate	\$249,950	\$16,620	\$10,878	\$0	\$277,448
Residential real estate	110,068	1,892	4,672	0	116,632
Agricultural real estate	85,038	12,264	3,726	0	101,027
Commercial:					
Commercial & industrial	181,958	18,880	7,967	64	208,868
Agricultural production	50,626	7,958	5,669	0	64,255
Consumer and other	22,807	20	27	0	22,854
Total	\$700,447	\$57,634	\$32,939	\$64	\$791,084

	2016				Totals
	Pass	Special Mention	Substandard	Doubtful	
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

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

As of December 31, 2017	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	\$1,118	\$275	\$1,393
Residential real estate	1,319	1,804	3,123
Agricultural real estate	49	1,480	1,529
Commercial			
Commercial & industrial	371	312	683
Agricultural production	0	70	70
Consumer and other	65	3	68
Total	\$2,922	\$3,944	\$6,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(4) Loans (continued)

As of December 31, 2017	Total Past Due	Total Current	Total Loans	90+ Days Due and Accruing Interest	Total Non-accrual Loans
Real Estate:					
Commercial real estate	\$1,393	\$276,055	\$277,448		\$5,147
Residential real estate	3,123	113,509	116,632		3,037
Agricultural real estate	1,529	99,498	101,027		2,444
Commercial:					
Commercial & industrial	683	208,185	208,868	\$46	4,165
Agricultural production	70	64,185	64,255		24
Consumer and other	68	22,786	22,854		3
Total	\$6,866	\$784,219	\$791,084	\$46	\$14,820

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

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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:

	2017		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	1	\$6,939	\$4,800
Residential real estate	1	\$90	\$90
Commercial:			
Commercial & industrial	3	\$464	\$154
Total	5	\$7,493	\$5,044

	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

There were no troubled debt restructurings that defaulted during the year, within 12 months of their modification as of December 31, 2017. As for December 31, 2016, the following table summarizes troubled debt restructurings that defaulted during the year, within 12 months of their modification:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(4) Loans (continued)

The Company has acquired purchased credit impaired (PCI) 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:

	2017	2016
Outstanding balance:		
Commercial	\$2,870	\$3,283
Residential Real Estate	221	278
Total outstanding balance	\$3,091	\$3,561

The carrying value of the PCI loans was \$1,717 and \$1,956 at December 31, 2017 and 2016, respectively.

No increases to the allowance for loan losses were done for PCI loans during 2017 and 2016. No allowances for loan losses were reversed during 2017 and 2016.

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

	2017	2016
Beginning balance	\$0	\$276
Accretion	(0)	(276)
Ending Balance	\$0	\$0

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 \$891 and \$0 at December 31, 2017 and 2016, respectively. The carrying amount of nonaccruing PCI loans acquired was \$0 during 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2017 and 2016, were approximately \$342,567 and \$347,152, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately \$3,645 and \$3,498 at December 31, 2017 and 2016, respectively.

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

	2017	2016	2015
Balance at beginning of year	\$1,328	\$1,324	\$1,451
Mortgage servicing rights capitalized	445	545	457
Mortgage servicing rights amortized	(483)	(541)	(584)
Balance at end of year	\$1,290	\$1,328	\$1,324

No impairment of mortgage servicing rights existed and no valuation allowance was recognized for 2017, 2016 and 2015.

(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, 2017 and 2016, the Company had approximately \$296 and \$2,269 in interest rate lock commitments outstanding. As of December 31, 2017 and 2016, the Company had approximately \$591 and \$4,537 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, 2017 and 2016.

(7) Foreclosed Assets

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

	2017	2016
Residential real estate	\$273	\$1,155
Commercial real estate	327	49
Non-farm non-residential properties	215	246
Construction, land development and other land	277	316
Balance at end of year	\$1,092	\$1,766

Residential real estate loans that are in process of foreclosure totaled \$719 at December 31, 2017 and \$1,521 at December 31, 2016.

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:

	2017	2016
Land	\$3,539	\$2,882
Buildings and leasehold improvements	17,700	15,362
Furniture, fixtures, and equipment	11,991	11,510
	33,230	29,754
Less accumulated depreciation	16,910	16,278
	\$16,320	\$13,476

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 amounted to \$918, \$953 and \$886, respectively.

(9) Intangible Assets

The core deposit premium intangible asset had a gross carrying amount of \$1,952 and accumulated amortization of \$729 and \$417 at December 31, 2017 and 2016, 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, 2017.

2018	\$315
2019	315
2020	315
2021	278

(10) Other Assets

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

	2017	2016
Accrued interest receivable	\$5,881	\$5,719
Mortgage servicing rights, net of accumulated amortization	1,290	1,328
Net deferred tax assets	3,632	6,949
Other	8,284	4,729
	\$19,087	\$18,725

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(11) Time Deposits

The aggregate amount of time deposits with a minimum denomination of \$250 was approximately \$54,644 and \$56,863 at December 31, 2017 and 2016, respectively. Time deposits are included in the interest-bearing deposits for financial statement presentation.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2018	\$171,035
2019	94,418
2020	61,343
2021	41,556
2022	27,032
2023	234
	395,617

(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 \$310, \$300, and \$257, for 2017, 2016, and 2015, 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 \$53,878 and \$53,710 as of December 31, 2017 and 2016, respectively. The Banks accrue amounts to be paid over the participant's active service life. The accrued benefits were \$1,620, \$1,061, and \$905 at December 31, 2017, 2016, and 2015, respectively. Non-qualified deferred compensation expenses were \$639, \$206, and \$49 in 2017, 2016, and 2015, 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			Total
	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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 considering 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 and 2017, the Company recorded expenses of \$230 and \$2, respectively, 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:

	2017	2016	2015
Current – federal	\$1,715	\$614	\$2,542
Current – state	216	616	851
	1,931	1,230	3,393
Deferred – federal	2,723	2,110	227
Deferred – state	599	574	91
	3,321	2,684	318
Total income tax expense	\$5,253	\$3,914	\$3,711

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:

	2017		2016		2015	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	\$4,929	34.0%	\$4,708	34.0%	\$4,847	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(1,271)	(8.8%)	(1,272)	(9.2%)	(1,270)	(9.5%)
Bank-owned life insurance	(217)	(1.5%)	(152)	(1.1%)	(80)	(0.6%)
State taxes, net of federal benefit	538	3.7%	786	5.7%	622	4.7%
Bargain purchase gain	0	0%	0	0%	(385)	(2.9%)
Other	67	0.5%	(156)	(1.1%)	(23)	(0.2%)
Adjustment to the net deferred tax asset for the Tax Cuts and Jobs Act			0	0.0%	0	0.0%
	1,206	8.3%				
Effective tax rates	\$5,252	36.2%	\$3,914	28.3%	\$3,711	27.9%

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, 2017 and 2016 are summarized as follows:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	\$3,753	\$6,062
Allowance for losses on foreclosed assets	60	114
Alternative minimum tax	0	244
Available-for-sale securities	206	576
Deferred compensation and other	764	690
Purchase accounting adjustments	378	799
Total deferred tax assets	5,161	8,485
Deferred tax liabilities:		
FHLB stock dividend	63	168
Depreciation	1,078	825
Mortgage servicing rights and other	388	543
Total deferred tax liabilities	1,529	1,536
Net deferred tax assets	\$3,632	\$6,949

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 2014.

(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 \$17,761 and \$18,753 at December 31, 2017 and 2016, respectively. Activity for related party loans for the year ended December 31, 2017 is as follows:

	2017	2016	2015
Balance at beginning of year	\$18,753	\$18,933	\$21,560
New credits	7,143	7,820	14,108
Participated outside the Company	0	(915)	(1,685)
Repayments	(8,135)	(7,085)	(15,050)
Balance at end of year	\$17,761	\$18,753	\$18,933

Deposit accounts from related parties totaled approximately \$14,196 and \$13,721 at December 31, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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' exposures to off-balance-sheet risk as of December 31 is approximately as follows:

	2017	2016
Unused lines of credit and other loan commitments	\$185,451	\$203,008
Commercial letters of credits	176	580
Performance and standby letters of credit	1,437	2,050
	\$187,064	\$205,638

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, 2017. Once delivered to the Program, the Company provides a contractually agreed-upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Company is liable for losses on loans delivered to the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program subject to an agreed-upon maximum. The agreed-upon accumulated credit enhancement provided by the Program totaled \$2,642, 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, 2017, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 \$32,434 and \$25,107 at December 31, 2017 and 2016, respectively, and are collateralized by U.S. agencies, state and municipal and mortgage-backed investment securities with fair values of approximately \$39,943 and \$34,459. The weighted-average interest rates on these agreements were 1.05% and 0.45% at December 31, 2017 and 2016, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

	2017	2016
Fixed-rate advances with rates ranging from .91% to 2.05% and .91% to 2.64% and weighted average rates of 1.49% and 1.18% as of December 31, 2017 and 2016, respectively. Interest is payable monthly with principal due at maturity.	\$19,000	\$13,450

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately \$83,183 and \$80,797 as of December 31, 2017 and 2016, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by \$944 and \$2,846 of FHLB stock owned by the Company at December 31, 2017 and 2016, respectively.

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, 2017 was 200-basis points. Outstanding advances were \$0 at December 31, 2017 and 2016. Advances are collateralized by investment securities pledged totaling approximately \$9,257 and \$10,270 at December 31, 2017 and 2016, 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 note is a fixed rate at 4% due July 2, 2020 and is secured by common stock of Company subsidiaries. The balance was \$5,663 and \$6,273 at December 31, 2017 and 2016, respectively, with payments of \$212, consisting of principal and interest, due quarterly.

Other borrowings totaled \$3,645 and \$4,095 at December 31, 2017 and 2016, respectively, and mature from 2018 to 2024, at interest rates ranging from 1.60% to 3.50%.

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(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:

	2017	2016
2017	\$0	\$0
2018	16,093	6,900
2019	3,750	6,202
2020	6,413	1,514
2021	250	7,023
2022 and thereafter	1,802	2,179
	\$28,308	\$23,818

The Company had federal funds purchased with its main correspondent institutions totaling \$8,394 and \$1,211 as of December 31, 2017 and 2016, respectively. Federal funds purchased generally mature within one day from transaction date. The weighted average interest rate was 1.6% and .8% as of December 31, 2017 and 2016, respectively.

(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 among 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, 2017. The agreement contains certain restrictive covenants that are effective if the Company is in default on the debentures.

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(000s omitted except share data)

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2017	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	\$273,001		\$273,001	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	\$5,243			\$5,243
Foreclosed assets	\$1,092			\$1,092

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$7,439 with specific reserves of \$2,196 as of December 31, 2017.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of \$1,092, which is comprised of the outstanding balance of \$1,304, net of an allowance for losses of \$212 as of December 31, 2017.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(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, 2017:

	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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$38,395	\$38,395	\$38,861	\$38,861
Interest-bearing deposits in other banks-term deposits	10,672	10,672	10,607	10,607
Securities	273,767	273,817	257,431	257,477
Non-marketable equity securities	950	950	2,852	2,852
Loans held for sale	2,339	2,339	2,217	2,217
Loans, net of allowance	777,920	772,725	766,481	765,728
Accrued interest receivable	5,881	5,881	5,719	5,719
Cash surrender value of bank-owned life Insurance	22,168	22,168	21,525	21,525
Financial liabilities:				
Demand and saving deposits	\$566,042	\$566,042	\$562,287	\$562,287
Time deposits	395,617	393,710	399,198	403,484
Federal funds purchased	8,394	8,394	1,211	1,211
Securities sold under agreements to repurchase	32,434	32,405	25,107	25,107
FHLB advances and other borrowings	28,308	28,245	23,818	23,781
Subordinated Debentures	10,000	10,000	10,000	10,000
Accrued interest payable	843	843	818	818

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(20) Stock-Compensation Plans (continued)

No options were granted for the year ended December 31, 2017, 2016 and 2015.

For the years ended December 31, 2017, 2016 and 2015, the Company recognized \$18, \$24 and \$75 in compensation expense for stock options, respectively. No tax benefits were recognized for the three-year period ended December 31, 2017. The intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was \$472, \$280 and \$284, respectively.

The following tables summarize the activity of options and non-vested shares granted, exercised, or forfeited for the year ended December 31, 2017:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option, beginning of year	105,792	\$12.34	4.5	\$1,842
Granted during the year	0			0
Forfeited and expired during the year	(10,000)	19.00		125
Exercised during the year	(23,050)	10.28		472
Shares under option, end of year	72,742	\$12.08	3.4	\$1,478
Options exercisable, end of year	72,742	\$12.08	3.4	\$1,478
Shares available for grant, end of year	108,685			

	Number of Options	Weighted Average Fair Value at Grant
Non-vested options, December 31, 2016	15,000	\$4.88
Granted during the year	0	0
Vested during the year, net	(5,000)	4.88
Forfeited or expired during the year	(10,000)	4.88
Non-vested options, December 31, 2017	0	\$4.88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(20) Stock-Compensation Plans (continued)

The following table summarizes information about stock options outstanding at December 31, 2017:

Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
\$10.00	1,250	0.0	1,250
\$10.25	46,492	2.8	46,492
\$10.50	10,000	2.6	10,000
\$19.00	15,000	6.2	15,000
	72,742		72,742

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 2017:

	Unvested Shares	Weighted Average Grant Value
Restricted stock, December 31, 2016	11,938	\$23.61
Granted during the year	6,153	31.35
Forfeited during the year	(1,690)	27.34
Restricted shares (net for taxes)	(945)	23.05
Vested during the year	(6,829)	23.05
Restricted stock, December 31, 2017	8,627	\$28.90

During 2017, 2016 and 2015, total compensation expense of \$165, \$178, and \$142 (before tax benefits of \$66, \$70 and \$57) 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 \$92 and \$21 for years 2018 and 2019, respectively.

(21) Stock Repurchase Program

In October 2016, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 shares of common stock at market price, each year. In October 2017, the Company's Board of Directors authorized a stock repurchase program authorizing an aggregate repurchase of up to 100,000 of common stock at up to 110% of book value. For the year ended December 31, 2016, the Company had repurchased 21,300 shares under this program. There were no shares repurchased in 2017.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(22) Earnings Per Common Share

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

	2017	2016	2015
Net income	\$9,245	\$9,933	\$10,544
Net income available to common stockholders	\$9,245	\$9,933	\$10,544
Average number of common shares outstanding	3,656,234	3,633,278	3,633,369
Effect of dilutive options	45,234	51,468	60,796
Average number of common shares outstanding used to calculate diluted earnings per common share	3,701,469	3,684,746	3,694,165

(23) Regulatory Matters

The Company and Banks are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. 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.

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, 2017, the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2017, all six Banks were categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, minimum capital ratios set forth in the table must be maintained. There are no conditions or events occurring since December 31, 2017, which management believes have changed the capital categories of the Banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(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, 2017:						
Total Capital to Risk						
Weighted Assets:						
Company	\$130,386	14.04%	\$74,289	8.00%	\$92,862	10.00%
Northwest	28,941	12.26%	18,886	8.00%	23,608	10.00%
German	24,384	12.67%	15,394	8.00%	19,242	10.00%
Davis	17,545	14.13%	9,932	8.00%	12,415	10.00%
Freeport	27,310	13.73%	15,915	8.00%	19,894	10.00%
Lena	10,621	15.45%	5,500	8.00%	6,875	10.00%
Herscher	19,571	19.93%	7,857	8.00%	9,822	10.00%
Tier 1 Capital to Risk						
Weighted Assets:						
Company	\$116,759	12.57%	\$55,717	6.00%	\$74,289	8.00%
Northwest	26,777	11.34%	14,165	6.00%	18,886	8.00%
German	22,366	11.62%	11,545	6.00%	15,394	8.00%
Davis	15,990	12.88%	7,449	6.00%	9,932	8.00%
Freeport	24,812	12.47%	11,936	6.00%	15,915	8.00%
Lena	9,756	14.19%	4,125	6.00%	5,500	8.00%
Herscher	18,328	18.66%	5,893	6.00%	7,857	8.00%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Company	\$116,759	12.57%	\$41,788	4.50%	\$60,360	6.50%
Northwest	26,777	11.34%	10,624	4.50%	15,345	6.50%
German	22,366	11.62%	8,659	4.50%	12,507	6.50%
Davis	15,990	12.88%	5,587	4.50%	8,070	6.50%
Freeport	24,812	12.47%	8,952	4.50%	12,931	6.50%
Lena	9,756	14.19%	3,094	4.50%	4,469	6.50%
Herscher	18,328	18.66%	4,420	4.50%	6,384	6.50%
Tier 1 Capital to Average Assets:						
Company	\$116,759	10.05%	\$46,491	4.00%	\$58,114	5.00%
Northwest	26,777	9.56%	11,200	4.00%	14,000	5.00%
German	22,366	9.30%	9,622	4.00%	12,027	5.00%
Davis	15,990	9.90%	6,461	4.00%	8,076	5.00%
Freeport	24,812	10.17%	9,759	4.00%	12,199	5.00%
Lena	9,756	11.43%	3,416	4.00%	4,270	5.00%
Herscher	18,328	12.84%	5,709	4.00%	7,136	5.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(23) Regulatory Matters (continued)

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%

(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 \$80 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 requires 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 \$122 and \$120 was recognized in 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

(25) Lease Commitments (continued)

In addition, there is an operating lease agreement for bank premises in Kankakee, Illinois. There was no formal lease for the Kankakee location in 2017. The Bank paid \$7 for 2017. A formal lease agreement was signed for 2018 for the Kankakee location. The terms of the 2018 lease require base lease amount of \$10; which has been prepaid.

The minimum lease commitments on all leases is \$105 for 2018.

(26) Qualified Affordable Housing Project Investments

The Company invests in qualified affordable housing projects. At December 31, 2017 and 2016, the balance of the investment for qualified affordable housing projects was \$1,857 and \$2,215. 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
Net interest income	\$34,561
Net income	\$10,102
Basic earnings per share	\$2.78
Diluted earnings per share	\$2.73

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

December 31, 2017

A S S E T S	German-American State Bank	State Bank of Davis	Northwest Bank
Cash and due from banks	\$4,415	\$1,794	\$8,157
Interest-bearing deposits in banks	6	236	147
Federal funds sold	0	0	0
Interest-bearing deposits in banks - term deposits	3,477	3,488	0
Securities:			
Securities held-to-maturity	0	766	0
Securities available-for-sale	58,263	42,097	48,372
Non-marketable equity securities, at cost	191	103	262
Loans held for sale	0	0	2,339
Loans, net	166,614	102,582	206,151
Foreclosed assets, net	93	296	234
Premises and equipment	1,263	920	4,763
Core deposit intangible	0	0	0
Bank owned life insurance	3,158	1,824	6,185
Other assets	3,177	3,599	5,113
Investment in subsidiary banks	0	0	0
Total assets	\$240,657	\$157,705	\$281,723
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Noninterest bearing	\$27,534	\$14,214	\$40,848
Interest-bearing	183,925	111,310	194,481
Total deposits	211,459	125,524	235,329
Federal funds purchased	1,063	1,972	2,967
Securities sold under agreements to repurchase		13,639	2,404
Federal Home Loan Bank borrowings and other	4,500	0	13,183
Subordinated debentures	0	0	0
Accrued interest payable and other liabilities	1,278	352	1,169
Total liabilities	218,300	141,487	255,052
Stockholders' equity:			
Preferred stock	0	0	0
Common stock	400	100	1,450
Additional paid-in capital	2,885	1,628	7,330
Retained earnings	19,081	14,262	17,997
Treasury stock	0	0	0
Accumulated other comprehensive income (loss)	(9)	228	(106)
Total stockholders' equity	22,357	16,218	26,671
Total liabilities and stockholders' equity	\$240,657	\$157,705	\$281,723

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
\$5,833	\$1,238	\$2,897	\$291	(\$291)	\$24,334
3,524	89	118	6,653	(1,346)	\$9,427
4,122	512	0	0		4,634
3,453	1,088	4,473	0	(5,307)	10,672
0	0	0	0		766
53,168	23,421	47,680	0		273,001
148	60	186	0		950
0	0	0	0		2,339
171,135	55,007	76,284	147		777,920
0	0	469	0		1,092
1,652	417	1,948	5,357		16,320
0	0	1,223	0		1,223
1,411	2,312	4,355	2,923		22,168
2,969	1,268	2,543	418		19,087
0	0	0	116,010	(116,010)	
\$247,415	\$85,412	\$142,176	\$131,799	(\$122,954)	\$1,163,933
\$26,579	\$6,175	\$22,638	\$0	(\$291)	\$137,697
177,563	68,013	95,323	0	(6,653)	823,962
204,142	74,188	117,961	\$0	(6,944)	961,659
0	0	2,392	0		8,394
14,619	0	1,772	0		32,434
2,962	1,000	1,000	5,663		28,308
0	0	0	10,000		10,000
865	484	371	1,237		5,756
222,588	75,672	123,496	16,900	(6,944)	1,046,551
0	0	0	0		0
1,000	500	400	995	(3,850)	995
4,672	3,727	28,443	9,409	(48,684)	9,410
19,139	5,530	(7,058)	113,810	(68,950)	113,811
0	0	0	(6,320)		(6,320)
16	(17)	(3,105)	(2,995)	5,474	(514)
24,827	9,740	18,680	114,899	(116,010)	117,382
\$247,415	\$85,412	\$142,176	\$131,799	(\$122,954)	\$1,163,933

For the year ended December 31, 2017			
	German-American State Bank	State Bank of Davis	Northwest Bank
Interest and dividend income:			
Loans, including fees	\$7,753	\$4,574	\$9,384
Securities:			
Taxable	779	507	634
Tax-exempt	691	642	622
Interest-bearing deposits in banks and other	90	138	56
Federal funds sold	6	3	7
Total interest and dividend income	9,319	5,864	10,703
Interest expense:			
Deposits	1,544	1,064	1,651
Federal funds purchased	4	2	5
Securities sold under agreements to repurchase	0	107	13
Federal Home Loan Bank advances and other borrowings	54	0	82
Subordinated debentures	0	0	0
Total interest expense	1,602	1,173	1,751
Net interest and dividend income	7,717	4,691	8,952
Provision for loan losses	90	150	190
Net interest and dividend income, after provision for loan losses	7,627	4,541	8,762
Noninterest income:			
Customer service fees	256	88	425
Equity in earnings of subsidiaries			
Gain on sales and calls of AFS securities, net	0	0	0
Gain on sales of loans, net	52	0	1,606
Loan-servicing fees	0	0	804
Gain on acquisition bargain purchase	0	0	0
Other	863	245	926
Total noninterest income	1,171	333	3,761
Noninterest expenses:			
Salaries and employee benefits	2,643	881	5,124
Occupancy expense of premises, net	302	155	887
Outside services	245	217	177
Data processing	419	153	429
Foreclosed assets, net	(60)	14	5
Other	1,346	578	2,324
Total noninterest expenses	4,895	1,998	8,946
Income before income taxes	3,903	2,876	3,577
Income tax expense (benefit)	1,490	951	1,064
Net income	\$2,413	\$1,925	\$2,513

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
\$7,770	\$2,511	\$4,246	3		\$36,241
677	304	668	0		3,569
764	380	279	0		3,378
83	32	84	16	(\$25)	474
3	2	13	0		34
9,297	3,229	5,290	19	(25)	43,696
1,275	560	332	0	(\$25)	6,401
5	5	8	0		29
109	0	0	0		229
30	20	0	240		426
0	0	0	600		600
1,419	585	340	840	(25)	7,685
7,878	2,644	4,950	(821)	0	36,011
120	18	300	0		868
7,758	2,626	4,650	(821)	0	35,143
141	101	116			1,127
			\$10,966	(\$10,966)	0
0	0	0			0
0	0	0			1,658
0	0	65			869
0	0	0	0		0
751	212	393	1,915	(1,860)	3,445
892	313	574	12,881	(12,826)	7,099
2,215	632	1,799	2,688		15,982
236	108	349	100	(41)	2,096
208	159	270	812	(881)	1,207
290	131	462		(938)	946
0	0	444	1		404
853	379	1,024	605		7,109
3,802	1,409	4,348	4,206	(1,860)	27,744
4,848	1,530	876	7,854	(10,966)	14,498
1,972	592	575	(1,391)		5,253
\$2,876	\$938	\$301	\$9,245	(\$10,966)	\$9,245

General Information

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Trading symbol: **FGFH**

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