



## FORESIGHT SUBSIDIARIES



# 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”**

## Dear Stockholders,

The financial results for 2019 were exceptional as your Company, Foresight Financial Group, reported net income of just over \$11.0 million, the second highest in our history. The Company's Tier 1 Capital grew 8.11% from the prior year end further enhancing our already strong equity capital position to a level of \$140.761 million at year-end 2019. The

Board approved a 12.5% increase in the dividend paid to shareholders in October of 2019, the second year in a row for a dividend increase.



Basic earnings per common share were \$2.98 a slight decrease of 3.6% from 2018. The return on average equity for 2019 equaled 8.18%. The market performance of Foresight stock increased 6.33% or \$2.15 compared to reported per share prices of \$36.10 and \$33.95 at December 31, 2019 and 2018 respectively.

Our balance sheet grew moderately to \$1.213 billion or \$33 million from the prior year end. The outstanding loan balances at year end showed a decrease of \$6.6 million while our deposit base increased \$40 million during the year. Growth in both loans and deposits is a focus of ours as we move forward. The federal funds rate controlled by the Federal Reserve decreased by three quarters of one percent in 2019 placing downward pressure on our company's interest margin. Any future interest rate decreases will place

additional downward pressure on our interest margin. Our agricultural customer base specifically, as well as, all our customers continued to experience economic pressure from the ongoing tariffs and unresolved trade negotiations taking place throughout the world.

A section in the three year strategic plan developed in 2019 focused on externally growing the company. External growth opportunities were and will continue to be reviewed using a disciplined approach.

Foresight centralized several functions in 2019 that should result in future reduction of expenses. A branch facility located in Loves Park, IL operated by subsidiary Northwest Bank of Rockford was retired in January of 2020 with full savings from the retirement estimated to occur in 2021. Foresight will remain focused on increasing the customer experience while decreasing expenses aimed at improving shareholder value.

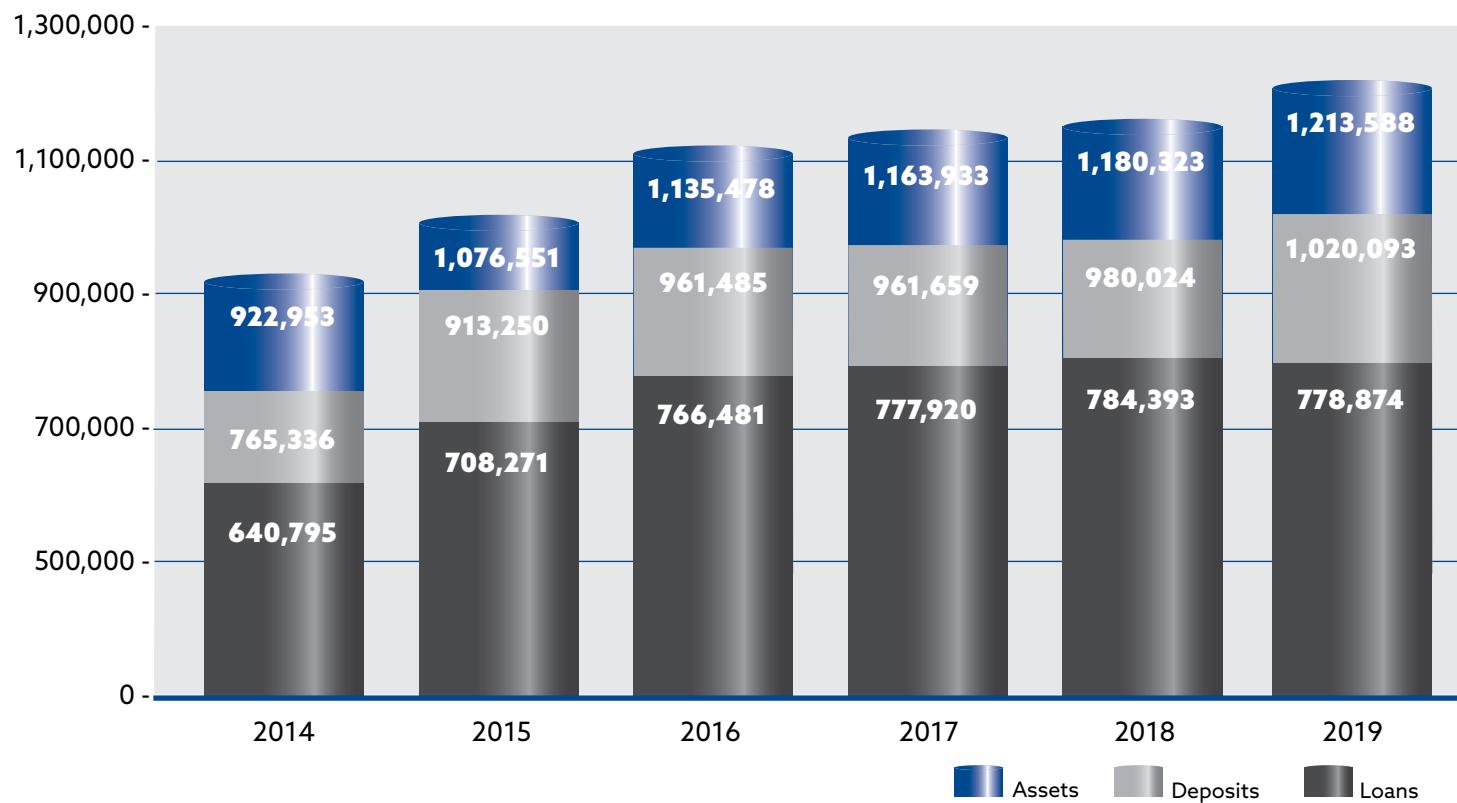
Thank you for your support allowing Foresight Financial Group and its subsidiary banks to serve our customers, employees, communities and fellow shareholders.

Respectfully,

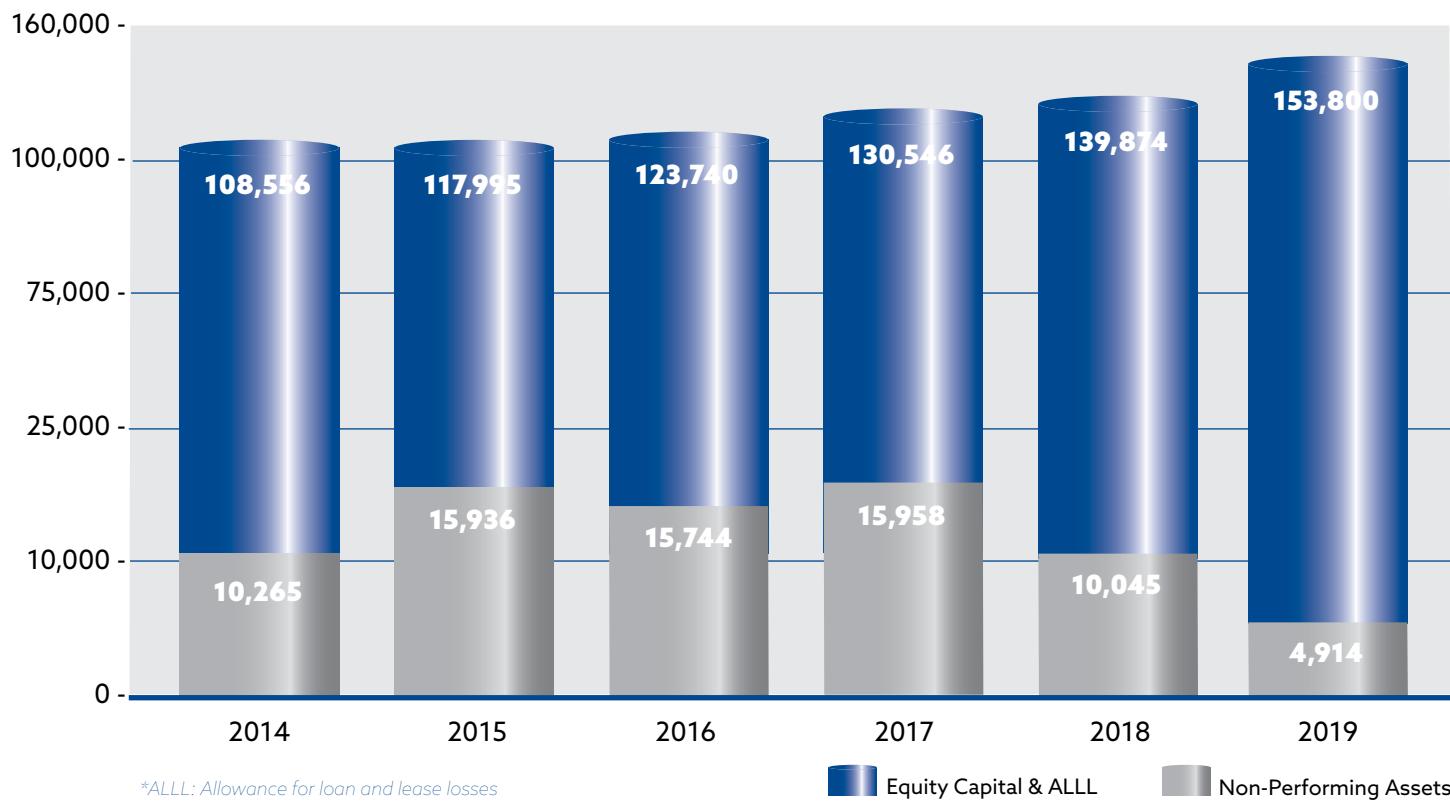
A handwritten signature in black ink, appearing to read "Rex K. Entsminger".

Rex K. Entsminger  
President/Chief Executive Officer

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



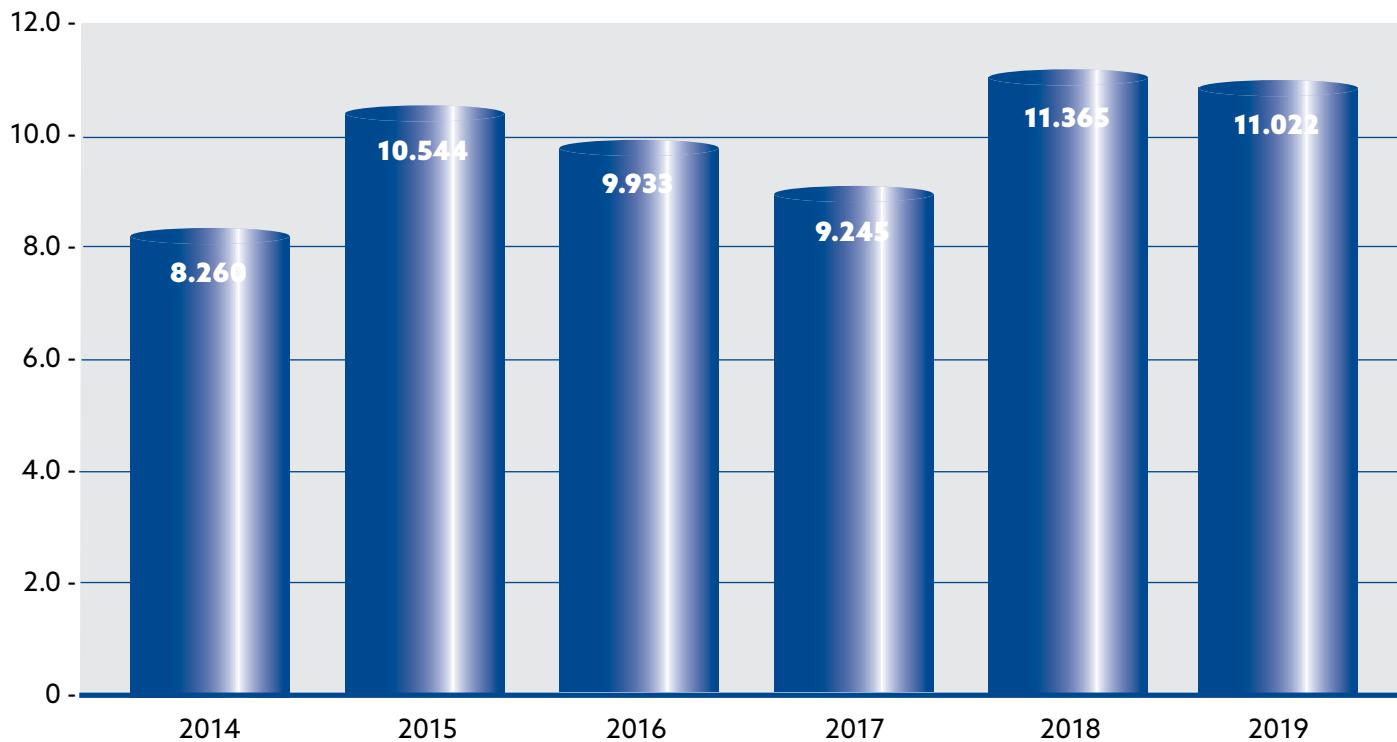
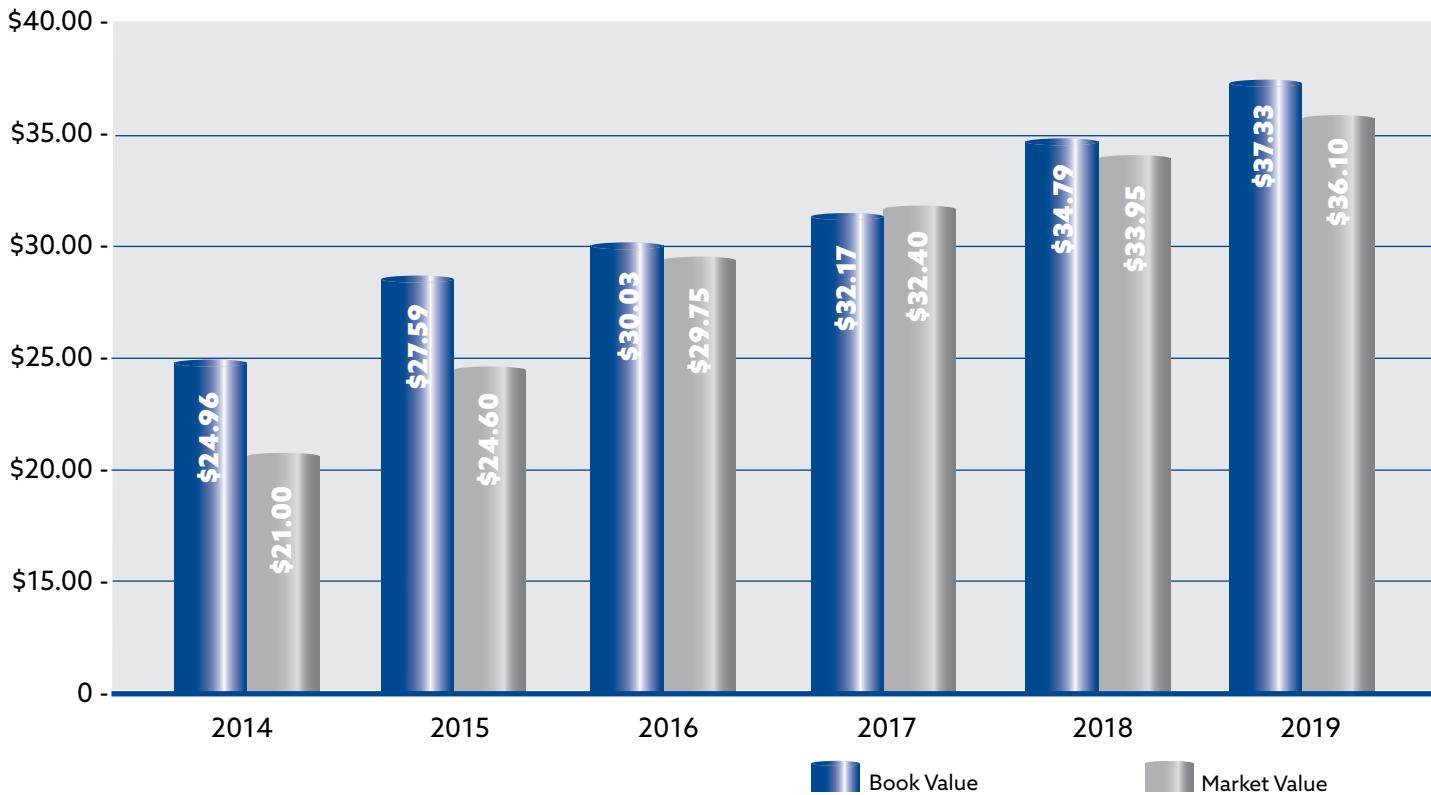
### Trends in Combined Equity Capital & ALLL\* to Non Performing Assets (000's)



\*ALLL: Allowance for loan and lease losses

Equity Capital & ALLL

Non-Performing Assets

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



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Foresight Financial Group, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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, 2019, 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 of America. 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

## **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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Wipfli LLP*

Madison, Wisconsin  
March 2, 2020

**CONSOLIDATED BALANCE SHEETS**  
(000s omitted except share data)

December 31,

A S S E T S	2019	2018
Cash and due from banks	\$21,624	\$20,284
Interest-bearing deposits in banks	25,348	7,083
Federal funds sold	11,456	954
Total cash and cash equivalents	58,428	28,321
Interest-bearing deposits in banks - term deposits	14,529	9,968
Debt securities:		
Debt securities available-for-sale (AFS)	300,824	294,862
Debt securities held-to-maturity (HTM)	544	520
Federal Home Loan Bank stock, at cost	1,212	995
Loans held for sale	2,007	1,722
Loans, net of allowance for loan losses of \$13,039 and \$14,431, respectively	778,874	784,393
Foreclosed assets, net	193	515
Premises and equipment, net	18,501	19,003
Core deposit intangible	598	911
Bank owned life insurance	22,996	21,477
Other assets	14,882	17,636
Total assets	<b>\$1,213,588</b>	<b>\$1,180,323</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$154,094	\$148,645
Interest-bearing	865,999	831,379
Total deposits	1,020,093	980,024
Federal funds purchased	2,379	6,013
Securities sold under agreements to repurchase	26,594	27,754
Federal Home Loan Bank (FHLB) and Federal Reserve advances and other borrowings	15,038	33,216
Accrued interest payable and other liabilities	8,723	7,873
Total liabilities	<b>1,072,827</b>	<b>1,054,880</b>
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares)	0	0
Common stock (\$.25 par value; authorized 10,000,000 shares; 4,029,881 and 4,009,810 shares issued, respectively)	1,007	1,002
Additional paid-in capital	10,132	9,810
Retained earnings	133,861	124,068
Treasury stock, at cost (314,919 shares)	(6,320)	(6,320)
Accumulated other comprehensive (loss)	2,081	(3,117)
Total stockholders' equity	<b>140,761</b>	<b>125,443</b>
Total liabilities and stockholders' equity	<b>\$1,213,588</b>	<b>\$1,180,323</b>

See Notes to Consolidated Financial Statements.

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

For the years ended December 31,

	2019	2018	2017
Interest and dividend income:			
Loans, including fees	\$41,654	\$38,877	\$36,241
Debt securities:			
Taxable	5,039	4,564	3,569
Tax-exempt	2,606	3,140	3,378
Interest-bearing deposits in banks and other	854	669	474
Federal funds sold	169	73	34
Total interest and dividend income	50,322	47,323	43,696
Interest expense:			
Deposits	10,226	7,944	6,401
Federal funds purchased	55	54	29
Securities sold under agreements to repurchase	563	533	229
FHLB and other borrowings	592	580	426
Subordinated debentures	0	296	600
Total interest expense	11,436	9,407	7,685
Net interest and dividend income	38,886	37,916	36,011
Provision for loan losses	1,125	1,448	868
Net interest and dividend income, after provision for loan losses	37,761	36,468	35,143
Noninterest income:			
Customer service fees	1,095	1,160	1,127
Gain (loss) on sales and calls of AFS securities, net	260	(14)	0
Gain on sales of loans, net	1,395	1,297	1,658
Loan servicing fees, net	700	775	869
Other	3,653	4,378	3,445
Total noninterest income	7,103	7,596	7,099
Noninterest expenses:			
Salaries and employee benefits	18,664	17,317	15,982
Occupancy expense of premises, net	2,754	2,686	2,096
Outside services	447	773	1,207
Data processing	2,686	2,372	1,835
Foreclosed assets, net	63	218	404
Other	6,044	6,724	6,220
Total noninterest expenses	30,658	30,090	27,744
Income before income taxes	14,206	13,974	14,498
Income tax expense	3,184	2,609	5,253
Net income	\$11,022	\$11,365	\$9,245
Earnings per common share:			
Basic	\$2.98	\$3.09	\$2.53
Diluted	\$2.96	\$3.06	\$2.50

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

For the years ended December 31,

	2019	2018	2017
Net income	<b>\$11,022</b>	\$11,365	\$9,245
<b>Other comprehensive (loss) income:</b>			
Unrealized holding (gains) losses on securities available for sale, net of tax of \$2,146, \$1,040 & \$370, respectively	5,384	(2,613)	383
Reclassification adjustments for net securities (gains) losses recognized in income, net of tax of \$74, \$4 & \$0, respectively	(186)	10	0
Total other comprehensive (loss) income	<b>5,198</b>	(2,603)	383
<b>Total comprehensive income</b>	<b>\$16,220</b>	\$8,762	\$9,628

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, 2017	\$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 (23,050 shares)		5	299				304
<u>Restricted stock vested (6,829 shares)</u>	<u>2</u>	<u>156</u>					<u>158</u>
Balance, December 31, 2017	0	995	9,410	113,811	(6,320)	(514)	117,382
Net income				11,365			11,365
Other comprehensive loss						(2,603)	(2,603)
Cash dividends (\$.30 per share)				(1,108)			(1,108)
Stock options exercised (25,554 shares)		6	268				274
<u>Restricted stock vested (5,048 shares)</u>	<u>1</u>	<u>132</u>					<u>133</u>
Balance, December 31, 2018	0	1,002	9,810	124,068	(6,320)	(3,117)	125,443
Net income				11,022			11,022
Other comprehensive income						5,198	5,198
Cash dividends (\$.33 per share)				(1,229)			(1,229)
Stock options exercised (15,344 shares)		4	173				177
<u>Restricted stock vested (4,727 shares)</u>	<u>1</u>	<u>149</u>					<u>150</u>
Balance, December 31, 2019	\$0	\$1,007	\$10,132	\$133,861	(\$6,320)	\$2,081	\$140,761

See Notes to Consolidated Financial Statements.

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

	For the years ended December 31,		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$11,022	\$11,365	\$9,245
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,125	1,448	868
Foreclosed asset (gains) losses	(533)	(108)	137
Depreciation	1,463	1,300	918
Net amortization of securities premiums	1,300	1,566	1,695
Income on bank owned life insurance	(600)	(620)	(641)
Gain on death benefits	0	(684)	0
Deferred income tax (benefit) expense	443	(40)	3,321
Net loss (gain) on the sales and calls of AFS securities	(260)	14	0
Net loss (gain) on the sales of foreclosed assets	(22)	174	(134)
Net change in:			
Loans held for sale	(285)	617	(122)
Other assets	2,624	1,608	(3,371)
Accrued interest payable and other liabilities	850	2,117	143
Net cash provided by operating activities	<b>17,127</b>	18,757	12,059
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net change in interest-bearing deposits in banks - term deposits	(4,561)	704	(65)
Proceeds from sales of AFS securities	981	3,119	0
Proceeds from maturities, calls, and paydowns of AFS securities	75,210	34,780	38,549
Purchases of AFS securities	(78,019)	(63,697)	(56,197)
Purchases of bank owned life insurance	(919)	0	0
Proceeds from death benefits	0	1,995	0
(Purchases) redemption of Federal Home Loan Bank stock, net	(217)	(45)	1,902
Loan originations and principal collections, net	3,850	(8,891)	(13,280)
Proceeds from sales of foreclosed assets	1,421	1,481	1,644
Purchases of premises and equipment, net	(961)	(3,788)	(3,762)
Net cash used in investing activities	<b>(3,215)</b>	(34,342)	(31,209)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net change in deposits	40,069	18,365	174
Net change in securities sold under agreements to repurchase	(1,160)	(4,680)	7,327
Cash dividends paid	(1,229)	(1,108)	(952)
Net change in federal funds purchased	(3,634)	(2,381)	7,183
Redemption of subordinated debentures	0	(10,000)	0
Stock options and restricted stock	327	407	462
Proceeds from lines of credit and FHLB advances and other borrowings	71,000	60,500	39,490
Payments on lines of credit and FHLB advances and other borrowings	(89,178)	(55,592)	(35,000)
Net cash provided by financing activities	<b>16,195</b>	5,511	18,684
Net increase (decrease) in cash and cash equivalents	<b>30,107</b>	(10,074)	(466)
Cash and cash equivalents at beginning of year	<b>28,321</b>	38,395	38,861
Cash and cash equivalents at end of year	<b>\$58,428</b>	\$28,321	\$38,395

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

For the years ended December 31,

	2019	2018	2017
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$11,294	\$9,039	\$7,652
Income taxes	<b>\$2,400</b>	\$895	\$3,011
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:</b>			
Foreclosed assets acquired in settlement of loans	<b>\$544</b>	\$970	\$973

See Notes to Consolidated Financial Statements.

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

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### **(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, Belvidere, 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 2, 2020, which is the date the financial statements were available to be issued.

#### ***(d) Use of Estimates***

The preparation of consolidated 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 consolidated 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 but also include some balances in time deposits 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) Debt 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) Federal Home Loan Bank stock***

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)

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### (1) Summary of Significant Accounting Policies (continued)

#### (i) *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)

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

#### *(q) Significant Group Concentrations of Credit Risk*

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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### (1) Summary of Significant Accounting Policies (continued)

#### *(r) Revenue from Contracts with Customers*

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606). Under ASC 606, the Company must identify the contract with a customer, identify the performance obligation(s) within the contract, determine the transaction price, allocate the transaction price to the performance obligation(s) within the contract, and recognize revenue when (or as) the performance obligation(s) are/is satisfied. The core principle under ASC 606 requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The recognition of revenue under ASC 606 did not materially change the timing or magnitude of revenue recognition. The majority of the Company's revenue is not subject to ASC 606, including net interest income, loan servicing income, fees related to loans and loan commitments, gain on derivatives, increase in cash surrender value of life insurance and gain on sales of loans and securities. The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of income as components of noninterest income:

**Service fees** – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

**Interchange fees** – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received included in other noninterest income, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods.

**Trust fees** – The Company earns trust fees, included in noninterest income, from its contracts with trust customers for providing investment management and/or transaction-based services on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are assessed based on the total investable assets of the customer's trust account. A signed contract between the Company and the customer is maintained for all customer trust accounts with payment terms identified. There are no contingent incentive fees recorded by the Company that could be subject to a claw-back in future periods.

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

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### (1) Summary of Significant Accounting Policies (continued)

#### *(r) Revenue from Contracts with Customers*

Insurance commissions – Insurance agency commissions, included in other noninterest income, are received from insurance carriers for the agency's share of commissions from customer premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the customer, but the time lag is insignificant and does not impact the revenue recognition process. The Company has evaluated the potential amount of premium refunds due to customers when policies are cancelled and has determined such amounts are insignificant.

Wealth management fees – Wealth management income, included in other noninterest income, is primarily comprised of fees from the management and administration of trusts and other customer assets. These fees are primarily earned over time as the Company provides the services and are recognized quarterly, based upon the quarter-end market value of the assets under management and the applicable fee rate. Payment of these fees is generally received in the month following quarter-ends through a direct charge to customers' accounts. Other related services provided include financial planning and the fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Net gain (loss) on sales of foreclosed assets – The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

#### *(s) 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.

#### *(t) 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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### **(1) Summary of Significant Accounting Policies (continued)**

#### ***(u) 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.

#### ***(v) 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.

#### ***(w) 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.

#### ***(x) 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 consolidated financial statements because they are not assets of the Company.

#### ***(y) 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.

#### ***(z) 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.

#### ***(aa) 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.

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

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### (1) Summary of Significant Accounting Policies (continued)

#### *(bb) Advertising*

Advertising costs are expensed as incurred.

#### *(cc) Reclassifications*

Certain amounts in the 2017 and 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

#### *(dd) New Accounting Standards*

The Company recently adopted the following Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB).

In April 2016, the FASB issued ASU No. 2016-02, *Leases*. This standard requires lessees to recognize right-of-use assets and lease obligations for most operating leases as well as finance leases. The Company adopted this new standard as of January 1, 2019, (date of adoption) and elected the optional transition method which resulted in the modified retrospective approach being applied as of the date of adoption. The Company also elected to apply several of the available practical expedients, including: (1) carry over of historical lease determination and lease classification conclusions; (2) carry over of historical initial direct cost balances for existing leases; and (3) accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component. The adoption of this accounting standard as of January 1, 2019, did not have a significant effect on the Company's consolidated financial statements. The adoption of ASU No. 2016-02 resulted in the recognition of operating right-of-use assets of \$70 and operating lease liabilities of \$70. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense in the Company's consolidated statements income.

#### ***Newly Issued Not Yet Effective Accounting Standards***

The following ASUs have been issued by FASB and may impact the Company's consolidated financial statements in future reporting periods.

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, 2022. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

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

(1) Summary of Significant Accounting Policies (continued)

### *Newly Issued Not Yet Effective Accounting Standards (continued)*

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. This standard is intended to simplify the accounting for income taxes and improve the consistent application of accounting guidance through the following changes: 1) removes certain exceptions for recognizing deferred tax liabilities, tax allocations, and the calculation methodology for an interim year-to-date loss that exceeds the anticipated loss for the year; 2) requires a franchise tax or similar tax based partially on income be recognized as an income-based tax and account for any incremental amount incurred as a non-income based tax; 3) requires an entity evaluate when a step up in the tax basis of goodwill should be considered part of a business combination in which goodwill was originally recognized and when it should be considered a separate transaction; 4) does not require the allocation of consolidated current and deferred tax expense to a member entity that is not subject to tax in separate financial statements, but may elect to do so for certain legal entities that are disregarded by the taxing authority; and 5) amends guidance on the handling of an enacted change in tax law or rates within interim tax periods. This new standard is effective for financial statements issued for interim and 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, 2019 and 2018 was approximately \$880 and \$1,088, 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.

Maturities of certificates of deposits at other financial institutions as of December 31, 2019 are as follows:

2020	\$1,096
2021	3,478
2022	4,402
2023	1,491
2024 and thereafter	4,062
	<hr/>
	\$14,529

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

**(3) Debt Securities**

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

Held-to-Maturity 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$544	\$26	(\$0)	\$570
Held-to-Maturity 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and municipal	\$520	\$32	(\$0)	\$552
Available-for-Sale 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	\$67,879	\$382	(\$218)	\$68,043
State and municipal	89,913	2,298	(42)	92,169
Agency mortgage-backed	140,121	961	(470)	140,612
	\$297,913	\$3,641	(\$730)	\$300,824
Available-for-Sale 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored entities and U.S. agencies	\$79,276	\$96	(\$1,465)	\$77,907
State and municipal	108,435	983	(952)	108,466
Agency mortgage-backed	111,510	57	(3,078)	108,489
	\$299,221	\$1,136	(\$5,495)	\$294,862

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

**(3) Debt Securities (continued)**

For the years ended December 31, 2019, 2018 and 2017, proceeds from sales of available-for-sale securities amounted to \$0, \$3,119 and \$0, 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:

	2019	2018	2017
Realized gains	\$260	\$43	\$0
Realized losses	(\$0)	(\$57)	(\$0)

Securities with carrying amounts of approximately \$173,673 and \$162,847 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized costs and fair values of securities at December 31, 2019 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	\$0	\$0
Due after one year through five years	134	152
Due after five years through ten years	410	418
Due after ten years	0	0
	<b>\$544</b>	<b>\$570</b>

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	\$22,823	\$22,887
Due after one year through five years	56,644	57,320
Due after five years through ten years	52,263	53,369
Due after ten years	26,062	26,637
	<b>157,792</b>	<b>160,213</b>
Agency mortgage-backed	140,121	140,612
	<b>\$297,913</b>	<b>\$300,824</b>

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

**(3) Debt 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, 2019 and 2018:

	2019					
	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	\$32,612	\$214	57	\$10,435	\$101	30
State and municipal	9,111	60	19	4,366	63	12
Agency mortgage-backed	20,941	96	31	24,086	196	61
Total	\$62,664	\$370	107	\$38,887	\$360	103

	2018					
	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	\$12,266	\$63	21	\$38,120	\$1,402	79
State and municipal	22,004	223	74	29,600	729	104
Agency mortgage-backed	26,253	300	64	75,795	2,778	175
Total	\$60,523	\$586	159	\$143,515	\$4,909	358

There were no held-to-maturity securities in an unrealized loss position as of December 31, 2019 and 2018.

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:

	2019	2018
Real estate:		
Commercial real estate	\$270,849	\$289,056
Residential real estate	98,762	105,009
Agricultural real estate	119,840	109,199
Commercial:		
Commercial and industrial	195,835	211,029
Agricultural production	70,130	58,657
Consumer and other	36,497	25,874
	<u>791,913</u>	798,824
Allowance for loan losses	(13,039)	(14,431)
<b>Totals</b>	<b>\$778,874</b>	<b>\$784,393</b>

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

	2019			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	\$8,614	\$5,714	\$103	\$14,431
Provision charged to operations, net	(84)	1,076	133	1,125
Recoveries on loans previously charged-off	148	13	19	180
	<u>8,678</u>	6,803	255	15,736
Less loans charged-off	(365)	(2,282)	(50)	(2,697)
<b>Balance at end of year</b>	<b>\$8,313</b>	<b>\$4,521</b>	<b>\$205</b>	<b>\$13,039</b>
Allowance for loan losses:				
Individually evaluated for impairment	\$307	\$459	\$0	\$766
Collectively evaluated for impairment	8,006	4,062	205	12,273
<b>Totals</b>	<b>\$8,313</b>	<b>\$4,521</b>	<b>\$205</b>	<b>\$13,039</b>

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

**(4) Loans (continued)**

	2018			
	Real Estate	Commercial	Consumer	Total
Balance at beginning of year	\$7,672	\$5,342	\$150	\$13,164
Provision charged to operations, net	1,114	336	(32)	1,448
Recoveries on loans previously charged-off	296	137	18	451
	9,082	5,845	136	15,063
Less loans charged-off	(468)	(131)	(33)	(632)
Balance at end of year	\$8,614	\$5,714	\$103	\$14,431
Allowance for loan losses:				
Individually evaluated for impairment	\$668	\$2,320	\$0	\$2,988
Collectively evaluated for impairment	7,946	3,394	103	11,443
Totals	\$8,614	\$5,714	\$103	\$14,431
	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
Totals	\$7,672	\$5,342	\$150	\$13,164

**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:

	2019			
	Real Estate	Commercial	Consumer	Total
<b>Loans:</b>				
Individually evaluated for impairment	\$21,975	\$8,816	\$42	\$30,833
Collectively evaluated for impairment	467,476	257,149	36,455	761,080
<b>Totals</b>	<b>\$489,451</b>	<b>\$265,965</b>	<b>\$36,497</b>	<b>\$791,913</b>

	2018			
	Real Estate	Commercial	Consumer	Total
<b>Loans:</b>				
Individually evaluated for impairment	\$24,733	\$12,579	\$25	\$37,337
Collectively evaluated for impairment	478,531	257,107	25,849	761,487
<b>Totals</b>	<b>\$503,264</b>	<b>\$269,686</b>	<b>\$25,874</b>	<b>\$798,824</b>

**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:

	2019				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	\$7,976	\$8,825	N/A	\$8,149	\$528
Residential real estate	3,469	4,476	N/A	3,882	159
Agricultural real estate	5,167	5,246	N/A	6,541	396
Commercial					
Commercial & industrial	4,939	5,767	N/A	5,162	307
Agricultural production	2,858	2,858	N/A	2,059	92
Consumer and other	42	43	N/A	55	2
Totals	24,451	27,215		25,848	1,484
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	4,059	4,059	66	4,403	157
Residential real estate	1,304	1,412	241	1,382	46
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	942	956	382	985	39
Agricultural production	77	78	77	80	5
Consumer and other	0	0	0	0	0
Totals	6,382	6,505	766	6,850	247
Grand Totals	\$30,833	\$33,720	\$766	\$32,698	\$1,731

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

**(4) Loans (continued)**

	2018				
	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Real estate:					
Commercial real estate	\$7,829	\$8,667	N/A	\$7,758	\$399
Residential real estate	2,453	3,452	N/A	2,686	150
Agricultural real estate	8,084	8,161	N/A	6,571	256
Commercial					
Commercial & industrial	5,664	6,003	N/A	5,829	300
Agricultural production	1,523	1,543	N/A	1,783	131
Consumer and other	25	32	N/A	33	2
<b>Totals</b>	<b>25,578</b>	<b>27,858</b>		<b>24,660</b>	<b>1,238</b>
Loans with an allowance for loan losses:					
Real estate:					
Commercial real estate	5,821	5,050	456	5,108	213
Residential real estate	546	556	212	839	26
Agricultural real estate	0	0	0	0	0
Commercial					
Commercial & industrial	5,392	5,418	2,320	5,474	72
Agricultural production	0	0	0	0	0
Consumer and other	0	0	0	0	0
<b>Totals</b>	<b>11,759</b>	<b>11,024</b>	<b>2,988</b>	<b>11,421</b>	<b>311</b>
<b>Grand Totals</b>	<b>\$37,337</b>	<b>\$38,882</b>	<b>\$2,988</b>	<b>\$36,081</b>	<b>\$1,549</b>

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

**(4) Loans (continued)**

	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
Total	\$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
Total	7,440	7,718	2,196	8,492	197
Grand Total	\$36,104	\$41,771	\$2,196	\$38,121	\$1,160

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:

	2019				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	\$252,559	\$8,386	\$9,904	\$0	\$270,849
Residential real estate	93,871	1,544	3,347	0	98,762
Agricultural real estate	100,541	15,513	3,786	0	119,840
Commercial:					
Commercial & industrial	179,209	10,950	5,676	0	195,835
Agricultural production	56,808	10,387	2,935	0	70,130
Consumer and other	36,448	7	42	0	36,497
<b>Total</b>	<b>\$719,346</b>	<b>\$46,787</b>	<b>\$25,690</b>	<b>\$0</b>	<b>\$791,913</b>

	2018				
	Pass	Special Mention	Substandard	Doubtful	Totals
Real estate:					
Commercial real estate	\$264,617	\$13,693	\$10,746	\$0	\$289,056
Residential real estate	99,206	2,086	3,717	0	105,009
Agricultural real estate	83,886	18,647	6,666	0	109,199
Commercial:					
Commercial & industrial	179,859	19,997	11,173	0	211,029
Agricultural production	43,955	13,179	1,523	0	58,657
Consumer and other	25,843	6	25	0	25,874
<b>Total</b>	<b>\$697,366</b>	<b>\$67,608</b>	<b>\$33,850</b>	<b>\$0</b>	<b>\$798,824</b>

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

As of December 31, 2019	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due
Real estate:			
Commercial real estate	\$6,524	\$238	\$6,762
Residential real estate	1,399	1,241	2,640
Agricultural real estate	0	864	864
Commercial			
Commercial & industrial	494	735	1,229
Agricultural production	0	0	0
Consumer and other	102	67	169
<b>Total</b>	<b>\$8,519</b>	<b>\$3,145</b>	<b>\$11,664</b>

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

**(4) Loans (continued)**

<b>As of December 31, 2019</b>		<b>Total Past Due</b>	<b>Total Current</b>	<b>Total Loans</b>	<b>90+ Days Due and Accruing Interest</b>	<b>Total Non-accrual Loans</b>
Real Estate:						
Commercial real estate	\$6,762	\$264,087	\$270,849	\$109	\$128	
Residential real estate	2,640	96,122	98,762	120	2,157	
Agricultural real estate	864	118,976	119,840	0	864	
Commercial:						
Commercial & industrial	1,229	194,606	195,835	0	1,191	
Agricultural production	0	70,130	70,130	0	77	
Consumer and other	169	36,328	36,497	31	44	
<b>Total</b>	<b>\$11,664</b>	<b>\$780,249</b>	<b>\$791,913</b>	<b>\$260</b>	<b>\$4,461</b>	
<b>As of December 31, 2018</b>			<b>Loans Past Due 30-89 Days</b>		<b>Loans Past Due 90+ Days</b>	<b>Total Past Due</b>
Real estate:						
Commercial real estate			\$4,514		\$659	\$5,173
Residential real estate			1,919		1,728	3,647
Agricultural real estate			610		1,053	1,663
Commercial						
Commercial & industrial			742		4,097	4,839
Agricultural production			960		383	1,343
Consumer and other			19		4	23
<b>Total</b>			<b>\$8,764</b>		<b>\$7,924</b>	<b>\$16,688</b>
<b>As of December 31, 2018</b>		<b>Total Past Due</b>	<b>Total Current</b>	<b>Total Loans</b>	<b>90+ Days Due and Accruing Interest</b>	<b>Total Non-accrual Loans</b>
Real Estate:						
Commercial real estate	\$5,173	\$283,883	\$289,056	\$599	\$60	
Residential real estate	3,647	101,362	105,009	684	2,376	
Agricultural real estate	1,663	107,536	109,199	0	1,138	
Commercial:						
Commercial & industrial	4,839	206,190	211,029	15	4,251	
Agricultural production	1,343	57,314	58,657	383	11	
Consumer and other	23	25,851	25,874	4	9	
<b>Total</b>	<b>\$16,688</b>	<b>\$782,136</b>	<b>\$798,824</b>	<b>\$1,685</b>	<b>\$7,845</b>	

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:

	2019		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Residential real estate	2	\$404	\$404
Commercial:			
Commercial & industrial	2	108	108
Agricultural production	1	59	59
<b>Total</b>	<b>5</b>	<b>\$571</b>	<b>\$571</b>

	2018		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment
Real Estate:			
Commercial real estate	1	\$1,696	\$1,696
Residential real estate	2	1,417	1,417
Commercial:			
Commercial & industrial	4	4,001	3,993
<b>Total</b>	<b>7</b>	<b>\$7,114</b>	<b>\$7,106</b>

There were no troubled debt restructurings that defaulted during the year, within 12 months of their modification as of December 31, 2019 and 2018.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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### (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 consolidated balance Sheet.

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

	2019	2018
Outstanding balance:		
Commercial	\$1,370	\$1,428
Total outstanding balance	<u>\$1,370</u>	<u>\$1,428</u>

The carrying value of the PCI loans was \$540 and \$598 at December 31, 2019 and 2018, respectively.

No increases to the allowance for loan losses were done for PCI loans during 2019 and 2018. No allowances for loan losses were reversed during 2019 and 2018.

There was no change in the accretable yield related to PCI loans during the years ended December 31, 2019 and 2018.

There are no PCI loans are not accruing interest income at December 31, 2019 and 2018.

### (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, 2019 and 2018, were approximately \$316,329 and \$335,441, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately \$3,743 and \$3,772 at December 31, 2019 and 2018, respectively.

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

	2019	2018	2017
Balance at beginning of year	\$1,167	\$1,290	\$1,328
Mortgage servicing rights capitalized	342	337	445
Mortgage servicing rights amortized	(516)	(500)	(483)
Balance at end of year	<u>\$993</u>	<u>\$1,167</u>	<u>\$1,290</u>

No impairment of mortgage servicing rights existed and no valuation allowance was recognized for 2019, 2018 and 2017.

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

**(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, 2019 and 2018, the Company had approximately \$1,571 and \$1,715 in interest rate lock commitments outstanding. As of December 31, 2019 and 2018, the Company had approximately \$3,243 and \$3,429 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, 2019 and 2018.

**(7) Foreclosed Assets**

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

	2019	2018
Residential real estate	\$183	\$175
Commercial real estate	0	100
Non-farm non-residential properties	0	208
Construction, land development and other land	10	32
Balance at end of year	<b>\$193</b>	<b>\$515</b>

Residential real estate loans that are in process of foreclosure totaled \$174 at December 31, 2019 and \$421 at December 31, 2018.

**(8) Premises and Equipment**

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

	2019	2018
Land	\$2,744	\$2,744
Buildings and leasehold improvements	22,116	21,696
Furniture, fixtures, and equipment	13,140	12,711
	<b>38,000</b>	<b>37,151</b>
Less accumulated depreciation	19,499	18,148
	<b>\$18,501</b>	<b>\$19,003</b>

Depreciation expense for the years ended December 31, 2019, 2018 and 2017 amounted to \$1,463, \$1,300 and \$918, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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### (9) Intangible Assets

The core deposit premium intangible asset had a gross carrying amount of \$1,952 and accumulated amortization of \$1,354 and \$1,041 at December 31, 2019 and 2018, respectively.

The following table shows the estimated future amortization of the core deposit premium intangible asset. The projections of amortization expense are based on existing asset balances as of December 31, 2019.

2020	\$315
2021	283

### (10) Other Assets

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

	2019	2018
Accrued interest receivable	\$6,025	\$5,989
Mortgage servicing rights, net of accumulated amortization	993	1,167
Net deferred tax assets	2,370	4,708
Qualified affordable housing project investments	1,148	1,503
Other	4,346	4,269
	<b>\$14,882</b>	<b>\$17,636</b>

### (11) Time Deposits

The aggregate amount of time deposits with a minimum denomination of \$250 was approximately \$86,188 and \$73,716 at December 31, 2019 and 2018, respectively. Time deposits are included in the interest-bearing deposits on the consolidated balance sheet.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	\$205,410
2021	97,362
2022	67,731
2023	45,727
2024	19,244
	<b>\$435,474</b>

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

**(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 the Company has historically provided a discretionary match of eligible employee contributions. Total 401(k) expense was approximately \$457, \$341, and \$310, for 2019, 2018, and 2017, 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 \$54,164 and \$51,952 as of December 31, 2019 and 2018, respectively. The Banks accrue amounts to be paid over the participant's active service life. The accrued benefits were \$2,143, \$2,019, and \$1,620 at December 31, 2019, 2018 and 2017, respectively. Non-qualified deferred compensation expenses were \$190, \$476, and \$643 in 2019, 2018 and 2017, respectively.

**(13) Income Taxes**

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

	2019	2018	2017
Current – federal	\$1,757	\$1,669	\$1,715
Current – state	984	980	216
	<b>2,741</b>	<b>2,649</b>	<b>1,931</b>
Deferred – federal	357	(57)	2,723
Deferred – state	86	17	599
	<b>443</b>	<b>(40)</b>	<b>3,322</b>
Total income tax expense	<b>\$3,184</b>	<b>\$2,609</b>	<b>\$5,253</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (13) Income Taxes (continued)

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:

	2019	2018	2017			
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	<b>\$2,986</b>	<b>21.0%</b>	\$2,934	21.0%	\$4,929	34.0%
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(632)	(4.4%)	(750)	(5.4%)	(1,271)	(8.8%)
Bank-owned life insurance	(103)	(0.7%)	(274)	(2.0%)	(217)	(1.5%)
State taxes, net of federal benefit	846	6.0%	788	5.6%	538	3.7%
Other	87	0.6%	(89)	(0.6%)	67	0.5%
Adjustment to the net deferred tax asset for the Tax Cuts and Jobs Act	<b>0</b>	<b>0%</b>	0	0%	1,206	8.3%
Effective tax rates	<b>\$3,184</b>	<b>22.4%</b>	\$2,609	18.7%	\$5,252	36.2%

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, 2019 and 2018 are summarized as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	<b>\$3,717</b>	\$4,113
Allowance for losses on foreclosed assets	<b>94</b>	211
Available-for-sale securities	<b>0</b>	1,242
Deferred compensation and other	<b>1,302</b>	1,090
Purchase accounting adjustments	<b>88</b>	88
Total deferred tax assets	<b>5,201</b>	6,744
Deferred tax liabilities:		
FHLB stock dividend	<b>55</b>	59
Depreciation	<b>1,790</b>	1,601
Mortgage servicing rights and other	<b>333</b>	376
Available-for-sale securities	<b>653</b>	0
Total deferred tax liabilities	<b>2,831</b>	2,036
Net deferred tax assets	<b>\$2,370</b>	\$4,708

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 2015.

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

**(14) Transactions with Related Parties**

The Company 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.

Activity for related party loans for the years ending December 31, is as follows:

	2019	2018
Balance at beginning of year	\$15,520	\$17,761
New credits	5,125	8,511
Repayments	(6,326)	(10,752)
 Balance at end of year	 \$14,319	 \$15,520

Deposit accounts from related parties totaled approximately \$18,230 and \$18,821 at December 31, 2019 and 2018, respectively.

**(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:

	2019	2018
Unused lines of credit and other loan commitments	\$157,341	\$173,200
Commercial letters of credits	1,083	761
Performance and standby letters of credit	159	1,305

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

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

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, 2019. 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 \$2,547, 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, 2019, 2018 and 2017.

Concentration of credit risk:

The Company provides 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 \$26,594 and \$27,754 at December 31, 2019 and 2018, respectively, and are collateralized by U.S. agencies, state and municipal and mortgage-backed investment securities with fair values of approximately \$46,535 and \$49,038. The weighted-average interest rates on these agreements were 1.35% and 1.94% at December 31, 2019 and 2018, respectively. Securities sold under agreements to repurchase mature on a daily basis.

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

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

<b>FHLB Advances at December 31:</b>	<b>2019</b>	<b>2018</b>
Fixed-rate advances with rates ranging from 1.42% to 3.03% and .91% to 3.03% and weighted average rates of 1.59% and 2.48% as of December 31, 2019 and 2018, respectively. Interest is payable monthly with principal due at maturity.	\$13,500	\$22,000

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately \$86,803 and \$87,893 as of December 31, 2019 and 2018, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by \$1,212 and \$995 of FHLB stock owned by the Company at December 31, 2019 and 2018, 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, 2019 was 225-basis points. Outstanding advances were \$0 at December 31, 2019 and 2018. Advances are collateralized by investment securities pledged totaling approximately \$7,972 and \$8,954 at December 31, 2019 and 2018, respectively, to the Federal Reserve Bank.

On July 2, 2015, the Company entered into a \$7,000 note with Bankers' Bank for the purchase of the State Bank of Herscher. The noted is a fixed rate at 4% due July 2, 2020 and is secured by common stock of Company's subsidiaries. The balance was \$0 and \$5,028 at December 31, 2019 and 2018, respectively.

On June 27, 2018, the Company entered into a \$5,500 note with Bankers' Bank for the redemption of subordinated debentures. The noted was a stepped fixed rate of 4.75% until June 27, 2023, then would have adjusted to the current Wall Street Journal prime rate until maturity with a minimum rate of 4.75% due June 27, 2025 and was secured by common stock of Company subsidiaries. The balance was \$0 and \$2,875 at December 31, 2019 and 2018, respectively.

Additional other borrowings totaled \$1,538 and \$3,313 at December 31, 2019 and 2018, respectively, and mature from 2022 to 2024, at interest rates ranging from 1.60% to 3.75%.

At December 31, the scheduled maturities of FHLB advances and other borrowings are as follows:

	2019	2018
2019	\$0	\$22,145
2020	750	5,778
2021	250	250
2022	0	0
2023	2,444	5,043
2024 and thereafter	11,594	0
	<b>\$15,038</b>	<b>\$33,216</b>

The Company had federal funds purchased with its main correspondent institutions totaling \$2,379 and \$6,013 as of December 31, 2019 and 2018, respectively. Federal funds purchased generally mature within one day from transaction date. The weighted average interest rate was 1.58% and 2.7% as of December 31, 2019 and 2018, respectively.

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

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### (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. During 2018, the Company elected to redeem all the Subordinated Debentures in accordance with the contract price limitations. The redemption was subject to approval by the Federal Reserve.

### (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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (19) Fair Value Measurements (continued)

*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.

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, 2019	Fair Value Measurements at Reporting Date Using		
		Total	(Level 1)	(Level 2)
<b>Assets measured at fair value on a recurring basis:</b>				
Assets:				
Securities available-for-sale	\$300,824			\$300,824
<b>Assets measured at fair value on a non-recurring basis:</b>				
Assets:				
Collateral-dependent impaired loans	\$5,616			\$5,616
Foreclosed assets	\$193			\$193

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$6,382 with specific reserves of \$766 as of December 31, 2019.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of \$193, which is comprised of the outstanding balance of \$259, net of an allowance for losses of \$66 as of December 31, 2019.

	As of December 31, 2018	Fair Value Measurements at Reporting Date Using		
		Total	(Level 1)	(Level 2)
<b>Assets measured at fair value on a recurring basis:</b>				
Assets:				
Securities available-for-sale	\$294,862			\$294,862
<b>Assets measured at fair value on a non-recurring basis:</b>				
Assets:				
Collateral-dependent impaired loans	\$8,771			\$8,771
Foreclosed assets	\$515			\$515

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (19) Fair Value Measurements (continued)

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of \$11,759 with specific reserves of \$2,988 as of December 31, 2018.

Foreclosed assets, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of \$515, which is comprised of the outstanding balance of \$985, net of an allowance for losses of \$470 as of December 31, 2018.

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, 2019:

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

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$58,428	\$58,428	\$28,033	\$28,033
Interest-bearing deposits in other banks- term deposits	14,529	14,529	10,256	10,256
Securities	301,368	301,394	295,382	295,414
Federal Home Loan Bank stock	1,212	1,212	995	995
Loans held for sale	2,007	2,007	1,722	1,722
Loans, net of allowance	778,874	791,412	784,393	776,975
Accrued interest receivable	6,025	6,025	5,989	5,989
Cash surrender value of bank-owned life Insurance	22,996	22,996	21,477	21,477
<b>Financial liabilities:</b>				
Demand and saving deposits	\$583,832	\$583,832	\$563,596	\$563,596
Time deposits	436,261	437,178	416,428	410,850
Federal funds purchased	2,379	2,379	6,013	6,013
Securities sold under agreements to repurchase	26,594	26,563	27,754	27,706
FHLB advances and other borrowings	15,038	15,016	33,216	32,995
Subordinated Debentures	0	0	0	0
Accrued interest payable	1,351	1,351	1,209	1,209

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (20) Stock-Compensation Plans

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 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. The Company's accounting policy is to recognize forfeitures as they occur.

For the year ended December 31, 2019 and 2018, 5,000 and 25,000 shares of non-qualified stock options were granted, respectively. No options were granted for the year ended December 31, 2017.

The following assumptions were used in estimating the fair value of options granted during the year ended December 31, 2019:

Expected volatility	0.0163
Expected dividend yield	0.88%
Expected term (in years)	5.00
Risk free rate	2.3930%

Based on these assumptions the estimated weighted average grant date fair value of options granted was \$2.42 during 2019.

For the years ended December 31, 2019, 2018 and 2017, the Company recognized \$18, \$8 and \$18 in compensation expense for stock options, respectively. No tax benefits were recognized for the three-year period ended December 31, 2019. The intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 was \$393, \$617 and \$472, respectively.

The following table summarizes the activity of options for the year ended:

	December 31, 2019		December 31, 2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Shares under option, beginning of year	72,188	\$20.85	72,742	\$12.08
Granted during the year	5,000	35.27	25,000	35.55
Forfeited and expired during the year	(15,000)	19.00	0	0
Exercised during the year	(15,344)	10.30	(25,554)	10.27
Shares under option, end of year	<b>46,844</b>	<b>\$26.44</b>	72,188	\$20.85
Options exercisable, end of year	<b>21,012</b>	<b>\$15.31</b>	47,188	\$13.07

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

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### (20) Stock-Compensation Plans (continued)

The following table summarizes information about stock options outstanding at December 31, 2019:

Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
\$10.25	13,594	0.8	13,594
\$10.50	3,250	0.6	3,250
\$35.55	25,000	8.5	4,168
\$35.27	5,000	9.2	0
	46,844		21,012

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

	December 31, 2019		December 31, 2018	
	Unvested Shares	Weighted Average Grant Value	Unvested Shares	Weighted Average Grant Value
Restricted stock, beginning of year	8,809	\$32.66	8,627	\$28.90
Granted during the year	6,998	35.07	6,229	33.20
Forfeited during the year	(201)	34.44	(177)	31.35
Restricted shares (net for taxes)	(978)	32.36	(822)	33.20
Vested during the year	(4,727)	32.36	(5,048)	27.75
Restricted stock, end of year	<b>9,901</b>	<b>\$34.50</b>	<b>8,809</b>	<b>\$32.66</b>

During 2019, 2018 and 2017, total compensation expense of \$212, \$178 and \$165 (before tax benefits of \$61, \$51 and \$66) 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 \$146 and \$30 for years 2020 and 2021, respectively.

Total shares available for grant under this plan were 82,636 and 78,455 at December 31, 2019 and 2018, 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, which expired in October 2018. In July 2019, the Company's Board of Directors approved reinstatement of the Company's stock repurchase program. This program authorizes the repurchase of blocks of common stock with a purchase price within a range of 90-100% of book value. There were no shares repurchased in 2017, 2018 and 2019.

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:

	2019	2018	2017
Net income	<b>\$11,022</b>	\$11,365	\$9,245
Net income available to common stockholders	<b>\$11,022</b>	\$11,365	\$9,245
Average number of common shares outstanding	<b>3,701,671</b>	3,680,578	3,656,234
Effect of dilutive options	<b>22,444</b>	29,997	45,234
Average number of common shares outstanding used to calculate diluted earnings per common share	<b>3,724,093</b>	3,710,575	3,701,469

**(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, 2019, the Company and the Banks meet all capital-adequacy requirements to which they are subject.

As of December 31, 2019, 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, 2019, 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
<b><u>As of December 31, 2019:</u></b>						
<b>Total Capital to Risk Weighted Assets:</b>						
Company	149,536	16.16%	\$74,019	8.00%	\$92,524	10.00%
Northwest	29,787	12.56%	18,967	8.00%	23,708	10.00%
German	27,113	13.39%	16,195	8.00%	20,244	10.00%
Davis	18,740	18.14%	8,266	8.00%	10,333	10.00%
Freeport	31,249	14.81%	16,875	8.00%	21,094	10.00%
Lena	11,301	17.11%	5,284	8.00%	6,606	10.00%
Herscher	19,795	20.62%	7,681	8.00%	9,602	10.00%
<b>Tier 1 Capital to Risk Weighted Assets:</b>						
Company	\$137,944	14.91%	\$55,514	6.00%	\$74,019	8.00%
Northwest	27,313	11.52%	14,225	6.00%	18,967	8.00%
German	25,045	12.37%	12,146	6.00%	16,195	8.00%
Davis	17,441	16.88%	6,200	6.00%	8,266	8.00%
Freeport	28,602	13.56%	12,656	6.00%	16,875	8.00%
Lena	10,469	15.85%	3,963	6.00%	5,284	8.00%
Herscher	18,588	19.36%	5,761	6.00%	7,681	8.00%
<b>Common Equity Tier 1 Capital to Risk Weighted Assets:</b>						
Company	\$137,944	14.91%	\$41,636	4.50%	\$60,141	6.50%
Northwest	27,313	11.52%	10,669	4.50%	15,410	6.50%
German	25,045	12.37%	9,110	4.50%	13,158	6.50%
Davis	17,441	16.88%	4,650	4.50%	6,716	6.50%
Freeport	28,602	13.56%	9,492	4.50%	13,711	6.50%
Lena	10,469	15.85%	2,973	4.50%	4,294	6.50%
Herscher	18,588	19.36%	4,321	4.50%	6,241	6.50%
<b>Tier 1 Capital to Average Assets:</b>						
Company	\$137,944	11.32%	\$48,739	4.00%	\$60,924	5.00%
Northwest	27,313	9.28%	11,775	4.00%	14,719	5.00%
German	25,045	10.08%	9,938	4.00%	12,422	5.00%
Davis	17,441	10.89%	6,407	4.00%	8,008	5.00%
Freeport	28,602	10.68%	10,714	4.00%	13,393	5.00%
Lena	10,469	11.66%	3,590	4.00%	4,488	5.00%
Herscher	18,588	12.48%	5,956	4.00%	7,445	5.00%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000s omitted except share data)

### (23) Regulatory Matters (continued)

As of December 31, 2018:

Total Capital to Risk

Weighted Assets:

Company	\$139,430	14.77%	\$75,537	8.00%	\$94,421	10.00%
Northwest	30,096	12.68%	18,993	8.00%	23,741	10.00%
German	26,352	12.97%	16,260	8.00%	20,325	10.00%
Davis	18,730	16.86%	8,889	8.00%	11,112	10.00%
Freeport	29,826	13.73%	17,383	8.00%	21,728	10.00%
Lena	11,318	16.83%	5,381	8.00%	6,726	10.00%
Herscher	19,159	19.35%	7,922	8.00%	9,903	10.00%

Tier 1 Capital to Risk

Weighted Assets:

Company	\$127,595	13.51%	\$56,653	6.00%	\$75,537	8.00%
Northwest	27,271	11.49%	14,245	6.00%	18,993	8.00%
German	24,363	11.99%	12,195	6.00%	16,260	8.00%
Davis	17,335	15.60%	6,667	6.00%	8,889	8.00%
Freeport	27,097	12.47%	13,037	6.00%	17,383	8.00%
Lena	10,471	15.57%	4,036	6.00%	5,381	8.00%
Herscher	17,904	18.08%	5,942	6.00%	7,922	8.00%

Common Equity Tier 1 Capital

to Risk Weighted Assets:

Company	\$127,595	13.51%	\$42,490	4.50%	\$61,374	6.50%
Northwest	27,271	11.49%	10,683	4.50%	15,432	6.50%
German	24,363	11.99%	9,146	4.50%	13,211	6.50%
Davis	17,335	15.60%	5,000	4.50%	7,223	6.50%
Freeport	27,097	12.47%	9,778	4.50%	14,123	6.50%
Lena	10,471	15.57%	3,027	4.50%	4,372	6.50%
Herscher	17,904	18.08%	4,456	4.50%	6,437	6.50%

Tier 1 Capital to

Average Assets:

Company	\$127,595	10.73%	\$47,564	4.00%	\$59,455	5.00%
Northwest	27,271	9.91%	11,005	4.00%	13,757	5.00%
German	24,363	9.82%	9,926	4.00%	12,408	5.00%
Davis	17,335	11.09%	6,253	4.00%	7,816	5.00%
Freeport	27,097	10.19%	10,633	4.00%	13,292	5.00%
Lena	10,471	11.73%	3,570	4.00%	4,462	5.00%
Herscher	17,904	12.26%	5,843	4.00%	7,303	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. The payment of dividends would also be restricted if a Bank does not meet the minimum capital conservation buffer as defined by Basel III regulatory capital guidelines.

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

December 31, 2019

A S S E T S	German-American State Bank	State Bank of Davis
Cash and due from banks	\$4,047	\$1,275
Interest-bearing deposits in banks	5,040	2,327
Federal funds sold	2,556	0
Interest-bearing deposits in banks - term deposits	1,986	3,008
Debt securities:		
Debt securities available-for-sale	52,392	55,952
Debt securities held-to-maturity	0	544
Federal Home Loan Bank stock, at cost	176	96
Loans held for sale	0	0
Loans, net	175,274	83,543
Foreclosed assets, net	144	39
Premises and equipment, net	1,252	820
Core deposit intangible	0	0
Bank owned life insurance	3,342	1,919
Other assets	3,146	2,671
Investment in subsidiary banks	0	0
 Total assets	 \$249,355	 \$152,194
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest bearing	\$28,436	\$14,433
Interest-bearing	192,479	111,906
Total deposits	220,915	126,339
Federal funds purchased	0	1,027
Securities sold under agreements to repurchase		6,402
Federal Home Loan Bank (FHLB) and Federal Reserve advances		
and other borrowings	1,500	0
Accrued interest payable and other liabilities	1,547	398
 Total liabilities	 223,962	 134,166
Stockholders' equity:		
Preferred stock	0	0
Common stock	400	100
Additional paid-in capital	2,942	1,638
Retained earnings	21,703	15,703
Treasury stock	0	0
Accumulated other comprehensive income (loss)	348	587
 Total stockholders' equity	 25,393	 18,028
 Total liabilities and stockholders' equity	 \$249,355	 \$152,194

Northwest Bank	State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
\$5,888	\$4,417	\$3,203	\$2,794	\$420	(\$420)	\$21,624
12,512	4,508	784	177	2,983	(2,983)	\$25,348
6,317	2,226	357	0	0		11,456
1,744	3,218	1,590	2,983	0	0	14,529
41,780	70,172	25,786	54,742	0		300,824
0	0	0	0	0		544
600	143	50	147	0		1,212
2,007	0	0	0	0		2,007
207,343	181,065	56,029	75,620	0		778,874
0	0	0	10	0		193
7,670	1,540	353	1,887	4,979		18,501
0	0	0	598	0		598
5,878	1,487	1,954	4,587	3,829		22,996
3,202	2,577	1,158	1,807	321		14,882
0	0	0	0	130,139	(130,139)	
<b>\$294,941</b>	<b>\$271,353</b>	<b>\$91,264</b>	<b>\$145,352</b>	<b>\$142,671</b>	<b>(\$133,542)</b>	<b>\$1,213,588</b>
<hr/>						
\$48,577	\$35,405	\$4,735	\$22,928	\$0	(\$420)	\$154,094
204,282	184,581	75,208	100,526	0	(2,983)	865,999
252,859	219,986	79,943	123,454	\$0	(3,403)	1,020,093
0	0	0	1,352	0		2,379
2,602	17,590	0	0	0		26,594
10,255	3,283	0	0	0		15,038
1,666	1,372	657	1,174	1,909		8,723
<b>267,382</b>	<b>242,231</b>	<b>80,600</b>	<b>125,980</b>	<b>1,909</b>	<b>(3,403)</b>	<b>1,072,827</b>
<hr/>						
0	0	0	0	0		0
1,450	1,000	500	400	1,007	(3,850)	1,007
7,400	4,721	3,741	17,908	10,129	(38,347)	10,132
18,463	22,881	6,228	879	133,865	(85,861)	133,861
0	0	0	0	(6,320)		(6,320)
246	520	195	185	2,081	(2,081)	2,081
<b>27,559</b>	<b>29,122</b>	<b>10,664</b>	<b>19,372</b>	<b>140,762</b>	<b>(130,139)</b>	<b>140,761</b>
<b>\$294,941</b>	<b>\$271,353</b>	<b>\$91,264</b>	<b>\$145,352</b>	<b>\$142,671</b>	<b>(\$133,542)</b>	<b>\$1,213,588</b>

For the year ended December 31, 2019

	German-American State Bank	State Bank of Davis
Interest and dividend income:		
Loans, including fees	\$9,474	\$4,379
Debt securities:		
Taxable	797	961
Tax-exempt	568	519
Interest-bearing deposits in banks and other	125	196
Federal funds sold	21	25
Total interest and dividend income	10,985	6,080
Interest expense:		
Deposits	2,604	1,366
Federal funds purchased	12	8
Securities sold under agreements to repurchase	0	202
FHLB and other borrowings	60	0
Subordinated debentures	0	0
Total interest expense	2,676	1,576
Net interest and dividend income	8,309	4,504
Provision for loan losses	150	15
Net interest and dividend income, after provision for loan losses	8,159	4,489
Noninterest income:		
Customer service fees	255	81
Equity in earnings of subsidiaries		
Gain on sales and calls of AFS securities, net	37	53
Gain on sales of loans, net	0	0
Loan-servicing fees, net	0	0
Other	1,025	303
Total noninterest income	1,317	437
Noninterest expenses:		
Salaries and employee benefits	3,028	1,129
Occupancy expense of premises, net	352	158
Outside services	413	238
Data processing	693	376
Foreclosed assets, net	(17)	5
Other	1,321	479
Total noninterest expenses	5,790	2,385
Income before income taxes	3,686	2,541
Income tax expense (benefit)	892	521
Net income	\$2,794	\$2,020

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

Northwest Bank	State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
\$11,476	\$9,294	\$2,808	\$4,223	0		\$41,654
624	1,305	456	896	0		5,039
421	541	275	282	0		2,606
140	173	72	155	10	(\$17)	854
63	33	9	18	0		169
<b>12,724</b>	<b>11,346</b>	<b>3,620</b>	<b>5,574</b>	<b>10</b>	<b>(17)</b>	<b>50,322</b>
2,650	2,119	945	559	0	(\$17)	10,226
2	16	3	14	0		55
43	318	0	0	0		563
197	69	8	18	240		592
0	0	0	0	0		0
<b>2,892</b>	<b>2,522</b>	<b>956</b>	<b>591</b>	<b>240</b>	<b>(17)</b>	<b>11,436</b>
9,832	8,824	2,664	4,983	(230)	0	38,886
1,660	0	0	(700)	0		1,125
<b>8,172</b>	<b>8,824</b>	<b>2,664</b>	<b>5,683</b>	<b>(230)</b>	<b>0</b>	<b>37,761</b>
429	141	84	105			1,095
				\$12,625	(\$12,625)	0
13	128	2	27			260
1,395	0	0	0			1,395
657	0	0	43			700
841	983	166	524	2,520	(2,709)	3,653
<b>3,335</b>	<b>1,252</b>	<b>252</b>	<b>699</b>	<b>15,145</b>	<b>(15,334)</b>	<b>7,103</b>
5,686	2,792	729	2,103	3,197		18,664
1,256	226	108	317	384	(47)	2,754
180	296	233	291	253	(1,457)	447
1,160	663	289	496	214	(1,205)	2,686
44	0	0	31	0		63
2,007	684	258	779	516		6,044
<b>10,333</b>	<b>4,661</b>	<b>1,617</b>	<b>4,017</b>	<b>4,564</b>	<b>(2,709)</b>	<b>30,658</b>
1,174	5,415	1,299	2,365	10,351	(12,625)	14,206
168	1,376	288	610	(671)		3,184
<b>\$1,006</b>	<b>\$4,039</b>	<b>\$1,011</b>	<b>\$1,755</b>	<b>\$11,022</b>	<b>(\$12,625)</b>	<b>\$11,022</b>

## General Information

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Registrar, transfer agent and  
change of address:

Computershare Shareholder Services  
PO Box 30170  
College Station, TX 77842-3170  
800.368.5948  
computershare.com/investor

Market: OTC Pink Marketplace  
Trading symbol: **FGFH**

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Rockford, IL

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John J. Morrissey  
Amy M. Ott  
Jon Reidy  
Robert W. Stenstrom  
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Lena, IL

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Curtis Derrer  
James Moest  
Steven Rothschild  
Judd Thruman

### **German-American State Bank**

German Valley, IL

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Guy Cunningham  
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Carolyn Sluiter  
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Dr. Joe Kanosky  
Fred Kundert  
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Herscher, IL

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Troy Coffman  
Wayne Koelling  
Fred Kundert  
Dana Maschnig  
Brian Scott

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Chairman, Board of Directors  
Chairman & CEO,  
Stenstrom Companies



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Whiton, Thruman, LTD.



**Carolyn S. Sluiter, D.V.M.**  
Veterinarian, New Hope  
Veterinary Clinic



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Retired, Harder Corporation



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President, Staff Management &  
Market Dimensions  
Principal, Morrissey  
Family Business



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Ag Production

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President/Chief Executive Officer



**Dean E. Cooke**  
Chief Financial Officer



**Aaron Patterson**  
Chief Information Officer



**John W. Stichnoth**  
Chief Credit Officer



**K. Denise Osadjan**  
Chief Risk Officer



**Nora Koehler**  
Director of Human Resources

## NOTES

## NOTES



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