# First Bankers Trustshares, Inc.

2014 Summary Annual Report

# Corporate Information

## Corporate Description

First Bankers Trustshares, Inc. (FBTI) is a bank holding company for First Bankers Trust Company, N.A., First Bankers Trust Services, Inc., FBIL Statutory Trust II and FBIL Statutory Trust III. The Company was incorporated on August 25, 1988 and is headquartered in Quincy, Illinois.

First Bankers Trustshares' mission, through its subsidiaries, is to provide comprehensive financial products and services to its retail, institutional, and corporate customers.

First Bankers Trust Company, N.A. is a community-oriented financial institution, which traces its beginnings to 1946, operates 10 banking facilities in Adams, Hancock, McDonough, Sangamon and Schuyler counties in West Central Illinois.

First Bankers Trust Services, Inc. is a national provider of fiduciary services to individual retirement accounts, personal trusts, and employee benefit trusts. The Trust Company is headquartered in Quincy, Illinois and operates facilities in Chicago, IL, St. Peters, MO, Phoenix, AZ, Philadelphia, PA and Springfield, IL.

FBIL Statutory Trust II and FBIL Statutory Trust III were capitalized in September 2003 and August 2004, respectively, for the purpose of issuing Company Obligated Mandatorily Redeemable Preferred Securities.

For additional financial information contact:
Brian A. Ippensen, Treasurer
First Bankers Trustshares, Inc.
(217) 228-8000

## Stockholder Information

| | |
|---|---|
| Common shares authorized: | 6,000,000 |
| Common shares outstanding as of December 31, 2014: | 3,079,521 |
| Certificate holders of record: | 228* |

*As of December 31, 2014

Inquiries regarding transfer requirements, lost certificates, changes of address and account status should be directed to the corporation's transfer agent:

AST Shareholder Services
6201 15th Avenue
Brooklyn, NY 11219

## Corporate Address

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

## Independent Auditors

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

## General Counsel

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

## First Bankers Trustshares, Inc. Board of Directors

**David E. Connor**
*Chairman Emeritus, First Bankers Trustshares, Inc.*

**Carl Adams, Jr.**
*President, Illinois Ayers Oil Company*

**Scott A. Cisel**
*Executive Adviser to Accenture's North America Energy Practice*

**William D. Daniels**
*Member, Harborstone Group, LLC*

**Mark E. Freiburg**
*Owner, Freiburg Insurance Agency & Freiburg Development*
*President, Freiburg, Inc.*

**Donald K. Gnuse**
*Chairman of the Board, First Bankers Trustshares, Inc.*
*Chairman of the Board, First Bankers Trust Company, N.A.*
*Chairman of the Board, First Bankers Trust Services, Inc.*

**Arthur E. Greenbank**
*President/CEO, First Bankers Trust Company, N.A.*
*President/CEO, First Bankers Trustshares, Inc.*

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

**John E. Laverdiere**
*Laverdiere Construction, Inc., President*
*LCI Concrete, Inc., Vice President/Manager*

**Steven E. Siebers**
*Secretary of the Board, First Bankers Trustshares, Inc.*
*Secretary of the Board, First Bankers Trust Company, N.A.*
*Secretary of the Board, First Bankers Trust Services, Inc.*
*Attorney at Law, Scholz, Loos, Palmer, Siebers & Duesterhaus*

**Merle L. Tieken**
*T-C Building Corporation, President*
*M&M Developments Corporation, Owner*

**Dennis R. Williams**
*Chairman of the Board, Quincy Newspapers, Inc.*

## Executive Officers

**Arthur E. Greenbank,** *President and CEO*
**Brian A. Ippensen**, *Treasurer*
**Steven E. Siebers**, *Secretary*

### First Bankers Trustshares, Inc. Stock Prices

*(For the three months period ended)*

| Market Value | 12/31/14 | 09/30/14 | 06/30/14 | 03/31/14 | 12/31/13 |
|---|---|---|---|---|---|
| High | $24.00 | $22.25 | $20.30 | $19.50 | $19.50 |
| Low | $21.00 | $20.07 | $19.50 | $18.90 | $18.60 |
| Period End Close | $22.76 | $21.50 | $20.10 | $19.50 | $19.00 |

The following companies make a market in FBTI common stock:

Raymond James
225 S. Riverside Plaza, 7th Floor
Chicago, IL 60606
(800) 800-4693

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

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

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

# Letter to Shareholders

Dear Shareholders of First Bankers Trustshares, Inc.,

The past year, 2014, was a very good year as measured by most standard banking ratios. From the standpoint of net income, it was a record year with our Company earning over $7.2 million for the full year ending December 31, 2014. Assets and deposits were at or near record levels while assets under management at our Trust subsidiary (First Bankers Trust Services, Inc.) exceeded $6 billion in what was a very good year for them. They added resources to both our St. Louis and Quincy offices as they continued to profitably grow this national company.

**Donald K. Gnuse**
*Chairman of the Board*

The Bank, (First Bankers Trust Company, N. A.) also had a record year contributing record earnings. During the last couple of years, the Bank purchased two brokerage businesses and added them to our existing brokerage operation. These businesses have performed very well and are currently contributing significant fee income to our bottom line.

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

We enter 2015 with bright prospects. Asset quality remains very good. Earnings are strong and we have ideas and plans for future growth both at the Bank and Trust Company. We look forward to talking with you at our annual meeting on Tuesday, May 12, 2015 at the Corporate Headquarters located at 12th & Broadway in Quincy, Illinois. The meeting will begin at 9:00 a.m.

Sincerely,

Donald K. Gnuse
Chairman of the Board
First Bankers Trustshares, Inc.

Arthur E. Greenbank
President/CEO
First Bankers Trustshares, Inc.

# Select Financial Data

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

| Year Ended December 31, | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| **PERFORMANCE** | | | | | | |
| Net income | $ 7,245 | $ 5,695 | $ 6,840 | $ 6,057 | $ 6,440 | $ 5,885 |
| Common stock cash dividends paid | $ 1,355 | $ 1,325 | $ 1,232 | $ 944 | $ 943 | $ 942 |
| Common stock cash dividend payout ratio [1] | 18.96% | 23.27% | 18.26% | 17.67% | 16.28% | 17.90% |
| Return on average assets [1] | 0.87% | 0.70% | 0.87% | 0.75% | 0.88% | 0.89% |
| Return on average common stockholders' equity [2] | 11.48% | 9.79% | 12.84% | 11.26% | 13.54% | 13.79% |
| **PER COMMON SHARE** | | | | | | |
| Earnings, basic and diluted | $ 2.32 | $ 1.82 | $ 2.19 | $ 1.73 | $ 1.89 | $ 1.71 |
| Dividends (paid) on common stock | $ 0.44 | $ 0.43 | $ 0.41 | $ 0.31 | $ 0.31 | $ 0.31 |
| Book value [3] | $ 21.09 | $ 19.22 | $ 17.84 | $ 16.05 | $ 14.65 | $ 13.08 |
| Stock price | | | | | | |
| High | $ 24.00 | $ 23.33 | $ 17.67 | $ 14.73 | $ 14.67 | $ 12.17 |
| Low | $ 18.90 | $ 17.43 | $ 14.03 | $ 12.00 | $ 10.73 | $ 8.00 |
| Close | $ 22.76 | $ 19.00 | $ 17.43 | $ 14.03 | $ 13.40 | $ 10.73 |
| Price/Earnings per share (at period end) | 9.8 | 10.4 | 8.0 | 8.1 | 7.1 | 6.3 |
| Market price/Book value (at period end) | 1.08 | 0.99 | 0.98 | 0.87 | 0.91 | 0.82 |
| Weighted average number of shares outstanding | 3,079,521 | 3,079,521 | 3,079,521 | 3,079,037 | 3,076,278 | 3,072,843 |
| **AT DECEMBER 31,** | | | | | | |
| Assets | $ 842,305 | $ 775,640 | $ 804,568 | $ 721,854 | $ 690,644 | $ 623,896 |
| Investment securities | 298,042 | 274,227 | 327,325 | 281,635 | 278,729 | 282,135 |
| Loans held for sale | 87 | 88 | 499 | 454 | - | 183 |
| Loans | 475,534 | 442,498 | 406,803 | 375,390 | 337,558 | 292,344 |
| Deposits | 667,668 | 627,789 | 658,498 | 584,499 | 570,436 | 511,769 |
| Short-term borrowings and Federal Home Loan Bank advances | 77,048 | 60,934 | 51,985 | 48,769 | 43,104 | 38,717 |
| Junior subordinated debentures | 10,310 | 10,310 | 15,465 | 15,465 | 15,465 | 15,465 |
| Preferred stock | 10,000 | 10,000 | 10,000 | 10,000 | 10,200 | 10,100 |
| Stockholders' equity [4] | $ 74,952 | $ 69,193 | $ 64,933 | $ 59,446 | $ 55,286 | $ 50,287 |
| Total equity to total assets [4] | 8.90% | 8.92% | 8.07% | 8.24% | 8.00% | 8.06% |
| Tier 1 capital ratio (risk based) | 13.90% | 13.59% | 14.60% | 14.68% | 14.70% | 15.44% |
| Total capital ratio (risk based) | 14.97% | 14.66% | 15.60% | 15.54% | 15.43% | 16.60% |
| Leverage ratio | 9.67% | 9.39% | 9.44% | 9.99% | 9.83% | 9.88% |

Note: A 3-for-2 common stock split occurred on August 26, 2013. All common shares reported, including per share data, in this annual report have been retroactively adjusted for this split as if it occurred at the beginning of the earliest period presented.

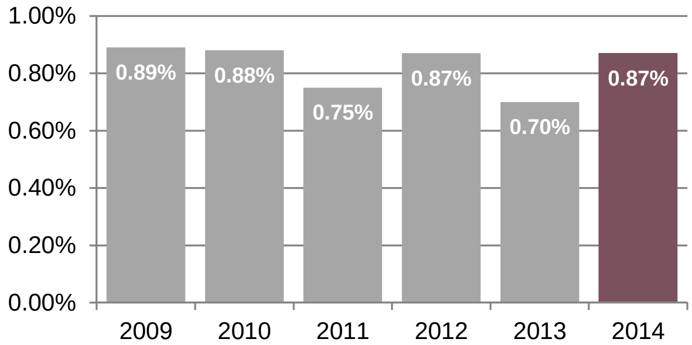
[1] *Excludes preferred stock dividends/accretion.*

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

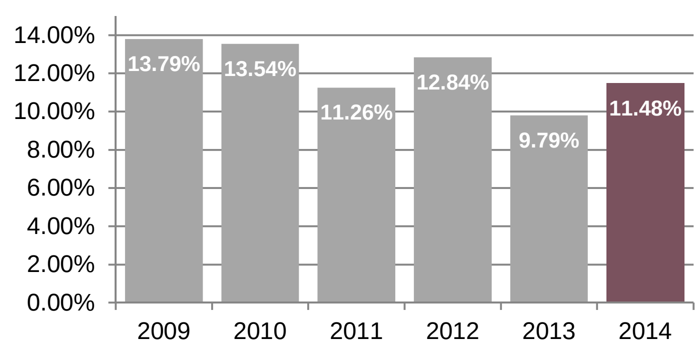
[3] *Book value per share is calculated by dividing stockholders' equity, excluding preferred stock and accumulated other comprehensive income or loss, by outstanding common shares.*

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

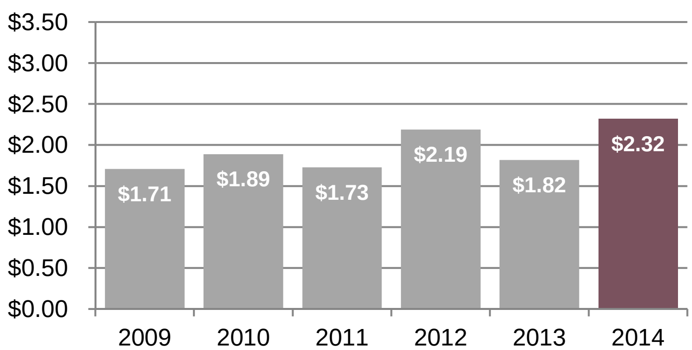
## Return on Average Assets



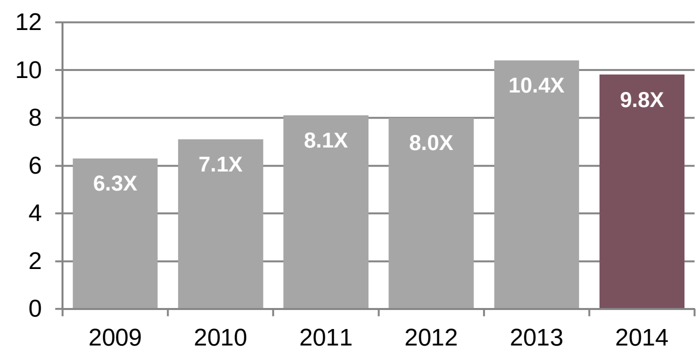

## Return on Average Common Equity



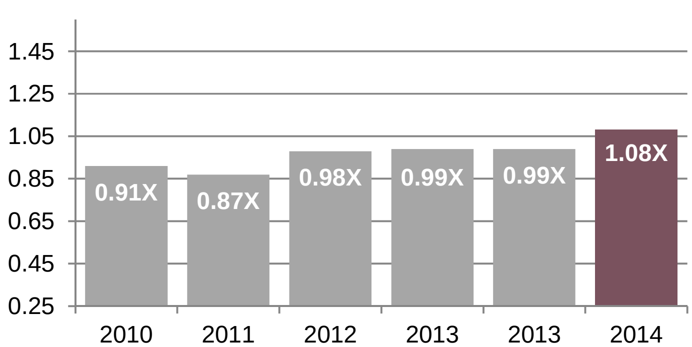

## Earnings Per Share



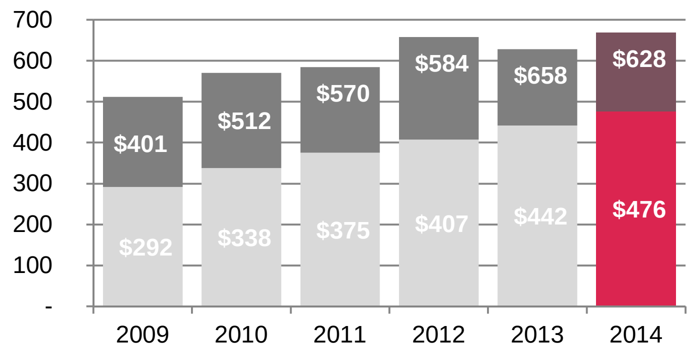

## Price/Earnings Multiples




## Market Price to Book Value




## Loan/Deposit Growth



# Management's Report on First Bankers Trust Company

First Bankers Trust Company, National Association Corporate Statement

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

First Bankers Trust Company, N. A. (the Bank) is a community-oriented financial institution that provides banking services in six communities, including five county seats through ten branches in West Central Illinois, to meet the needs of the communities served. We have diversified our business through many thousands of customers including many individuals and numerous small businesses within these communities. The Bank attracts deposits from the general public and uses these deposits, along with other borrowings and funds to originate residential mortgage loans, consumer loans, small business loans and agricultural loans for these markets.

We provide value to these relationships through our cutting edge banking products and high level services. We simultaneously manage our costs in order to stay competitive with our pricing. The Bank has been providing these services for nearly seven decades and prides itself on the success achieved.

Arthur E. Greenbank
President/CEO
First Bankers Trust Company, N. A.

# Management's Report on First Bankers Trust Services, Inc.

First Bankers Trust Services, Inc. Corporate Statement

**Brian A. Ippensen**
*President/CEO*

First Bankers Trust Services, Inc. provides fiduciary services to individuals and corporate clients across the United States, a multitude of custodial and trust support to individual retirement accounts, personal trusts, farm service relationships and employee benefit trusts.

In 2014, our assets under management surpassed $6.2 billion through our continual marketing efforts of new relationships and excellence in client administration.  We continue to see a changing competitor environment with established organizations leaving and new faces arriving.  Our steady presence and highly experienced staff have made First Bankers Trust Services one the premier, fiduciary service providers.

2014 marks the tenth year of First Bankers Trust Services as a separate entity, wholly owned by First Bankers Trustshares, Inc.  During 2014, we introduced our new corporate logo and enhanced our website and marketing materials.  From humble beginnings in 1956 as a trust department of a bank, and through today, we continue to serve each of our clients with the respect and dedication so deserving of the task they have entrusted to us to accomplish.

We look forward to the opportunity and challenges of 2015 and beyond.

Brian Ippensen

Brian A. Ippensen
President/CEO
First Bankers Trust Services, Inc.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Introduction

The following discussion of the financial condition and results of operations of First Bankers Trustshares, Inc. provides an analysis of the consolidated financial statements and focuses upon those factors which had a significant influence on the overall 2014 performance.

The discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing in the Combined Proxy and Consolidated Financial Statements.

The Company was incorporated on August 25, 1988, and acquired First Midwest Bank/M.C.N.A. (the Bank) on June 30, 1989. The Bank acquisition was accounted for using purchase accounting. Prior to the acquisition of the Bank, the Company did not engage in any significant business activities.

## Financial Management

The business of the Company is that of a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves.

The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, to originate one-to-four family residential mortgage loans, consumer loans, business loans and agricultural loans in its primary market area. The Company also invests in investment securities consisting primarily of U.S. government or agency obligations, mortgage-backed securities, financial institution certificates of deposit, and other liquid assets. In addition, the Company conducts Trust Operations nationwide through its sales representatives.

The Company's goal is to achieve consistently high levels of earning assets and loan/deposit ratios while maintaining effective expense control and high customer service levels. The term "high level" means the ability to profitably increase earning assets. As deposits have become fully deregulated, sustained earnings enhancement has focused on "earning asset" generation. The Company will focus on lending money profitably, controlling credit quality, net interest margin, operating expenses and on generating fee income from trust and banking operations.

## Consolidated Assets *(Amounts in Thousands of Dollars)*

| | 2014 | Change | 2013 | Change | 2012 | 2011 | 2010 | 2009 | 5 Year Change |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and due from banks: | | | | | | | | | |
| Non-interest bearing | $ 11,307 | 5.90% | $ 10,677 | (25.13%) | $ 14,261 | $ 12,104 | $ 9,363 | $ 9,119 | 23.99% |
| Interest bearing | 14,548 | 122.34 | 6,543 | (53.60) | 14,102 | 9,073 | 25,681 | 8,497 | 71.21 |
| Securities | 298,042 | 8.68 | 274,227 | (16.22) | 327,325 | 281,635 | 278,729 | 282,135 | 5.64 |
| Federal funds sold | 5,006 | 175.51 | 1,817 | (11.84) | 2,061 | 3,238 | 2,167 | 293 | 1608.53 |
| Loans held for sale | 87 | (1.14) | 88 | (82.36) | 499 | 454 | - | 183 | (52.46) |
| Net loans | 467,357 | 7.38 | 435,247 | 8.67 | 400,525 | 370,203 | 332,538 | 287,700 | 62.45 |
| Other assets | 45,958 | (2.30) | 47,041 | 2.72 | 45,795 | 45,147 | 42,166 | 35,969 | 27.77 |
| TOTAL | $ 842,305 | 8.59% | $ 775,640 | (3.60%) | $ 804,568 | $ 721,854 | $ 690,644 | $ 623,896 | 35.01% |
| | | | | | | | | | |
| **Liabilities & Stockholders' Equity** | | | | | | | | | |
| Deposits | $ 667,668 | 6.35% | $ 627,789 | (4.66%) | $ 658,498 | $ 584,499 | $ 570,436 | $ 511,769 | 30.46% |
| Short-term borrowings | 77,048 | 26.45 | 60,934 | 17.21 | 51,985 | 48,769 | 37,604 | 30,217 | 154.98 |
| Federal Home Loan Bank advances | - | - | - | - | - | - | 5,500 | 8,500 | (100.00) |
| Junior Subordinated Debentures | 10,310 | - | 10,310 | (33.33) | 15,465 | 15,465 | 15,465 | 15,465 | (33.33) |
| Other liabilities | 8,229 | 23.91 | 6,641 | (29.80) | 9,460 | 8,954 | 5,057 | 5,269 | 56.18 |
| Stockholders' equity | 79,050 | 12.98 | 69,966 | 1.17 | 69,160 | 64,167 | 56,582 | 52,676 | 50.07 |
| TOTAL | $ 842,305 | 8.59% | $ 775,640 | (3.60%) | $ 804,568 | $ 721,854 | $ 690,644 | $ 623,896 | 35.01% |

# Management's Discussion and Analysis of Financial Condition and Results of Operations

At December 31, 2014, the company had assets of $842,305,000 compared to $775,640,000 at December 31, 2013. The increase in assets is primarily made up of a $32,110,000 (7.38%) increase in net loans and a $23,815,000 (8.68%) increase in securities. The growth was funded by a $39,879,000 (6.35%) increase in deposits and a $16,114,000 (26.45%) increase in repurchase agreements.

The growth in the gross loan portfolio was primarily made up of growth in residential real estate loans of $15,018,000 and agricultural loans of $10,989,000. Approximately $22,705,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2014 while $49,907,000 were sold in 2013. Agricultural real estate loans totaling $838,000 were sold in the secondary market during 2014, while $1,336,000 were sold in 2013. Management continues to place emphasis on the quality versus the quantity of the credits placed in the portfolio.

In addition to lending, the Company has focused on maintaining and enhancing high levels of fee income for its existing services and new services. Generation of fee income will be a goal of the Company and should be a source of continued revenues in the future.

## Results of Operations Summary

The Company's earnings are primarily dependent on net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans, securities and other interest earning assets outstanding during the period and the yield earned on such assets. Interest expense is a function of the balances of deposits and borrowings outstanding during the same period and the rates paid on such deposits and borrowings. The Company's earnings are also affected by provisions for loan losses, service charges, trust income, other non-interest income and expense and income taxes. Non-interest expense consists primarily of employee compensation and benefits, occupancy and equipment expenses and general and administrative expenses.

Prevailing economic conditions as well as federal regulations concerning monetary and fiscal policies as they pertain to financial institutions significantly affect the Company. Deposit balances are influenced by a number of factors including interest rates paid on competing personal investments and the level of personal income and savings within the institution's market. In addition, growth of deposit balances is influenced by the perceptions of customers regarding the stability of the financial services industry. Lending activities are influenced by the demand for housing, competition from other lending institutions, as well as lower interest rate levels, which may stimulate loan refinancing. The primary sources of funds for lending activities include deposits, loan payments, borrowings and funds provided from operations.

For the year ended December 31, 2014, the Company reported consolidated net income of $7,245,000, a $1,550,000 (27.22%) increase from 2013. Net interest income after provision for loan losses for the periods being compared increased $3,378,000 or 18.51%. Other operating income increased $618,000 (4.47%) and other operating expenses increased $1,241,000 (5.07%) from 2013.

## Analysis of Net Income

The Company's assets are primarily comprised of interest earning assets including commercial, agricultural, consumer and real estate loans, as well as federal funds sold, interest bearing deposits in banks and securities. Average earning assets equaled $773,051,000 for the year ended December 31, 2014. A combination of interest bearing and non-interest bearing deposits, securities sold under agreement to repurchase, other borrowings and capital funds are employed to finance these assets.

## Consolidated Income Summary *(Amounts in Thousands of Dollars)*

| | 2014 | Change | 2013 | Change | 2012 | 2011 | 2010 | 2009 | 5 Year Growth Rate |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | $ 26,947 | 6.85% | $ 25,219 | (3.79)% | $ 26,212 | $ 27,155 | $ 25,930 | $ 26,153 | 3.04% |
| Interest expense | (4,145) | (24.98) | (5,525) | (16.99) | (6,656) | (7,888) | (8,932) | (9,663) | (57.10%) |
| Net interest income | $ 22,802 | 15.78% | $ 19,694 | 0.71% | $ 19,556 | $ 19,267 | $ 16,998 | $ 16,490 | 38.28% |
| Provision for loan losses | (1,170) | (18.75) | (1,440) | - | (1,440) | (1,640) | (1,080) | (1,080) | 8.33% |
| Net interest income after provision for loan losses | $ 21,632 | 18.51% | $ 18,254 | 0.76% | $ 18,116 | $ 17,627 | $ 15,918 | $ 15,410 | 40.38% |
| Other income | 14,432 | 4.47 | 13,814 | 0.04 | 13,808 | 10,643 | 11,164 | 9,093 | 58.72% |
| Other expenses | (25,707) | 5.07 | (24,466) | 10.89 | (22,064) | (19,889) | (17,899) | (16,116) | 59.51% |
| Income before taxes | $ 10,357 | 36.24% | $ 7,602 | (22.90)% | $ 9,860 | $ 8,381 | $ 9,183 | $ 8,387 | 23.49% |
| Income tax expense | (3,112) | 63.19 | (1,907) | (36.85) | (3,020) | (2,324) | (2,743) | (2,502) | 24.38% |
| NET INCOME | $ 7,245 | 27.22% | $ 5,695 | (16.74)% | $ 6,840 | $ 6,057 | $ 6,440 | $ 5,885 | 23.11% |

| Years Ended December 31, | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| *(Amounts in Thousands of Dollars)* | | | | | | |
| Interest income | $ | 26,443 | $ | 24,601 | $ | 25,485 |
| Loan fees | | 504 | | 618 | | 727 |
| Interest expense | | (4,145) | | (5,525) | | (6,656) |
| NET INTEREST INCOME | $ | 22,802 | $ | 19,694 | $ | 19,556 |
| Average earning assets | $ | 773,051 | $ | 745,363 | $ | 721,709 |
| Net interest margin | | 2.95% | | 2.64% | | 2.71% |

The yield on average earning assets for the year ended 2014 was 3.49% while the average cost of funds for the same period was 0.64% on average interest bearing liabilities of $645,704,000. The yield on average earning assets for the year ended 2013 was 3.38%, while the average cost of funds for the same period was 0.87% on average interest bearing liabilities of $635,614,000. The increase in the net interest income of $3,108,000 can be attributed to the 3.71% increase in average earning assets, the 0.23% decrease in average cost of funds, and the 0.11% increase in yield on earning assets.

## Provision for Loan Losses

The allowance for loan losses as a percentage of gross loans outstanding is 1.72% as of December 31, 2014, compared to 1.64% as of December 31, 2013. Net loan charge-offs totaled $244,000 for the year ended December 31, 2014 compared to $467,000 in 2013.

The amounts recorded in the provision for loan losses are determined from management's quarterly evaluation of the quality of the loan portfolio. In this review, such factors as the volume and character of the loan portfolio, general economic conditions and past loan loss experience are considered. Management believes that the allowance for loan losses is adequate to provide for possible losses in the portfolio as of December 31, 2014.

## Other Income

Other income may be divided into two broad categories – recurring and non-recurring. Trust fees and service charges on deposit accounts are the major sources of recurring other income. Investment securities gains and other income vary annually. Other income for the period ended December 31, 2014 was $14,432,000, an increase of $618,000 (4.47%) from 2013. This is attributed to an increase in trust services income of $1,206,000, which was partially offset by a decrease in security gains of $627,000.

## Other Expense

Other expense for the period ended December 31, 2014 totaled $25,707,000, an increase of $1,241,000 (5.07%) from 2013 year-end totals. Salaries and employee benefits expense aggregated 60.66% and 58.71% of total other expense for the years ended December 31, 2014 and 2013, respectively.

## Non-Accrual and Past Due Loans, Leases and Other Real Estate Owned

*(Amounts in Thousands of Dollars)*

| As of December 31, | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-accrual loans and leases | $ | 2,679 | $ | 8,279 | $ | 4,511 | $ | 5,218 | $ | 5,856 | $ | 3,449 |
| Other real estate owned (OREO) | | - | | 203 | | 105 | | 210 | | 1,757 | | 230 |
| Total non-accrual loans and OREO | $ | 2,679 | $ | 8,482 | $ | 4,616 | $ | 5,428 | $ | 7,613 | $ | 3,679 |
| Loans and leases past due 90 days or more and still accruing interest | | 157 | | 332 | | 147 | | 186 | | 591 | | 199 |
| TOTAL | $ | 2,836 | $ | 8,814 | $ | 4,763 | $ | 5,614 | $ | 8,204 | $ | 3,878 |

## Income Taxes

The Company files its federal income tax return on a consolidated basis with the Bank. See Note 13 in the Combined Proxy and Consolidated Financial Statements for detail of income taxes.

## Liquidity

The concept of liquidity comprises the ability of an enterprise to maintain sufficient cash flow to meet its needs and obligations on a timely basis. Bank liquidity must thus be considered in terms of the nature and mix of the institution's sources and uses of funds.

Bank liquidity is provided from both assets and liabilities. The asset side provides liquidity through regular maturities of investment securities and loans. Investment securities with maturities of one year or less, deposits with banks and federal funds sold are a primary source of asset liquidity. On December 31, 2014, these categories totaled $39,595,000 or 4.70% of assets, compared to $27,848,000 or 3.59% the previous year.

As of December 31, 2014, securities held to maturity included $209,000 of gross unrealized gains and no gross unrealized losses on securities which management intends to hold until maturity. Such amounts are not expected to have a material effect on future earnings beyond the usual amortization of premium and accretion of discount.

Closely related to the management of liquidity is the management of rate sensitivity (management of variable rate assets and liabilities), which focuses on maintaining stable net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining an evenly balanced rate sensitivity position to avoid wide swings in margins and minimize risk due to changes in interest rates.

The Company's Asset/Liability Committee is charged with the responsibility of prudently managing the volumes and mixes of assets and liabilities of the subsidiary bank.

Management believes that it has structured its pricing mechanisms such that the net interest margin should maintain acceptable levels in 2015, regardless of the changes in interest rates that may occur. The following table shows the repricing period for interest-earning assets and interest-bearing liabilities and the related repricing gap:

Repricing Period as of December 31, 2014

| *(Amounts in Thousands of Dollars)* | Through One Year | After One Year through Five Years | After Five Years |
|---|---|---|---|
| Interest-earning assets | $ 190,890 | $ 280,482 | $ 321,845 |
| Interest-bearing liabilities | 535,985 | 106,230 | 10,310 |
| Repricing gap *(repricing assets minus repricing liabilities)* | $ (345,095) | $ 174,252 | $ 311,535 |

Repricing Period as of December 31, 2013

| *(Amounts in Thousands of Dollars)* | Through One Year | After One Year through Five Years | After Five Years |
|---|---|---|---|
| Interest-earning assets | $ 209,246 | $ 220,993 | $ 294,934 |
| Interest-bearing liabilities | 489,051 | 116,955 | 10,310 |
| Repricing gap (repricing assets minus repricing liabilities) | $ (279,805) | $ 104,038 | $ 284,624 |

## Effects of Inflation

Until recent years, the economic environment in which the Company operates has been one of significant increases in the prices of most goods and services and a corresponding decline in the purchasing power of the dollar.

Banks are affected differently than other commercial enterprises by the effects of inflation. Some reasons for these disparate effects are: a) premises and equipment for banks represent a relatively small proportion of total assets; b) a bank's assets and liability structure is substantially monetary in nature, which can be converted into a fixed number of dollars regardless of changes in prices, such as loans and deposits; and c) the majority of a bank's income is generated through net interest income and not from goods or services rendered.

Although inflation may impact both interest rates and volume of loans and deposits, the major factor that affects net interest income is how well a bank is positioned to cope with changing interest rates.

### Capital

The ability to generate and maintain capital at adequate levels is critical to the Company's long-term success. A common measure of capitalization for financial institutions is primary capital as a percent of total assets.

Regulations also require the Company to maintain certain minimum capital levels in relation to consolidated Company assets. Regulations require a ratio of capital to risk-weighted assets of 8%.

The Company's capital, as defined by the regulations, was 14.97% of risk-weighted assets as of December 31, 2014. In addition, a leverage ratio of at least 4.00% is to be maintained. As of December 31, 2014, the Company's leverage ratio was 9.67%.

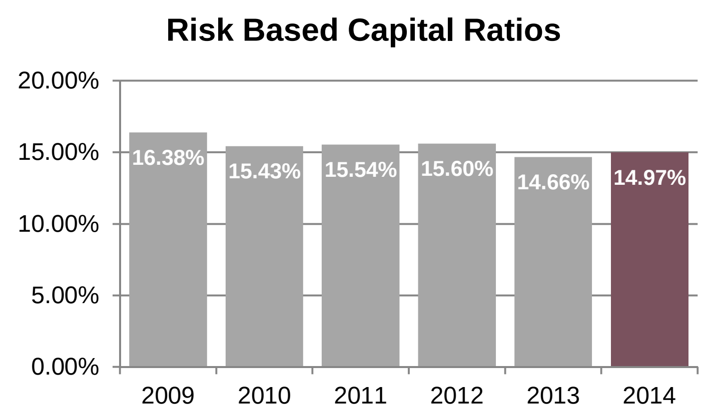
### Asset Liability Management

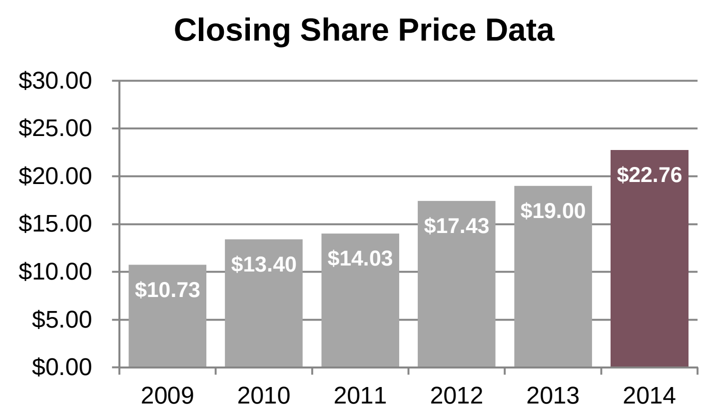
Since changes in interest rates may have a significant impact on operations, the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate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

### Common Stock Information and Dividends

The Company's common stock is held by 228 certificate holders as of December 31, 2014, and is traded in a limited over-the-counter market.

On December 31, 2014 the market price of the Company's common stock was $22.76. Market price is based on stock transactions in the market. Dividends on common stock of approximately $1,386,000 were declared by the Board of Directors of the Company for the year ended December 31, 2014.




### Financial Report

Upon written request of any shareholder of record on December 31, 2014, the Company will provide, without charge, a copy of its 2014 Combined Proxy and Consolidated Financial Statements.

### Notice of Annual Meeting of Stockholders

The annual meeting of stockholders will be May 12, 2015 at 9:00 a.m. at the corporate headquarters, 1201 Broadway, Quincy, Illinois.

# Board of Directors

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*Chairman of the Board*

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*Illinois Ayers Oil Company, President*

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*Executive Adviser to Accenture's North America Energy Practice*

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*T-C Building Corporation, President*
*M&M Developments Corporation, Owner*

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*T-C Building Corporation, President*
*M&M Developments Corporation, Owner*

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*Robert Hofmeister Farm, Secretary*

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Jason L. Duncan *North Region*
David J. Rakers *West Region*

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Dennis R. Iversen
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Kathleen D. McNay
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Marvin E. Rabe
Douglas R. Reed
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Hugh K. Roderick
Sherry R. Schaffnit
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Randal S. Westerman
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Afton R. Mast
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Michele Walgren
Leslie A. Westen
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Kristen E. Krietmeyer

### CREDIT OFFICER
Dan J. Brink

### HUMAN RESOURCES OFFICER
Laura J. Maas

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Steven P. Eckert
Michele R. Foster
Patricia D. Goestenkors
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W. Diane McHatton
Ashley Melton
Blake R. Mock
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Kimberly A. Serbin
Linda J. Shultz
Deborah J. Staff
Karen C. Sutor
Martha E. Wert

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John P. Shelton

### ASSISTANT TRUST OFFICERS
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Zachary W. Clark
Emily J. Coniglio
Marilyn J. Crim
Marissa J. Ermeling
Jennifer L. Gordley
Kelle M. Ponce`
Brenda K. Martin
Jacob E. Newton
Sherri A. Zuspann