CNB Bank Shares, Inc.

annual report 2023

A thank you to our employees

As we navigate the dynamic landscape of our industry, it's essential to recognize the invaluable contributions of each team within our organization. From the innovative minds driving our product development to the dedicated individuals ensuring seamless operations, every department plays a vital role in our collective success.

We extend our heartfelt gratitude to each and every one of our employees for your unwavering dedication, passion, and hard work. Your contributions are the driving force behind our achievements, and it's through your collective effort that we continue to thrive. Thank you for your commitment to excellence and for being an integral part of the CNB Bank & Trust family. Together, we will continue to open doors and aspire to achieve remarkable success.

JERSEYVILLE TEAM

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https://www.cnbil.com/about/holding-company/

CNB Bank Shares, Inc.

president's letter

Dear fellow shareholders:

In the last few Annual Reports, we have highlighted software enhancements that CNB has incorporated into periphery and mainframe operations in recent years. We advanced or launched more of those initiatives during 2023, summarized in the Management Report that follows. However, the focus in this Annual Report is on CNB staff who have vetted and implemented the enhancements, and the support staff who continually train on accessing and running our operational systems in an efficient and secure manner. Management regularly emphasizes to staff that a key to success is for everyone to gain a firm understanding of how the systems benefit our customers' experience as they open accounts and transact at CNB.

Training is offered in several forms: in some cases, it is provided directly by software vendors; also, CNB accesses educational offerings provided by trade associations through their seminars and schools; and finally, we conduct internal training led by fellow employees. We are convinced that this dedication to ongoing education is one reason CNB has so many employees who proudly have accumulated double-digit years of service here; they understand it is an important component of career advancement.

Succession planning at CNB incorporates a direct conduit to the training opportunities that employees complete. In 2023 we managed through the final stages of a CEO succession. Shawn Davis, who was CEO of the Bank since 1999, discretely announced to the CNB board several years ago that he planned to retire in 2023. We were confident that we could successfully promote from within, even though by its very nature it generally requires several positions to change.

Andy Tinberg (hired in 2009 to help us establish our first branch in Cook County) has an impressive resume, including management of a community bank in Oak Forest. Following that initial CNB project, he managed the expansion in Region 3 with two more CNB locations in nearby communities. Upon the retirement of Larry Franklin in April of 2020, Andy took over Sales and Service responsibilities of all three regions, and in June of 2021 with the establishment of a branch in Edwardsville/Glen Carbon, a reorganization created Region 4 in St. Louis and the metro-east. The board easily concluded that Andy was the natural successor as CNB Bank & Trust President and CEO, a promotion that occurred in October of 2023. A concurrent succession resulted in promotion of Dave Hurley upon the retirement of Gary Graham, who had been Regional President in Region 1; and Matt Cors has been promoted to Chief Experience Officer, a new position focused on our customers' interaction with the Bank.

The board and staff look forward to Andy's first full year of leadership at CNB in 2024, further incorporating his management focus on customer experience, and related training on how best to earn repeat business. The pages that follow define last year's record performance, sure to be a springboard to a new era of even greater strategic success.

Respectfully,

James T. Ashworth, President

TINLEY PARK TEAM

PALOS HEIGHTS TEAM

management report

Sales and Service (Andrew E. Tinberg, President & Chief Executive Officer):

We operated in 2023 through significant economic uncertainty including another four Fed rate hikes. Despite the uncertainty, loan and deposit growth continued in 2023 (see Deposit and Loan Balances graph on page 13). Funding costs increased faster than our loan portfolio yields, resulting in margin pressure throughout the year. Our ability to grow loans $144 million at current rates served to soften the impact of margin compression. Loan growth came largely as a result of continued strong loan demand from all Regions and the onboarding of a new lending team in Region 3. At the same time, an elevated team effort to address delinquencies resulted in measurable progress to improve asset quality. Considerable focus and effort remain on developing a strong team culture, committed to providing superior quality service and elevating the customer experience. We saw continued progress in this area as metrics from our customer survey partner, Avannis, indicate strong and improving satisfaction scores from our customers. At the same time, we recognize the need to improve our operational efficiency. To that end in 2023 we managed a strategic 6% reduction in staffing bank-wide driving up our assets (in millions) per FTE to 6.59:1 (see the Assets Per FTE graph on page 13). Throughout the year our commitment to the communities we serve remained strong in 2023 through participation in local food drives; sponsorship of community events; engaging with local Chambers, Rotary clubs and other civic organizations; and partnering with local schools to offer unique educational opportunities for students.

Region 1 (Dave Hurley, Regional President: Carlinville; Hillsboro; Litchfield; Taylorville; Virden)
Region 2 (Tony Heitzig, Regional President: Brighton; Carrollton; Chapin; Jacksonville; Jerseyville; Pittsfield):

Regions 1 and 2 are primarily rural markets with an agricultural base to their economies. Good yields in 2023 were tempered by a modest drop in grain prices, still resulting in a successful year for area farmers. Farmland values continue to be strong with per-acre sales for productive soil types ranging from $14,000 to more than $20,000. We experienced a number of retirements in 2023 highlighting the value of our young talent pool. Most notably, Dave Hurley was elevated to Region 1 President in February of 2023 upon the retirement of Gary Graham.


CARLINVILLE TEAM

Region 3 (Dan Walsh, Regional President: Oak Forest; Palos Heights; Tinley Park)
Region 4 (Dan Jung, Regional President: Alton; Clayton, Mo.; Edwardsville/Glen Carbon):

Regions 3 and 4 comprise our urban/suburban markets, a healthy diversification to the rural economies where CNB was traditionally concentrated. Most of our larger non-ag business relationships are located here, including multi-family residential developers. In early 2023 we onboarded a lending team that moved over to CNB from their previous Chicago area community bank employer after that bank was purchased. Throughout 2023 they provided increasing loan volume and credit diversification with strong yield opportunities.

Operations
(Maureen Oswald, Chief Operations Officer):

In the pursuit of excellence and efficiency, the Operations Department at CNB achieved significant milestones in the year 2023. The following projects were successfully completed, marking a transformative period for our operations. Firstly, in response to the ever-evolving landscape of digital finance, we undertook a strategic initiative to convert our digital banking platform to Q2. This conversion enhances user experience, introduces innovative features, and ensures that our customers have access to cutting-edge technology in their banking interactions. Secondly, to stay at the forefront of the financial industry, our Operations Department implemented Real-Time Payments (RTP) for leading platforms such as Zelle, RTP, and FedNow. This initiative enables our customers to experience swift and secure transactions in real-time, reflecting our commitment to providing efficient and timely financial services. Furthermore, recognizing the growing reliance on mobile devices in the workplace, we installed Mobile Device Management (MDM) software. This software ensures secure and compliant usage of mobile devices for various purposes, including accessing Bank email. By doing so, we reinforce our commitment to maintaining the integrity and security of our digital communication channels. Lastly, in an era where cybersecurity is of paramount importance, we invested in the installation of Carbon Black. This comprehensive security solution encompasses anti-virus protection, endpoint detection and response, advanced threat hunting, and vulnerability management. Carbon Black focuses on intrusion detection, system changes for malware detection, and facilitates thorough investigations, which reinforces our dedication to safeguarding our systems and customer data. These projects collectively contribute to the continuous improvement of our operational capabilities. They position CNB Bank & Trust, N.A. as a forward-thinking institution that adapts to technological advancements, prioritizes customer experience, and ensures the highest standards of security in an increasingly digital landscape.

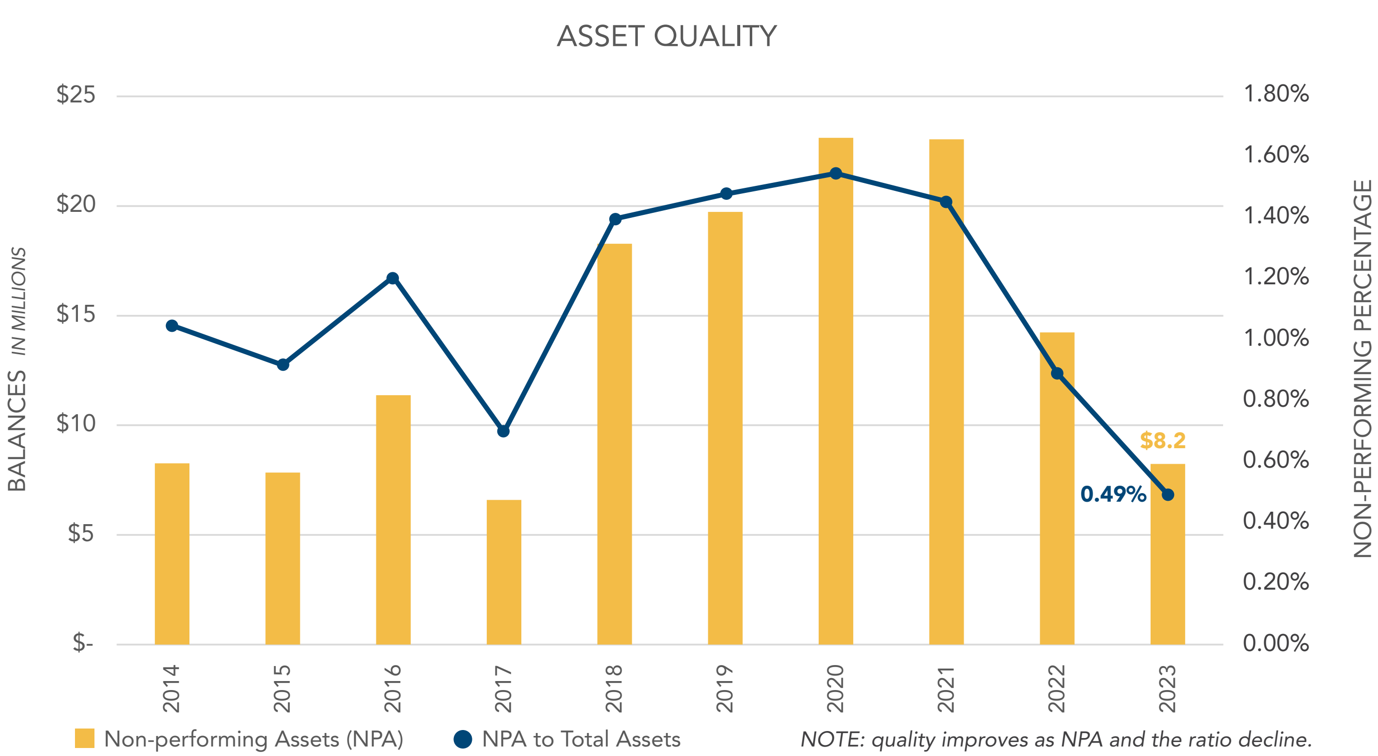

BRIGHTON TEAM

Credit Administration (Chris Williams, Chief Credit Officer):

In the fiscal year 2023, the Credit/Loan department demonstrated remarkable achievements, contributing significantly to the bank's overall success. Throughout the year, 2,080 loans were closed, representing an impressive $460 million. One of the notable accomplishments of 2023 was the successful reduction of non-performing assets to total assets to just 0.49% (see Asset Quality graph on page 5). This represents the lowest level in at least two decades. The relentless collection efforts of the credit teams were pivotal in enhancing asset quality, showcasing the department's commitment to sound lending practices and enhanced risk management. For the first time, in January 2023 management presented its recommendation for the Allowance for Credit Losses provision to the Board of Directors, employing the Weighted Average Remaining Maturity (WARM) methodology. This approach is among the seven approved methods within the Current Expected Credit Loss (CECL) model established by the Financial Accounting Standards Board. Recognizing the importance of transparency and diligence in credit operations, the department organized four external reviews of borrower relationships, encompassing a substantial credit commitment totaling approximately $560 million. These reviews underscored our dedication to maintaining robust risk assessment procedures and ensuring the integrity of the lending portfolio. Furthermore, the Credit Department collaborated seamlessly with the broader Risk Management group, orchestrating compliance and FDICIA reviews. This collaborative approach reflects the department's commitment to regulatory compliance and fiduciary responsibilities, showcasing a proactive stance in addressing and mitigating potential risks.

Risk Management (Tom DeRobertis, Chief Risk Officer):

Managing and mitigating risk are at the core of who we are as a financial institution. We are dedicated to working with our audit partners, consultants, and regulators to maintain a safe and sound banking operation. Over the years, increased regulations related to Bank Secrecy Act and other regulatory compliance areas have guided the bank to muster additional resources and heighten our focus in these areas. We remain committed to fostering a culture of compliance and reaffirm our commitment to always pursue safe and sound banking practices.



Marketing (Katie Ashworth, Director of Marketing & Communications):

The Marketing Department at CNB Bank & Trust, N.A. achieved remarkable milestones over the past fiscal year, embodying a spirit of collaboration and teamwork. The ongoing upgrade of our website, set for launch in 2024, stands as a collective effort, showcasing our commitment to delivering an enhanced online banking experience. Our strategic marketing campaigns, spanning Zelle, digital banking, CD promotions, mortgage purchase promotions, wealth management advertisements, and Home Equity Line of Credit promotions, exemplify the synergy within our team, providing diverse and cutting-edge financial services. Beyond banking, our community impact initiatives and the retirements of long tenured and esteemed colleagues reflect the strength of our collaborative bonds. Achieving a 5-star rating by Bauer Financial and winning 1st place in Mortgage Lender, Bank, & Customer Service in the "Best of Edwardsville" underscore our collective excellence and the community's trust in our unified efforts. Actively participating in initiatives like the CBAI scholarship promotion and engaging in public relations efforts, including movie nights, community events, summer concerts, and extensive donations and volunteerism,


PITTSFIELD TEAM


EDWARDSVILLE | GLEN CARBON TEAM

CHAPIN TEAM

VIRDEN TEAM

highlight our team's commitment to community engagement. As we reflect on the year, the Marketing Department at CNB Bank & Trust, N.A. remains united in its dedication to innovation and community service; upholding the highest standards in the financial services industry; and we anticipate continued growth and success through our collaborative spirit.

Mortgage/Consumer Lending (Matt Cors, Senior Consumer Loan Operations Officer):

As a department committed to innovation and excellence in mortgage services, we continue to leverage technology and explore new avenues to enhance the customer experience and drive sustainable growth. In 2023, we achieved significant milestones, including the successful automation of the escrow disbursement process. This initiative resulted in a remarkable savings of over 60 hours of manual processing time annually, emphasizing our commitment to operational efficiency and accuracy in managing escrow for our customers. The implementation of Consumerbot as an automated front-end consumer loan application tool in 2023 reflects our dedication to providing a seamless and user-friendly experience for our customers. This technology-driven solution streamlines the loan application process, aligning with our mission to enhance accessibility and convenience in obtaining loans. To address the needs of rate-sensitive borrowers, we added a new mortgage offering through Bankers' Bank in 2023. This strategic move not only allows us to offer competitive rates but also diversifies our mortgage product portfolio, ensuring we meet the diverse needs of our customers. In the same year, we launched portfolio and investor mortgage promotions strategically aimed at capturing home purchase volume across our branch footprint. These promotions enhance our market presence and contribute to the growth of our mortgage business.

Wealth Management Group and Trust (Darlene Ward, Senior Vice President of Trust):

As of December 31, 2023, the Wealth Management Department successfully manages 750 accounts, totaling an impressive $430,965,485 in assets.

Embracing technological advancements, we have upgraded our Retirement Plan Services system to provide plan participants with more robust retirement planning tools. Additionally, we have integrated Moneytree into our practices, enabling us to craft comprehensive, goal-based financial plans for our clients. These initiatives underscore our commitment to innovation and client-centric financial planning. As we reflect on the achievements of the past year, we express gratitude to our clients for their trust, and to our dedicated team for their efforts. Looking ahead, we remain committed to delivering excellence in wealth management services.

Human Resources (Lori Schultz, Director of Human Resources):

In 2023, our HR department made significant strides in enhancing our workplace policies, ensuring compliance with the latest labor laws, and fostering a culture of continuous improvement. Through initiatives like the revised Employee Handbook and the innovative Employee Referral Program, we've not only strengthened our internal framework but also amplified our commitment to being the premier employer in the communities we serve. As we move forward, we remain dedicated to investing in the well-being and growth of our employees and actively contributing to the betterment of our neighbors.

Preparation and Review of Financial Statements (Diana Tone, Chief Financial Officer):

The Consolidated Balance Sheets on page 17 display growth in both total loans and total deposits one year removed from the impacts of COVID stimulus programs the bank experienced in 2020-22. During 2023 deposit balances fluctuated in a more normal pattern with total deposits ending up 4% from the prior year-end. Note 7 on page 42 demonstrates that our deposit customers moved balances from transaction and savings accounts to time deposits, taking

JACKSONVILLE TEAM

advantage of rising rates for longer terms. Meanwhile, in 2023 loan activity was strong, posting a 14% growth rate following 2022's 12.1% growth rate. The changing composition of the loan portfolio is shown in Note 4 on page 34. As loans grew faster than deposits, CNB's cash position declined accordingly, evident in the first two lines of the balance sheet, as well as the line item "Investments in available-for-sale debt securities." The result of all that movement was that total assets increased, posting a 4.6% growth rate.

The rather significant decline the Bank experienced in stockholders' equity in 2022 was muted somewhat in 2023, as movement of interest rates resulted in a partial recovery in "Accumulated other comprehensive income", which comprises the required accounting methodology of adjusting the investment portfolio's values as interest rates rise or fall (see Stockholders' Equity graph on page 14). It is worth noting, as the bonds in the portfolio age, they will mature at par, so their values are recouped in the process. And of course, should interest rates decline, the bond values would increase at a faster pace.

The Consolidated Statements of Income on page 18 show a 35.8% increase in total interest income, largely due to higher volume and rates earned on the loan portfolio; and although interest expense was up 309% due to rising rates, net interest income still managed a 2.3% increase. Provision for credit losses declined 79.9% from the previous period primarily as the result of a large recovery. After experiencing a rather significant decline in 2022, total noninterest income posted a modest 2.9% increase. Noninterest income continues to be negatively impacted by declines in mortgage banking revenues due to less activity at higher interest rates and declines in brokerage commissions as the stock market experiences volatility. Even with a 4.4% increase in noninterest expense, the ending net income was up 8.6% from the 2022 level.

TAYLORVILLE TEAM

The Consolidated Statements of Stockholders' Equity on page 20 displays the customary increase in retained earnings from net income, partially offset by the $3.4 million of cash dividends to stockholders. Notably the $5.5 million recovery in other comprehensive income described above represents the impact of stabilizing interest rates. Note 17 on page 50 indicates that all of CNB's capital ratios exceed regulatory minimums for capital adequacy purposes and to be considered "well-capitalized."

The Consolidated Statements of Cash Flows on page 21 shows the precipitous decline in mortgage loans originated for sale in the secondary market, the net increase in loans, and the increase in deposits (especially in contrast to 2022's deposit decline). Also noticeable is a decline in our investing activity, where purchases of available-for-sale debt securities were nonexistent during the year, allowing proceeds from calls, maturities and principal payments on available-for-sale securities to fill the funding gap.

This 2023 Annual Report underscores our unwavering commitment to enhancing the customer experience, maintaining robust asset quality, and actively contributing to the well-being of the communities we proudly serve. As a true community bank, we recognize that our success is intricately linked to the satisfaction of our customers, the resilience of our assets, and the prosperity of the neighborhoods we call home. Through innovation, diligence, and community engagement, we strive not only to meet but to exceed expectations. We look forward to another year of growth, collaboration, and positive impact as we continue to elevate customer experiences, uphold asset standards, and strengthen the bonds within our diverse and vibrant communities.

Andrew E. Tinberg
President & CEO
CNB Bank & Trust, N.A.

CARROLLTON TEAM


CLAYTON TEAM

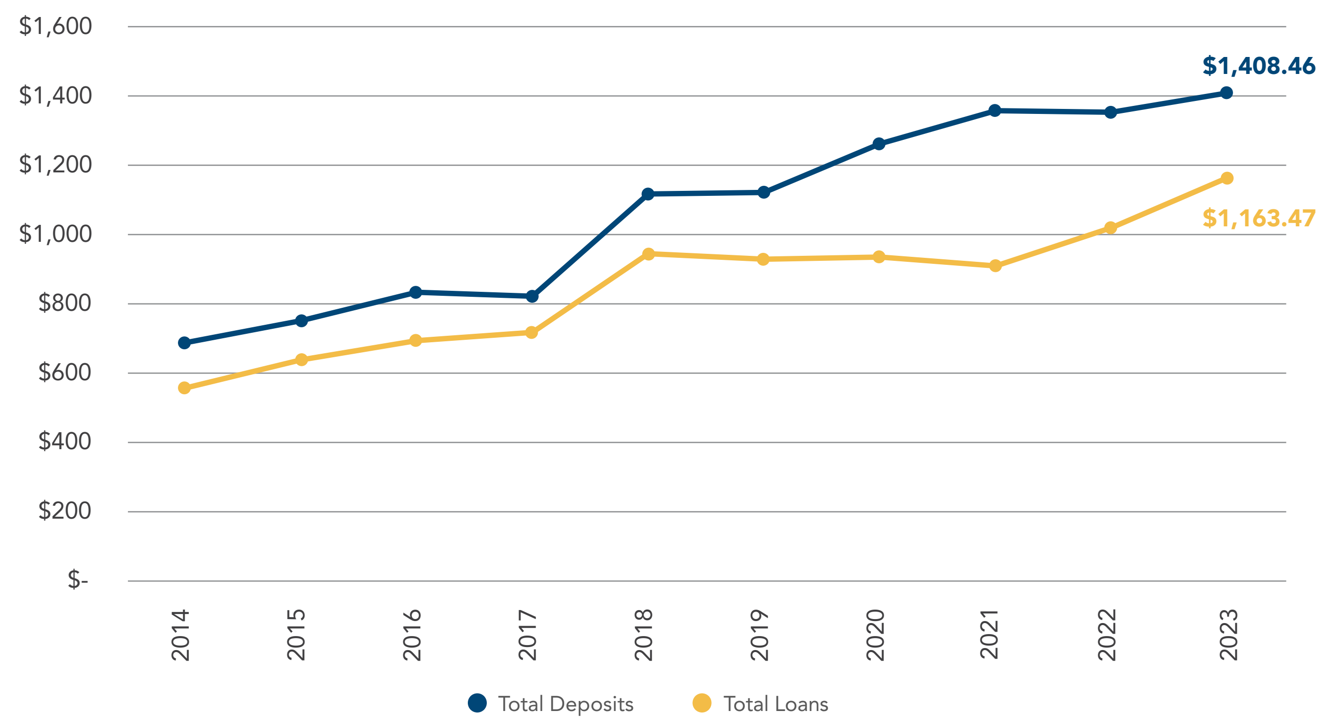

HILLSBORO TEAM


LITCHFIELD TEAM

OAK FOREST TEAM

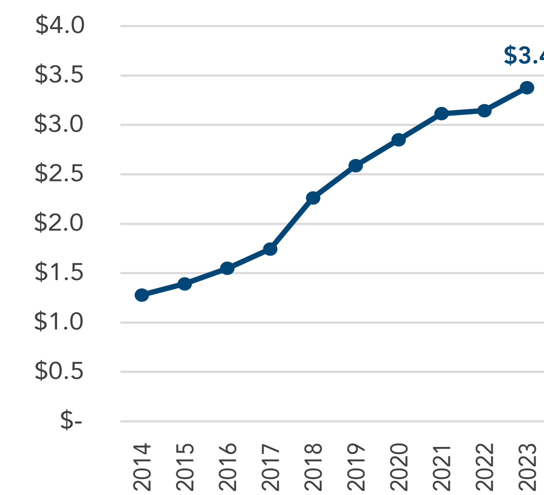
ALTON TEAM

DEPOSIT AND LOAN BALANCES *IN MILLIONS*

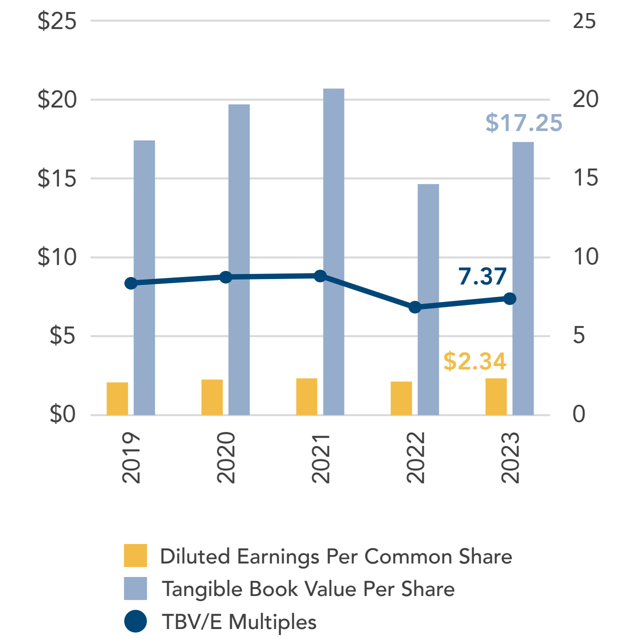


DIVIDENDS TO STOCKHOLDERS

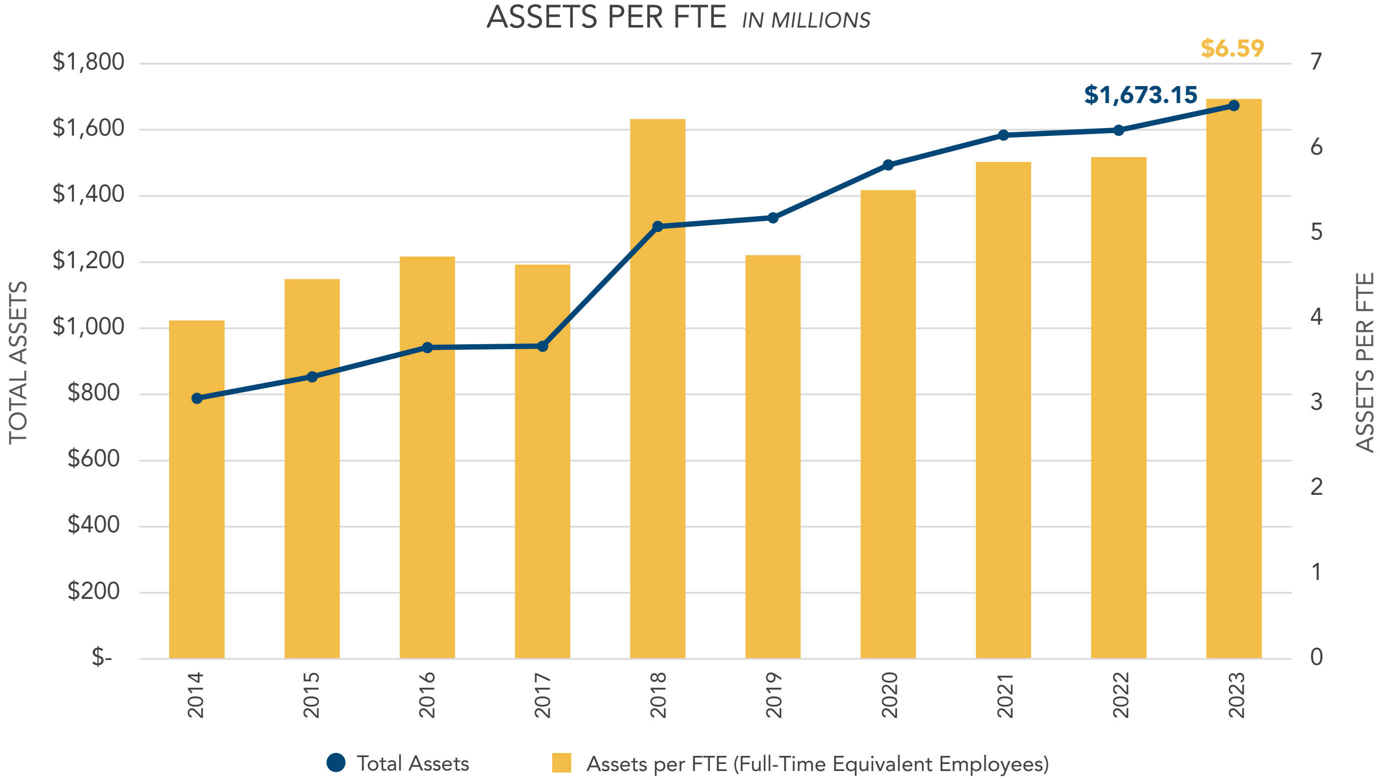
IN MILLIONS



TANGIBLE BOOK VALUE / EARNINGS

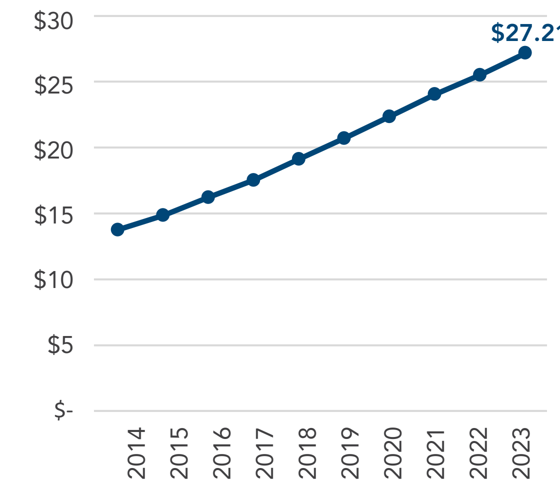


ASSETS PER FTE *IN MILLIONS*



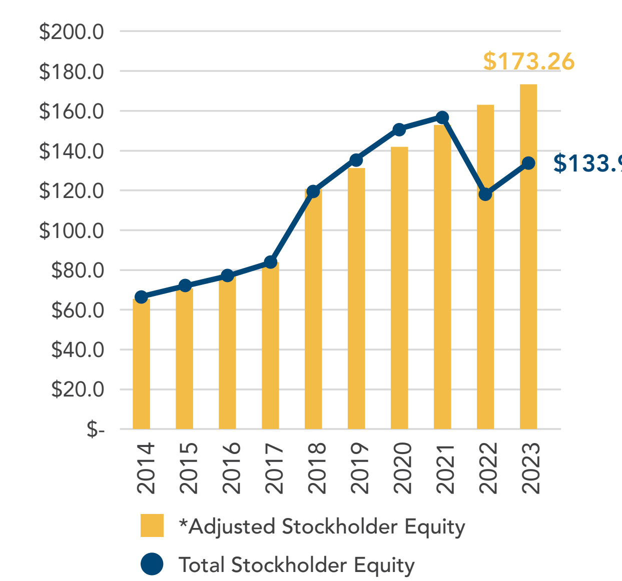
*ADJUSTED BOOK VALUE PER SHARE

IN DOLLARS



TOTAL STOCKHOLDERS' EQUITY

IN MILLIONS



* *Stockholders' equity adjusted by reversing accumulated other comprehensive income. Amounts were also adjusted to consistently reflect the impact of the 20 for 1 stock split in 2017.*

ANDERS
CPAs + ADVISORS

Independent Auditors' Report

Board of Directors and Stockholders
CNB Bank Shares, Inc.
Carlinville, Illinois

Opinion

We have audited the accompanying consolidated financial statements of CNB Bank Shares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Bank Shares, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also audited in accordance with auditing standards generally accepted in the United States of America, CNB Bank Shares, Inc.'s and Subsidiary's internal control over financial reporting as of December 31, 2023, based on criteria for effective internal control described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated Wednesday, February 28, 2024 expressed an unqualified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CNB Bank Shares, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CNB Bank Shares, Inc.'s and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Anders Minkler Huber & Helm LLP | 800 Market Street-Suite 500 | St. Louis, MO 63101-2501 | p (314) 655-5500 | f (314) 655-5501 | www.anderscpa.com

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CNB Bank Shares, Inc.'s and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Company's Annual Report

Management is responsible for the other information included in the CNB Bank Shares, Inc. Annual Report. The other information comprises the annual report sections titled President's Letter, Management Report, Board of Directors, and Officer List, but it does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Anders Minkler Huber & Helm LLP

February 28, 2024

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2023 and 2022

ASSETS		2023	2022
		(In thousands)	
Cash and due from banks (note 2)	$	**19,757**	25,951
Interest-earning demand deposits in other financial institutions		**2,098**	32,490
Cash and cash equivalents		**21,855**	58,441
Interest-earning time deposits in other financial institutions		**245**	–
Investments in available-for-sale debt securities (note 3)		**406,184**	438,060
Mortgage loans held for sale		**169**	310
Loans (notes 4 and 10)		**1,163,467**	1,018,705
Less:			
Deferred loan fees, net of related costs		**(1,780)**	(1,339)
Allowance for credit losses		**(13,591)**	(11,119)
Net loans		**1,148,096**	1,006,247
Bank premises and equipment, net (note 5)		**18,155**	17,935
Accrued interest receivable		**12,505**	10,180
Bank-owned life insurance policies (note 13)		**13,339**	13,118
Identifiable intangible assets, net of accumulated amortization of $2,573 and $2,105 at December 31, 2023 and 2022, respectively		**2,657**	3,615
Goodwill		**21,416**	21,416
Other assets (notes 6 and 8)		**28,527**	29,621
	$	**1,673,148**	1,598,943

LIABILITIES AND STOCKHOLDERS' EQUITY		2023	2022
Deposits (note 7):			
Noninterest-bearing	$	**280,418**	315,925
Interest-bearing		**1,128,042**	1,036,374
Total deposits		**1,408,460**	1,352,299
Short-term borrowings (note 9)		**47,875**	35,080
Accrued interest payable		**3,585**	1,098
Federal Home Loan Bank borrowings (note 10)		**58,927**	72,250
Notes payable (note 11)		**1,753**	3,098
Other liabilities (notes 6 and 13)		**18,638**	16,943
Total liabilities		**1,539,238**	1,480,768
Commitments and contingencies (notes 14 and 16)			
Stockholders' equity (notes 12, 15, and 17):			
Preferred stock and related surplus, $0.01 par value; 200,000 shares authorized, 9,745 shares issued and outstanding		**19,352**	19,352
Common stock, $0.05 par value; 20,000,000 shares authorized, 5,779,659 shares issued and 5,392,417 and 5,404,412 shares outstanding at December 31, 2023 and 2022, respectively		**289**	289
Surplus		**18,110**	18,411
Retained earnings		**143,475**	132,606
Treasury stock, at cost – 387,242 and 375,247 shares at December 31, 2023 and 2022, respectively		**(7,965)**	(7,655)
Accumulated other comprehensive loss		**(39,351)**	(44,828)
Total stockholders' equity		**133,910**	118,175
	$	**1,673,148**	1,598,943

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2023 and 2022

		2023	2022
		(In thousands)	
Interest income:			
Interest and fees on loans (note 4)	$	**62,762**	44,559
Interest on debt securities:			
Taxable		**5,975**	5,510
Exempt from federal income taxes		**4,460**	4,810
Interest on short-term investments		**1,860**	373
Total interest income		**75,057**	55,252
Interest expense:			
Interest on deposits (note 7)		**21,443**	5,084
Interest on short-term borrowings (note 9)		**1,295**	363
Interest on longer-term Federal Home Loan Bank borrowings (note 10)		**1,889**	439
Interest on notes payable (note 11)		**96**	146
Total interest expense		**24,723**	6,032
Net interest income		**50,334**	49,220
Provision for credit losses (note 4)		**642**	3,198
Net interest income after provision for possible loan losses		**49,692**	46,022
Noninterest income:			
Service charges on deposit accounts		**2,105**	2,018
Card-based revenue		**2,223**	2,231
Income from fiduciary activities		**2,709**	2,172
Mortgage banking revenues		**1,192**	1,788
Increase in cash surrender value of life insurance policies		**221**	210
Brokerage commissions		**1,664**	1,757
Gains (losses) on sales of available-for-sale securities (note 3)		**–**	(54)
Other noninterest income		**1,013**	693
Total noninterest income		**11,127**	10,815
Noninterest expense:			
Salaries and employee benefits (notes 12 and 13)		**24,602**	23,309
Occupancy and equipment expense (notes 5 and 6)		**6,121**	6,196
Legal and professional fees		**1,201**	1,292
Postage, printing, and supplies		**699**	756
Amortization of intangible assets		**1,050**	1,280
Advertising expense		**883**	907
FDIC insurance assessments		**1,059**	634
Other noninterest expense		**5,588**	4,926
Total noninterest expense		**41,203**	39,300
Income before applicable income taxes		**19,616**	17,537
Applicable income tax expense (note 8)		**4,574**	3,681
Net income	$	**15,042**	13,856

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years ended December 31, 2023 and 2022

		2023	2022
		(In thousands)	
Net income	$	**15,042**	13,856
Other comprehensive income (loss) before tax:			
Market value adjustment for cash flow hedge		**(69)**	160
Net unrealized gains (losses) on available-for-sale securities		**7,001**	(62,094)
Less: reclassification of realized losses included in net income		**–**	(54)
Other comprehensive income (loss) before tax		**6,932**	(61,880)
Income tax (benefit) related to items of other comprehensive income (loss)		**1,455**	(12,995)
Total other comprehensive income (loss), net of tax		**5,477**	(48,885)
Total comprehensive income (loss)	$	**20,519**	(35,029)

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2023 and 2022

(In thousands, except share data)		Preferred stock and related surplus	Common stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stock-holders' equity
Balance at December 31, 2021	$	19,352	289	18,897	122,065	(7,665)	4,057	156,995
Net income		–	–	–	13,856	–	–	13,856
Compensation expense recorded for stock options granted		–	–	23	–	–	–	23
Cash dividends paid – $0.52 per share		–	–	–	(3,315)	–	–	(3,315)
Purchase of 63,190 common shares for treasury		–	–	–	–	(1,765)	–	(1,765)
Stock options exercised – 89,690 common shares from treasury		–	–	(509)	–	1,775	–	1,266
Unrealized net holding losses on available-for-sale securities, net of related tax effect		–	–	–	–	–	(49,012)	(49,012)
Market value adjustment for cash flow hedge, net of related tax effect		–	–	–	–	–	127	127
Balance at December 31, 2022		19,352	289	18,411	132,606	(7,655)	(44,828)	118,175
Adoption of new accounting standard		**–**	**–**	**–**	**(796)**	**–**	**–**	**(796)**
Net income		**–**	**–**	**–**	**15,042**	**–**	**–**	**15,042**
Compensation expense recorded for stock options granted		**–**	–	**14**	–	–	–	**14**
Cash dividends paid – $0.53 per share		**–**	**–**	**–**	**(3,377)**	**–**	**–**	**(3,377)**
Purchase of 68,315 common shares for treasury		**–**	**–**	**–**	**–**	**(1,463)**	**–**	**(1,463)**
Stock options exercised – 56,320 common shares from treasury		**–**	**–**	**(315)**	**–**	**1,153**	**–**	**838**
Unrealized net holding gains on available-for-sale securities, net of related tax effect		**–**	**–**	**–**	**–**	**–**	**5,531**	**5,531**
Market value adjustment for cash flow hedge, net of related tax effect		**–**	**–**	**–**	**–**	**–**	**(54)**	**(54)**
Balance at December 31, 2023	**$**	**19,352**	**289**	**18,110**	**143,475**	**(7,965)**	**(39,351)**	**133,910**

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2023 and 2022

	2023	2022
	(In thousands)	
Cash flows from operating activities:		
Net income	$ **15,042**	13,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on available-for-sale debt securities	**3,988**	5,083
Depreciation and amortization on bank premises and equipment and intangible assets	**2,313**	2,824
Provision for credit losses	**642**	3,198
Net cash gains on sale of mortgage loans in secondary market	**(303)**	(637)
Capitalized mortgage servicing rights	**(92)**	(296)
Net gains on sales of other real estate owned	**–**	(32)
Net losses on sale of available-for-sale debt securities	**–**	54
Deferred income tax expense (benefit)	**(627)**	(230)
Stock option expense	**14**	23
Increase in accrued interest receivable	**(2,325)**	(1,395)
Increase in accrued interest payable	**2,487**	753
Mortgage loans originated for sale in secondary market	**(9,049)**	(29,605)
Proceeds from mortgage loans sold in secondary market	**9,493**	30,217
Increase in cash surrender value of life insurance policies, net of mortality costs	**(221)**	(210)
Other operating activities, net	**651**	(984)
Net cash provided by operating activities	**22,013**	22,619
Cash flows from investing activities:		
Proceeds from calls and maturities of and principal payments on available-for-sale debt securities	**34,889**	52,995
Purchases of available-for-sale debt securities	**–**	(59,733)
Purchases of time deposits in other financial institutions	**(245)**	–
Net (purchase) redemption of Federal Home Loan Bank stock	**353**	(1,940)
Net increase in loans	**(142,399)**	(113,751)
Purchases of bank premises and equipment	**(1,483)**	(668)
Proceeds from sale of available-for-sale debt securities	**–**	3,726
Proceeds from sale of other real estate owned	**–**	37
Net cash used in investing activities	**(108,885)**	(119,334)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**56,161**	(5,160)
Net increase in short-term borrowings	**12,795**	845
Principal payments on notes payable	**(1,345)**	(1,296)
Proceeds from Federal Home Loan Bank borrowings	**32,000**	82,000
Payments of Federal Home Loan Bank borrowings	**(45,323)**	(24,000)
Stock options exercised	**838**	1,266
Purchase of treasury stock	**(1,463)**	(1,765)
Dividends paid	**(3,377)**	(3,315)
Net cash provided by financing activities	**50,286**	48,575
Net decrease in cash and cash equivalents	**(36,586)**	(48,140)
Cash and cash equivalents at beginning of year	**58,441**	106,581
Cash and cash equivalents at end of year	$ **21,855**	58,441

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CNB Bank Shares, Inc. (the Company) provides a full range of banking services to individual and corporate customers throughout south-central Illinois, suburban southwestern Chicago, and the St. Louis metropolitan area, through its wholly owned subsidiary bank, CNB Bank & Trust, N.A. (the Bank). The Company and Bank are subject to competition from other financial and nonfinancial institutions providing financial products throughout the Company's market areas. Additionally, the Company and Bank are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

The accounting and reporting policies of the Company and Bank conform to generally accepted accounting principles within the financial services industry. In compiling the consolidated financial statements, management is required 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. Estimates that are particularly susceptible to change in a short period of time include the determination of the allowance for credit losses; valuation of other real estate owned and stock options; and determination of possible impairment of intangible assets. Actual results could differ from those estimates.

Following is a description of the more significant of the Company's accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The Company and Bank utilize the accrual basis of accounting, which includes in the total of net income all revenues earned and expenses incurred, regardless of when actual cash payments are received or paid. The Company is also required to report comprehensive income, of which net income is a component. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period, except those resulting from investments by, and distributions to, owners, and cumulative effects of any changes in accounting principles. The components of accumulated other comprehensive loss are as follows at December 31, 2023 and 2022 (in thousands):

	2023	2022
Net unrealized losses on available-for-sale securities	$ **(49,851)**	(56,853)
Market value adjustment for cash flow hedge	**39**	108
Deferred tax effect	**10,461**	11,917
	$ **(39,351)**	(44,828)

Cash Flow Information

For purposes of the consolidated statements of cash flows, cash equivalents include cash and due from banks and interest-earning deposits in other financial institutions (all of which are payable upon demand). Certain balances maintained in other financial institutions generally exceed the level of deposits insured by the Federal Deposit Insurance Corporation (FDIC). Following is certain supplemental information relating to the Company's consolidated statements of cash flows for the years ended December 31, 2023 and 2022 (in thousands):

		2023	2022
Cash paid for:			
Interest	$	**22,236**	5,279
Income taxes		**3,627**	4,480
Noncash transactions:			
Transfers to other real estate owned in settlement of loans		**10**	–
New lease standard right-of-use asset		**–**	(970)
New lease standard liability		**–**	970

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Recoveries will be recognized up to the aggregate amount of previously charged off balances. The allowance for credit losses is established through provision for credit loss expense charged to income.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable on loans totaled $9,865,000 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The methodology influences, and is influenced by, the Company's overall credit risk management processes. The allowance is managed in accordance with GAAP to provide an adequate allowance for credit losses that is reflective of management's best estimate of what is expected to be collected. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions such as changes in unemployment rates, property values, and other relevant factors. The calculation also contemplates that the Company may not be able to make or obtain such forecasts for the entire life of the financial assets and requires a reversion to historical credit loss information. Ongoing impacts of CECL will be dependent upon changes in economic conditions and forecasts, loan portfolio composition, credit performance trends, portfolio duration, and other factors.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance for credit losses on off-balance sheet credit exposures equaled $509,000 at December 31, 2023 and was reported in other liabilities on the consolidated balance sheet.

Allowance for Credit Losses on Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for sale securities totaled $2,640,000 at December 31, 2023 and is excluded from the estimate of credit losses.

Investments in Debt Securities

The Company classifies its debt securities into one of three categories at the time of purchase: trading, available-for-sale, or held-to-maturity. Trading securities would be bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All other debt securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities (for which no securities were so designated at December 31, 2023 and 2022) would be recorded at amortized cost, adjusted for the amortization of premiums or accretion of discounts. Holding gains and losses on trading securities (for which no securities were so designated at December 31, 2023 and 2022) would be included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and reported as a component of other comprehensive income in stockholders' equity until realized. Transfers of securities between categories would be recorded at fair value at the date of transfer. Unrealized holding gains and losses would be recognized in earnings for any transfers into the trading category.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by the issuers of the securities. Amortization of premiums and accretion of discounts for mortgage-backed securities are recognized as interest income using the interest method, which considers the timing and amount of prepayments of the underlying mortgages in estimating future cash flows for individual mortgage-backed securities. For other debt securities, premiums and discounts are amortized or accreted over the lives of the respective securities, with consideration of historical and estimated prepayment rates, as an adjustment to yield using the interest method. Interest income is recognized when earned. Realized gains and losses from the sale of any securities classified as available-for-sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Loans
Interest on loans is credited to income based on the principal amount outstanding. Loans are considered delinquent whenever interest and/or principal payments have not been received when due. The recognition of interest income is generally discontinued when a loan becomes 90 days delinquent or when, in management's judgment, the interest is not collectible in the normal course of business. Subsequent payments received on such loans are applied to principal if any doubt exists as to the collectibility of such principal; otherwise, such receipts are recorded as interest income. Loans are returned to accrual status when management believes full collectibility of principal and interest is expected. The Bank considers a loan impaired when all amounts due, both principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. When measuring impairment for such loans, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment is measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan; however, the Company measures impairment based on the fair value of the collateral, using observable market prices, if foreclosure is probable. Loan origination fees and certain direct loan origination costs are deferred and recognized as an adjustment to interest income over the lives of the related loans using the interest method.

Bank Premises and Equipment
Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment is computed over the expected lives of the assets or related lease term for leasehold improvements using the straight-line method. Estimated useful lives are generally 39 years for premises and 3 to 15 years for building and leasehold improvements, furniture, fixtures, and equipment. Expenditures for major renewals and improvements of bank premises and equipment are capitalized (including related interest costs), and those for maintenance and repairs are expensed as incurred.

Bank premises and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In such situations, recoverability of assets to be held and used would be measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If such assets were considered to be impaired, the impairment to be recognized would be measured by the amount by which the carrying amount of the assets exceeded the fair value of the assets, using observable market prices. Assets to be disposed are reported at the lower of the carrying amount or fair value, less estimated selling costs.

Leases
Leases are classified as operating or financing leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheet that are classified as short-term.

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurances, and other costs associated with the lease.

Other Real Estate Owned
Other real estate owned represents property acquired through foreclosure, or deeded to the Bank in lieu of foreclosure, for loans on which the borrowers have defaulted as to payment of principal and interest. Properties acquired are initially recorded at the lower of the Bank's carrying amount or fair value using observable market prices (less estimated selling costs), and carried in other assets in the consolidated balance sheets. Other real estate owned (all of which was residential real estate properties) at December 31, 2023 and 2022 totaled $10,000 and $0, respectively. Valuations are periodically performed by management, and an allowance for losses is established by means of a charge to noninterest expense if the carrying value of a property exceeds its fair value, less estimated selling costs. Subsequent increases in the fair value less estimated selling costs are recorded through a reversal of the allowance, but not below zero. Costs related to development and improvements of property are capitalized, while costs relating to holding the property are expensed. The Bank had $0 and $151,000 of residential real estate loans in process of foreclosure at December 31, 2023 and 2022, respectively.

Intangible Assets and Goodwill
Identifiable intangible assets include the mortgage servicing rights described below under "Mortgage Banking Operations" and core deposit premiums relating to the Company's various bank acquisitions, which are being amortized into noninterest expense on straight-line and accelerated bases over periods ranging from 10 to 15 years. Amortization of the core deposit intangible assets existing at December 31, 2023 will be $468,000 in 2024, $468,000 in 2025, $468,000 in 2026, $468,000 in 2027, and $233,000 in 2028.

The excess of the Company's consideration given in each subsidiary acquisition transaction over the fair value of the net assets acquired is recorded as goodwill, an intangible asset on the consolidated balance sheets. Goodwill is the Company's only intangible asset with an indefinite useful life, and the Company is required to test the intangible asset for impairment on an annual basis. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. No impairment write-downs were required in 2023 or 2022.

Federal Home Loan Bank and Federal Reserve Bank Stock
Included in other assets are the Bank's investments in the common stock of the Federal Home Loan Bank of Chicago, which is administered by the Federal Housing Finance Board, and Federal Reserve Bank stock. As a member of the Federal Home Loan Bank system, the Bank is required to maintain a minimum investment in the capital stock of the Federal Home Loan Bank of Chicago. National banks are also required to maintain stock in the Federal Reserve Bank. The Federal Home Loan Bank and Federal

Reserve Bank stock is recorded at cost, which represents redemption value. At December 31, 2023 and 2022, the carrying amount of this investment was $3,873,000 and $4,226,000, respectively.

Securities Sold Under Repurchase Agreements

The Bank enters into sales of securities under agreements to repurchase at specified future dates. Such repurchase agreements are considered financing arrangements and, accordingly, the obligation to repurchase assets sold is reflected as a liability in the consolidated balance sheets. Repurchase agreements are collateralized by debt securities which are under the control of the Bank.

Income Taxes

The Company and Bank file consolidated federal and state income tax returns. Applicable income taxes are computed based on reported income and expenses, adjusted for permanent differences between reported and taxable income. Penalties and interest assessed by income taxing authorities are included in income tax expense in the year assessed, unless such amounts relate to an uncertain tax position. The Company had no uncertain tax positions at December 31, 2023 and 2022.

The Company uses the asset and liability method of accounting for income taxes, in which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period which includes the enactment date.

The Company's consolidated federal and state income tax returns are generally subject to examination by the Internal Revenue Service and State of Illinois for three years after they are filed.

Mortgage Banking Operations

The Bank's mortgage banking operations include the origination of long-term, fixed-rate residential mortgage loans for sale in the secondary market. Upon receipt of an application for a residential real estate loan, the Bank generally locks in an interest rate with the applicable investor and, at the same time, locks in an interest rate with the customer. This practice minimizes the exposure to risk resulting from interest rate fluctuations. Upon disbursement of the loan proceeds to the customer, the loan is delivered to the applicable investor. Sales proceeds are generally received shortly thereafter. Therefore, no loans held for sale are included in the Bank's loan portfolio at any point in time, except those loans for which the sale proceeds have not yet been received. Such loans are maintained at the lower of cost or fair value, based on the outstanding commitment from the applicable investors for such loans.

Loan origination fees are recognized upon the sale of the related loans and included in the consolidated statements of income as noninterest income from mortgage banking operations. Additionally, loan administration fees, representing income earned from servicing certain loans sold in the secondary market, are calculated on the outstanding principal balances of the loans serviced and recorded as noninterest income as earned.

For certain loans sold in the secondary market, the Bank retains the rights to service such loans. Accordingly, the Bank has recognized as separate assets the rights to service mortgage loans for others at the origination date of the loan. These capitalized mortgage servicing rights are included as identifiable intangible assets in the consolidated financial statements and are reviewed on a quarterly basis for impairment, based on the estimated fair value of those rights. The value of mortgage servicing rights is determined based on the present value of estimated future cash flows, using assumptions as to a current

market discount rate, prepayment speeds, and servicing costs per loan. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income.

At December 31, 2023 and 2022, the Bank serviced loans totaling $297,990,000 and $321,948,000, respectively, and the net unamortized balances of mortgage servicing rights were $552,000 and $1,043,000, respectively. Amortization of mortgage servicing rights totaled $582,000 in 2023 and $812,000 in 2022. Amortization of the mortgage servicing rights existing at December 31, 2023 will be $346,000 in 2024, $149,000 in 2025, $45,000 in 2026, $11,000 in 2027, and $1,000 in 2028. No valuation reserve was required on the mortgage servicing rights at December 31, 2023 and 2022, as Company management believes that the 0.19% and 0.32% of total serviced loans represented by the mortgage servicing rights at December 31, 2023 and 2022, respectively, are less than the amount for which such servicing rights could be sold.

Financial Instruments

For purposes of information included in note 16 regarding disclosures about financial instruments, financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract that both (a) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (b) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity.

Stock Options

Compensation costs relating to share-based payment transactions are recognized in the Company's consolidated financial statements over the period of service to which such compensation relates (generally the vesting period), and are measured based on the fair value of the equity or liability instruments issued. The grant date values of employee share options are estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost would be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Derivative Instruments and Hedging Activities

The Company uses derivative instruments to assist in the management of interest rate sensitivity and to modify the repricing, maturity, and option characteristics of certain assets and liabilities. The only derivative instruments used by the Company are interest rate swaps. Derivative instruments are required to be measured at fair value and recognized as either assets or liabilities in the consolidated financial statements. Fair value represents the payment the Company would receive or pay if the item were sold or bought in a current transaction. Fair values are generally based on market quotes. The accounting for changes in fair value (gains or losses) of a hedged item is dependent on whether the related derivative is designated and qualifies for "hedge accounting." The Company assigns derivatives to one of three categories at the purchase date: fair value hedge, cash flow hedge, or nondesignated derivatives, and makes an assessment of the expected and ongoing hedge effectiveness of any derivative designated as a fair value hedge or cash flow hedge. Derivatives are included in other assets and other liabilities in the consolidated balance sheets.

The following is a summary of the Company's accounting policies for derivative financial instruments and hedging activities:

Fair Value Hedges

For derivatives designated as fair value hedges, the fair value of the derivative instrument and related hedged item would be recognized through the related interest income or expense, as applicable, except for the ineffective portion, which would be recorded in noninterest income or expense. All changes in fair value would be measured on a monthly basis. The swap agreement would be accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability. The Company had no fair value hedge instruments at December 31, 2023 or 2022.

Cash Flow Hedges
Derivatives designated as cash flow hedges are accounted for at fair value. The effective portion of the change in fair value is recorded as a component of other comprehensive income in stockholders' equity. Amounts recorded in other comprehensive income are subsequently reclassified into interest income or expense when the underlying transaction affects earnings. The ineffective portion of the change in fair value is recorded in noninterest income or expense. The swap agreements are accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability. The Company classified all of its interest rate swaps at December 31, 2023 and 2022 as cash flow hedges.

Nondesignated Derivatives
Certain economic hedges are not designated as cash flow or fair value hedges for accounting purposes. These nondesignated derivatives do not meet the criteria for hedge accounting treatment. Changes in the fair value of these instruments would be recorded in interest income or expense at the end of each reporting period. The Company had no nondesignated derivatives at December 31, 2023 or 2022.

Fair Value Measurements
The Company uses fair value measurements to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods, including market, income, and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. Financial assets and liabilities carried or reported at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or value assigned to such assets or liabilities.

While certain assets and liabilities may be recorded at the lower of cost or fair value as described above on a nonrecurring basis (e.g., impaired loans, loans held for sale, other real estate owned), the only assets or liabilities recorded at fair value on a recurring basis are the Company's investments in available-for-sale

debt securities and derivative instruments. No other assets and liabilities are recorded at fair value on a recurring or nonrecurring basis. The derivative instruments are valued using Level 1 valuation inputs. The Company's available-for-sale debt securities are measured at fair value using Level 2 valuation inputs. For the securities valued using Level 2 inputs, the market valuation utilizes several sources which include observable inputs rather than "significant unobservable inputs" and, therefore, fall into the Level 2 category, and are based on dealer quotes, market spreads, the U.S. Treasury yield curve, trade execution data, market consensus, prepayment speeds, credit information, and the bonds' terms and conditions at the security level.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value**
Assets:				
Investments in available-for-sale debt securities:				
Obligations of U.S. government agencies and corporations	**$ –**	**14,215**	**–**	**14,215**
Obligations of states and political subdivisions	**–**	**256,249**	**–**	**256,249**
Mortgage-backed securities	**–**	**135,720**	**–**	**135,720**
Total available-for-sale debt securities	**–**	**406,184**	**–**	**406,184**
Derivative financial instruments	**$ 39**	**–**	**–**	**39**

	December 31, 2022			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Assets:				
Investments in available-for-sale debt securities:				
Obligations of U.S. government agencies and corporations	$ –	21,847	–	21,847
Obligations of states and political subdivisions	–	260,956	–	260,956
Mortgage-backed securities	–	155,257	–	155,257
Total available-for-sale debt securities	–	438,060	–	438,060
Derivative financial instruments	$ 108	–	–	108

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $796,000 as of January 1, 2023, for the cumulative effect of adopting ASC 326. The transition adjustment included an increase to the allowance for credit losses on loans of $958,000 and an increase to the allowance for OBS credit exposures of $50,000. The Company did not record an allowance for credit losses on securities as it holds no held-to-maturity securities. The transition adjustment included corresponding increases in deferred tax assets.

The following table illustrates the impact of ASC 326 on January 1, 2023 (in thousands).

		As reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:				
Commercial real estate	$	4,788	4,422	366
Agricultural production		520	797	(277)
Commercial other		2,050	3,101	(1,051)
Real estate construction		1,175	495	680
Residential real estate		1,630	888	742
Farmland		1,579	1,080	499
Consumer		335	336	(1)
Allowance for credit losses on loans	$	12,077	11,119	958
Liabilities:				
Allowance for credit losses OBS credit exposures	$	408	358	50

Reclassifications

Certain reclassifications have been made to the 2022 consolidated financial statement amounts to conform to the 2023 presentation. Such reclassifications have no effect on the previously reported consolidated net income or stockholders' equity.

Subsequent Events

The Company has considered all events occurring subsequent to December 31, 2023 for possible disclosure through February 28, 2024, the date these consolidated financial statements were available to be issued.

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

NOTE 2 – CASH AND DUE FROM BANKS

The Bank is generally required to maintain certain daily reserve balances on hand in accordance with regulatory requirements. Effective March 26, 2020, the Federal Reserve Board reduced reserve requirements to zero percent.

NOTE 3 – INVESTMENTS IN DEBT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of debt securities classified as available-for-sale at December 31, 2023 and 2022 (in thousands) are as follows:

2023		**Amortized cost**	**Gross unreal-ized gains**	**Gross unreal-ized losses**	**Estimated fair value**
Obligations of U.S. government agencies and corporations	**$**	**15,276**	**–**	**(1,061)**	**14,215**
Obligations of states and political subdivisions		**284,243**	**390**	**(28,384)**	**256,249**
Mortgage-backed securities		**156,516**	**3**	**(20,799)**	**135,720**
	$	**456,035**	**393**	**(50,244)**	**406,184**

2022		Amortized cost	Gross unreal-ized gains	Gross unreal-ized losses	Estimated fair value
Obligations of U.S. government agencies and corporations	$	23,275	–	(1,428)	21,847
Obligations of states and political subdivisions		296,061	459	(35,564)	260,956
Mortgage-backed securities		175,576	4	(20,323)	155,257
	$	494,912	463	(57,315)	438,060

The amortized cost and estimated fair value of debt securities classified as available-for-sale (in thousands) at December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without prepayment penalties.

		Amortized cost	**Estimated fair value**
Due one year or less	**$**	**3,055**	**2,969**
Due one year through five years		**42,695**	**40,837**
Due five years through ten years		**94,318**	**86,890**
Due after ten years		**159,451**	**139,768**
Mortgage-backed securities		**156,516**	**135,720**
	$	**456,035**	**406,184**

Provided below is a summary of securities which were in an unrealized loss position (in thousands) at December 31, 2023 and 2022:

2023		**Less than 12 months**		**12 months or more**		**Total**	
		Estimated fair value	**Unrealized losses**	**Estimated fair value**	**Unrealized losses**	**Estimated fair value**	**Unrealized losses**
Obligations of U.S. government agencies and corporations	$	–	–	**14,215**	**1,061**	**14,215**	**1,061**
Obligations of states and political subdivisions		**4,877**	**30**	**216,066**	**28,354**	**220,943**	**28,384**
Mortgage-backed securities		**46**	**1**	**135,585**	**20,798**	**135,631**	**20,799**
	$	**4,923**	**31**	**365,866**	**50,213**	**370,789**	**50,244**

2022		Less than 12 months		12 months or more		Total	
		Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Obligations of U.S. government agencies and corporations	$	17,590	856	4,257	572	21,847	1,428
Obligations of states and political subdivisions		142,100	18,721	83,832	16,843	225,932	35,564
Mortgage-backed securities		64,973	4,574	90,099	15,749	155,072	20,323
	$	224,663	24,151	178,188	33,164	402,851	57,315

The obligations of U.S. government agencies and corporations and mortgage-backed securities with unrealized losses are primarily issued from and guaranteed by the Federal Home Loan Bank, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation. Obligations of states and political subdivisions in an unrealized loss position are primarily comprised of bonds with adequate credit ratings, underlying collateral, and/or cash flow projections. The unrealized losses associated with these securities are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost bases, which may be at maturity.

Gross gains of $8,125 and gross losses of $62,519 resulting from sales of available-for-sale securities were realized during 2022. The tax benefit applicable to this net realized loss amounted to $11,423.

The carrying value of debt securities pledged to secure public funds, securities sold under repurchase agreements, certain short- and long-term borrowings, and for other purposes amounted to approximately $264,335,000 and $216,108,000 at December 31, 2023 and 2022, respectively. The Bank has also pledged letters of credit from the Federal Home Loan Bank of Chicago totaling $71,276,000 and $26,000,000 as additional collateral to secure public funds at December 31, 2023 and 2022, respectively.

NOTE 4 – LOANS

The composition of the loan portfolio at December 31, 2023 and 2022 (in thousands) is as follows:

		2023	2022
Commercial:			
Real estate	$	**437,048**	381,560
Agricultural production		**100,116**	90,275
Other		**144,625**	135,930
Real estate:			
Construction		**115,427**	61,782
Residential		**139,148**	133,152
Farmland		**206,639**	195,903
Consumer		**20,464**	20,103
		1,163,467	1,018,705
Less deferred fees		**(1,780)**	(1,339)
	$	**1,161,687**	1,017,366

The Bank grants commercial, industrial, residential, agricultural, and consumer loans throughout south-central Illinois, suburban southwestern Chicago, and the St. Louis, Missouri metropolitan area. With the exception of agricultural credits, the Bank does not have any particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate in the Bank's market areas. The ability of the Bank's borrowers to honor their contractual obligations is dependent upon the local economies and their effect on the real estate market. Included in consumer loans are overdrafts of $180,000 and $336,000 at December 31, 2023 and 2022, respectively.

The following describe the risk characteristics relevant to each of the portfolio segments:

Commercial real estate loans are secured by various commercial property types (including office and industrial buildings, warehouses, small retail shopping centers, and various special purpose properties, including hotels, restaurants, and nursing homes), a majority of which are owner-occupied and in the Bank's market areas. The Bank originates commercial real estate loans with a typical term of three or five years with a fixed or adjustable rate feature generally tied to a designated public index. These loans are typically amortized over 15 or 25 years. Strict underwriting standards are in place that include, but are not limited to, independent appraisals, cash flow analyses, creditworthiness, experience, and management. For owner-occupied properties, the primary source of cash flow is from the ongoing operations and activities conducted by the party that owns the property. Nonowner-occupied properties are those loans where the primary source of repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property.

Agricultural loans, i.e., those loans which fund crop production, livestock production, and capital purchases, are structured to coincide with the purpose or seasonality. Collateral support, determined repayment ability, and creditworthiness are all considered in the loan approval process.

Commercial business loans vary in type and include secured and unsecured commercial business loans for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes, including issuing letters of credit. The Company's commercial business loan portfolio is comprised of loans for a variety of purposes and generally is secured by equipment, machinery, and other business assets. The terms of these loans are generally for less than seven years. The loans are either negotiated on a fixed-rate basis or carry variable interest rates that float in accordance with a designated public index. Commercial credit decisions are based upon a complete credit review of the borrower. A determination is made as to the borrower's ability to repay in accordance with the proposed loan terms, as well as an overall assessment of the credit risks involved. Personal guarantees of borrowers are generally required. In evaluating a commercial business loan, the Bank considers debt service capabilities, actual and projected cash flows, and the borrower's inherent industry risks.

Construction lending generally involves a greater degree of risk than the Bank's other real estate lending. The construction phase of a loan generally lasts 9 to 18 months. As with the Bank's other loan types, the underwriting standards require proper loan-to-value coverage and the borrower's ability to service the debt. Prior to approval of the construction loan, the Bank determines that the borrower has the approval, capacity, and wherewithal to handle the permanent financing.

Residential real estate loans are predominantly collateralized by properties located in the Bank's market areas. The Bank adheres to strict underwriting standards that have been reviewed by the Board of Directors and the banking regulators. The underwriting standards include, but are not limited to, repayment capacity, creditworthiness, proper loan-to-value coverage, and proper lien positions supported by title policies.

Multifamily real estate loans are generally secured by apartment buildings and rental properties. Multifamily real estate loans are typically offered with interest rates that are fixed or adjust with a designated public index. When originating multifamily real estate loans, the Bank evaluates the qualifications and financial condition of the borrower, profitability, and expertise, as well as the value and condition of the mortgaged property securing the loans. The Bank also considers the financial resources of the borrower, the borrower's experience in owning and managing similar properties, the cash flow the property generates (i.e., the gross rental income minus associated expenses), and the borrower's global obligations to determine sustainable repayment capacity. Multifamily real estate loans are carefully underwritten to determine proper valuation of the property, as well as the ability to service the debt.

Home equity lines of credit are designed for owner-occupied homes. These are typically junior liens, thus the Bank pays particular attention to the loan-to-value coverage and the debt service capacity of the borrower. Strict underwriting standards are followed to ensure safe and sound lending.

Farm real estate loans are not unique to the Bank's market areas. The underwriting criteria is much the same as for other loans; i.e., loan-to-value coverage, repayment ability, and creditworthiness are paramount. Farm real estate loans may be structured to coincide with the seasonal nature of agriculture. In determining the loan-to-value coverage, the Bank utilizes appraisers that are familiar with agricultural real estate values.

Consumer loans are underwritten in a manner that verifies the borrower's capacity to pay, creditworthiness, and proper valuation of the collateral. The structure of the loan is dependent on the purpose and collateral being pledged as security.

At December 31, 2023 and 2022, the Bank has loans outstanding to the agricultural sector of $306,755,000 and $286,178,000, respectively, which comprised 26.4% and 28.1%, respectively, of the Bank's total loan portfolio. The Bank's agricultural credits are concentrated in the south-central Illinois area and are generally fully secured with either growing crops, farmland, livestock, and/or machinery and equipment. Such loans are subject to the overall national effects of the agricultural economy, as well as the local effects relating to their south-central Illinois location. At December 31, 2023 and 2022, the Bank had loans secured by commercial real estate totaling $437,048,000 and $381,560,000, respectively, which comprised 37.6% and 37.5%, respectively, of the Bank's total loan portfolio. These loans are well secured by various commercial properties, including owner-occupied commercial real estate, multi-family housing, hotels, restaurants, and industrial buildings, concentrated in our urban markets of suburban Chicago and the metro St. Louis area.

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Notes to Consolidated Financial Statements

The aggregate amount of loans to executive officers and directors and loans made for the benefit of executive officers and directors was $5,778,000 and $2,325,000 at December 31, 2023 and 2022, respectively. Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility. A summary of activity for loans to executive officers and directors for the year ended December 31, 2023 (in thousands) is as follows:

Balance, December 31, 2022	$ 2,325
New loans made	5,834
Payments received	(2,381)
Balance, December 31, 2023	$ 5,778

Following is an analysis of the allowance for credit losses by loan type and those that have been specifically evaluated or evaluated in aggregate at December 31, 2023 and 2022 (in thousands):

2023	Commercial			Real estate				
	Real estate	Agricultural production	Other	Construction	Residential	Farmland	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 4,422	797	3,101	495	888	1,080	336	11,119
Impact of adopting ASC 326	366	(277)	(1,051)	680	742	499	(1)	958
Charge-offs	(222)	–	(194)	–	(34)	–	(31)	(481)
Recoveries	112	2	1,109	–	44	109	78	1,454
Provision	847	293	(1,248)	(156)	(269)	1,167	(93)	541
Ending balance	$ 5,525	815	1,717	1,019	1,371	2,855	289	13,591

2022	Commercial			Real estate				
	Real estate	Agricultural production	Other	Construction	Residential	Farmland	Consumer	Total
Allowance for credit losses:								
Beginning balance	$ 3,669	1,030	4,263	434	849	835	368	11,448
Charge-offs	(184)	(20)	(3,076)	–	(132)	(243)	(58)	(3,713)
Recoveries	44	2	41	–	59	–	40	186
Provision	893	(215)	1,873	61	112	488	(14)	3,198
Ending balance	$ 4,422	797	3,101	495	888	1,080	336	11,119
Reserve allocations:								
Individually evaluated for impairment	$ 548	–	147	–	–	–	3	698
Collectively evaluated for impairment	3,874	797	2,954	495	888	1,080	333	10,421
Ending balance	$ 4,422	797	3,101	495	888	1,080	336	11,119
Loans:								
Individually evaluated for impairment	$ 10,471	585	4,876	–	1,495	13,005	178	30,610
Collectively evaluated for impairment	371,089	89,690	131,054	61,782	131,657	182,898	19,925	988,095
Ending balance	$ 381,560	90,275	135,930	61,782	133,152	195,903	20,103	1,018,705

A summary of impaired loans by type for the year ended December 31, 2022 (in thousands) is as follows:

	2022						
	Unpaid principal balance	Recorded investment with no reserve	Recorded investment with reserve	Total recorded investment	Related reserve	Average recorded investment	Interest income recognized
Commercial:							
Real estate	$ 3,083	404	2,369	2,773	548	2,368	3
Agricultural production	108	84	–	84	–	99	–
Other	1,137	291	635	926	147	2,868	17
Real estate:							
Construction	–	–	–	–	–	–	–
Residential	357	304	–	304	–	605	11
Farmland	4,591	3,832	–	3,832	–	4,084	12
Consumer	57	27	3	30	3	49	–
	$ 9,333	4,942	3,007	7,949	698	10,073	43

Following is a summary of past-due loans by type and by number of days delinquent at December 31, 2023 and 2022 (in thousands):

	2023						
	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total loans	Recorded investment > 90 days past due and accruing
Commercial:							
Real estate	$ 1,364	–	751	2,115	433,308	435,423	—
Agricultural production	269	7	114	390	99,726	100,116	—
Other	234	200	71	505	143,965	144,470	—
Real estate:							
Construction	1,680	–	88	1,768	113,659	115,427	—
Residential	1,489	172	–	1,661	137,487	139,148	—
Farmland	227	–	540	767	205,872	206,639	—
Consumer	67	–	1	68	20,396	20,464	—
	$ 5,330	379	1,565	7,274	1,154,413	1,161,687	—

	2022						
	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total Loans	Recorded investment > 90 days past due and accruing
Commercial:							
Real estate	$ 637	–	2,461	3,098	378,462	381,560	—
Agricultural production	–	–	84	84	90,191	90,275	—
Other	182	199	589	970	134,960	135,930	—
Real estate:							
Construction	–	194	–	194	61,588	61,782	—
Residential	865	143	129	1,137	132,015	133,152	—
Farmland	–	–	540	540	195,363	195,903	—
Consumer	222	16	3	241	19,862	20,103	—
	$ 1,906	552	3,806	6,264	1,012,441	1,018,705	—

Following is a summary of loans on nonaccrual status by type at December 31, 2023 and 2022 (in thousands). No income was recognized on nonaccrual loans during the years ended December 31, 2023 and 2022.

	Nonaccrual with no Allowance for Credit Loss	**2023**	2022
Commercial:			
Real estate	**$ 4,225**	**5,736**	6,902
Agricultural production	**51**	**161**	206
Other	**230**	**615**	940
Real estate:			
Construction	—	**88**	—
Residential	**543**	**615**	802
Farmland	**302**	**843**	5,136
Consumer	**83**	**96**	127
	$ 5,434	**8,154**	14,113

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral support, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually on a continuous basis by classifying the loans as to credit risk. The Bank uses the following definitions for risk ratings:

- Watch – Loans classified as watch have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

- Substandard – Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing factors, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered pass-rated loans.

The following table presents the credit risk profile of the Bank's loan portfolio based on rating category as of December 31, 2023 and 2022 (in thousands):

2023		Term Loans by Origination Year 2023	2022	2021	Prior	Revolving	Total
Commercial real estate							
Pass	$	62,975	141,946	80,064	137,920	4,618	427,523
Watch		–	–	191	1,179	–	1,370
Substandard		–	289	–	6,241	–	6,530
	$	62,975	142,235	80,255	145,340	4,618	435,423
Agricultural production							
Pass	$	6,590	7,218	5,291	5,443	72,829	97,371
Watch		174	–	8	24	1,246	1,452
Substandard		–	1,125	26	95	47	1,293
	$	6,764	8,343	5,325	5,562	74,122	100,116
Commercial other							
Pass	$	28,840	28,720	11,876	19,927	52,301	141,664
Watch		145	347	1,018	527	100	2,137
Substandard		38	–	42	589	–	669
	$	29,023	29,067	12,936	21,043	52,401	144,470
Real estate construction							
Pass	$	74,014	14,975	12,980	12,931	439	115,339
Watch		–	–	–	–	–	–
Substandard		–	66	22	–	–	88
	$	74,014	15,041	13,002	12,931	439	115,427
Residential real estate							
Pass	$	34,228	35,053	13,268	40,115	15,055	137,719
Watch		–	–	–	185	–	185
Substandard		–	–	–	1,244	–	1,244
	$	34,228	35,053	13,268	41,544	15,055	139,148
Farmland							
Pass	$	30,794	31,686	25,651	106,914	2,038	197,083
Watch		–	–	1,848	4,297	725	6,870
Substandard		–	–	117	2,569	–	2,686
	$	30,794	31,686	27,616	113,780	2,763	206,639
Consumer							
Pass	$	9,201	5,174	2,046	3,215	646	20,282
Watch		–	–	–	–	–	–
Substandard		–	1	25	156	–	182
	$	9,201	5,175	2,071	3,371	646	20,464
Total							
Pass	$	246,642	264,772	151,176	326,465	147,926	1,136,981
Watch		319	347	3,065	6,212	2,071	12,014
Substandard		38	1,481	232	10,894	47	12,692
	$	246,999	266,600	154,473	343,571	150,044	1,161,687

2022		Commercial real estate	Agricultural production	Commercial other	Real estate construction	Residential real estate	Farmland	Consumer	Total
Pass	$	371,089	89,690	131,054	61,782	131,657	182,898	19,925	988,095
Watch		1,238	379	2,883	–	150	7,795	–	12,445
Substandard		9,233	206	1,993	–	1,345	5,210	178	18,165
	$	381,560	90,275	135,930	61,782	133,152	195,903	20,103	1,018,705

The Bank seeks to assist customers that are experiencing financial difficulty by renegotiating loans within lending regulations and guidelines. A loan modification is considered a troubled debt restructuring when a concession has been granted to a borrower experiencing financial difficulties. The Bank's modifications generally include interest rate adjustments, and amortization and maturity date extensions. These modifications allow the borrowers short-term cash relief to allow them to improve their financial condition. The Bank's troubled debt restructured loans are considered impaired and are individually evaluated for impairment as part of the allowance for credit losses as described above.

The following table presents the amortized cost basis (dollars in thousands) of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by segment and type of modification. The percentage of amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each segment of loans is also presented below.

2023		Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension/ Principal Forgiveness	Combination Term Extension/ Interest Rate Reduction	Percent of Loans
Commercial:								
Real estate	$	–	1,049	–	–	–	–	0.24%
Agricultural production		–	–	–	–	–	–	–
Other		–	–	314	–	–	150	0.32%
Real estate								
Construction		–	–	–	–	–	–	–
Residential		–	–	–	–	–	–	–
Farmland		–	–	–	–	–	–	–
Consumer		–	–	–	–	–	–	–
	$	–	1,049	314	–	–	150	0.13%

The following table presents information regarding loan modifications (dollars in thousands) during the year ended December 31, 2022 which met the definition of troubled debt restructured loans:

	Year ended December 31, 2022 Number of loans		Pre-modification outstanding recorded balance	Post-modification outstanding recorded balance
Commercial:				
Real estate	–		–	–
Agricultural production	–		–	–
Other	–		–	–
Real estate:				
Construction	–		–	–
Residential	2		29	29
Farmland	–		–	–
Consumer	–		–	–
	2	$	29	29

No restructured loans defaulted within 12 months of their restructuring in 2023 or 2022. The Bank had no commitments to extend additional credit on any loans classified as troubled debt restructured loans at December 31, 2023.

NOTE 5 – BANK PREMISES AND EQUIPMENT

A summary of Bank premises and equipment at December 31, 2023 and 2022 (in thousands) is as follows:

		2023	2022
Land	$	**3,112**	3,112
Buildings and improvements		**20,979**	20,471
Furniture, fixtures, and equipment		**13,336**	12,639
		37,427	36,222
Less accumulated depreciation and amortization		**19,272**	18,286
	$	**18,155**	17,935

Amounts charged to noninterest expense for depreciation and amortization aggregated $1,264,000 and $1,544,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 – LEASES

The Company enters into leases in the normal course of business primarily for premises and equipment. The Company's leases have remaining terms ranging up to three years, some of which include renewal options to extend the lease.

Right-of-use assets, included in other assets, totaled $300,000 and $638,000 and lease liabilities, included in other liabilities, totaled $305,000 and $644,000 at December 31, 2023 and 2022, respectively.

The components of lease expense were as follows for the periods ending December 31, 2023 and 2022 (in thousands):

		2023	2022
Operating lease expense	$	**345**	342
Short-term lease expense		**17**	18
Variable lease expense		**46**	46
	$	**408**	406

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023, (in thousands) are as follows:

Year ending December 31:		
2024	$	250
2025		57
2026		–
2027		–
Thereafter		–
Total undiscounted cash flows	$	307
Less: present value discount		(2)
Total lease liabilities	$	305

Supplemental lease information at December 31, 2023, (in thousands) are as follows:

		2023	2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$	345	335
Right of use assets obtained in exchange for new operating lease liabilities	$	–	970
Operating lease weighted average remaining lease term (years)		1	2
Operating lease weighted average discount rate		1.34%	1.31%

NOTE 7 – DEPOSITS

A summary of interest-bearing deposits at December 31, 2023 and 2022 (in thousands) is as follows:

		2023	2022
Interest-bearing transaction accounts	$	**358,839**	343,472
Savings		**290,260**	338,520
Time deposits		**478,943**	354,382
	$	**1,128,042**	1,036,374

Deposits of executive officers, directors, and their related interests at December 31, 2023 and 2022 totaled $3,842,000 and $3,699,000, respectively.

Interest expense on deposits for the years ended December 31, 2023 and 2022 (in thousands) is summarized as follows:

		2023	2022
Interest-bearing transaction accounts	$	**4,180**	1,656
Savings		**4,056**	1,437
Time deposits		**13,207**	1,991
	$	**21,443**	5,084

Time deposits meeting or exceeding the FDIC insurance limit of $250,000 totaled $160,553,000 and $85,692,000 at December 31, 2023 and 2022, respectively. Following are the maturities of time deposits for each of the next five years and in the aggregate at December 31, 2023:

Year ending December 31:		
2024	$	441,504
2025		30,358
2026		4,511
2027		1,519
2028		1,051
	$	478,943

NOTE 8 – INCOME TAXES

The components of income tax expense for the years ended December 31, 2023 and 2022 (in thousands) are as follows:

		2023	2021
Current:			
Federal	$	**3,476**	2,351
State		**1,725**	1,560
Deferred		**(627)**	(230)
	$	**4,574**	3,681

A reconciliation of expected income tax expense computed by applying the federal statutory rate of 21% to income before applicable income taxes for the years ended December 31, 2023 and 2022 (in thousands) is as follows:

		2023	2022
Expected statutory federal income tax	$	**4,119**	3,683
Tax-exempt interest and dividend income		**(839)**	(997)
State tax, net of related federal benefit		**1,363**	1,233
Stock options		**(51)**	(128)
Other, net		**(18)**	(110)
	$	**4,574**	3,681

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2023 and 2022 are presented below (in thousands):

		2023	2022
Deferred tax assets:			
Allowance for credit losses	$	**3,718**	3,025
Deferred compensation		**2,622**	2,539
Purchase adjustments		**196**	290
Available-for-sale securities – net loss		**10,469**	11,939
Other, net		**437**	497
Total deferred tax assets		**17,442**	18,290
Deferred tax liabilities:			
Bank premises and equipment		**(1,341)**	(1,286)
Intangible assets		**(1,129)**	(1,365)
Cash flow hedge		**(8)**	(23)
Other, net		**(318)**	(142)
Total deferred tax liabilities		**(2,796)**	(2,816)
Net deferred tax assets	$	**14,646**	15,474

The Company is required to provide a valuation reserve on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. The Company has not established a valuation reserve at December 31, 2023 and 2022, due to management's belief that all criteria for recognition have been met, including the existence of a history of taxes paid sufficient to support the realization of deferred tax assets.

NOTE 9 – SHORT-TERM BORROWINGS

Short-term borrowings consisted entirely of securities sold under repurchase agreements at December 31, 2023 and 2022, which are collateralized by debt securities consisting of $58,656,000 (which includes $43,909,000 of obligations of U.S. government agencies and corporations and mortgage-backed securities, and $14,747,000 of obligations of states and political subdivisions) at December 31, 2023 and $39,369,000 (which includes $34,569,000 of obligations of U.S. government agencies and corporations and mortgage-backed securities, and $4,800,000 of obligations of states and political subdivisions) at December 31, 2022. The Bank also occasionally borrows funds purchased on an overnight basis from unaffiliated financial institutions (including the Federal Home Loan Bank of Chicago) to meet short-term liquidity needs. The average balances, weighted average interest rates paid, and maximum month-end amounts outstanding for the years ended December 31, 2023 and 2022, and the average rates at each year-end for funds purchased and securities sold under repurchase agreements, are as follows (dollars in thousands):

		2023	2022
Average balance	$	**36,388**	30,041
Weighted average interest rate paid during the year		**3.56%**	1.21%
Maximum amount outstanding at any month-end	$	**49,073**	37,364
Average rate at end of year		**3.73%**	3.34%

NOTE 10 – FEDERAL HOME LOAN BANK BORROWINGS

At December 31, 2023, the Bank had fixed-rate advances outstanding with the Federal Home Loan Bank of Chicago, maturing as follows (dollars in thousands):

		Amount	Weighted average rate
Due in 2024	$	11,000	4.02%
Due in 2025		13,677	4.65%
Due in 2026		19,250	4.44%
Due in 2027		10,000	3.90%
Due in 2028		5,000	3.75%
	$	58,927	

At December 31, 2023, the Bank maintained a line of credit for $270,647,000 with the Federal Home Loan Bank of Chicago and had availability under this line of $140,093,000. Federal Home Loan Bank of Chicago advances are secured under a blanket agreement which assigns all Federal Home Loan Bank of Chicago stock, and one- to four-family mortgage, commercial real estate, multifamily real estate, and farmland loans totaling $434,350,000 at December 31, 2023.

NOTE 11 – NOTES PAYABLE

Following is a summary of the Company's notes payable at December 31, 2023 and 2022 (in thousands):

		2023	2022
Line of credit note payable	$	**–**	–
Term notes payable		**1,753**	3,098
	$	**1,753**	3,098

At December 31, 2023, the Company maintains two notes payable borrowing arrangements with an unaffiliated financial institution. The term note payable had an original balance of $6,700,000, with a balance of $1,753,000 and $3,098,000 at December 31, 2023 and 2022, respectively, maturing on May 31, 2025. Effective March 15, 2020, the term note payable was amended to require quarterly interest payments at a variable rate of 2.12% over LIBOR through June 15, 2020. The floating rate was amended on December 15, 2022, to 2.12% over the 3 month USD-SOFR CME Term. After June 15, 2020, the term note payable requires quarterly principal and interest payments of approximately $360,000. Future principal payments are $1,396,000 in 2024 and $357,000 in 2025. The revolving line of credit note payable has a maximum availability of $2,000,000, matures on March 28, 2024, and requires quarterly interest payments at a variable rate of interest. The line of credit note payable is fully available at December 31, 2023 for future advances.

The notes payable are secured by the common stock of the Bank with a book value of approximately $133,910,000 at December 31, 2023, and include certain restrictions that, among other things, specify minimum levels for earnings, capital, and the reserve for possible loan losses, and maximum levels for nonperforming loans. Any of the financial ratios or covenants may be waived at the discretion of the lending institution. As of December 31, 2023 and 2022, the Company was in compliance with all of the financial ratios and covenants specified in the notes payable agreements or has received a waiver from the lender. Company management does not believe the covenants will restrict its future operations. The weighted average interest rate paid on the notes payable in 2023 and 2022 was 3.73%.

NOTE 12 – CAPITAL STOCK

The Company has authorized 20,000,000 shares of common stock with a par value of $0.05 per share. At December 31, 2023, 5,779,659 shares were issued and outstanding (including 387,242 shares held in treasury). Holders of the Company's common stock are entitled to one vote per share on all matters submitted to a shareholder vote, except that 4,000,000 shares of the authorized common shares are designated as nonvoting shares, none of which were issued at December 31, 2023. Holders of the Company's common stock are entitled to receive dividends when, as, and if declared by the Company's Board of Directors. In the event of liquidation of the Company, the holders of the Company's common stock are entitled to share ratably in the remaining assets after payment of all liabilities and any preferred stock outstanding.

The Company has authorized 200,000 shares of preferred stock, 9,745 of which has been issued at December 31, 2023, as described below. Preferred stock may be issued by the Company's Board of Directors from time to time, in series, at which time the terms of such series (par value per share, dividend rates and dates, cumulative or noncumulative, liquidation preferences, etc.) shall be fixed by the Board of Directors.

Castle Creek Transaction

On June 4, 2018, Castle Creek Capital Partners VI, LP (Castle Creek) purchased 525,459 shares of common stock and 9,745 shares of nonvoting Series A preferred stock for $10,436,557 ($19.86 per common share) and $19,352,310, respectively, from the Company. The Series A preferred stock has a par value of $0.01 per share and each share of preferred stock is convertible into 100 shares of common stock or nonvoting common stock. The purchase agreement restricts Castle Creek from purchasing more than 33.3% of the Company's total equity, and Castle Creek's ownership of voting common stock shall not exceed 9.9% of the total issued and outstanding voting common stock. Additionally, the purchase agreement provides subscription rights to Castle Creek granting it the opportunity to acquire from the Company additional Company securities to maintain its proportionate interest in the Company in the event of any offer or sale of any equity in the Company.

The Company's shareholders have approved various stock option plans under which options to purchase up to 3,400,000 shares of Company common stock were authorized for grants to directors, officers, and

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Notes to Consolidated Financial Statements

employees of the Company and Bank. Options to purchase Company common stock are granted at the fair value of a share of common stock on the grant date and measured as a level 3 financial instrument. Options granted to the officers and directors of the Company and Bank vest 20% each year and expire in ten years. At December 31, 2023, 1,703,960 options to purchase common shares are available for future grants.

A summary of the activity of nonvested options for the years ended December 31, 2023 and 2022 is as follows:

	Number of shares	Weighted average grant date fair value
Nonvested at December 31, 2021	95,095	0.35
Granted	17,300	0.00
Vested	(35,225)	0.53
Forfeited	(13,020)	0.59
Nonvested at December 31, 2022	64,150	0.36
Granted	–	–
Vested	(17,378)	0.60
Forfeited	(7,950)	0.66
Nonvested at December 31, 2023	38,822	0.33

Following is a summary of stock option activity for the years ended December 31, 2023 and 2022:

	Weighted average option price per share	Number of shares	Remaining contractual term (years)	Aggregate intrinsic value per option share
Outstanding at December 31, 2021	$ 17.03	422,695		
Granted	29.63	17,300		
Exercised	14.12	(89,690)		
Forfeited	19.77	(20,420)		
Outstanding at December 31, 2022	18.31	329,885	4.33	$ 2.61
Exercisable at December 31, 2022	$ 16.28	265,735	3.54	$ 3.24
Outstanding at December 31, 2022	$ 18.31	329,885		
Granted	–	–		
Exercised	14.87	(56,320)		
Forfeited	24.49	(8,750)		
Outstanding at December 31, 2023	18.84	264,815	3.63	$ 3.55
Exercisable at December 31, 2023	$ 17.31	225,993	3.06	$ 4.16

The fair value of options vested during 2023 and 2022 was $10,000 and $19,000, respectively. At December 31, 2023, the total unrecognized compensation expense related to nonvested stock options was $9,000 and the related weighted average period over which it is expected to be recognized in approximately 1.0 year.

During 2023, no options were granted. During 2022, 17,300 shares were granted with a weighted average per share option price at the date of grant of $29.63. The fair value of such options, which is based on the market price on the date of grant, is amortized to expense over the five-year vesting period. The weighted average fair values of options granted in 2022 were estimated at $0 for an option to purchase one share of Company common stock; however, the Company's common stock is not actively traded on any exchange. Accordingly, the availability of fair value information for the Company's common stock is limited. Several assumptions have been made in arriving at the estimated fair value of the options granted in 2022. These assumptions include no volatility in the Company's stock price, 1.75% dividends paid on common stock in 2022, an expected weighted average option life of ten years, and a risk-free interest rate approximating the ten-year U.S. Treasury bond on the grant date. Any change in these assumptions could have a significant impact on the effects of determining compensation costs, as disclosed herein.

Cash received from options exercised for the years ended December 31, 2023 and 2022 totaled $334,000 and $582,000, respectively. The actual tax benefit realized for the tax deductions from options exercised totaled $51,000 and $128,000 for the years ended December 31, 2023 and 2022, respectively.

During 2023, no stock appreciation rights were granted. During 2022, the Company granted 73,440 stock appreciation rights to various officers and employees of the Company and Bank, with a grant date value $29.63. The stock appreciation rights provide the recipient the opportunity to share in the appreciation of the Company's common stock. Each stock appreciation right vests one-fifth on its annual anniversary date, at which time the recipient is entitled to the appreciation of the Company's common stock over the original grant date value of the Company's common stock. A liability for this appreciation is recorded on each vesting date and, once fully vested, for any further appreciation in the Company's common stock until the stock appreciation right is exercised. Total expense related to the stock appreciation rights liability was $35,000 and $(231,000) in 2023 and 2022, respectively. Each stock appreciation right must be exercised within ten years of the grant date. At December 31, 2023 and 2022, a liability of $31,000 and $0, respectively, is included in other liabilities in the consolidated balance sheet for the vested balance of these stock appreciation rights. Such rights that were exercised or forfeited totaled 2,740 and 10,425, respectively, in 2023 and 6,836 and 12,282, respectively, in 2022. Total stock appreciation rights outstanding at December 31, 2023 and 2022 totaled 169,367 and 182,532, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution 401(k) plan to provide retirement benefits to substantially all of its employees. All employees meeting certain age and service requirements are eligible to participate in the plan. Under the 401(k) plan, the Company may make discretionary matching contributions to the plan, up to the amount of employee contributions, subject to certain limitations. Total contributions made by the Company under this plan were $1,059,000 and $906,000 for the years ended December 31, 2023 and 2022, respectively.

The Company and Bank maintain incentive deferral plans for certain of their directors and officers, allowing such participants to defer their current compensation earned as directors and officers, with the Company or Bank agreeing to pay to such participants, or their designated beneficiaries or survivors, the total amount of deferred compensation plus accumulated interest at or following retirement. Under the plans, interest is added to the accumulated deferred compensation at a periodic compound rate equal to the Company's return on equity from the previous year. The directors are expected to continue to render their normal service as directors to the Company or Bank from the date of the plan's inception until retirement.

The incentive deferral plans stipulate that, upon disability, termination, or death prior to retirement, the affected director (or his/her designated beneficiaries or survivors) would be vested in the total deferred compensation accumulated to that date, plus compounded interest. Payments under the plan may be made in a lump sum or periodically over a specified time period, with interest.

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To fund the individual agreements with each director and officer covered under the incentive deferral plans, the Company and Bank have purchased flexible-premium universal life insurance policies on the lives of such directors and officers, payable upon death to the Company or Bank. Each life insurance policy has a cash surrender value feature that allows the Company or Bank to receive an amount in cash upon cancelation or lapse of the policy. The cash surrender value of the policies increases monthly, based upon an interest factor, net of mortality, administration, and early termination costs that are inherent in the contracts.

The Company and Bank recognize annual compensation expense equal to the sum of the compensation deferred under the incentive deferral plans by the affected directors, plus interest applied to the accumulated balance of the deferred compensation. The Company also administers deferred compensation plans assumed through acquisitions of other banks. The charge to expense for the deferred compensation plans reflects the accrual using the principal and interest method over the vesting period of the present value of benefits due each participant on the full eligibility date. An amount of $8,459,000 and $8,403,000 is included in other liabilities in the consolidated balance sheet at December 31, 2023 and 2022, respectively, representing the sum of all deferrals and interest additions accumulated to date.

NOTE 14 – LITIGATION

During the normal course of business, various legal claims have arisen which, in the opinion of management, will not result in any material liability to the Company.

NOTE 15 – PARENT COMPANY FINANCIAL INFORMATION

The Bank's dividends are the principal source of funds for the payment of dividends by the Company to its stockholders and for debt servicing. The Bank is subject to regulations by regulatory authorities that require the maintenance of minimum capital requirements, and is also limited to the earnings of the current year and two previous years for the payment of dividends, without obtaining the prior approval of the Office of the Comptroller of the Currency.

Following are condensed balance sheets as of December 31, 2023 and 2022 and the related condensed schedules of income and cash flows (in thousands) for the years then ended of the Company (parent company only):

Condensed Balance Sheets	**2023**	2022
Assets:		
Cash	**$ 506**	274
Investment in subsidiary bank	**131,171**	118,055
Life insurance policies	**746**	736
Income tax receivable	**1,610**	1,666
Market adjustment of cash flow hedge	**39**	108
Equity investments	**2,111**	796
Other assets	**145**	188
	$ 136,328	121,823
Liabilities:		
Other liabilities	**$ 665**	550
Notes payable	**1,753**	3,098
Total liabilities	**2,418**	3,648
Total stockholders' equity	**133,910**	118,175
Total liabilities and stockholders' equity	**$ 136,328**	121,823

Condensed Schedules of Income	2023	2022
Revenue:		
Cash dividends from subsidiary bank	$ 6,900	6,000
Other income	32	32
Total revenue	6,932	6,032
Expenses:		
Salaries and benefits	114	(157)
Interest expense	96	146
Legal and professional fees	80	47
Miscellaneous expenses	174	179
Total expenses	464	215
Income before income tax benefit and equity in undistributed net income of subsidiary bank	6,468	5,817
Income tax benefit	193	226
	6,661	6,043
Equity in undistributed net income of subsidiary bank	8,381	7,813
Net income	$ 15,042	13,856

Condensed Schedules of Cash Flows	2023	2022
Cash flows from operating activities:		
Net income	$ 15,042	13,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary bank	(8,381)	(7,813)
Increase in cash surrender value of life insurance policies	(10)	(9)
Stock option expense	14	23
Other, net	229	17
Cash provided by operating activities	6,894	6,074
Cash flows from investing activities:		
Purchase of equity investments	(1,315)	(739)
Cash used in investing activities	(1,315)	(739)
Cash flows from financing activities:		
Principal payments on notes payable	(1,345)	(1,296)
Dividends paid	(3,377)	(3,315)
Purchase of treasury stock	(1,463)	(1,765)
Stock options exercised	838	1,267
Cash used in financing activities	(5,347)	(5,109)
Net increase in cash	232	226
Cash at beginning of year	274	48
Cash at end of year	$ 506	274

NOTE 16 – DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

The Bank issues financial instruments with off-balance sheet risk in the normal course of the business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and may involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual

amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for financial instruments included on the consolidated balance sheets. Following is a summary of the Company's off-balance sheet financial instruments at December 31, 2023 and 2022 (in thousands):

	2023	2022
Financial instruments for which contractual amounts represent:		
Commitments to extend credit	$ 219,555	224,008
Standby letters of credit	4,596	4,180
	$ 224,151	228,188

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Of the total commitments to extend credit at December 31, 2023, $64,165,000 were made at fixed rates of interest. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally residential or income-producing commercial property or equipment on which the Bank generally has a superior lien.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and historically have not been drawn upon. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

On March 15, 2020, the Bank entered into an interest rate swap agreement with an unaffiliated financial institution to convert the variable interest rate on a loan to a fixed interest rate. The swap agreement provides for the Bank to pay a fixed rate of 3.73% and to receive a variable rate of interest based on a designated public index from the lender. The interest rate swap agreement expires March 15, 2025.

Information pertaining to the outstanding interest rate swap agreement at December 31, 2023 (in thousands) is as follows:

Notional amount	$ 1,753
Underlying loan balance	1,753
Fair value recorded in other assets	39

The notional amounts of derivative financial instruments do not represent amounts exchanged by parties and, therefore, are not a measure of the Bank's credit exposure through its use of these instruments. The credit exposure represents the accounting loss the Bank would incur in the event the counterparties failed completely to perform according to the terms of the derivative financial instruments and the collateral held to support the credit exposure was of no value.

NOTE 17 – REGULATORY MATTERS

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classifications 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

Banks and their bank holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Accordingly, a qualifying community banking organization that exceeds the 9% CBLR will be considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; and (iii) any other applicable capital or leverage requirements. A qualifying community banking organization that elects to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements. A banking organization meets the definition of a "qualifying community banking organization" if the organization has:

- A leverage ratio of greater than 9%;
- Total consolidated assets of less than $10 billion;
- Total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancellable commitments) of 25% or less of total consolidated assets; and
- Total trading assets plus trading liabilities of 5% or less of total consolidated assets.

Even though a banking organization meets the above-stated criteria, federal banking regulators have reserved the authority to disallow the use of the CBLR framework by a depository institution or depository institution holding company, based on the risk profile of the banking organization.

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, issued interim rules which modified the CBLR framework so that: (i) beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022, before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR will be 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also

maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

Company management believes, as of December 31, 2023, that the Company and Bank meet all capital adequacy requirements to which they are subject. As of December 31, 2023 and 2022, the most recent notification from applicable regulatory authorities categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as a well-capitalized bank, a bank that has not opted to use the CBLR option must maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since those notifications that Company management believes have changed the Bank's risk category.

The Bank's actual capital amounts (dollars in thousands) and ratios at December 31, 2023 and 2022 are presented in the following tables:

2023	Actual		For capital adequacy purposes		To be a well-capitalized bank under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands of dollars)			
Total capital (to risk-weighted assets):	$ 162,113	12.27%	$105,668	≥8.0%	$ 132,084	≥10.0%
Tier 1 capital (to risk-weighted assets):	$ 148,013	11.21%	$ 79,251	≥6.0%	$ 105,668	≥8.0%
Common Equity Tier 1 capital (to risk-weighted assets):	$ 148,013	11.21%	$ 59,438	≥4.5%	$ 85,855	≥6.5%
Tier 1 capital (to average assets):	$ 148,013	8.79%	$ 67,373	≥4.0%	$ 84,216	≥5.0%

2022	Actual		For capital adequacy purposes		To be a well-capitalized bank under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands of dollars)			
Total capital (to risk-weighted assets):	$ 151,570	12.55%	$ 96,630	≥8.0%	$ 120,788	≥10.0%
Tier 1 capital (to risk-weighted assets):	$ 140,092	11.60%	$ 72,473	≥6.0%	$ 96,630	≥8.0%
Common Equity Tier 1 capital (to risk-weighted assets):	$ 140,092	11.60%	$ 54,355	≥4.5%	$ 78,512	≥6.5%
Tier 1 capital (to average assets):	$ 140,092	8.90%	$ 62,957	≥4.0%	$ 78,697	≥5.0%

board of directors

CNB Bank Shares, Inc. and CNB Bank & Trust, N.A. Board of Directors *(front row from left):* Nancy Ruyle[1,2], Andrew E. Tinberg[1,2], Richard Walden (Chairman)[1,2], James Ashworth[1,2], Judith Baker[1,2], *(back row from left):* Shawn Davis[1,2], Spencer Cohn[1], Joe Heitz[2], Peter Genta[2], George Yard[2], Kyle Schumacher[2], Jim Salske[2], Rick Champley[2]

[1] CNB Bank Shares, Inc. board member | [2] CNB Bank & Trust, N.A. board member

officer list

CNB Bank Shares, Inc.

James Ashworth	President & Vice Chairman	Carlinville
Andrew Tinberg	Executive Vice President	Carlinville
Thomas DeRobertis Jr.	Vice President	Oak Forest
Diana Tone	Vice President & Chief Financial Officer	Jacksonville

CNB Bank & Trust, N.A.

Andrew Tinberg	President & Chief Executive Officer	Carlinville
Matthew Cors	Senior Vice President & Chief Experience Officer	Jacksonville

BRANCH MANAGEMENT & LOANS

David Hurley	Regional President	Carlinville
Anthony Heitzig	Regional President	Jerseyville
Daniel Walsh	Regional President	Oak Forest
Daniel Jung	Regional President	Clayton
Thomas Jelinek	Market President	Palos Heights
Allan Krokos	Market President	Tinley Park
Jodelle Nell	Market President	Jacksonville
Paul Millard	Market President	Glen Carbon
Evan Campbell	Senior Vice President & Commercial Lending Team Leader	Clayton
Shaan Smith	Vice President & Senior Commercial/Ag Loan Officer	Jacksonville
Craig Frankford	Vice President & Senior Commercial/Ag Loan Officer	Carlinville
Noelle Flesner	Vice President & Senior Commercial/Ag Loan Officer	Pittsfield
Daniel Henry	Vice President & Commercial/Ag Loan Officer II	Chapin
Gordon Rahe	Vice President & Commercial/Ag Loan Officer II	Carrollton
Michael Latempt	Vice President & Commercial/Ag Loan Officer	Carrollton
David Gabrielse	Vice President & Commercial/Ag Loan Officer	Oak Forest
Kelly Grossman	Vice President & Commercial/Ag Loan Officer	Oak Forest
Tim Fritzsche	Vice President & Commercial/Ag Loan Officer	Glen Carbon
Gavin Weir Jr.	Vice President & Commercial/Ag Loan Officer	Palos Heights
Shannon Scheffel	Vice President & Commercial/Ag Loan Officer	Glen Carbon
Lisa Stambaugh	Vice President & Retail Loan Officer	Jacksonville
Lynn Eyman	Assistant Vice President & Commercial/Ag Loan Officer II	Hillsboro
Brandon Gerard	Assistant Vice President & Commercial/Ag Loan Officer	Pittsfield
James Sanderson	Assistant Vice President & Commercial/Ag Loan Officer	Pittsfield
Kimberly Andras	Assistant Vice President & Commercial/Ag Loan Officer	Chapin
Matthew Slighton	Assistant Vice President & Commercial/Ag Loan Officer	Carlinville
William Vogt	Assistant Vice President & Commercial/Ag Loan Officer	Litchfield
Jack Tinberg	Assistant Vice President & Commercial/Ag Loan Officer	Oak Forest
Kelly Dulakis	Assistant Vice President & Retail Loan Officer & Receptionist Supervisor	Taylorville
Susan Montgomery	Assistant Vice President & Retail Loan Officer	Taylorville
Carl Goebel	Commercial/Ag Loan Officer	Taylorville
Brad Wylder	Commercial/Ag Loan Officer	Virden
Adelmo Marchiori IV	Commercial/Ag Loan Officer	Carlinville
Joseph Johnson	Assistant Commercial/Ag Loan Officer	Tinley Park
Regina Cox	Retail Loan Officer	Brighton
Amber Gardner	Retail Loan Officer	Jerseyville
Tammy Hughes	Retail Loan Officer	Carlinville
Tonya Scarborough	Retail Loan Officer	Alton
Charles Toland	Mortgage Originator	Oak Forest

MORTGAGE DEPARTMENT

Stacy Winder	Assistant Vice President - Asst. Sr. Residential Mortgage Loan Operations Officer	Jerseyville
Kendra Sobol	Assistant Mortgage Loan Processing Supervisor	Jerseyville
Dawn Kamp	Lead Mortgage Loan Closer	Jerseyville
Linda Watkins	Lead Mortgage Loan Servicing Assistant	Jacksonville
Megan Baker	Lead Mortgage Loan Underwriter	Jerseyville
Michael Drake	Loss Mitigation Specialist	Alton

officer list

RETAIL BANKING

Jo Ann Garland	Vice President & Regional Deposit Support Officer	Jerseyville
Alicia Vaulx	Vice President - Treasury Management & Business Development Officer	Tinley Park
Jeanie Glass	Assistant Vice President & Regional Universal Banker Manager	Jerseyville
Angela Levora	Assistant Vice President & Regional Universal Banker Manager	Carlinville
Barbara Bergamo	Assistant Vice President & Regional Deposit Support Officer	Palos Heights
Amy Roady	Assistant Vice President & Regional Universal Banker Supervisor	Alton
Debra Volante	Regional Universal Banker Manager	Tinley Park
Carol Wills	Universal Banker Supervisor & IRA Specialist	Carlinville
Stacey Butler	Universal Banker Supervisor	Alton
Kaylen Fikan	Universal Banker Supervisor	Taylorville
Kendra Lane	Universal Banker Supervisor	Hillsboro
Donald Miller	Universal Banker Supervisor	Litchfield
Tina Carter	Universal Banker Supervisor	Carrollton
Jamie Harrop	Universal Banker Supervisor	Brighton
Francesca Neff	Universal Banker Supervisor	Jacksonville
Michelle Opitz	Universal Banker Supervisor	Pittsfield
Paul Summers	Universal Banker Supervisor	Jerseyville
Heidi Werries	Universal Banker Supervisor	Jacksonville
Michelle Barnes	Universal Banker Supervisor	Oak Forest
Shelley Malik	Universal Banker Supervisor	Palos Heights
Melissa Caldwell	Lead Universal Banker	Hillsboro
Whitney Dworzynski	Lead Universal Banker	Carlinville
Derek Moss	Lead Universal Banker	Taylorville
Carla Royer	Lead Universal Banker	Virden
Pamela Voyles	Lead Universal Banker	Litchfield
Michelle Kallal	Lead Universal Banker	Carrollton
Rochelle Schaefer	Lead Universal Banker	Jacksonville
Maranda Schmieder	Lead Universal Banker	Jerseyville
Suzanne Thing	Lead Universal Banker	Jacksonville
Jordan Walters	Lead Universal Banker	Chapin
Audrey Michiaels	Lead Universal Banker	Alton
Sandra Price	Lead Universal Banker	Clayton
Katherine Wehling	Lead Universal Banker	Glen Carbon
Christine Berardi	Lead Universal Banker	Tinley Park

TRUST DEPARTMENT & WEALTH MANAGEMENT GROUP

Darlene Dwyer	Senior Vice President of Trust	Alton
Darren Wright	Senior Vice President - Director of Fiduciary Investments	Glen Carbon
Norma Bellcoff	Vice President - Trust Officer III	Glen Carbon
Amy Warren	Vice President - Trust Officer I	Glen Carbon
Mary Ferguson	Vice President - Trust Portfolio Manager II	Jacksonville
Christina Kaus	Trust Administrator	Alton
Pamela Ramsey	Trust Administrator	Glen Carbon
Marian Toth	Trust Administrator	Carlinville
Wendi Bolin	Trust Operations Officer II	Glen Carbon
Kimberly Payne	Trust Compliance & Operations Coordinator	Alton
Olivia Pohlman	Trust Portfolio Manager & Tax Manager	Alton
Victor Henson	Trust Portfolio Manager	Jacksonville
Michael Oeser	Business Development Officer	Taylorville
Connor Walker	Farm Manager	Carlinville

FINANCIAL RESOURCES GROUP

Robert Beard	Vice President & Financial Adviser	Jacksonville
James Martin	Vice President & Financial Adviser	Jacksonville

officer list

CREDIT ADMINISTRATION

Christopher Williams	Senior Vice President & Chief Credit Officer	Carlinville
Jodi Simons	Vice President of Loan Administration	Carlinville
Zachary Meyer	Vice President & Lead Loan Review Officer	Carlinville
Lauren Blabas	Lead Lending Assistant	Oak Forest
Laura Saltzman	Lead Lending Assistant	Oak Forest
Virginia Wetmore	Lead Lending Assistant	Carrollton
James Duncan	Commercial Credit Officer	Carlinville
Baylee Hughes	Commercial Credit Officer	Carlinville
Tara Meado	Loan Documentation Assistant & Processing Supervisor	Jerseyville
Sandra Lowry	Loan Administration Supervisor II	Clayton
Jill Plato	Loan Administration Supervisor II	Jerseyville
Roberta Wyatt	Loan Administration Supervisor II	Oak Forest

OPERATIONS

Maureen Oswald	Executive Vice President & Chief Operations Officer	Carlinville
Kent Brueggemann Jr.	Vice President & Director of Commercial Services & E-Banking	Clayton
Deborah McDowell	Vice President & Senior Operations Officer	Carlinville
Matthew Turley	Vice President & Chief Information Officer	Carlinville
Mark Totsch	Technology Officer II	Carlinville
Steven McKenzie	Technology Officer	Jerseyville
Timothy Bradshaw	Technology Officer & Security Officer	Pittsfield
Kila Harris	Computer Operations Supervisor	Carlinville
Tiffany Peyton	Assistant Operations Officer	Carlinville
Denise Sanders	Assistant Operations Officer	Jerseyville
Aaron Shipley	Project Coordinator	Carlinville
Cody Zellers	Project Coordinator	Jacksonville
Thomas Schofield	Document Management Specialist	Carlinville
Natalie Magnuson	E-Banking Coordinator	Jacksonville
Valerie Smith	Lead Computer Operator	Carlinville
Joyce Hall	Lead Operations Assistant	Jerseyville
Stephanie Rich	Loan Document Management Specialist	Jacksonville

CORPORATE SERVICES

Thomas DeRobertis Jr.	Executive Vice President & Chief Risk Officer	Oak Forest
Diana Tone	Executive Vice President & Chief Financial Officer	Jacksonville
Lori Schultz	Vice President & Director of Human Resources	Glen Carbon
Sallie Bowers	Vice President & Senior Accounting Officer	Pittsfield
Heather Jones	Assistant Vice President & Director of Training	Taylorville
Carol Fletcher	Director of AML Risk Management	Alton
Katie Ashworth	Director of Marketing & Communications	Carlinville
Kristine Schulte	Chief Compliance Officer	Jacksonville
Paulina Peters	BSA/AML Compliance Officer	Oak Forest
Kelly Wood	BSA/AML Operations Officer	Oak Forest
Kathy Sharrow	Senior BSA Specialist	Carrollton
Shari Skinkis	CRA Officer	Oak Forest
Aaron Wilson	HR Coordinator	Alton
Brooke Davis	Recruiter & HR Generalist	Carlinville
Shelley Tallant	Accounts Payable Supervisor	Jerseyville
Karen Viehweg	Senior Executive Assistant	Carlinville
Ryan Petroline	Senior Marketing Assistant	Alton
Bradlee Slusser	Digital Marketing Assistant	Alton
Debbie Cassata	Trainer	Oak Forest
Susan Snyder	Trainer	Carrollton
Dawna King	Senior Accounting Specialist	Jacksonville
Emily Melton	Accounting Specialist	Jacksonville
Valerie Ringhausen	CTR/High Risk Specialist	Jerseyville

PROUDLY SERVING 17 COMMUNITIES

ALTON | BRIGHTON | CARLINVILLE | CARROLLTON | CHAPIN
CLAYTON, MO | EDWARDSVILLE / GLEN CARBON | HILLSBORO
JACKSONVILLE | JERSEYVILLE | LITCHFIELD | OAK FOREST
PALOS HEIGHTS | PITTSFIELD | TAYLORVILLE | TINLEY PARK | VIRDEN

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