# FACE MASK REQUIRED | FACE MASK REQUIRED | FACE MASK REQUIRED | FACE MASK REQUIRED |



EQUIRED | FACE MASK REQUIRED | FACE MASK REQ

ED | FACE MAS

EQUI



# TABLE OF CONTENTS

Management Report	4
Independent Auditors Report	10
Consolidated Financial Statements	12 - 44
Board of Directors	46
Officer List	48

October 7

The SBA funds CNB's first PPP August 10 loan forgiveness request. CNB processed August 8 September 24 the first PPP loan October 30 CNB had received a CNB supports forgiveness Lobbies began to return cumulative 946 PPP local businesses application. to "restricted" status. loan applications with matching Customers were directed totaling \$79,156,934.69. funds. (Targeted to use the drive-up. Impact Fund) November 13 All lobbies were restricted. December 27 Consolidated Appropriations Act signed. This provided September 17 an additional \$284 The Targeted billion in PPP funding Impact Fund was under new terms. provided by FHLB October 26 of Chicago. Illinois State Public Health Officials August 8 announce COVID-19 Extended deadline for resurgence. PPP loan applications. December 3 July 4 One day count of new U.S. Deadline for PPP loan COVID cases surges to over applications was 200,000 for the first time. extended.



James T. Ashworth President & Vice Chairman, CNB Bank Shares, Inc.



Shawn Davis President & Chief Executive Officer, CNB Bank & Trust, N.A.

# MANAGEMENT REPORT

CNB's board and management began 2020 with optimism. It would be the first full year of operating the combined \$1.3 billion bank. expanded by the merger with Jacksonville Savings Bank in February of 2019. Interest rates had trended lower, which were squeezing net interest margins somewhat, but a full-employment national economy influenced our budgeting for healthy growth in both loans and deposits, and in net income.

The first confirmed case of the COVID-19 virus in the U.S. was reported

January 21, 2020. Just two days later, China placed a lockdown in an area around Wuhan that restricted travel for more than 18 million people. One week later, the World Health Organization declared a public health emergency for just the sixth time. Within three more days, the U.S. restricted travel from China, and declared a Public Health Emergency in this country; three weeks later, the Center for Disease Control reported that COVID-19 already met 2 of 3 factors to be classified as a pandemic.

The management team at CNB took the precautions seriously, and early-on began conference calls on Monday and Thursday mornings with staff from all of our regional branch networks and operational departments. Topics included: the security of our employees and customers; branch staffing concerns; deposit growth or decline; crisis related loan demand; rate and payment concessions; demand for residential mortgage financing; Trust/Wealth Management Group issues; cash demand at ATMs and drive-ups; and communication with regulators and customers. Eventually, lobby access was restricted beginning March 18, although drive-ups remained open, and customers could make appointments to meet with certain personnel. During this period, lobbies were retrofitted with sneeze guards, signage, and hand sanitizer. Following professional cleaning and sanitizing, lobbies began to reopen in early June.

Some of CNB's operational staff could work from home. We were "managing through" the crisis.

On March 27, the \$2 trillion CARES Act stimulus was signed into law, including \$250 billion for direct payments to individuals and families, and the \$349 billion Paycheck Protection Program (PPP) to be implemented by the U.S. Small Business Administration (SBA). Essentially, the PPP loans are for eligible businesses to cover payroll, mortgage interest, rent, and utility costs over a limited period of time; qualified PPP loans would be eligible for forgiveness from repayment. By April 16, initial funding had been exhausted and the SBA reported that nearly 5,000 lending organizations, primarily banks, had submitted more than 1,650,000 PPP loans totaling over \$342 billion. The vast majority of those loans were under \$150,000. At this time, CNB had processed 486 loan applications totaling \$63,477,385.69. On April 24, the President signed the Paycheck Protection Program and Health Care Enhancement Act to add \$320 billion of funding to the PPP. Upon the deadline of June 30, CNB's lenders and processors received SBA approval for 908 loans totaling \$78,724,980.69. The process of gathering necessary customer information for applications, processing approvals, and inputting to the SBA site dominated the workday for many in our loan department, well into evenings and weekends. Clearly the need was great, and demand was brisk. On July 4, the deadline to apply for a PPP loan in the first round was extended from June 30 to August 8. This extension produced 38 more CNB applicants resulting



Senior Executive Vice President & Chief Banking Officer Andrew E. Tinberg in Oak Forest helping to process the influx of PPP loan applications.

in a cumulative total of 946 submissions totaling \$79,156,934.69. On December 21, the Consolidated Appropriations Act, 2021 was signed which included an additional \$284 billion PPP funding. The SBA began approving loans in a second round of PPP in early January 2021.

Additionally, the loan department handled numerous requests for loan modifications from business owners impacted by the pandemic. The Residential Mortgage Department alone processed 70 applications for forbearance and payment deferrals. Both sides of CNB's balance sheet grew as PPP loans were booked, funds flowed gradually from accounts over time, and individuals deposited their stimulus checks. Customers curtailed spending on activities such as "evenings out" and vacations. Typical commercial loan demand decreased considerably. Liquid funds swelled.

As a member of the Federal Home Loan Bank of Chicago, CNB was able to receive a \$20,000 grant from the FHLBC for community assistance; the CNB board decided to match those funds, donating \$40,000 to the various food banks that serve the seventeen communities within our branch network. The FHLBC also provided rate concessions on a special advance program which helped CNB to fund community assistance. We are especially proud of the generosity of our board and employees who donated an additional \$27,000 near year-end to more than 150 local charities.

On the back cover of this Report you can see how CNB is organized geographically into three regions. This structure aids efficiency in managing our sales and service efforts, as well as daily operations. Banking is considered to be "essential service"; although lobby traffic has been restricted for safety of customers and employees alike, 24-hour banking is delivered through online banking, mobile banking, telephone banking, drive-ups, and ATMs. During the year, a cross-training project transitioned CNB's tellers and customer service representatives to Universal Bankers, which will improve the efficiency within our lobbies. Outside of the Bank, community-wide projects in Region 1 included; an allweather sport field at Carlinville High School; a new industrial park, and second phase of a hospital modernization project in Taylorville; continued development of downtown retail in Hillsboro, as well as expansion of employment at the nearby Deer Run coal mine, and remediation of the Eagle Zinc property; and progress in Litchfield in development of the I-55 Commerce Center and the Eagle Ridge Subdivision at Lake Lou Yeager. Naturally, the pandemic has affected the pace of such projects, including the \$500 million Mid-American International Gateway Business Park in Region 2. CNB is expanding its presence in that region

with the opening of a new branch in Edwardsville/Glen Carbon. And although the pandemic caused major contraction of directly affected businesses in urban and suburban Cook County (our **Region 3**), CNB's three branches there continued their growth, primarily in deposits and PPP loans.

CNB's **Residential Mortgage Department** was exceedingly busy throughout 2020, primarily due to the steady decline in interest rates providing the catalyst for refinance activity. As volume surged, the Department was processing six times its normal monthly application volume, all while courthouses were closing and many appraisers chose to avoid entering residences. In addition, department staff were helping many existing customers with repayment plan options that allowed them to cure delinquencies and avoid foreclosure. Likewise, the **Credit Services Department**, in addition to processing PPP volume, proactively worked with more than 600 loan clients with approximately \$144 million in loans to offer needed payment relief options.

CNB's **Trust/Wealth Management Group (WMG)** experienced significant growth in 2020. Bolstered by the addition of nine members to our team of professionals, WMG expanded not only our service reach into Alton, Edwardsville, and Glen Carbon markets, it also increased assets under management by 30% to nearly \$340 million. With a combined 436+ years of experience among our WMG staff, the department broadened its product array to include retirement plan solutions and institutional services, complimenting our community-based fiduciary, investment, and farm management expertise.

Operations and Information Technology staff stayed busy throughout the year, advancing numerous projects. Several upgrades provide more efficiency and ease of use to customers: account opening software; online loan applications; improved money transfer software; and e-signature software for remote document signing. Other upgrades improve security for certain transactions: customer control of debit card access; business online soft tokens; ATM upgrades including security alarms; and analytics software protecting integrity of online transactions. A few of the projects improve internal operations: better WiFi access at all branches; an upgrade to our phone banking module; and efforts to allow certain functions to be performed and managed remotely. Still under development are projects to: review the Bank's core software; upgrade our core Trust software; review the company-wide phone system; begin offering contactless debit cards; and facilitate communication with remote meeting capabilities.

CNB's Marketing, Customer Relationship Management, and Training personnel are also increasing use of online and digital methods to promote our account offerings and services. A website upgrade was well received, evidenced by an increase in activity from 7,800 users in January, to 20,900 in December. Facebook fans also grew at a 24% rate during the year. Part of the Bank's philosophy is that we can best differentiate CNB from our competition in this highly regulated industry by effective training of staff, and continually asking our customers how they feel we can improve.

There is nothing like a crisis to help a bank focus on **Risk Management**, which has some bearing on all activities, but is the primary job description for several of our officers and staff. Now qualifying for the FDIC Improvement Act requirements for banks over \$1 billion in assets, CNB receives outside audit certification on the adequacy of internal controls. Regular reviews also assure compliance with rules and regulations, including the ever-increasing risks regarding cybersecurity. As loan demand has retracted (other than for forgivable PPP loans), and deposits have increased dramatically, CNB's growing liquidity position has allowed us to increase the investment portfolio and take steps to improve asset quality.



Naturally, the Human Resource Department has been quite busy with the challenge to rapidly adapt to changes in and outside the office. Policies and procedures were modified to allow for greater flexibility, communication of health and wellness benefits, safety in the workplace, and management of remote operations, all while adopting CDC guidelines and CARES Act provisions.

CNB's financial reports comparing 2019 with 2020 begin on page 12 with our Consolidated Balance Sheets. Total deposits grew nearly \$140 million, driving a 12% increase in total assets. Were it not for PPP, loans would have declined; therefore, the growth in assets was deployed into the investment portfolio, which was increased by more than \$136 million. Note 4 on page 27 reveals that loan decline was in all categories except for "Other Commercial", which includes the PPP loans. Total agricultural loans (which includes ag production and farmland) went down 1.8%. Although real estate construction and residential loans declined 16%, there was a tremendous increase in residential loans sold into the secondary market, which is evident in our Statements of Cash Flows. Noninterest-bearing deposits were up nearly 38%. Note 6 on page 34 shows that depositors shifted from savings and time deposits into interest-bearing transaction accounts which increased 50%. As depositors choose to select more



CNB ANNUAL REPORT 2020

6

liquid account offerings in a low rate environment, it is important that the Bank increases its liquidity, as well. The most important statistic reflected on the balance sheets in the eyes of our stockholders is that retained earnings grew by more than 12% during 2020.

The Consolidated Statements of Income on page 13 reports net income of \$14.7 million, up 8.7% from the prior year. While net interest income increased 3.9%, strong provisions to the loan loss reserve dropped net interest after those provisions, to a 2.1% decline compared to the prior year. Total noninterest expense was up more than \$2 million, largely due to increased occupancy and legal and professional fees, from developing and staffing our new branch in Edwardsville/Glen Carbon. Yet, noninterest income growth of more than \$3.5 million eclipsed the increase in overhead to produce the improvement in net income. The most prominent line item under noninterest income was mortgage banking revenues, swelled by the huge refinance demand in a period of historically low interest rates.

The Consolidated Statements of Stockholders' Equity on page 15 displays the impact of net income and the typical transaction activity related to our officers' stock option program. Also, it shows that dividends per share to stockholders were up 9.8% from the prior year. Note 16 beginning on page 42 reveals that all regulatory measures of our capital ratios remain above minimums for both capital adequacy and to be considered well-capitalized.

In addition to the large increase in deposits and related purchases of securities for our investment portfolio reported on the Consolidated Statements of Cash Flow on page 16, the most significant change, as previously mentioned, was an increase of 242% in mortgage loans originated for sale in the secondary market. With long term interest rates beginning to rise, this activity is expected to slow down considerably.

Last year's Annual Report narrative concluded with comments concerning several uncertainties heading into 2020. With the benefit of hindsight, we now know the presidential year election results; the impact of trade policies; and slowing pace of bank consolidations. Still uncertain is the direction and timing of mortgage finance reform; and duration of the Federal Reserve's accommodative monetary policy. Not listed last year was the prospect of an historically debilitating global pandemic, or resurgence of social unrest, both of which have dominated our nation's attention and remediation efforts.

Naturally, we all desire 2021 to be a year of recovery: for the population's health, for the businesses most severely impacted by the pandemic, and for social well-being. The board, management, and staff of CNB is determined to stay well positioned to help our communities, through the safeguarding of resources and the intermediation of financing needs.

– CNB Management







TBV/E multiples for year-end 2019 and 2020 were 8.34 and 8.73 respectively.



Per Share

<b>TOTAL</b> <b>DEPOSITS</b> As of December 31 <b>2020</b> \$1,261,153,646	29.0% 20.3% 24.2% 26.5%
Non-Interest-bearing transaction accounts	\$255,957,068
Interest-bearing transaction accounts	\$304,824,165
Savings	\$334,773,464
Time deposits	\$365,598,949



CNB ANNUAL REPORT 2020









CNB ANNUAL REPORT 2020



# Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of CNB Bank Shares, Inc. and subsidiary which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditors' Responsibility

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

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

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

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

# Opinion

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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of CNB Bank Shares, Inc. as of December 31, 2019, were audited by Cummings, Ristau & Associates, P.C. whose report dated February 13, 2020, expressed an unmodified opinion on those statements. Cummings, Ristau & Associates, P.C. merged with Anders Minkler Huber & Helm LLP effective July 1, 2020.

# Report on Internal Control Over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the CNB Bank Shares, Inc. and subsidiary's internal control over financial reporting as of December 31, 2020, 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 March 4, 2021 expressed an unqualified opinion.

Anders Minkler Hecter & Helm LLP

March 4, 2021

#### **Consolidated Balance Sheets**

#### December 31, 2020 and 2019

ASSETS	<u>202</u>	<u>20</u> <u>2019</u>
Cash and due from banks (note 2) Interest-earning deposits in other financial institutions Investments in available-for-sale debt securities (note 3) Mortgage loans held for sale Loans (notes 4 and 9) Less:	\$ 23,241 93,622 371,728 2,939 934,210	2,19573,488,9133,644235,539,7292,7993,283,145
Deferred loan fees, net of related costs Unamortized discount on purchased loans Reserve for possible loan losses Net loans Bank premises and equipment, net (note 5) Accrued interest receivable Bank-owned life insurance policies (note 12)	(896 	5,008914,434,5890,42318,468,6080,1169,222,929
Identifiable intangible assets, net of accumulated amortization of \$1,169,504 and \$3,392,228 at December 31, 2020 and 2019, respectively Goodwill Other assets (note 7) <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	5,148 21,415 <u>12,013</u> \$ <u>1,493,620</u>	5,71221,415,7123,69612,414,283
Deposits (note 6): Noninterest-bearing Interest-bearing Total deposits Short-term borrowings (note 8) Accrued interest payable Federal Home Loan Bank borrowings (note 9) Notes payable (note 10) Other liabilities (note 12) Total liabilities	255,957 1,005,196 1,261,153 36,589 856 22,250 5,643 16,095 1,342,588	6,578 935,487,847   3,646 1,121,168,096   9,362 28,621,537   5,860 2,496,247   9,000 22,333,509   3,309 6,550,000   5,252 16,800,920
Commitments and contingencies (notes 13 and 15) Stockholders' equity (notes 11, 14, and 16): Preferred stock and related surplus, \$0.01 par value; 200,000 shares authorized, 9,745 shares issued and outstanding Common stock, \$0.05 par value; 20,000,000 shares authorized,	19,352	<b>2,310</b> 19,352,310
5,779,659 shares issued and 5,363,812 and 5,349,552 shares outstanding at December 31, 2020 and 2019, respectively Surplus Retained earnings Treasury stock, at cost – 415,847 and 430,107 shares at December 31, 2020 and 2019, respectively	19,223 109,936 (6,890	5,00598,075,8650,147)(6,014,200)
Accumulated other comprehensive income Total stockholders' equity	<u>9,121</u> <u>151,031</u> \$ <u>1,493,620</u>	<b>1,721</b> 135,997,136

#### Consolidated Statements of Income

# Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Interest income:		
Interest and fees on loans (note 4)	\$ 49,200,831	51,137,055
Interest on debt securities:		
Taxable	4,234,717	4,351,236
Exempt from federal income taxes	2,987,915	2,694,269
Interest on short-term investments	432,525	1,149,670
Total interest income	<u>56,855,988</u>	<u>59,332,230</u>
Interest expense:		10.001 554
Interest on deposits (note 6)	9,405,918	13,321,756
Interest on short-term borrowings (note 8)	150,749	338,860
Interest on longer-term Federal Home Loan Bank borrowings (note 9)	448,333	458,731
Interest on notes payable (note 10)	254,125	348,721
Total interest expense	<u>10,259,125</u>	<u>14,468,068</u>
Net interest income	46,596,863	44,864,162
Provision for possible loan losses (note 4)	4,740,139	2,091,095
Net interest income after provision		
for possible loan losses	41,856,724	42,773,067
Noninterest income:		1 000 000
Service charges on deposit accounts	1,667,195	1,982,008
Card-based revenue	1,951,809	1,352,252
Income from fiduciary activities	1,632,241	1,424,848
Mortgage banking revenues	4,896,648	1,833,128
Increase in cash surrender value of life insurance policies	230,509	216,868
Brokerage commissions	1,805,102	1,694,883
Other noninterest income (note 5)	<u>1,704,511</u>	1,825,922
Total noninterest income	<u>13,888,015</u>	10,329,909
Noninterest expense:	22 2 (0 202	01 (11 0 10
Salaries and employee benefits (notes 11 and 12)	22,368,283	21,611,043
Occupancy and equipment expense (note 5)	5,844,970	5,235,665
Legal and professional fees	1,493,294	871,546
Postage, printing, and supplies	818,410	890,624
Amortization of intangible assets	1,106,798	930,970
Other real estate owned expense	20,886	168,655
Advertising expense	649,797 (47,692	832,703
FDIC insurance assessments	647,693	424,073
Other noninterest expense	<u>4,181,856</u> 37,131,087	4,118,979
Total noninterest expense	<u>37,131,987</u> 18,612,752	<u>35,084,258</u> 18 018 718
Income before applicable income taxes	18,612,752	18,018,718
Applicable income tax expense (note 7) Net income	<u>3,902,588</u> \$ 14,710,164	4,483,361
inet income	\$ <u>14,710,164</u>	<u>13,535,357</u>

# Consolidated Statements of Comprehensive Income

# Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net income	\$ <u>14,710,164</u>	<u>13,535,357</u>
Other comprehensive income before tax:		
Market value adjustment for cash flow hedge	(175,781)	_
Net unrealized gains on available-for-sale debt securities	5,629,909	7,463,074
Other comprehensive income before tax	5,454,128	7,463,074
Income tax related to items of other comprehensive income	1,145,367	1,567,246
Total other comprehensive income, net of tax	4,308,761	5,895,828
Total comprehensive income	\$ <u>19,018,925</u>	<u>19,431,185</u>

# Consolidated Statements of Stockholders' Equity

# Years ended December 31, 2020 and 2019

	Preferred stock and <u>related surplus</u>	Common stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stock- holders' equity
Balance at December 31, 2018	\$ 19,352,310	288,983	19,499,123	87,128,813	(5,524,609)	(1,083,134)	119,661,486
Net income	-	_	_	13,535,357	-	-	13,535,357
Compensation expense recorded for stock options granted	-	_	44,401	_	-	_	44,401
Cash dividends paid – \$0.41 per share	-	_	_	(2,588,305)	-	-	(2,588,305)
Purchase of 96,760 common shares for treasury	-	-	_	_	(2,022,284)	-	(2,022,284)
Stock options exercised – 117,360 common shares from treasury	-	_	(62,040)	_	1,532,693	_	1,470,653
Unrealized net holding gains on available-for-sale securities, net of related tax effect						<u>5,895,828</u>	5,895,828
Balance at December 31, 2019	19,352,310	288,983	19,481,484	98,075,865	(6,014,200)	4,812,694	135,997,136
Net income	_	-	-	14,710,164	-	-	14,710,164
Compensation expense recorded for stock options granted	-	_	32,002	_	_	_	32,002
Cash dividends paid – \$0.45 per share	-	_	_	(2,850,024)	-	-	(2,850,024)
Purchase of 117,550 common shares for treasu	ry –	_	_	_	(2,879,395)	-	(2,879,395)
Stock options exercised – 131,810 common shares from treasury	-	_	(290,371)	_	2,003,448	-	1,713,077
Unrealized net holding gains on available-for-sale securities, net of related tax effect	_	_	-	-	_	4,447,628	4,447,628
Market value adjustment for cash flow hedge, net of related tax effect						<u>(138,867</u> )	(138,867)
Balance at December 31, 2020	\$ <u>19,352,310</u>	<u>288,983</u>	<u>19,223,115</u>	<u>109,936,005</u>	( <u>6,890,147</u> )	<u>9,121,455</u>	<u>151,031,721</u>

#### Consolidated Statements of Cash Flows

#### Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:	\$ 14.710.164	12 525 257
Net income	\$ 14,710,164	13,535,357
Adjustments to reconcile net income to net cash		
provided by operating activities:	5 340 060	2 520 002
Depreciation and amortization	5,340,960	2,530,002
Provision for possible loan losses	4,740,139	2,091,095
Net cash gains on sales of mortgage loans in secondary market	(2,686,442)	(640,057)
Capitalized mortgage servicing rights	(1,383,622)	(375,592)
Net gains and write-downs on sales of other real estate owned	(58,490)	(97,186)
Deferred income tax expense	683,032	20,446
Stock option expense	32,002	44,401
Decrease in accrued interest receivable	292,813	110,788
Increase (decrease) in accrued interest payable	(1,639,387)	771,668
Mortgage loans originated for sale in secondary market	(138,018,763)	(40,400,345)
Proceeds from mortgage loans sold in secondary market	141,048,551	38,199,257
Increase in cash surrender value of life insurance policies,	(220 500)	( <b>010000</b> )
net of mortality costs	(230,509)	(216,868)
Other operating activities, net	(2,341,414)	1,817,192
Net cash provided by operating activities	20,489,034	17,390,158
Cash flows from investing activities:		
Proceeds from calls and maturities of and principal	(0.00(.001	
payments on available-for-sale debt securities	60,986,991	38,047,677
Purchases of available-for-sale debt securities	(194,155,485)	(52,626,080)
Redemption (purchase) of Federal Home Loan Bank stock	(26,000)	338,618
Net decrease (increase) in loans	(12,989,566)	14,956,680
Purchases of bank premises and equipment, net	(2,326,906)	(3,180,752)
Proceeds from sale of other real estate owned	143,670	1,270,895
Capitalized costs of additions to other real estate	_	(24,000)
Proceeds from redemption of life insurance contract	<u>114,321</u>	2,688
Net cash used in investing activities	( <u>148,252,975</u> )	(1,214,274)
Cash flows from financing activities:		
Net increase in deposits	139,985,550	5,070,539
Net increase in short-term borrowings	7,967,825	3,592,366
Principal payments on notes payable	(906,691)	(996,925)
Proceeds from Federal Home Loan Bank borrowings	4,000,000	5,650,000
Payments of Federal Home Loan Bank borrowings	(4,083,509)	(4,982,560)
Stock options exercised	1,713,077	1,470,653
Purchase of treasury stock	(2,879,395)	(2,022,284)
Dividends paid	(2,850,024)	(2,588,305)
Net cash provided by financing activities	<u>142,946,833</u>	5,193,484
Net increase in cash and cash equivalents	15,182,892	21,369,368
Cash and cash equivalents at beginning of year	<u>101,680,795</u>	80,311,427
Cash and cash equivalents at end of year	\$ <u>116,863,687</u>	<u>101,680,795</u>

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

#### 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 reserve for possible loan 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 income are as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net unrealized gains on available-for-sale securities	\$ 11,721,927	6,092,018
Market value adjustment for cash flow hedge	(175,781)	_
Deferred tax effect	<u>(2,424,691</u> )	( <u>1,279,324</u> )
	\$ <u>9,121,455</u>	4,812,694

#### **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, 2020 and 2019:

#### Notes to Consolidated Financial Statements

	<u>2020</u>	<u>2019</u>
Cash paid for:		
Interest	\$ 11,898,512	13,696,400
Income taxes	4,555,000	3,969,000
Noncash transactions:		
Transfers to other real estate owned in settlement of loans	85,480	677,745
Transfer from bank premises to other real estate owned	_	367,021
Loans made to facilitate the sale of other real estate owned	56,472	46,756

#### **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, 2020 and 2019) 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, 2020 and 2019) 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. Dividend and 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.

Declines in the fair value of debt securities below their cost that are deemed to be other-than-temporary are reflected in operations as realized losses. In estimating other-than-temporary impairment losses, management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. The analysis requires management to consider various factors, which include the present value of the cash flows expected to be collected compared to the amortized cost of the security, the duration and magnitude of the decline in value, the financial condition of the issuer or issuers, the structure of the security, and the intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

#### 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;

#### Notes to Consolidated Financial Statements

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. For loans originated under the Small Business Administration's (SBA) Paycheck Protection Program (PPP), origination fees, net of direct origination costs, are deferred and accreted into interest income over the lives of the PPP loans using the interest method.

The reserve for possible loan losses is available to absorb loan charge-offs. The reserve is increased by provisions charged to operations and is reduced by loan charge-offs less recoveries. Loans are partially or fully charged off when Bank management believes such amounts are uncollectible, either through collateral liquidation or cash payment. Management utilizes a systematic, documented approach in determining the appropriate level of the reserve for possible loan losses. The level of the reserve reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political, and regulatory conditions; and probable losses inherent in the current loan portfolio. The determination of the appropriate level of the reserve for possible loan losses inherently involves a degree of subjectivity and requires the Bank to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Bank's control, may require an increase in the reserve for possible loan losses.

Management believes the reserve for possible loan losses is adequate to absorb losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the reserve may be necessary based on changes in economic conditions. Additionally, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's reserve for possible loan losses. Such agencies may require the Bank to add to the reserve for possible loan losses based on their judgments and interpretations about information available to them at the time of their examinations.

#### **Loans Acquired Through Transfer**

Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income using a model which approximates a level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the

#### Notes to Consolidated Financial Statements

undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Decreases in expected cash flows due to an inability to collect contractual cash flows are recognized as impairment through the provision for loan losses account. Any reserve for loan losses on these loans reflects only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received). Any disposals of loans, including sales of loans, payments in full, or foreclosures, result in the removal of the loan from the loan pool at the carrying amount, with differences in actual results reflected in interest income. Following is a summary of activity in the unamortized discount on purchased loans from the Company's 2018 acquisition of Jacksonville Bancorp, Inc. for the years ended December 31, 2020 and 2019:

Balance of purchase discount on loans at December 31, 2018	\$ 1,830,680
Accretable yield for 2019 recorded as interest income	( <u>1,091,316</u> )
Balance of purchase discount on loans at December 31, 2019	739,364
Accretable yield for 2020 recorded as interest income	(739,364)
Balance of purchase discount on loans at December 31, 2020	\$

#### **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.

#### **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, 2020 and 2019 totaled \$63,828 and \$120,000, 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 \$539,000 and \$131,000 of residential real estate loans in process of foreclosure at December 31, 2020 and 2019, 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

#### Notes to Consolidated Financial Statements

years. Amortization of the core deposit intangible assets existing at December 31, 2020 will be \$467,784 in 2021, \$467,784 in 2022, \$467,784 in 2023, \$467,784 in 2024, \$467,784 in 2025, and \$1,169,460 thereafter.

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 2020 or 2019.

#### 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 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, 2020 and 2019, the carrying amount of this investment was \$2,045,250 and \$2,019,250, 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.

#### **Reserve for Unfunded Commitments**

A reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities (including unfunded loan commitments and letters of credit) and is included in other liabilities in the consolidated balance sheets. The determination of the appropriate level of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience and credit risk grading. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the consolidated statements of income.

#### **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, 2020 and 2019.

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 has not had its consolidated federal income tax returns examined by the taxing authorities for several years, while the State of Illinois has recently completed an examination of the Company's 2017, 2016,

Notes to Consolidated Financial Statements

and 2015 state income tax returns. 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. No material adjustments were forthcoming from the State of Illinois' recent examination.

#### 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 into 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, 2020 and 2019, the Bank serviced loans totaling \$337,746,673 and \$321,058,004, respectively, and the net unamortized balances of mortgage servicing rights were \$1,639,647 and \$895,039, respectively. No valuation reserve was required on the mortgage servicing rights at December 31, 2020 and 2019, as Company management believes that the 0.49% and 0.28% of total serviced loans represented by the mortgage servicing rights at December 31, 2020 and 2019, respectively, are less than the amount for which such servicing rights could be sold.

#### **Financial Instruments**

For purposes of information included in note 15 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

Notes to Consolidated Financial Statements

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, 2020 or 2019.

#### 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 (loss) in stockholders' equity. Amounts recorded in other comprehensive income (loss) 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 interest rate swaps at December 31, 2020 as fair value hedges. The Company had no cash flow hedge instruments at December 31, 2019.

#### 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, 2020 or 2019.

#### **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

#### Notes to Consolidated Financial Statements

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, 2020 and 2019:

	December 31, 2020					
	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:						
<b>Obligations of U.S. government</b>						
agencies and corporations	\$ -	13,141,239	_	13,141,239		
Obligations of states and	Ŧ	,,,,				
political subdivisions	_	163,155,866	_	163,155,866		
Mortgage-backed securities	_	195,431,539	_	195,431,539		
Total available-for-sale						
debt securities		<u>371,728,644</u>		<u>371,728,644</u>		
Liabilities – derivative financial						
instruments	\$ <u>175,781</u>			175,781		

24

Notes to Consolidated Financial Statements

	December 31, 2019					
	ir ma ident	ted prices active active trkets for tical 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 Obligations of states and	\$	-	21,763,345	_	21,763,345	
political subdivisions		_	101,555,467	_	101,555,467	
Mortgage-backed securities Total available-for-sale			112,220,917		112,220,917	
debt securities	\$		<u>235,539,729</u>		<u>235,539,729</u>	

#### **Reclassifications**

Certain reclassifications have been made to the 2019 consolidated financial statement amounts to conform to the 2020 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, 2020 for possible disclosure through March 4, 2021, the date these consolidated financial statements were available to be issued.

# 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. The reserve balances maintained in accordance with such requirements at December 31, 2020 and 2019 were \$0 and \$1,328,000, respectively.

### 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, 2020 and 2019 are as follows:

	Amortized	Gross unreal- ized	Gross unreal- ized	Estimated fair
<u>2020</u>	cost	gains	losses	value
Obligations of U.S.				
government agencies				
and corporations	\$ 12,125,094	1,016,145	_	13,141,239
Obligations of states and				
political subdivisions	157,326,036	5,878,063	(48,233)	163,155,866
Mortgage-backed securities	190,555,587	5,222,183	(346,231)	195,431,539
	\$ <u>360,006,717</u>	<u>12,116,391</u>	( <u>394,464</u> )	371,728,644

#### Notes to Consolidated Financial Statements

2019 Obligations of U.S.	Amortized cost	Gross unreal- ized gains	Gross unreal- ized losses	Estimated fair value
6				
government agencies				
and corporations	\$ 21,275,423	557,496	(69,574)	21,763,345
Obligations of states and				
political subdivisions	98,199,135	3,391,199	(34,867)	101,555,467
Mortgage-backed securities	109,973,153	2,389,407	(141,643)	<u>112,220,917</u>
	\$ <u>229,447,711</u>	6,338,102	(246,084)	235,539,729

The amortized cost and estimated fair value of debt securities classified as available-for-sale at December 31, 2020, 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	\$ 9,451,044	9,527,983
Due one year through five years	31,345,410	32,465,337
Due five years through ten years	56,816,804	59,922,391
Due after ten years	71,837,872	74,381,394
Mortgage-backed securities	190,555,587	195,431,539
	\$ <u>360,006,717</u>	371,728,644

Provided below is a summary of securities which were in an unrealized loss position at December 31, 2020 and 2019:

	Less than	12 months	12 montl	ns or more	Total		
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	
<u>2020</u>	<u>fair value</u>	losses	<u>fair value</u>	losses	<u>fair value</u>	losses	
Obligations of states and							
political subdivisions	\$ 9,842,442	42,459	958,938	5,774	10,801,380	48,233	
Mortgage-backed securities	<u>54,931,943</u>	<u>345,898</u>	<u>815,819</u>	333	<u>55,747,762</u>	<u>346,231</u>	
	\$ <u>64,774,385</u>	<u>388,357</u>	<u>1,774,757</u>	<u>6,107</u>	<u>66,549,142</u>	<u>394,464</u>	
	Less than	12 months	12 mont	ns or more	To	otal	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized	
<u>2019</u>	<u>fair value</u>	losses	<u>fair value</u>	losses	<u>fair value</u>	losses	
Obligations of U.S. government agencies							
and corporations	\$ 4,722,525	37,543	5,868,330	32,031	10,590,855	69,574	
Obligations of states and							
political subdivisions	1,479,749	7,350	1,417,993	27,517	2,897,742	34,867	
Mortgage-backed securities	7,114,439	21,301	11,399,198	120,342	18,513,637	141,643	
	\$ 13,316,713	66,194	18,685,521	179,890	32,002,234	246,084	

The mortgage-backed securities with unrealized losses are primarily issued from and guaranteed by the 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

#### Notes to Consolidated Financial Statements

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.

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 \$173,281,000 and \$141,510,000 at December 31, 2020 and 2019, respectively. The Bank has also pledged letters of credit from the Federal Home Loan Bank of Chicago totaling \$38,000,000 and \$34,020,000 as additional collateral to secure public funds at December 31, 2020 and 2019, respectively.

#### NOTE 4 – LOANS

The composition of the loan portfolio at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Commercial:		
Real estate	\$ 307,378,779	309,411,007
Agricultural production	75,039,341	93,070,885
Other	192,720,195	149,154,369
Real estate:		
Construction	35,598,497	47,242,208
Residential	112,764,242	129,650,232
Farmland	187,526,119	174,205,504
Consumer	23,182,827	24,954,358
	\$ <u>934,210,000</u>	<u>927,688,563</u>

The Bank grants commercial, industrial, residential, agricultural, and consumer loans throughout southcentral 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 \$199,970 and \$339,561 at December 31, 2020 and 2019, respectively. During 2020, the Bank originated 946 PPP loans totaling \$79,156,934, of which 571 loans totaling \$54,542,978 were outstanding at December 31, 2020. Such loans are guaranteed by the SBA.

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.

Notes to Consolidated Financial Statements

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.

#### Notes to Consolidated Financial Statements

At December 31, 2020 and 2019, the Bank has loans outstanding to the agricultural sector of \$262,565,460 and \$267,276,389, respectively, which comprised 28.1% and 28.8%, 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.

The aggregate amount of loans to executive officers and directors and loans made for the benefit of executive officers and directors was \$1,095,543 and \$1,391,785 at December 31, 2020 and 2019, 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, 2020 is as follows:

Balance, December 31, 2019	\$ 1,391,785
New loans made	120,377
Payments received	(416,619)
Balance, December 31, 2020	\$ <u>1,095,543</u>

Following is an analysis of the reserve for possible loan losses by loan type and those that have been specifically evaluated or evaluated in aggregate at December 31, 2020 and 2019:

		2020								
			Commercial			Real estate				
			Agricultural							
		Real estate	production	Other	Construction	<b>Residential</b>	Farmland	Consumer	Total	
Reserve for possible loan losses:										
Beginning balance	\$	3,301,859	2,165,567	2,869,050	375,943	1,593,630	784,762	564,224	11,655,035	
Charge-offs		(87,412)	(251,092)	(5,625,541)	-	(357,328)	_	(90,546)	(6,411,919)	
Recoveries		4,239	451,225	40,729	-	160,949	_	18,392	675,534	
Provision	_	(3,670)	(941,191)	5,870,034	(112,762)	(327,205)	241,892	13,041	4,740,139	
Ending balance	\$_	3,215,016	1,424,509	3,154,272	263,181	1,070,046	1,026,654	505,111	10,658,789	
Reserve allocations: Individually evaluated										
for impairment	\$	656,808	_	25,000	_	70,841	200,000	57,241	1,009,890	
Collectively evaluated for impairment		2,558,208	1,424,509	3,129,272	263,181	999.205	826,654	447,870	9,648,899	
Ending balance	\$	3,215,016	1,424,509	3,129,272	263,181	1,070,046	1,026,654	505,111	10,658,789	
Loans: Individually evaluated										
for impairment	\$	19,668,468	4,471,122	9,823,473	-	4,287,297	18,180,662	311,380	56,742,402	
Collectively evaluated for impairment Ending balance	-	287,710,311 307,378,779	<u>70,568,219</u> <u>75,039,341</u>	<u>182,896,722</u> <u>192,720,195</u>	<u>35,598,497</u> <u>35,598,497</u>	<u>108,476,945</u> <u>112,764,242</u>	<u>169,345,457</u> <u>187,526,119</u>	<u>22,871,447</u> <u>23,182,827</u>	<u>877,467,598</u> 934,210,000	

#### Notes to Consolidated Financial Statements

	2019							
		Commercial			Real estate			
	Agricultural							
	Real estate	production	Other	Construction	Residential	Farmland	Consumer	Total
Reserve for possible loan losses:								
Beginning balance	\$ 2,667,678	1,886,570	2,703,296	494,765	1,321,462	951,242	357,755	10,382,768
Charge-offs	(213,412)	(136,000)	(245,383)	-	(305,558)	_	(79,422)	(979,775)
Recoveries	27,413	1,500	47,604	_	30,644	_	53,786	160,947
Provision	820,180	413,497	363,533	(118,822)	547,082	(166,480)	232,105	2,091,095
Ending balance	\$ 3,301,859	2,165,567	2,869,050	375,943	1,593,630	784,762	564,224	11,655,035
Reserve allocations: Individually evaluated for impairment Collectively evaluated for impairment Ending balance	\$ 375,000 <u>2,926,859</u> \$ <u>3,301,859</u>	276,412 <u>1,889,155</u> <u>2,165,567</u>	238,340 <u>2,630,710</u> <u>2,869,050</u>	- <u>375,943</u> <u>375,943</u>	274,778 <u>1,318,852</u> <u>1,593,630</u>	105,000 <u>679,762</u> <u>784,762</u>	24,292 539,932 564,224	1,293,822 10,361,213 11,655,035
Loans: Individually evaluated for impairment	\$ 17,270,681	4,987,720	16,387,742	_	7,963,210	19,791,275	289,676	66,690,304
Collectively evaluated for impairment Ending balance	<u>292,140,326</u> \$ <u>309,411,007</u>	88,083,165 93,070,885	<u>132,766,627</u> <u>149,154,369</u>	<u>47,242,208</u> <u>47,242,208</u>	<u>121,687,022</u> <u>129,650,232</u>	<u>154,414,229</u> <u>174,205,504</u>	24,664,682 24,954,358	<u>860,998,259</u> 927,688,563

# A summary of impaired loans by type for the years ended December 31, 2020 and 2019 is as follows:

					2020			
			Recorded	Recorded				
		Unpaid	investment	investment	Total		Average	Interest
		principal	with no	with	recorded	Related	recorded	income
		<u>balance</u>	reserve	reserve	investment	reserve	<u>investment</u>	recognized
Commercial:								
Real estate	\$	3,152,629	651,355	2,305,877	2,957,232	656,808	2,368,843	17,430
Agricultural production		-	-	-	-	-	168,975	-
Other		6,907,188	3,276,832	90,645	3,367,477	25,000	5,330,498	21,246
Real estate:								
Construction		-	-	-	-	-	-	-
Residential		657,018	498,090	88,909	586,999	70,841	819,814	19,819
Farmland		1,899,967	226,696	1,329,888	1,556,584	200,000	1,474,526	12,468
Consumer		211,169		115,167	115,167	57,241	44,216	
	\$	<u>12,827,971</u>	<u>4,652,973</u>	<u>3,930,486</u>	<u>8,583,459</u>	<u>1,009,890</u>	10,206,872	<u>70,963</u>
					2019			
			Recorded	Recorded				,
		Unpaid	investment	investment	Total		Average	Interest
	_	principal			Total recorded	Related	recorded	income
		1	investment	investment	Total	Related <u>reserve</u>	U	
Commercial:		principal	investment with no	investment with	Total recorded		recorded	income
Commercial: Real estate	\$	principal	investment with no	investment with	Total recorded		recorded	income
	\$	principal <u>balance</u>	investment with no <u>reserve</u>	investment with <u>reserve</u>	Total recorded investment	reserve	recorded investment	income recognized
Real estate	\$	principal <u>balance</u> 2,443,310	investment with no reserve 459,374	investment with reserve 1,871,301	Total recorded investment 2,330,675	<u>reserve</u> 375,000	recorded investment 4,489,453	income recognized 17,966
Real estate Agricultural production	\$	principal <u>balance</u> 2,443,310 600,918	investment with no reserve 459,374 57,165	investment with reserve 1,871,301 334,686	Total recorded <u>investment</u> 2,330,675 391,851	<u>reserve</u> 375,000 276,412	recorded <u>investment</u> 4,489,453 632,831	income recognized 17,966 7,696
Real estate Agricultural production Other Real estate: Construction	\$	principal <u>balance</u> 2,443,310 600,918 561,607	investment with no reserve 459,374 57,165 194,466	investment with <u>reserve</u> 1,871,301 334,686 310,745	Total recorded <u>investment</u> 2,330,675 391,851 505,211	reserve 375,000 276,412 238,340	recorded investment 4,489,453 632,831 558,100	income recognized 17,966 7,696 10,209 –
Real estate Agricultural production Other Real estate: Construction Residential	\$	principal balance 2,443,310 600,918 561,607 - 1,177,282	investment with no reserve 459,374 57,165 194,466	investment with <u>reserve</u> 1,871,301 334,686 310,745	Total recorded investment 2,330,675 391,851 505,211 - 1,104,169	reserve 375,000 276,412 238,340 - 274,778	recorded <u>investment</u> 4,489,453 632,831 558,100  1,206,904	income recognized 17,966 7,696 10,209 - 25,672
Real estate Agricultural production Other Real estate: Construction Residential Farmland	\$	principal balance 2,443,310 600,918 561,607 - 1,177,282 777,644	investment with no reserve 459,374 57,165 194,466 - 553,398 231,750	investment with reserve 1,871,301 334,686 310,745	Total recorded investment 2,330,675 391,851 505,211 - 1,104,169 759,422	reserve 375,000 276,412 238,340 	recorded <u>investment</u> 4,489,453 632,831 558,100 - 1,206,904 496,323	income recognized 17,966 7,696 10,209 - 25,672 12,746
Real estate Agricultural production Other Real estate: Construction Residential	\$	principal balance 2,443,310 600,918 561,607 - 1,177,282	investment with no reserve 459,374 57,165 194,466	investment with <u>reserve</u> 1,871,301 334,686 310,745	Total recorded investment 2,330,675 391,851 505,211 - 1,104,169	reserve 375,000 276,412 238,340 - 274,778	recorded <u>investment</u> 4,489,453 632,831 558,100  1,206,904	income recognized 17,966 7,696 10,209 - 25,672

#### Notes to Consolidated Financial Statements

and 2019:				2020			
	30-59 days past due	60-89 days <u>past due</u>	Greater than <u>90 days</u>	Total past due	<u>Current</u>	Total <u>loans</u>	Recorded investment > 90 days past due and <u>accruing</u>
Commercial:							
Real estate	\$ 4,510,012	1,529,877	5,007,634	11,047,523	296,331,256	307,378,779	_
Agricultural production	385,083	13,760	1,193,600	1,592,443	73,446,898	75,039,341	_
Other	917,181	614,605	3,969,079	5,500,865	187,219,330	192,720,195	—
Real estate:							
Construction	154,671	—	-	154,671	35,443,826	35,598,497	—
Residential	1,998,239	761,888	457,966	3,218,093	109,546,149	112,764,242	—
Farmland	40,074	40,841	4,916,133	4,997,048	182,529,071	187,526,119	—
Consumer	295,052	130,184	121,644	546,880	22,635,947	23,182,827	
	\$ <u>8,300,312</u>	3,091,155	<u>15,666,056</u>	<u>27,057,523</u>	907,152,477	<u>934,210,000</u>	
		60-89		2019			Recorded investment > 90 days past
	30-59 days	days	Greater than	Total		Total	due and
	past due	past due	<u>90 days</u>	past due	Current	loans	accruing
Commercial:							
Real estate	\$ 1,408,506	883,638	45,301	2,337,445	307,073,562	309,411,007	
Agricultural production	34,529	906,340	425,042	1,365,911	91,704,974	93,070,885	
Other	442,750	6,723,936	2,271,455	9,438,141	139,716,228	149,154,369	
Real estate:	,	-,,	_,,.,	,,,		,,,,-	
Construction	327,054	_	_	327,054	46,915,154	47,242,208	_
Residential	1,728,031	504,831	646,422	2,879,284	126,770,948	129,650,232	_
Farmland	318,828	1,644,280	944,938	2,908,046	171,297,458	174,205,504	
Consumer	144,666	117,032	57,008	318,706	24,635,652	24,954,358	
	\$ <u>4,404,364</u>	10,780,057	4,390,166	<u>19,574,587</u>	908,113,976	<u>927,688,563</u>	

Following is a summary of past-due loans by type and by number of days delinquent at December 31, 2020 and 2019:

Following is a summary of loans on nonaccrual status by type at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Commercial:		
Real estate	\$ 7,352,269	2,995,933
Agricultural production	1,771,849	1,263,984
Other	4,233,368	9,521,418
Real estate:		
Construction	_	_
Residential	2,073,932	2,520,179
Farmland	7,193,523	2,990,635
Consumer	224,073	155,958
	\$ <u>22,849,014</u>	19,448,107

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:

#### Notes to Consolidated Financial Statements

- 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 welldefined 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, 2020 and 2019:

		2020									
	Commercial	Agricultural	Commercial	Real estate	Residential						
Grade	real estate	production	other	construction	real estate	<b>Farmland</b>	Consumer	Total			
Pass	\$ 287.710.311	70,568,219	182,896,722	35,598,497	108,476,945	169,345,457	22,871,447	877,467,598			
Watch	8,550,670	1,471,614	1,860,037	_	876.903	9,858,185	27.462	22,644,871			
Substandard	11,117,798	2,999,508	4,963,436	_	3,410,394	8,322,477	283,918	31,097,531			
Doubtful	_	_	3,000,000	_	_	_	_	3,000,000			
	\$ 307,378,779	75,039,341	192,720,195	35,598,497	112,764,242	187,526,119	23,182,827	934,210,000			
				201	19						
	Commercial	Agricultural	Commercial	Real estate	Residential						
Grade	real estate	production	other	construction	real estate	Farmland	Consumer	Total			
D	¢ 202 140 224	00.000.165	100 544 405	17 2 12 200	101 (07 000	154 414 000	24 664 692	0.00 000 050			
Pass	\$ 292,140,326	88,083,165	132,766,627	47,242,208	121,687,022	- , , -	24,664,682	860,998,259			
Watch	8,499,895	3,103,856	694,069	-	3,589,374	9,658,684	44,816	25,590,694			
Substandard	8,770,786	1,883,864	15,693,673	-	4,373,836	10,132,591	244,860	41,099,610			
Doubtful											
	\$ <u>309,411,007</u>	93,070,885	149,154,369	47,242,208	129,650,232	174,205,504	24,954,358	<u>927,688,563</u>			

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 reserve for possible loan losses as described above.

#### Notes to Consolidated Financial Statements

The following table presents information regarding loan modifications during the years ended December 31, 2020 and 2019 which met the definition of troubled debt restructured loans:

	Year	Year ended December 31, 2020		Year ended December 31, 2019		er 31, 2019
		Pre-	Post-		Pre-	Post-
		modification	modification		modification	modification
	Number	outstanding	outstanding	Nh	outstanding	outstanding
	Number	recorded	recorded	Number		recorded
	<u>of loans</u>	<u>balance</u>	<u>balance</u>	<u>of loans</u>	<u>balance</u>	<u>balance</u>
Commercial:						
Real estate	2 \$	1,490,531	1,490,531	1	\$ 383,252	383,252
Other	1	83,435	83,435	_	_	_
Real estate:						
Construction	_	-	-	-	-	-
Residential	_	-	_	_	_	—
Consumer	=			=		
	<u>3</u> \$	<u>1,573,966</u>	<u>1,573,966</u>	<u>1</u>	\$ <u>383,252</u>	<u>383,252</u>

No restructured loans defaulted within 12 months of their restructuring in 2020 or 2019. The Bank had no commitments to extend additional credit on any loans classified as troubled debt restructured loans at December 31, 2020.

#### NOTE 5 - BANK PREMISES AND EQUIPMENT

A summary of Bank premises and equipment at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 3,119,709	2,894,709
Buildings and improvements	20,229,871	19,057,067
Furniture, fixtures, and equipment	<u>12,323,984</u>	<u>11,515,558</u>
	35,673,564	33,467,334
Less accumulated depreciation and amortization	<u>16,503,141</u>	14,998,726
	\$ <u>19,170,423</u>	<u>18,468,608</u>

Amounts charged to noninterest expense for depreciation and amortization aggregated \$1,625,090 and \$1,312,239 for the years ended December 31, 2020 and 2019, respectively.

The Company leases certain premises and equipment under noncancelable operating lease agreements that expire at various dates through 2025. Minimum rental commitments under these noncancelable operating lease agreements at December 31, 2020, for each of the next five years, and in the aggregate, are as follows:

Year ending December 31:	
2021	\$ 289,853
2022	286,103
2023	292,526
2024	223,136
2025	56,214
Thereafter	
Total minimum payments required	\$ <u>1,147,832</u>

The Company also leases certain equipment under agreements that are cancelable with 30 to 90 days' notice. Total rent expense for 2020 and 2019 was \$417,056 and \$400,983, respectively.

Notes to Consolidated Financial Statements

The Bank leases a portion of its banking facilities to unaffiliated entities under leases that are cancelable with 30 to 90 days' notice. Total rental income for 2020 and 2019 was \$81,672 and \$120,115, respectively.

#### **NOTE 6 – DEPOSITS**

A summary of interest-bearing deposits at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Interest-bearing transaction accounts	\$ 304,824,16	5 203,235,961
Savings	334,773,464	<b>4</b> 288,669,279
Time deposits	365,598,949	<u>443,582,607</u>
-	\$ <u>1,005,196,57</u>	<u>8</u> 935,487,847

....

Deposits of executive officers, directors, and their related interests at December 31, 2020 and 2019 totaled \$2,713,077 and \$2,931,847, respectively.

Interest expense on deposits for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest-bearing transaction accounts	\$ 1,458,493	1,696,872
Savings	1,158,990	2,441,693
Time deposits	<u>6,788,435</u>	9,183,191
-	\$ 9.405.918	13.321.756

Time deposits meeting or exceeding the FDIC insurance limit of \$250,000 totaled \$86,076,219 and \$103,274,347 at December 31, 2020 and 2019, respectively. Following are the maturities of time deposits for each of the next five years and in the aggregate at December 31, 2020:

Year ending December 31:	
2021	\$ 305,695,423
2022	35,890,982
2023	9,576,330
2024	9,333,261
2025	5,102,953
	\$ 365,598,949

#### **NOTE 7 – INCOME TAXES**

The components of income tax expense (benefit) for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current:		
Federal	\$ 1,911,557	3,036,868
State	1,307,999	1,426,047
Deferred	<u>683,032</u>	20,446
	\$ <u>3,902,588</u>	4,483,361

Notes to Consolidated Financial Statements

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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Expected statutory federal income tax	\$ 3,908,678	3,783,931
Tax-exempt interest and dividend income	(608,311)	(553,781)
State tax, net of related federal benefit	1,033,320	1,126,577
Other, net	<u>(431,099</u> )	126,634
	\$ <u>3,902,588</u>	<u>4,483,361</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2020 and 2019 are presented below:

. . . .

<u>2019</u>
114,177
447,163
821,851
_
496,711
879,902
475,735)
520,152)
279,324)
<u>198,239</u> )
573,450)
306,452
879 475 520 279 198 573

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, 2020 and 2019, 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 8 – SHORT-TERM BORROWINGS**

Short-term borrowings consisted entirely of securities sold under repurchase agreements at December 31, 2020 and 2019, which are collateralized by debt securities consisting of \$42,018,158 (which includes \$33,373,184 of obligations of U.S. government agencies and corporations and mortgage-backed securities, and \$8,644,974 of obligations of states and political subdivisions) at December 31, 2020. 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, 2020 and 2019, and the average rates at each year-end for funds purchased and securities sold under repurchase agreements, are as follows:

	<u>2020</u>	<u>2019</u>	
Average balance	\$ 32,311,373	20,153,554	
Weighted average interest rate paid during the year	0.47%	1.68%	
Maximum amount outstanding at any month-end Average rate at end of year	\$ 38,159,593 0.33%	28,621,537 1.18%	35

Notes to Consolidated Financial Statements

#### NOTE 9 - FEDERAL HOME LOAN BANK BORROWINGS

At December 31, 2020, the Bank had fixed-rate advances outstanding with the Federal Home Loan Bank of Chicago, maturing as follows:

	Amount	Weighted average rate
Due in 2021	\$ 13,000,000	1.63%
Due in 2022	4,000,000	1.96%
Due in 2024	3,000,000	1.97%
Due in 2026	2,250,000	2.04%
	\$ <u>22,250,000</u>	

At December 31, 2020, the Bank maintained a line of credit for \$212,356,516 with the Federal Home Loan Bank of Chicago and had availability under this line of \$152,032,840. 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, commercial, agricultural production, and farmland loans totaling \$348,355,017 at December 31, 2020.

#### **NOTE 10 – NOTES PAYABLE**

Following is a summary of the Company's notes payable at December 31, 2020 and 2019:

	<u>2020</u>	2019
Revolving line of credit note payable	\$ -	-
Term notes payable	<u>5,643,309</u>	6,550,000
	\$ <u>5,643,309</u>	<u>6,550,000</u>

At December 31, 2020, 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 \$5,643,309 and \$6,550,000 at December 31, 2020 and 2019, respectively, maturing on May 31, 2025. During 2019, interest was payable quarterly, and required quarterly principal and interest payments of \$213,468 commencing February 28, 2021, at a fixed rate of 4.89%, with the balance due at maturity. Effective March 15, 2020, the term note payable was amended to require quarterly interest payments at a variable rate 2.12% over a designated public index through June 15, 2020. After June 15, 2020, the term note payable requires quarterly principal and interest payments of approximately \$360,000. Future principal interest payments are \$1,248,871 in 2021, \$1,296,110 in 2022, \$1,345,135 in 2023, and \$1,396,015 in 2024, and \$528,613 in 2025. The revolving line of credit note payable has a maximum availability of \$2,000,000, matures on March 28, 2021, and requires quarterly interest payments at a variable rate of credit note payable has not been drawn upon since the loan's inception and is fully available at December 31, 2020 for future advances. A second term note payable with an original balance of \$5,368,359, with a maturity of March 28, 2020, and a fixed rate of 3.68%, was paid in its entirety on December 27, 2019.

The notes payable are secured by the common stock of the Bank with a book value of approximately \$154,836,000 at December 31, 2020, 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, 2020 and 2019, 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 rates paid on the notes payable in 2020 and 2019 were 4.88% and 4.61%, respectively.
Notes to Consolidated Financial Statements

#### NOTE 11 – 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, 2020, 5,779,659 shares were issued and outstanding (including 415,847 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, 2020. 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, 2020, 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 January 17, 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 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. Options granted to the officers and directors of the Company and Bank vest 20% each year and expire in ten years. At December 31, 2020, 1,594,785 options to purchase common shares are available for future grants.

A summary of the activity of nonvested options for the years ended December 31, 2020 and 2019 is as follows:

	Number of shares	Weighted average grant date <u>fair value</u>
Nonvested at December 31, 2018	286,350	0.37
Granted	_	_
Vested	(100,930)	0.36
Forfeited	(9,040)	0.20
Nonvested at December 31, 2019	176,380	0.39
Granted	35,425	1.28
Vested	(76,310)	0.32
Forfeited	(1,380)	0.21
Nonvested at December 31, 2020	<u>134,115</u>	<u>0.68</u>

#### Notes to Consolidated Financial Statements

	Weighted average option price per share	Number <u>of shares</u>	Remaining contractual <u>term (years)</u>	Aggregate intrinsic value per <u>option share</u>
Outstanding at December 31, 2018	\$ 14.24	729,350		
Granted	_		_	
Exercised	12.53	(117,360)		
Forfeited	15.36	<u>(10,340</u> )		
Outstanding at December 31, 2019	<u>14.55</u>	<u>601,650</u>	<u>5.18</u>	\$ <u>9.39</u>
Exercisable at December 31, 2019	\$ <u>13.56</u>	425,270	<u>4.32</u>	\$ <u>10.38</u>
Outstanding at December 31, 2019	\$ 13.56	601,650		
Granted	24.63	35,425		
Exercised	13.00	(131,810)		
Forfeited	14.43	(2,380)		
Outstanding at December 31, 2020	<u>15.67</u>	<u>502,885</u>	<u>4.96</u>	\$ <u>8.96</u>
Exercisable at December 31, 2020	\$ <u>14.32</u>	<u>368,770</u>	<u>4.13</u>	\$ <u>10.31</u>

Following is a summary of stock option activity for the years ended December 31, 2020 and 2019:

The fair value of options vested during 2020 and 2019 was \$1,879,515 and \$2,004,470, respectively. At December 31, 2020, the total unrecognized compensation expense related to nonvested stock options was \$73,868 and the related weighted average period over which it is expected to be recognized is approximately 2.19 years.

During 2020, 35,425 shares were granted with a weighted average per share option price at the date of grant of \$24.63. 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 2020 were estimated to be \$1.28 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 outstanding at December 31, 2020. These assumptions include no volatility in the Company's stock price, 1.66% dividends paid on common stock in 2020, 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, 2020 and 2019 totaled \$354,904 and \$267,440 respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$244,895 and \$165,977 for the years ended December 31, 2020 and 2019, respectively.

During 2020, the Company granted 46,390 stock appreciation rights to various officers and employees of the Company and Bank, with a grant date value \$24.63. There were no stock appreciation rights granted during 2019. 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 right must be exercised within ten years of the grant date. At December 31, 2020 and 2019, a liability of \$161,088 and \$56,572, respectively, is included in other liabilities in the consolidated balance sheet for the vested balance of these stock appreciation rights. Such

Notes to Consolidated Financial Statements

rights that were exercised or forfeited in totaled 5,640 and 4,150, respectively, in 2020 and 2,340 and 6,760, respectively in 2019. Total stock appreciation rights outstanding at December 31, 2020 and 2019 totaled 100,700 and 64,100, respectively.

## NOTE 12 – 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 \$617,155 and \$567,405 for the years ended December 31, 2020 and 2019, respectively.

The Company and Bank maintain incentive deferral plans for certain of their directors, allowing such directors to defer their current compensation earned as directors, with the Company or Bank agreeing to pay to such directors, 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.

To fund the individual agreements with each director covered under the incentive deferral plans, the Company and Bank have purchased flexible-premium universal life insurance policies on the lives of such directors, 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. An amount of \$6,349,608 is included in other liabilities in the consolidated balance sheet at December 31, 2020, representing the sum of all deferrals and interest additions accumulated to date.

### **NOTE 13 – 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 14 – 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.

Notes to Consolidated Financial Statements

Following are condensed balance sheets as of December 31, 2020 and 2019 and the related condensed schedules of income and cash flows (in thousands of dollars) for the years then ended of the Company (parent company only):

Condensed Balance Sheets	<u>2020</u>	<u>2019</u>
Assets:	<b>•</b> • • • •	(12)
Cash	\$ 142 154 936	412
Investment in subsidiary bank	154,836	140,628
Life insurance policies	718	707
Income tax receivable	1,536	1,191
Property and equipment, net	_	6
Other assets	\$ <u>212</u> \$ <u>157,444</u>	<u>57</u> 143,001
Liabilities:		<u> </u>
Market adjustment of cash flow hedge	\$ 176	_
Accounts payable	¢ 1/0 593	454
Notes payable	5,643	6,550
Total liabilities	6,412	7,004
Total stockholders' equity	<u>151,032</u>	<u>135,997</u>
Total liabilities and stockholders' equity	\$ <u>157,444</u>	<u>143,001</u>
Total habilities and stockholders' equity	φ <u>137,444</u>	145,001
Condensed Schedules of Income	<u>2020</u>	<u>2019</u>
Revenue:		
Cash dividends from subsidiary banks	\$ 4,750	4,350
Other income	<u> </u>	16
Total revenue	4,768	4,366
Expenses:		
Salaries and benefits	207	140
Interest expense	254	349
Depreciation	1	6
Legal and professional fees	57	80
Miscellaneous expenses	144	228
Total expenses	663	803
Income before income tax benefit and equity in undistributed net income of		
subsidiary bank	4,105	3,563
Income tax benefit	844	225
	4,949	3,788
Equity in undistributed net income	•,- •,-	2,700
of subsidiary bank	<u>9,761</u>	9,747
Net income	\$ <u>14,710</u>	13,535

#### Notes to Consolidated Financial Statements

<b>Condensed Schedules of Cash Flows</b> Cash flows from operating activities:	<u>2020</u>	<u>2019</u>
Net income	\$ 14,710	13,535
Adjustments to reconcile net income to net cash	φ 1 <b>-,</b> /10	15,555
provided by operating activities:		
Excess undistributed earnings of		
subsidiary bank	(9,761)	(9,747)
Increase in cash surrender value of life insurance policies	(11)	(11)
Depreciation	(11)	6
Stock option expense	32	44
Other, net	(318)	<u>619</u>
Cash provided by operating activities	4,653	4,446
Cash flows from investing activities	<u> </u>	<u> </u>
Capital injection into subsidiary bank	_	
	_	_
Net cash paid for acquisition of subsidiary		
Cash used in investing activities		
Cash flows from financing activities:	(0.0-)	(a a <b>-</b> )
Principal payments on notes payable	(907)	(997)
Dividends paid	(2,850)	(2,588)
Purchase of treasury stock	(2,879)	(2,022)
Stock options exercised	<u>1,713</u>	1,471
Cash used in financing activities	(4,923)	(4,136)
Net increase (decrease) in cash	(270)	310
Cash at beginning of year	412	102
Cash at end of year	\$ 142	412

#### **NOTE 15 – 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial instruments for which contractual		
amounts represent:		
Commitments to extend credit	\$ 162,880,656	122,847,530
Standby letters of credit	4,645,029	4,976,441
	\$ <u>167,525,685</u>	127,823,971

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, 2020, \$48,524,725 was 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

CNB ANNUAL REPORT 2020

#### Notes to Consolidated Financial Statements

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, 2020 is as follows:

Notional amount	\$ 5,643,309
Underlying loan balance	5,643,309
Fair value recorded in other liabilities	175,781

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 16 – 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). At December 31, 2020, the Company qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, is not subject to the consolidated capital rules at the bank holding company level. The Bank has also opted into the Community Bank Leverage Ratio ("CBLR") framework, beginning with the call report filed for the first quarter of 2020. At December 31, 2020, the Bank's CBLR ratio was 8.33% which exceeded all regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized."

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

#### Notes to Consolidated Financial Statements

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, 2020, that the Company and Bank meet all capital adequacy requirements to which they are subject. As of December 31, 2020 and 2019, 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, the 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.

## Notes to Consolidated Financial Statements

The Bank's actual capital amounts and ratios at December 31, 2019 (prior to the Company opting to use the CBLR option) are presented in the following table:

	Actu	al	For caj <u>adequacy pu</u>		To be well-capi bank u prompt co action pro	talized nder rrective
	Amount	<u>Ratio</u>	Amount	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
			(in thousands	of dollars)		
Total capital (to risk-weighted assets):	\$ 123,968	12.32%	\$ 80,531	≥8.0%	\$ 100,663	≥10.0%
Tier 1 capital (to risk-weighted assets):	\$ 111,955	11.12%	\$ 60,398	≥6.0%	\$ 80,531	≥8.0%
Common Equity Tier 1 capital (to risk-weighted assets):	\$ 111,955	11.12%	\$ 45,298	≥4.5%	\$ 65,431	≥6.5%
Tier 1 capital (to average assets):	\$ 111,955	8.62%	\$ 51,939	≥4.0%	\$ 64,924	≥5.0%



The Restore Network was presented with a donation from CNB Bank & Trust in partnership with FHLB Chicago on September 22, 2020. From left: Development Director Ashley Alm from The Restore Network and Gina Cox, Retail Lending Officer with CNB Bank & Trust N.A.



CNB Trust Operations Officer Ruth Menz crafts masks for CNB employees as they prepare to return to their offices after the statewide "Stay-at-Home" order.

Assistant Vice President Susie Montgomery presents a donation from CNB to the Taylorville Food Center.

From left: Senior Universal Bankers Teresa Clinton and Cassandra Howard and Universal Banker Supervisor Heidi Werries prepare to assist customers at the Jacksonville W. Morton location front line from behind the newly-installed plexiglass guards.





Richard Walden, Chairman of CNBSI and CNB B&T <sup>1,2</sup>



James T. Ashworth, President & Vice Chairman of CNBSI <sup>1,2</sup>



Nancy Ruyle, Director and Corporate Secretary <sup>1,2</sup>



Peter Genta, Director<sup>1</sup>



Joe Heitz, Director<sup>1</sup>



John Pietrzak, Director<sup>1</sup>



Richard Foss, Director<sup>2</sup>





Jim Salske, Director<sup>2</sup>





Shawn Davis, President & CEO of CNB B&T and Senior VP of CNBSI <sup>1,2</sup>



Judith Baker, Director <sup>1,2</sup>



Larry Franklin, Director and Senior Vice President - Consultant for CNB B&T<sup>2</sup>



Andrew E. Tinberg, Director and Senior EVP & Chief Banking Officer of CNB B&T<sup>2</sup>





Rick Champley, Director <sup>1</sup>



<sup>1</sup> CNB Bank Shares, Inc. Board Member

<sup>2</sup> CNB Bank & Trust, N.A. Board Member

END MEETING



George Yard, Director<sup>2</sup>



# OFFICER LIST

# CNB Bank Shares, Inc.

James Ashworth	President & Vice Chairman	Carlinville
Shawn Davis	Senior Vice President	Carlinville
Thomas DeRobertis	Vice President	Oak Forest
Diana Tone	Vice President & Chief Financial Officer	Jacksonville

# CNB Bank & Trust, N.A.

Shawn Davis	. President & Chief Executive Officer	Carlinville
Andrew E. Tinberg	. Senior Executive Vice President & Chief Banking Officer	Oak Forest

## Branch Management & Loans

	Senior Vice President - Consultant	
	Regional President	
	Regional President	
	Regional President	
	Market President	
	Market President	
	Market President	
	Market President	
	Market President	
Chris Royal	Market President	Jacksonville
Brian Ury	Market President	Edwardsville
	Senior Vice President & Commercial Lending Team Leader	
Paul Miller	Senior Vice President & Senior Commercial/Ag Loan Officer	Chapin
Craig Frankford	Vice President & Senior Commercial/Ag Loan Officer	Carlinville
Bruce Brauer	Vice President & Commercial/Ag Loan Officer	Virden
	Vice President & Commercial/Ag Loan Officer	
Noelle Flesner	Vice President & Commercial/Ag Loan Officer	Pittsfield
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Commercial/Ag Loan Officer	
	Vice President & Retail Loan Officer	
	Vice President & Retail Loan Officer	
	Assistant Vice President & Commercial/Ag Loan Officer	
	Assistant Vice President & Commercial/Ag Loan Officer	
	Assistant Vice President & Commercial/Ag Loan Officer	
	Assistant Vice President & Commercial/Ag Loan Officer	
William Voqt	Assistant Vice President & Commercial/Ag Loan Officer	Litchfield
	Assistant Vice President & Retail Loan Officer	
	Assistant Vice President & Retail Loan Officer	
	Assistant Vice President & Retail Loan Officer	
	Commercial/Ag Loan Officer	
	Commercial/Ag Loan Officer	
	Commercial/Ag Loan Officer	
Michelle Martin	Retail Loan Officer & Coordinating Supervisor	Pittsfield
	Retail Loan Officer	
		AILOIT

# OFFICER LIST (CONTINUED)

# Mortgage Department

Matthew Cors	.Vice President of Mortgage Lending	Jacksonville
Stacy Winder	.Mortgage Loan Servicing Supervisor	Jerseyville
Megan Baker	.Mortgage Loan Underwriter	Jerseyville
Michael Drake	.Loss Mitigation Specialist	Álton

# Retail Banking

Jo Ann Garland	Vice President & Regional Deposit Support Officer	Jerseyville
Barbara Bergamo	Assistant Vice President & Regional Deposit Support Offic	er Palos Heights
Heather Jones	Assistant Vice President & Regional Deposit Support Offic	erTaylorville
Jeanie Glass	Assistant Vice President & Regional Universal Banker Mana	agerJerseyville
Angela Levora	Assistant Vice President & Regional Universal Banker Mana	agerCarlinville
Alicia Vaulx	Treasury Management & Business Development Officer	Tinley Park
Stacey Butler	Universal Banker Supervisor	Alton
Tina Carter	Universal Banker Supervisor	Carrollton
Angela Hunn	Universal Banker Supervisor	Brighton
Kendra Lane	Universal Banker Supervisor	Hillsboro
Shelley Malik	Universal Banker Supervisor	Palos Heights
	Universal Banker Supervisor	
Donald Miller	Universal Banker Supervisor	Litchfield
Francesca Neff	Universal Banker Supervisor	Jacksonville (S. Main)
	Universal Banker Supervisor	
Debra Volante	Universal Banker Supervisor	Palos Heights
Heidi Werries	Universal Banker Supervisor	Jacksonville
Carol Wills	Universal Banker Supervisor & IRA Specialist	Carlinville
Nicole Balcom	Lead Universal Banker	Alton
	Lead Universal Banker	
Carla Royer	Lead Universal Banker	Virden
Susan Snyder	Personal Banker	Carrollton

# Trust & Wealth Management Group

Darlene Ward	Senior Vice President of Trust	Alton
Darren Wright	Senior Vice President - Director of Fiduciary Investments	Edwardsville
Mary Fergurson	Vice President - Trust Portfolio Manager	Jacksonville
Joshua Schuette	Vice President - Trust Portfolio Manager	Edwardsville
Norma Bellcoff	Vice President - Trust Officer	Edwardsville
Bryan Gorman	Vice President - Trust Officer	Alton
Deneen Messer	Vice President - Trust Officer	Edwardsville
Amy Warren	Vice President - Trust Officer	Edwardsville
Terry Daniels	Assistant Vice President & Director of Investment Research	Alton
Matthew Slightom	Assistant Vice President - Trust Portfolio Manager/Farm Manager	Carlinville
	Trust Officer	
	Trust Operations Officer	
	Trust Operations Officer	
	Assistant Trust Officer	
	Trust Administrator	
	Trust Administrator	
Pamela Ramsey	Trust Administrator	Edwardsville
Marian Toth	Trust Administrator	Carlinville
Kimberly Payne	Trust Compliance & Operations Coordinator	Alton

# OFFICER LIST (CONTINUED)

#### Financial Resources Group

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

# **Corporate Services**

Thomas DeRobertis	Executive Vice President & Chief Risk Officer	Oak Forest
Diana Tone	Executive Vice President & Chief Financial Officer	Jacksonville
	Vice President & Director of Human Resources	
Susan Van Norman	Director of Marketing & Communications	Alton
Sallie Bowers	Assistant Vice President & Senior Accounting Officer	Pittsfield
Kristine Schulte	Chief Compliance Officer	Jacksonville
	BSA/AML Compliance Officer	
Shari Skinkis	CRA Officer	Oak Forest
Kelly Wood	AML Manager	Oak Forest
	CRM Officer & Training Coordinator	
	Recruiter & HR Generalist	
Shelley Tallant	Accounts Payable Supervisor	Jerseyville
Emily Melton	Accounting Specialist	Jacksonville
	Senior HR Assistant	
Ryan Petroline	Senior Marketing Assistant	Alton

# Credit Administration

Christopher Williams	Senior Vice President & Chief Credit Officer	Carlinville
Jodi Simons	Vice President of Loan Administration	Carlinville
Bryanne Heitzig	Commercial Credit Officer	Jerseyville
Zachary Meyer	Commercial Credit Officer	Carlinville
Eric Pfeiffer	Commercial Credit Officer	Carlinville
Jill Plato	Loan Administration Supervisor	Jerseyville
Roberta Wyatt	Loan Administration Supervisor	Oak Forest
Debora Zacha	Loan Administration Supervisor	Alton
Tara Meado	Loan Documentation Assistant & Processing Supervisor	Jerseyville
Sandra Lowry	Loan Administration Supervisor	Clayton
Virginia Wetmore	Lead Lending Assistant	Carrollton

### Operations

Kent Brueggemann	Executive Vice President & Chief Operations Officer Vice President & Director of Commercial Services & E-Banking	Clayton
Kimberly Murray	Vice President of Operations	Jerseyville
Matthew Turley	Vice President & Chief Information Officer	Carlinville
Lisa Wolf	Vice President Computer Operations	Carlinville
Mark Totsch	Technology Officer	Carlinville
Timothy Bradshaw		Pittsfield
Natalie Magnuson	E-Banking Coordinator	Jacksonville
	Project Coordinator	
Dawna King	Lead Operations & Accounting Assistant	Jacksonville
Amber McGartland	Lead Operations Assistant	Carlinville
	Lead Operations Assistant	
Kila Harris	Lead Computer Operator	Carlinville
	Document Management Specialist	
Stephanie Rich	Loan Document Management Specialist	Jacksonville
	Senior Executive Assistant	
	Executive Assistant	



# **REGION 3**

OAK FOREST 5459 W. 159th St. Oak Forest, IL 60452 PALOS HEIGHTS 12727 S. Ridgeland Ave. Palos Heights, IL 60463 TINLEY PARK 9400 W. 179th St. Tinley Park, IL 60487

# **REGION 2**

ALTON 200 Homer Adams Pkwy. Alton, IL 62002 EDWARDSVILLE / GLEN CARBON\* 212 Evergreen Ln. Glen Carbon, IL 62034

BRIGHTON 202 N. Maple St. Brighton, IL 62012

CARROLLTON 600 N. Main St. Carrollton, IL 62016

CHAPIN 510 Superior Chapin, IL 62628

CLAYTON, MO 168 N. Meramec, Suite 350 Clayton, MO 63105 JACKSONVILLE 1211 W. Morton Ave. 903 S. Main St. Jacksonville, IL 62650

**JERSEYVILLE** 533 S. State St. Jerseyville, IL 62052

**PITTSFIELD** 643 W. Washington St. Pittsfield, IL 62363 CHAPIN PITTSFIELD VIRDEN TAYLORVILLE

St. JERSEYVILLE O BRIGHTON

CARLINVILLE CARLINVILLE HILLSBORO LITCHFIELD ALTON CARBON\*

PALOS HEIGHTSOAK FOREST

CLAYTON, MO 💡

\* Location coming soon January 2021.

# **REGION 1**

**CARLINVILLE** 450 W. Side Square Carlinville, IL 62626

HILLSBORO 549 S. Main St. Hillsboro, IL 62049 LITCHFIELD 501 N. State St. Litchfield, IL 62056

TAYLORVILLE

402 N. Webster St. Taylorville, IL 62568 VIRDEN 100 N. Dye Virden, IL 62690



Helping to Open Doors • Since 1854

450 W. SIDE SQUARE | CARLINVILLE, IL 62626 | 217.854.2674 www.cnbil.com

COOK COUNTY, IL

TINLEY PARK 💡