CNB Bank Shares, Inc.

2017

Annual Report

Front Cover Images | From Top Left Clockwise

CNB Employees Mike Drake, Loss Mitigation Specialist, and Larry Franklin, EVP & Chief Operating Officer, presented a check to Al Womack, Jr., Executive Director of the Boys & Girls Club of Alton from ticket sales linked to CNB Cardinal Night at Busch Stadium.

Mark Haggard, CNB Market President in Alton is being interviewed by WBGZ Radio during our fall Annual Customer Appreciation Days.

As a community bank serving Palos Heights, CNB is very proud to share in the title sponsorship of the Southwest Half Marathon & 10K. Since 2008, this event has raised more than $200,000 for area charities.

Recent CNB Bank & Trust retiree, Becky Lowrance, chose to donate to a local charity to celebrate her retirement. Becky stated: “I am honored that CNB Bank & Trust allowed me to give any money that would have been spent on a retirement gift or party to *A Carlinville Christmas*”.

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Dear Fellow Stockholders:

JAMES ASHWORTH

SHAWN DAVIS

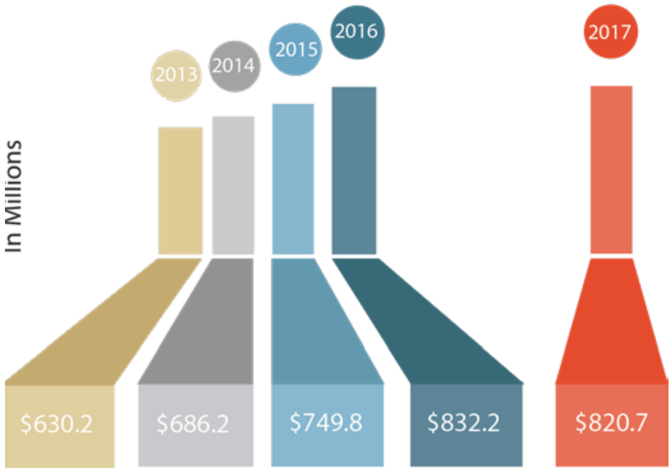
Looking back on 2017, we are reminded that what differentiates CNB from the competition are the people who comprise our staff, board of directors, and loyal customer base. Our success in pursuing corporate goals is dependent on the quality and consistency of employee and director training, and on our customers' satisfaction with the financial services we deliver. Therefore, we thought it appropriate to picture some of the many faces of CNB within this Annual Report.

"Photo ops" are available on almost a daily basis. Along with the activity in our lobbies, drive-up lanes, and ATMs, there are numerous community events throughout the year that are organized and/or supported by our staff. In addition to charitable fundraisers and customer appreciation events, CNB hosts various training opportunities for students and customers alike. Our reward is not only in earning repeat business, but also in bringing smiles on the faces of those who are served.

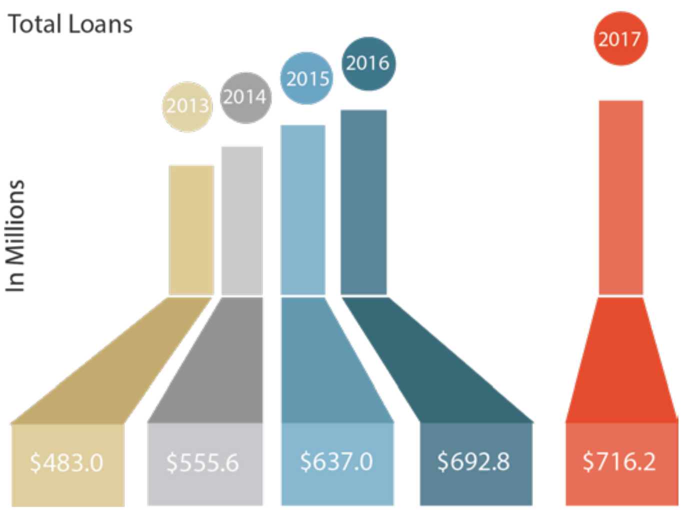
Another year of consistent financial performance should also bring smiles on the faces of our stockholders. The Balance Sheets on page 6 show asset growth of over $4 million between year-end 2016 to year-end 2017. Growth in net loans was 3.4%; more details are found in Note 4 on page 21 , which highlights the portfolios' diversification in commercial, agricultural, and consumer lending. Although the year-end numbers show a 1.4% decline in total deposits, the categories shown in Note 6 on page 27 reveal a shift from savings deposits into time deposits as customers take advantage of an increase in interest rates. The decrease in transaction accounts is not a concern as this category experiences expected volatility throughout the year on a seasonal, monthly, even weekly basis. Also to be noted in the liability section of the balance sheets is the $7.6 million increase in borrowings from the Federal Home Loan Bank. This source is helpful as we "match fund" certain loan terms in order to better manage liquidity and interest rate risk.

CNB Bank Shares President, Jim Ashworth, addressed the Macoupin County High School CEO Program. Many of our communities support this worthwhile organization. Students are immersed in real-life learning experiences.

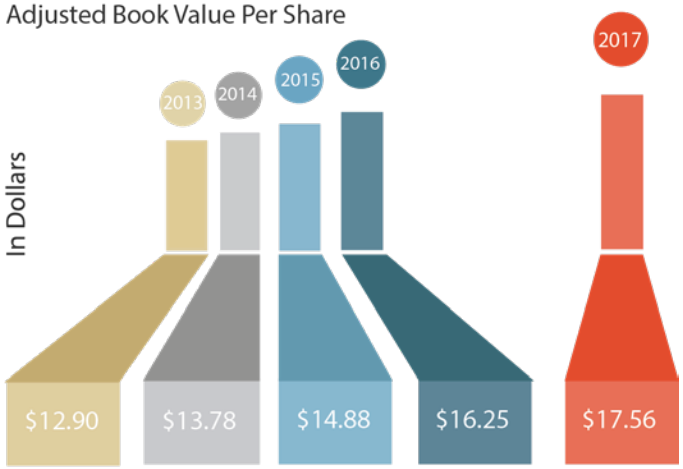
Total Deposits



Total Loans



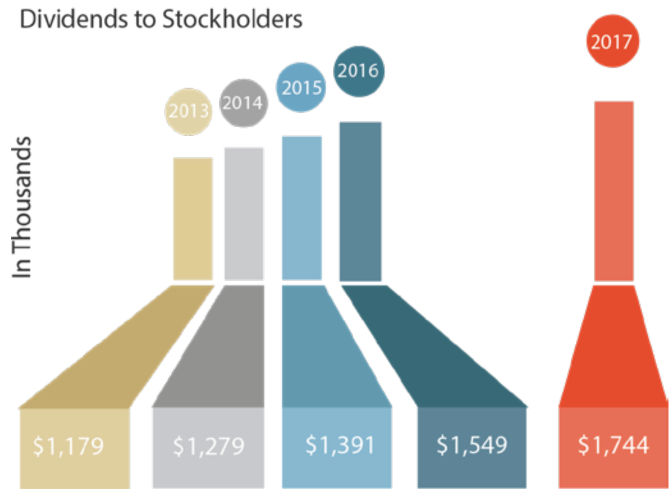
Adjusted Book Value Per Share

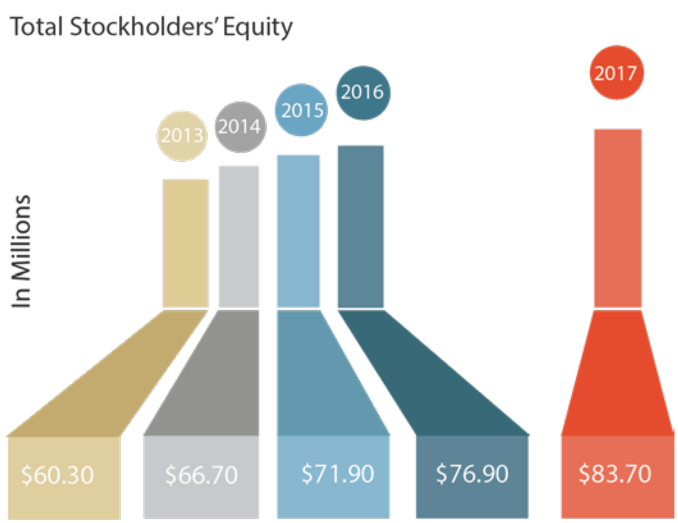


*Stockholders equity adjusted by reversing net unrealized gain (or loss) on available-for-sale securities.

Retained earnings enjoyed an 8.8% increase, providing the same rate of growth in total stockholders' equity. Details for this measure of performance are shown in the Statements of Income on page 7. Net interest income increased 7.8%, and non-interest income rose 8.7%. (Notice that the $205 thousand decrease in mortgage banking revenues, largely due to an increase in interest rates, was offset by a $231 thousand improvement in income from fiduciary activities of our Trust Department). In contrast, total non-interest expense increased 6%, resulting in a 7.1% increase to "income before applicable income taxes". Interestingly, the recent passage of income tax reform legislation had a reducing effect on 2017 net income, since the lower tax rates on future income required recalculation of the company's deferred tax position (see Note 7 page 28). Therefore, applicable income tax expense in 2017 was 39.2% of income before taxes, compared to 34.4% in 2016. This impact resulted in the 0.8% decline in net income. It is expected that future net earnings and lower income tax rates will more than make up for the 2017 adjustment.

Late in 2017, stockholders approved a 20-for-1 common stock split (See Note 11, pages 30 and 31). All share count numbers in this Annual Report were adjusted to reflect the stock split. The Statements of Stockholders' Equity on page 9 show typical transactions related to the officers' stock option plan, increased equity from net income, and the impact from cash dividends paid to stockholders. The 4.5 cents per share rise in cash dividends represents a 13.8% increase. Note 16 on pages 35 and 36 indicates that the various capital ratio calculations monitored by regulators are all above the levels to be considered "well capitalized", and in fact, all of those capital ratios increased during 2017.





The Statements of Cash Flows on page 10 shows the changes in loan and deposit balances previously mentioned, as well as Federal Home Loan Bank borrowings. Although there has been a decline in "mortgage loans originated for sale in secondary market", this volume is still perceived to be strong in a period of increasing interest rates, which tend to reduce refinancing activities. The lower level of "cash and cash equivalents at end of year" is actually more representative of normal cash balances than it was at year-end 2016; the cash position tends to be volatile, yet is actively managed on a daily basis.

Also worth reflection are the ***phases*** of CNB. When the original Bank was founded in 1888, there were few employees, directors, and stockholders; a relatively small group of customers; and one location to serve them. One hundred years later, having survived a depression, several recessions, and two World Wars, the Bank's basic structure was largely the same (although it had grown to $84 million and was operating through its first mainframe computer). Yet, one new phase had been initiated through formation of a holding company in 1984, which facilitated our expansion with the acquisitions of four other banks and a branch during the period from 1996-2009, and the start-up of de novo branches in Cook County subsequent to that. Another phase began in 2010-11 with the merge of our charters back into one bank under the name CNB Bank & Trust, complete with thirteen branch locations in as many communities.

Now we look forward to yet another phase for CNB, the pending acquisition of Jacksonville Bancorp, Inc. expected to close the second quarter of 2018 (see Note 17 on page 36). Our corporate attorney characterizes this transaction as “transformational”, as it includes capital support of an institutional investor group and will take CNB over the $1 billion total asset level. Expectations of regulators and stockholders rise proportionally.

Management’s anticipation of the opportunities to better serve our customers and stockholders in this new phase brings the look of both satisfaction and determination to our faces. We believe the expanded market is a great fit within our footprint, and the JSB staff is also well trained in product knowledge and quality service. We fully intend to keep our stockholders’ and customers’ faces smiling.

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

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

CNB Sponsored Events

Cummings, Ristau & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Board of Directors
CNB Bank Shares, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CNB Bank Shares, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Bank Shares, Inc. and subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cummings, Ristau & Associates, P.C.

St. Louis, Missouri
February 13, 2018

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2017 and 2016

ASSETS	**2017**	2016
Cash and due from banks (note 2)	**$ 32,216,948**	24,743,482
Interest-earning deposits in other financial institutions	**22,238,980**	46,802,842
Investments in available-for-sale debt and equity securities (note 3)	**148,895,251**	149,431,900
Mortgage loans held for sale	**469,180**	321,976
Loans (notes 4 and 9)	**716,150,270**	692,834,357
Less:		
Deferred loan fees, net of related costs	**(515,184)**	(454,009)
Reserve for possible loan losses	**(8,579,439)**	(8,767,469)
Net loans	**707,055,647**	683,612,879
Bank premises and equipment, net (note 5)	**13,157,360**	13,310,517
Accrued interest receivable	**6,971,229**	6,357,845
Bank-owned life insurance policies (note 12)	**4,901,869**	4,838,668
Identifiable intangible assets, net of accumulated amortization of $5,471,974 and $5,456,900 at December 31, 2017 and 2016, respectively	**753,816**	1,114,454
Goodwill	**4,526,325**	4,526,325
Other assets (note 7)	**4,685,030**	6,610,168
	$ 945,871,635	941,671,056

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (note 6):		
Noninterest-bearing	**$ 132,666,564**	133,170,428
Interest-bearing	**688,017,673**	698,999,143
Total deposits	**820,684,237**	832,169,571
Short-term borrowings (note 8)	**15,173,266**	14,142,064
Accrued interest payable	**1,056,947**	811,540
Federal Home Loan Bank borrowings (note 9)	**16,507,690**	8,888,383
Notes payable (note 10)	**1,846,925**	2,846,925
Other liabilities (note 12)	**6,922,172**	5,885,119
Total liabilities	**862,191,237**	864,743,602
Commitments and contingencies (notes 13 and 15)		
Stockholders' equity (notes 11, 14, and 16):		
Preferred stock, $1 par value; 200,000 shares authorized, no shares issued	**–**	–
Common stock, $0.05 par value; 20,000,000 shares authorized, 5,254,200 shares issued and outstanding	**262,710**	262,710
Surplus	**8,929,106**	8,678,204
Retained earnings	**79,966,720**	73,483,743
Treasury stock, at cost – 476,320 and 486,160 shares at December 31, 2017 and 2016, respectively	**(5,265,582)**	(4,923,207)
Accumulated other comprehensive income (loss) – net unrealized holding gains (losses) on available-for-sale securities	**(212,556)**	(573,996)
Total stockholders' equity	**83,680,398**	76,927,454
	$ 945,871,635	941,671,056

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2017 and 2016

	2017	2016
Interest income:		
Interest and fees on loans (note 4)	$ 34,432,532	31,895,926
Interest and dividends on debt and equity securities:		
Taxable	2,159,438	2,181,335
Exempt from federal income taxes	1,792,681	1,690,968
Interest on short-term investments	464,968	136,070
Total interest income	38,849,619	35,904,299
Interest expense:		
Interest on deposits (note 6)	5,325,417	4,902,458
Interest on short-term borrowings (note 8)	66,607	34,041
Interest on longer-term Federal Home Loan Bank borrowings (note 9)	204,913	109,395
Interest on notes payable (note 10)	87,037	106,079
Total interest expense	5,683,974	5,151,973
Net interest income	33,165,645	30,752,326
Provision for possible loan losses (note 4)	2,254,528	1,576,749
Net interest income after provision for possible loan losses	30,911,117	29,175,577
Noninterest income:		
Service charges on deposit accounts	1,321,266	1,231,245
Card-based revenue	1,033,566	991,293
Income from fiduciary activities	1,253,545	1,022,439
Mortgage banking revenues	1,191,233	1,396,155
Increase in cash surrender value of life insurance policies	113,201	97,382
Net gains on sales of investment securities (note 3)	51,096	–
Other noninterest income (note 5)	841,166	599,346
Total noninterest income	5,805,073	5,337,860
Noninterest expense:		
Salaries and employee benefits (notes 11 and 12)	13,655,441	13,067,626
Occupancy and equipment expense (note 5)	3,232,416	3,310,871
Legal and professional fees	730,789	483,306
Postage, printing, and supplies	506,876	510,824
Amortization of intangible assets	602,833	674,345
Other real estate owned expense	146,125	46,838
Advertising expense	733,679	657,504
FDIC insurance assessments	554,000	546,000
Other noninterest expense	3,071,311	2,625,769
Total noninterest expense	23,233,470	21,923,083
Income before applicable income taxes	13,482,720	12,590,354
Applicable income tax expense (note 7)	5,290,805	4,329,026
Net income	$ 8,191,915	8,261,328

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

	2017	2016
Net income	**$ 8,191,915**	8,261,328
Other comprehensive income (loss) before tax:		
Net unrealized gains (losses) on available-for-sale debt and equity securities	**651,730**	(2,591,348)
Reclassification adjustments for net security sale gains included in noninterest income in the consolidated statements of income	**(51,096)**	–
Other comprehensive income (loss) before tax	**600,634**	(2,591,348)
Deferred tax adjustment for tax rate change relating to items in other comprehensive income	**(34,978)**	–
Income tax related to items of other comprehensive income (loss), net of $17,373 in 2017, relating to amounts reclassified out of accumulated comprehensive income (loss)	**(204,216)**	881,059
Total other comprehensive income (loss), net of tax	**361,440**	(1,710,289)
Total comprehensive income	**$ 8,553,355**	6,551,039

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2017 and 2016

	Common stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stock-holders' equity
Balance at December 31, 2015	$ 262,710	8,509,225	66,771,123	(4,733,745)	1,136,293	71,945,606
Net income	–	–	8,261,328	–	–	8,261,328
Compensation expense recorded for stock options granted	–	13,200	–	–	–	13,200
Cash dividends paid – $0.325 per share	–	–	(1,548,708)	–	–	(1,548,708)
Purchase of 57,740 common shares for treasury	–	–	–	(850,157)	–	(850,157)
Stock options exercised – 67,360 common shares from treasury	–	67,300	–	660,695	–	727,995
Tax benefit received on sale of shares from disqualified stock options	–	88,479	–	–	–	88,479
Unrealized net holding losses on available-for-sale securities, net of related tax effect	–	–	–	–	(1,710,289)	(1,710,289)
Balance at December 31, 2016	262,710	8,678,204	73,483,743	(4,923,207)	(573,996)	76,927,454
Net income	–	–	**8,191,915**	–	–	**8,191,915**
Compensation expense recorded for stock options granted	–	**26,830**	–	–	–	**26,830**
Cash dividends paid – $0.37 per share	–	–	**(1,743,916)**	–	–	**(1,743,916)**
Purchase of 80,200 common shares for treasury	–	–	–	**(1,287,637)**	–	**(1,287,637)**
Stock options exercised – 90,040 common shares from treasury	–	**84,044**	–	**945,262**	–	**1,029,306**
Tax benefit received on sale of shares from disqualified stock options	–	**140,028**	–	–	–	**140,028**
Deferred tax adjustment for tax rate change relating to items in other comprehensive income	–	–	**34,978**	–	**(34,978)**	–
Unrealized net holding gains on available-for-sale securities, net of related tax effect	–	–	–	–	**396,418**	**396,418**
Balance at December 31, 2017	**$ 262,710**	**8,929,106**	**79,966,720**	**(5,265,582)**	**(212,556)**	**83,680,398**

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Net income	$	**8,191,915**	8,261,328
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		**3,116,283**	3,298,484
Provision for possible loan losses		**2,254,528**	1,576,749
Net security sale gains and write-downs		**(51,096)**	–
Net cash gains on sales of mortgage loans in secondary market		**(388,793)**	(527,673)
Capitalized mortgage servicing rights		**(242,195)**	(300,897)
Net losses and write-downs on sales of other real estate owned		**120,174**	61,976
Deferred income tax benefit (expense)		**812,845**	(450,974)
Stock option expense		**26,830**	13,200
Increase in accrued interest receivable		**(613,384)**	(435,730)
Increase in accrued interest payable		**245,407**	219,544
Mortgage loans originated for sale in secondary market		**(24,366,704)**	(29,583,799)
Proceeds from mortgage loans sold in secondary market		**24,608,293**	30,617,473
Increase in cash surrender value of life insurance policies, net of mortality costs		**(113,201)**	(97,382)
Other operating activities, net		**1,270,103**	166,900
Net cash provided by operating activities		**14,871,005**	12,819,199
Cash flows from investing activities:			
Proceeds from calls and maturities of and principal payments on available-for-sale debt securities		**23,489,472**	28,607,788
Purchases of available-for-sale debt and equity securities		**(25,685,246)**	(18,491,496)
Proceeds from sales of available-for-sale debt securities		**1,949,892**	–
Redemption of Federal Home Loan Bank stock		**806,054**	–
Net increase in loans		**(26,022,879)**	(56,140,627)
Purchases of bank premises and equipment, net		**(926,032)**	(743,743)
Proceeds from sale of other real estate owned		**214,410**	276,988
Proceeds from redemption of life insurance contract		**50,000**	–
Net cash used in investing activities		**(26,124,329)**	(46,491,090)
Cash flows from financing activities:			
Net increase (decrease) in deposits		**(11,485,334)**	82,358,332
Net increase in short-term borrowings		**1,031,202**	1,006,254
Principal payments on notes payable		**(1,000,000)**	(1,000,000)
Proceeds from Federal Home Loan Bank borrowings		**11,000,000**	5,000,000
Payments of Federal Home Loan Bank borrowings		**(3,380,693)**	(4,379,776)
Stock options exercised		**1,029,306**	727,995
Purchase of treasury stock		**(1,287,637)**	(850,157)
Dividends paid		**(1,743,916)**	(1,548,708)
Net cash provided by (used in) financing activities		**(5,837,072)**	81,313,940
Net increase (decrease) in cash and cash equivalents		**(17,090,396)**	47,642,049
Cash and cash equivalents at beginning of year		**71,546,324**	23,904,275
Cash and cash equivalents at end of year	$	**54,455,928**	71,546,324

See accompanying notes to consolidated financial statements.

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 area. 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 or tax benefits of capital transactions recorded directly to capital accounts. The components of accumulated other comprehensive income are as follows at December 31, 2017 and 2016:

	2017	2016
Net unrealized losses on available-for-sale securities	**$ (269,058)**	(869,692)
Deferred tax effect	**56,502**	295,696
	$ (212,556)	(573,996)

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. Following is certain supplemental information relating to the Company's consolidated statements of cash flows for the years ended December 31, 2017 and 2016:

	2017	2016
Cash paid for:		
Interest	**$ 5,438,567**	4,932,429
Income taxes	**3,843,000**	4,788,000
Noncash transactions:		
Transfers to other real estate owned in settlement of loans	**325,583**	474,630
Loans made to facilitate the sale of other real estate owned	–	157,723
Tax benefit received on sale of shares from disqualified stock options	**140,028**	88,479

Investments in Debt and Equity 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, and any equity securities, 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, 2017 and 2016) 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, 2017 and 2016) 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; 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.

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.

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 three 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, 2017 and 2016 totaled $250,597 and $259,598, 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 no residential real estate loans in process of foreclosure at December 31, 2017.

Intangible Assets

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 a straight-line basis over periods ranging from ten to 15 years. Amortization of the core deposit intangible assets existing at December 31, 2017 will be $290,113 in 2018 and $21,598 in 2019.

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 2017 or 2016.

Federal Home Loan Bank and Federal Reserve Bank Stock

Included in other assets is the Bank's investment in the common stock of the Federal Home Loan Bank of Chicago, which is administered by the Federal Housing Finance Board, and Federal Reserve Bank stock. As a member of the Federal Home Loan Bank system, the Bank is required to maintain a minimum investment in the capital stock of the Federal Home Loan Bank of Chicago. National banks are also required to maintain stock in the Federal Reserve Bank. The Federal Home Loan Bank and Federal Reserve Bank stock is recorded at cost, which represents redemption value. At December 31, 2017 and 2016, the carrying amount of this investment was $1,648,641 and $2,454,695, 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, 2017 and 2016.

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. Such a change occurred in 2017 with the December 22, 2017 enactment of the Tax Cuts and Jobs Act, which reduced the future federal income tax rate from 34% to 21%. The result of this revaluation was a net increase in income tax expense of $690,978 recorded in the Company's 2017 operations, which included additional income tax expense of $34,978 relating to items included in other comprehensive income.

The Company has not had its consolidated federal and state income tax returns examined by the taxing authorities for several years. The Company's consolidated federal and state income tax returns are generally subject to examination by the Internal Revenue Service and State of Illinois for three years after they are filed.

Mortgage Banking Operations

The Bank's mortgage banking operations include the origination of long-term, fixed-rate residential mortgage loans for sale in the secondary market. Upon receipt of an application for a residential real estate loan, the Bank generally locks in an interest rate with the applicable investor and, at the same time, locks 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, 2017 and 2016, the Bank serviced loans totaling $218,988,881 and $225,899,405, respectively, and the net unamortized balances of mortgage servicing rights were $442,105 and $499,964, respectively. No valuation reserve was required on the mortgage servicing rights at December 31, 2017 and 2016, as Company management believes that the 0.20% and 0.22% of total serviced loans represented by the mortgage servicing rights at December 31, 2017 and 2016, respectively, are less than the amount for which such servicing rights could be sold. At December 31, 2017, amortization of mortgage servicing rights for the next five years (assuming no impairment thereof) will be $218,277 in 2018, $130,898 in 2019, $66,332 in 2020, $23,326 in 2021, and $3,272 in 2022.

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 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.

Fair Value Measurements

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

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

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

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

While certain assets and liabilities may be recorded at the lower of cost or fair value as described above on a nonrecurring basis (e.g., impaired loans, loans held for sale, other real estate owned), the only assets or liabilities recorded at fair value on a recurring basis are the Company's Bank-owned life insurance policies and investments in available-for-sale debt and equity securities. No other assets and liabilities are recorded at fair value on a recurring or nonrecurring basis. The Bank-owned life insurance policies are valued at their cash surrender value using Level 1 valuation inputs. The Company's available-for-sale debt and equity 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, 2017 and 2016:

	December 31, 2017			
	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 and equity securities:				
Obligations of U.S. government agencies and corporations	**$ –**	**23,558,492**	**–**	**23,558,492**
Obligations of states and political subdivisions	**–**	**76,634,925**	**–**	**76,634,925**
Mortgage-backed securities	**–**	**48,495,792**	**–**	**48,495,792**
Equity securities	**–**	**206,042**	**–**	**206,042**
Total available-for-sale debt and equity securities	**–**	**148,895,251**	**–**	**148,895,251**
Life insurance policies	**4,901,869**	**–**	**–**	**4,901,869**
	$ 4,901,869	**148,895,251**	**–**	**153,797,120**

	December 31, 2016			
	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 and equity securities:				
Obligations of U.S. government agencies and corporations	$ –	26,014,199	–	26,014,199
Obligations of states and political subdivisions	–	71,199,341	–	71,199,341
Mortgage-backed securities	–	52,012,318	–	52,012,318
Equity securities	–	206,042	–	206,042
Total available-for-sale debt and equity securities	–	149,431,900	–	149,431,900
Life insurance policies	4,838,668	–	–	4,838,668
	$ 4,838,668	149,431,900	–	154,270,568

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statement amounts to conform to the 2017 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, 2017 for possible disclosure through February 13, 2018, 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; however, at December 31, 2017 and 2016, no such reserves were required.

NOTE 3 – INVESTMENTS IN DEBT AND EQUITY SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of debt and equity securities classified as available-for-sale at December 31, 2017 and 2016 are as follows:

2017	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Obligations of U.S. government agencies and corporations	**$ 23,862,855**	**367**	**(304,730)**	**23,558,492**
Obligations of states and political subdivisions	**76,153,881**	**917,104**	**(436,060)**	**76,634,925**
Mortgage-backed securities	**48,941,531**	**191,597**	**(637,336)**	**48,495,792**
Equity securities	**206,042**	**–**	**–**	**206,042**
	$ 149,164,309	**1,109,068**	**(1,378,126)**	**148,895,251**

2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Obligations of U.S. government agencies and corporations	$ 26,470,749	22,109	(478,659)	26,014,199
Obligations of states and political subdivisions	71,464,053	740,815	(1,005,527)	71,199,341
Mortgage-backed securities	52,160,748	489,313	(637,743)	52,012,318
Equity securities	206,042	–	–	206,042
	$ 150,301,592	1,252,237	(2,121,929)	149,431,900

The amortized cost and estimated fair value of debt and equity securities classified as available-for-sale at December 31, 2017, 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	**$ 7,852,963**	**7,866,651**
Due one year through five years	**39,961,334**	**39,727,672**
Due five years through ten years	**34,107,986**	**34,340,647**
Due after ten years	**18,094,453**	**18,258,447**
Mortgage-backed securities	**48,941,531**	**48,495,792**
Equity securities	**206,042**	**206,042**
	$ 149,164,309	**148,895,251**

Provided below is a summary of securities which were in an unrealized loss position at December 31, 2017 and 2016:

2017	**Less than 12 months** Estimated fair value	**Less than 12 months** Unrealized losses	**12 months or more** Estimated fair value	**12 months or more** Unrealized losses	**Total** Estimated fair value	**Total** Unrealized losses
Obligations of U.S. government agencies and corporations	**$ 10,731,014**	**110,384**	**11,077,494**	**194,346**	**21,808,508**	**304,730**
Obligations of states and political subdivisions	**18,135,805**	**169,905**	**6,285,146**	**266,155**	**24,420,951**	**436,060**
Mortgage-backed securities	**19,132,064**	**161,466**	**19,445,453**	**475,870**	**38,577,517**	**637,336**
	$ 47,998,883	**441,755**	**36,808,093**	**936,371**	**84,806,976**	**1,378,126**

2016	Less than 12 months Estimated fair value	Less than 12 months Unrealized losses	12 months or more Estimated fair value	12 months or more Unrealized losses	Total Estimated fair value	Total Unrealized losses
Obligations of U.S. government agencies and corporations	$ 19,623,048	400,326	1,622,262	78,333	21,245,310	478,659
Obligations of states and political subdivisions	32,728,527	905,970	1,910,545	99,557	34,639,072	1,005,527
Mortgage-backed securities	26,961,379	478,586	5,845,968	159,157	32,807,347	637,743
	$ 79,312,954	1,784,882	9,378,775	337,047	88,691,729	2,121,929

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

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 $108,548,000 and $114,100,000 at December 31, 2017 and 2016, respectively. The Bank has also pledged an $8,000,000 letter of credit from the Federal Home Loan Bank of Chicago as additional collateral to secure public funds at December 31, 2017 and 2016.

During 2017, certain available-for-sale securities were sold for proceeds totaling $1,949,892, resulting in gross gains $54,002, and gross losses of $2,906. No available-for-sale securities were sold during 2016.

NOTE 4 – LOANS

The composition of the loan portfolio at December 31, 2017 and 2016 is as follows:

	2017	2016
Commercial:		
Real estate	**$ 178,935,183**	166,403,856
Agricultural production	**84,140,086**	90,192,429
Other	**134,205,096**	129,878,119
Real estate:		
Construction	**39,217,672**	35,084,646
Residential	**134,629,219**	136,390,221
Farmland	**133,336,874**	123,393,725
Consumer	**11,686,140**	11,491,361
	$ 716,150,270	692,834,357

The Bank grants commercial, industrial, residential, agricultural, and consumer loans throughout south-central Illinois, suburban southwestern Chicago, and the St. Louis, Missouri metropolitan area. With the exception of agricultural credits, the Bank does not have any particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate in the Bank's market area. 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 $143,870 and $80,291 at December 31, 2017 and 2016, respectively.

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

Commercial real estate loans are secured by various commercial property types, a majority of which are owner-occupied and in the Bank's market area. The Bank originates commercial real estate loans with a typical term of three or five years with an adjustable rate feature generally tied to the three- or five-year U.S. Treasury bill index, the London Interbank Offering Rate (LIBOR), or the prime commercial rate as quoted by *The Wall Street Journal*. These loans are typically amortized over 15 or 20 years. Strict underwriting standards are in place that include, but are not limited to, independent appraisals, cash flow analyses, creditworthiness, experience, and management.

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. 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 indexed to the prime commercial rate as quoted by *The Wall Street Journal*, LIBOR, or the one-, three-, or five-year U.S. Treasury bill. 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 nine 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 area. 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 adjust after one, three, or five years. The interest rate adjustments are tied to either a U.S. Treasury bill index, LIBOR, or the prime commercial rate as quoted by *The Wall Street Journal*. 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 area. The underwriting criteria is much the same as other loans; i.e., loan-to-value coverage, repayment ability, and creditworthiness are paramount. Farm real estate loans may be structured to coincide with the seasonal nature of agriculture. In determining the loan-to-value coverage, the Bank utilizes appraisers that are familiar with agricultural real estate values.

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

At December 31, 2017 and 2016, the Bank had loans outstanding to the agricultural sector of $217,476,960 and $213,586,154, respectively, which comprised 30.4% and 30.8%, 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 $4,180,805 and $5,003,559 at December 31, 2017 and 2016, 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, 2017 is as follows:

Balance, December 31, 2016	$ 5,003,559
New loans made	4,395,933
Payments received	(5,218,687)
Balance, December 31, 2017	$ 4,180,805

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, 2017 and 2016:

	2017							
	Commercial			Real estate				
	Real estate	Agricultural production	Other	Construction	Residential	Farmland	Consumer	Total
Reserve for possible loan losses:								
Beginning balance	$ 2,370,694	1,191,671	3,048,289	310,497	1,078,305	501,442	266,571	8,767,469
Charge-offs	(189,950)	(1,627,365)	(612,144)	–	(157,557)	–	(217,496)	(2,804,512)
Recoveries	40,467	1,350	244,687	–	50,568	–	24,882	361,954
Provision	48,821	2,055,330	(112,149)	43,639	155	29,279	189,453	2,254,528
Ending balance	$ 2,270,032	1,620,986	2,568,683	354,136	971,471	530,721	263,410	8,579,439
Reserve allocations:								
Individually evaluated for impairment	$ 71,362	345,597	91,178	–	–	–	25,913	534,050
Collectively evaluated for impairment	2,198,670	1,275,389	2,477,505	354,136	971,471	530,721	237,497	8,045,389
Ending balance	$ 2,270,032	1,620,986	2,568,683	354,136	971,471	530,721	263,410	8,579,439
Loans:								
Individually evaluated for impairment	$ 4,105,879	6,903,414	1,523,636	49,999	2,296,168	17,537,326	424,435	32,840,857
Collectively evaluated for impairment	174,829,304	77,236,672	132,681,460	39,167,673	132,333,051	115,799,548	11,261,705	683,309,413
Ending balance	$ 178,935,183	84,140,086	134,205,096	39,217,672	134,629,219	133,336,874	11,686,140	716,150,270

	2016							
	Commercial			Real estate				
	Real estate	Agricultural production	Other	Construction	Residential	Farmland	Consumer	Total
Reserve for possible loan losses:								
Beginning balance	$ 2,006,215	814,952	2,556,950	535,466	937,312	396,188	141,418	7,388,501
Charge-offs	(126,543)	–	(76,267)	–	(107,666)	–	(76,331)	(386,807)
Recoveries	320	–	139,004	–	31,183	–	18,519	189,026
Provision	490,702	376,719	428,602	(224,969)	217,476	105,254	182,965	1,576,749
Ending balance	$ 2,370,694	1,191,671	3,048,289	310,497	1,078,305	501,442	266,571	8,767,469
Reserve allocations:								
Individually evaluated for impairment	$ 234,000	116,000	340,180	–	88,000	–	57,000	835,180
Collectively evaluated for impairment	2,136,694	1,075,671	2,708,109	310,497	990,305	501,442	209,571	7,932,289
Ending balance	$ 2,370,694	1,191,671	3,048,289	310,497	1,078,305	501,442	266,571	8,767,469
Loans:								
Individually evaluated for impairment	$ 4,351,017	10,803,887	3,110,999	–	2,482,206	15,143,862	324,502	36,216,473
Collectively evaluated for impairment	162,052,839	79,388,542	126,767,120	35,084,646	133,908,015	108,249,863	11,166,859	656,617,884
Ending balance	$ 166,403,856	90,192,429	129,878,119	35,084,646	136,390,221	123,393,725	11,491,361	692,834,357

A summary of impaired loans by type for the years ended December 31, 2017 and 2016 is as follows:

	2017						
	Unpaid principal balance	Recorded investment with no reserve	Recorded investment with reserve	Total recorded investment	Related reserve	Average recorded investment	Interest income recognized
Commercial:							
Real estate	$ 311,638	–	311,638	311,638	71,362	182,448	–
Agricultural production	1,325,566	–	1,325,863	1,325,863	345,597	1,709,700	–
Other	91,178	–	91,178	91,178	91,178	344,443	5,739
Real estate:							
Construction	–	–	–	–	–	–	–
Residential	–	–	–	–	–	56,063	–
Farmland	–	–	–	–	–	59,133	–
Consumer	132,261	66,462	42,218	108,680	25,913	88,193	–
	$ 1,860,643	66,462	1,770,897	1,837,359	534,050	2,439,980	5,739

	2016						
	Unpaid principal balance	Recorded investment with no reserve	Recorded investment with reserve	Total recorded investment	Related reserve	Average recorded investment	Interest income recognized
Commercial:							
Real estate	$ 545,343	–	545,343	545,343	234,000	506,680	–
Agricultural production	586,222	–	586,222	586,222	116,000	162,930	–
Other	1,186,498	–	1,186,498	1,186,498	340,180	773,878	3,135
Real estate:							
Construction	–	–	–	–	–	–	–
Residential	145,463	37,035	108,428	145,463	88,000	535,014	2,970
Farmland	–	–	–	–	–	–	–
Consumer	66,331	–	66,331	66,331	57,000	57,571	–
	$ 2,529,857	37,035	2,492,822	2,529,857	835,180	2,036,073	6,105

Following is a summary of past-due loans by type and by number of days delinquent at December 31, 2017 and 2016:

	2017						
	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total loans	Recorded investment > 90 days past due and accruing
Commercial:							
Real estate	$ 551,641	222,760	291,677	1,066,078	177,869,105	178,935,183	—
Agricultural production	355,234	–	1,143,151	1,498,385	82,641,701	84,140,086	—
Other	704,578	88,304	301,097	1,093,979	133,111,117	134,205,096	—
Real estate:							
Construction	–	–	49,999	49,999	39,167,673	39,217,672	—
Residential	941,913	538,035	798,728	2,278,676	132,350,543	134,629,219	261,497
Farmland	259,390	3,255,869	948,590	4,463,849	128,873,025	133,336,874	—
Consumer	179,430	88,717	285,329	553,476	11,132,664	11,686,140	—
	$ 2,992,186	4,193,685	3,818,571	11,004,442	705,145,828	716,150,270	261,497

	2016						
	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total loans	Recorded investment > 90 days past due and accruing
Commercial:							
Real estate	$ 1,161,816	129,968	1,167,279	2,459,063	163,944,793	166,403,856	—
Agricultural production	2,248,741	38,100	3,159,715	5,446,556	84,745,873	90,192,429	—
Other	402,641	319,764	977,764	1,700,169	128,177,950	129,878,119	—
Real estate:							
Construction	40,744	—	—	40,744	35,043,902	35,084,646	—
Residential	1,105,116	324,533	897,042	2,326,691	134,063,530	136,390,221	118,204
Farmland	1,018,414	246,833	517,535	1,782,782	121,610,943	123,393,725	—
Consumer	208,769	160,498	34,566	403,833	11,087,528	11,491,361	—
	$ 6,186,241	1,219,696	6,753,901	14,159,838	678,674,519	692,834,357	118,204

Following is a summary of loans on nonaccrual status by type at December 31, 2017 and 2016:

	2017	2016
Commercial:		
Real estate	**$ 847,656**	2,261,773
Agricultural production	**2,110,388**	4,489,073
Other	**502,745**	1,846,050
Real estate:		
Construction	**49,999**	—
Residential	**895,788**	1,287,248
Farmland	**1,297,297**	832,940
Consumer	**323,632**	179,334
	$ 6,027,505	10,896,418

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

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

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

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

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

The following table presents the credit risk profile of the Bank's loan portfolio based on rating category as of December 31, 2017 and 2016:

	2017							
Grade	Commercial real estate	Agricultural production	Commercial other	Real estate construction	Residential real estate	Farmland	Consumer	Total
Pass	$ 174,829,304	77,236,672	132,681,460	39,167,673	132,333,051	115,799,548	11,261,705	683,309,413
Watch	2,432,215	2,044,721	709,222	–	1,138,074	7,673,817	71,634	14,069,683
Substandard	1,673,664	4,858,693	814,414	49,999	1,158,094	9,863,509	352,801	18,771,174
Doubtful	–	–	–	–	–	–	–	–
	$ 178,935,183	84,140,086	134,205,096	39,217,672	134,629,219	133,336,874	11,686,140	716,150,270

	2016							
Grade	Commercial real estate	Agricultural production	Commercial other	Real estate construction	Residential real estate	Farmland	Consumer	Total
Pass	$ 162,052,839	79,388,542	126,767,120	35,084,646	133,908,015	108,249,863	11,166,859	656,617,884
Watch	1,276,505	2,800,725	1,062,431	–	796,741	10,416,302	47,509	16,400,213
Substandard	3,074,512	8,003,162	2,048,568	–	1,685,465	4,727,560	276,993	19,816,260
Doubtful	–	–	–	–	–	–	–	–
	$ 166,403,856	90,192,429	129,878,119	35,084,646	136,390,221	123,393,725	11,491,361	692,834,357

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.

The Bank had no loan modifications during the years ended December 31, 2017 and 2016 which met the definition of troubled debt restructured loans.

NOTE 5 – BANK PREMISES AND EQUIPMENT

A summary of Bank premises and equipment at December 31, 2017 and 2016 is as follows:

	2017	2016
Land	**$ 2,062,112**	1,947,388
Buildings and improvements	**14,817,336**	14,399,177
Furniture, fixtures, and equipment	**9,274,656**	9,017,655
	26,154,104	25,364,220
Less accumulated depreciation and amortization	**12,996,744**	12,053,703
	$ 13,157,360	13,310,517

Amounts charged to noninterest expense for depreciation and amortization aggregated $1,079,189 and $1,155,477 for the years ended December 31, 2017 and 2016, 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, 2017, for each of the next five years, and in the aggregate, are as follows:

Year ending December 31:	
2018	$ 316,186
2019	306,786
2020	305,893
2021	277,096
2022	268,645
Thereafter	570,651
Total minimum payments required	$ 2,045,257

The Company also leases certain equipment under agreements that are cancelable with 30 to 90 days notice. Total rent expense for 2017 and 2016 was $214,446 and $196,675, respectively.

The Bank leases a portion of its banking facilities to unaffiliated entities under noncancelable leases that expire at various dates through 2020. Minimum rental commitments under these noncancelable operating lease agreements at December 31, 2017, for each of the next three years, and in the aggregate, are as follows:

Year ending December 31:	
2018	$ 40,770
2019	40,770
2020	27,180
Total minimum payments required	$ 108,720

The Company also leases a portion of its banking facilities under agreements that are cancelable with 30 to 90 days' notice. Total rental income for 2017 and 2016 was $147,119 and $135,313, respectively.

NOTE 6 – DEPOSITS

A summary of interest-bearing deposits at December 31, 2017 and 2016 is as follows:

	2017	2016
Interest-bearing transaction accounts	**$ 130,144,983**	146,593,490
Savings	**243,486,927**	254,790,549
Time deposits	**314,385,763**	297,615,104
	$ 688,017,673	698,999,143

Deposits of executive officers, directors, and their related interests at December 31, 2017 and 2016 totaled $1,623,883 and $2,321,700, respectively.

Interest expense on deposits for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Interest-bearing transaction accounts	**$ 716,516**	663,181
Savings	**1,467,107**	1,471,928
Time deposits	**3,141,794**	2,767,349
	$ 5,325,417	4,902,458

Time deposits meeting or exceeding the FDIC insurance limit of $250,000 totaled $77,309,653 and $68,620,013 at December 31, 2017 and 2016, respectively. Following are the maturities of time deposits for each of the next five years and in the aggregate at December 31, 2017:

Year ending December 31:	
2018	$ 248,494,705
2019	36,387,944
2020	23,598,471
2021	4,169,717
2022	1,734,926
	$ 314,385,763

NOTE 7 – INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Current:		
Federal	**$ 3,443,644**	3,778,761
State	**1,034,316**	1,001,239
Deferred	**812,845**	(450,974)
	$ 5,290,805	4,329,026

A reconciliation of expected income tax expense computed by applying the federal statutory rate of 34% to income before applicable income taxes, for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Expected statutory federal income tax	**$ 4,584,125**	4,280,720
Tax-exempt interest and dividend income	**(687,749)**	(643,744)
State tax, net of related federal benefit	**682,649**	660,818
Deferred tax adjustment for tax rate change	**690,978**	—
Other, net	**20,802**	31,232
	$ 5,290,805	4,329,026

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2017 and 2016 are presented below:

	2017	2016
Deferred tax assets:		
Reserve for possible loan losses	**$ 2,326,219**	3,280,318
Deferred compensation	**572,036**	734,462
Intangible assets	—	79,001
Available-for-sale securities – net losses	**56,502**	295,696
Other, net	**421,954**	148,921
Total deferred tax assets	**3,376,711**	4,538,398
Deferred tax liabilities:		
Bank premises and equipment	**(1,008,778)**	(1,500,081)
Intangible assets	**(197,181)**	—
Other, net	**(184,474)**	—
Total deferred tax liabilities	**(1,390,433)**	(1,500,081)
Net deferred tax assets	**$ 1,986,278**	3,038,317

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, 2017 and 2016, 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

Following is a summary of the Company's short-term borrowings at December 31, 2017 and 2016:

	2017	2016
Funds purchased	**$ –**	2,000,000
Securities sold under repurchase agreements	**15,173,266**	12,142,064
	$ 15,173,266	14,142,064

Securities sold under repurchase agreements are collateralized by debt securities consisting of $17,756,930 (which includes $6,807,457 of obligations of U.S. government agencies and corporations and mortgage-backed securities, and $10,949,473 of obligations of states and political subdivisions) and $18,287,206 at December 31, 2017 and 2016, respectively. 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, 2017 and 2016, and the average rates at each year-end for funds purchased and securities sold under repurchase agreements, are as follows:

	2017	2016
Average balance	**$ 13,256,839**	12,495,059
Weighted average interest rate paid during the year	**0.50%**	0.27%
Maximum amount outstanding at any month-end	**$ 19,019,071**	15,490,450
Average rate at end of year	**0.52%**	0.30%

NOTE 9 – FEDERAL HOME LOAN BANK BORROWINGS

At December 31, 2017, the Bank had fixed-rate advances outstanding with the Federal Home Loan Bank of Chicago, maturing as follows:

	Amount	Weighted average rate
Due in 2018	$ 1,760,000	1.84%
Due in 2019	2,500,000	1.76%
Due in 2020	4,247,690	1.60%
Due in 2021	2,000,000	1.45%
Due in 2022	4,000,000	1.96%
Due in 2026	2,000,000	2.06%
	$16,507,690	

At December 31, 2017, the Bank maintained a line of credit for $113,142,003 with the Federal Home Loan Bank of Chicago and had availability under this line of $88,634,313. 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, and multifamily real estate loans totaling $211,272,947 at December 31, 2017.

NOTE 10 – NOTES PAYABLE

Following is a summary of the Company's notes payable at December 31, 2017 and 2016:

	2017	2016
Revolving line of credit note payable	$ –	–
Term note payable	1,846,925	2,846,925
	$ 1,846,925	2,846,925

The Company maintains two notes payable borrowing arrangements with an unaffiliated financial institution. The term note payable had an original balance of $5,368,359, matures on March 28, 2020, requires quarterly principal and interest payments of $156,718 at a fixed rate of 3.68%, with the balance due at maturity. The revolving line of credit note payable has a maximum availability of $5,000,000, matures on March 28, 2018, and requires quarterly interest payments at a variable rate of the 30-day LIBOR plus 2.50%. The line of credit note payable has not been drawn upon since the loan's inception and is fully available at December 31, 2017 for future advances.

The notes payable are secured by the common stock of the Bank, with a book value of $83,752,503 at December 31, 2017, 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, 2017 and 2016, the Company was in compliance with all of the financial ratios and covenants specified in the notes payable agreements. Company management does not believe the covenants will restrict its future operations. The weighted average interest rates paid on the notes payable in 2017 and 2016 were 3.55% and 3.06%, respectively.

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, 2017, 5,254,200 shares were issued and outstanding (including 476,320 shares held in treasury). In 2017, a 20-for-1 common stock split, concurrent with a reduction in the par value of common stock from $1.00 to $0.05 per share, was approved by the Company's shareholders and distributed in September 2017. All share and per share amounts, and common stock outstanding for all periods presented prior to that time have been retroactively adjusted to reflect the stock split and concurrent reduction in par value.

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, 2017. 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, none of which has been issued at December 31, 2017. 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.

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, 2017, 1,661,400 options to purchase common shares are available for future grants.

A summary of the activity of nonvested options for the years ended December 31, 2017 and 2016 is as follows:

	Number of shares	Weighted average grant date fair value
Nonvested at December 31, 2015	353,980	$ 0.34
Granted	138,100	–
Vested	(102,620)	0.35
Forfeited	(22,880)	0.33
Nonvested at December 31, 2016	366,580	0.21
Granted	138,600	0.29
Vested	(115,100)	0.20
Forfeited	(11,260)	0.21
Nonvested at December 31, 2017	378,820	0.24

Following is a summary of stock option activity for the years ended December 31, 2017 and 2016:

	Weighted average option price per share	Number of shares	Remaining contractual term (years)	Aggregate intrinsic value per option share
Outstanding at December 31, 2015	$ 12.16	734,820		
Granted	15.55	138,100		
Exercised	10.81	(67,360)		
Forfeited	12.32	(31,880)		
Outstanding at December 31, 2016	12.87	773,680	6.38	$ 2.68
Exercisable at December 31, 2016	$ 11.65	407,100	4.66	$ 3.90
Outstanding at December 31, 2016	$ 12.87	773,680		
Granted	16.90	138,600		
Exercised	11.43	(90,040)		
Forfeited	14.27	(11,260)		
Outstanding at December 31, 2017	13.70	810,980	6.31	$ 3.20
Exercisable at December 31, 2017	$ 12.22	432,160	4.59	$ 4.68

The total intrinsic value of options exercised during 2017 and 2016 was $411,937 and $266,378, respectively. At December 31, 2017, the total unrecognized compensation expense related to nonvested stock options was $82,694, and the related weighted average period over which it is expected to be recognized is approximately 3.07 years.

During 2017 and 2016, 138,600 and 138,100 shares, respectively, were granted with weighted average per share option prices at the date of grant of $16.90 and $15.55, respectively. 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 2017 and 2016 were estimated to be $0.29 and $0, respectively, 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, 2017 and 2016. These assumptions include no volatility in the Company's stock price, 2.09% and 2.05% dividends paid on common stock in 2017 and 2016, respectively, 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.

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 $516,580 and $403,505 for the years ended December 31, 2017 and 2016, 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 $1,477,788 is included in other liabilities in the consolidated balance sheet at December 31, 2017, 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

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

Following are condensed balance sheets as of December 31, 2017 and 2016 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	**2017**	2016
Assets:		
Cash	**$ 24**	89
Investment in subsidiary bank	**83,753**	78,108
Available-for-sale equity securities	**57**	57
Life insurance policies	**685**	673
Income tax receivable	**1,316**	1,128
Property and equipment, net	**19**	27
Total assets	**$ 85,854**	80,082
Liabilities:		
Accounts payable	**$ 327**	308
Notes payable	**1,847**	2,847
Total liabilities	**2,174**	3,155
Total stockholders' equity	**83,680**	76,927
Total liabilities and stockholders' equity	**$ 85,854**	80,082

Condensed Schedules of Income	**2017**	2016
Revenue:		
Cash dividends from subsidiary bank	**$ 3,200**	2,765
Other income	**12**	13
Total revenue	**3,212**	2,778
Expenses:		
Salaries and benefits	**27**	13
Interest expense	**87**	106
Depreciation	**8**	9
Miscellaneous expenses	**275**	147
Total expenses	**397**	275
Income before income tax benefit and equity in undistributed net income of subsidiary bank	**2,815**	2,503
Income tax benefit	**128**	107
	2,943	2,610
Equity in undistributed net income of subsidiary bank	**5,249**	5,651
Net income	**$ 8,192**	8,261

Condensed Schedules of Cash Flows	2017	2016
Cash flows from operating activities:		
Net income	$ 8,192	8,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary bank	(5,249)	(5,651)
Increase in cash surrender value of life insurance policies	(12)	(13)
Depreciation	8	9
Stock option expense	27	13
Other, net	(28)	(13)
Cash provided by operating activities	2,938	2,606
Cash flows from investing activities – equipment purchases	–	(8)
Cash flows from financing activities:		
Principal payments on notes payable	(1,000)	(1,000)
Dividends paid	(1,744)	(1,549)
Purchase of treasury stock	(1,288)	(850)
Stock options exercised	1,029	728
Cash used in financing activities	(3,003)	(2,671)
Net decrease in cash	(65)	(73)
Cash at beginning of year	89	162
Cash at end of year	$ 24	89

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 it does 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, 2017 and 2016:

	2017	2016
Financial instruments for which contractual amounts represent:		
Commitments to extend credit	$ 98,879,094	105,341,914
Standby letters of credit	4,307,648	4,586,217
	$ 103,186,742	109,928,131

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, 2017, $30,010,357 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 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.

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). By regulation, the capital adequacy guidelines for bank holding companies with total consolidated assets of less than $1 billion are applied on a bank-only basis. Accordingly, the Company's consolidated capital levels are not subject to such guidelines at December 31, 2017; however, such guidelines will become applicable should the Company's consolidated total assets grow to over $1 billion. Company management believes, as of December 31, 2017, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, 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 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 Bank management believes have changed the Bank's risk category.

The Bank's actual capital amounts and ratios at December 31, 2017 and 2016 are presented in the following table:

	Actual		For capital adequacy purposes		To be a well-capitalized bank under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands of dollars)			
Total capital (to risk-weighted assets):						
2017	**$ 88,428**	**12.15%**	**$ 58,234**	**≥8.0%**	**$ 72,792**	**≥10.0%**
2016	$ 83,559	11.95%	$ 55,945	≥8.0%	$ 69,931	≥10.0%
Tier 1 capital (to risk-weighted assets):						
2017	**$ 79,527**	**10.93%**	**$ 43,675**	**≥6.0%**	**$ 58,234**	**≥8.0%**
2016	$ 74,813	10.70%	$ 41,959	≥6.0%	$ 55,945	≥8.0%
Common Equity Tier 1 capital (to risk-weighted assets):						
2017	**$ 79,527**	**10.93%**	**$ 32,756**	**≥4.5%**	**$ 47,315**	**≥6.5%**
2016	$ 74,813	10.70%	$ 31,469	≥4.5%	$ 45,455	≥6.5%
Tier 1 capital (to average assets):						
2017	**$ 79,527**	**8.40%**	**$ 37,854**	**≥4.0%**	**$ 47,317**	**≥5.0%**
2016	$ 74,813	8.03%	$ 37,254	≥4.0%	$ 46,567	≥5.0%

NOTE 17 – PENDING ACQUISITION

On January 11, 2018, the Company entered into an agreement to purchase 100% of the outstanding common stock of Jacksonville Bancorp, Inc. (and its wholly owned subsidiary Jacksonville Savings Bank) for cash of approximately $61.6 million. The acquisition is subject to the approval of the various regulatory authorities and the shareholders of Jacksonville Bancorp, Inc. Jacksonville Savings Bank has four locations in central Illinois with total assets of approximately $325 million. The Company believes this acquisition will provide the Company additional expansion opportunities in central Illinois and expects the merger to close in the second quarter of 2018.

BOARD OF DIRECTORS

Front Row, Left to Right:
Judith Baker*∆ , Nancy Ruyle*∆
Middle Row, Left to Right:
Larry Franklin ∆ , Richard Walden*∆, Rick Champley ∆ , Peter Genta*
Back Row, Left to Right:
Ralph Antle*, Shawn Davis*∆, George Yard ∆ , James Ashworth*∆, Jim Salske ∆ , Joe Heitz*, John Boehm ∆

*CNB Bank Shares, Inc. Board Member

∆CNB Bank & Trust, N.A. Board Member

Officer	Title
CNB Bank Shares, Inc.	
James Ashworth	President
Thomas DeRobertis	SVP & Controller
CNB Bank & Trust	
Senior Management	
Shawn Davis	President & CEO
Larry Franklin	EVP & Chief Operating Officer
Operations	
Maureen Oswald	SVP & Cashier
Kimberly Murray	VP Operations
Lisa Wolf	AVP Computer Operations
Kent Brueggemann	VP & Director of Commercial Services & E-Banking
Natalie Magnuson	E-Banking Coordinator
Aaron Shipley	Project Coordinator
Matthew Turley	VP Chief Information Officer
Timothy Bradshaw	Technology & Security Officer
Mark Totsch	Information Security Officer
Credit Administration	
Christopher Williams	SVP & Chief Credit Officer
Eric Pfeiffer	Credit Analyst
Zachary Meyer	Loan Review Officer
Bradley Dobson	AVP Credit Analyst
Jodi Simons	AVP Loan Administrator
Jill Plato	Loan Administration Supervisor II
Debora Zacha	Loan Administration Supervisor II
Roberta Mitchell	Loan Administration Supervisor
Branch Management/Loans	
Gary Graham	Regional President
Anthony Heitzig	Regional President
Andrew Tinberg	Regional President
Mark Haggard	Market President
Daniel Jung	Market President
Kent Richardson	Market President
Robert Straz	Market President
David Hurley	SVP & Commercial Lending Team Leader
Daniel Walsh	VP & Senior Commercial Loan Officer II
Colby Schmid	VP & Senior Commercial Loan Officer
Thomas Schnelt	VP & Senior Commercial Loan Officer
Craig Frankford	VP & Commercial Loan Officer
Thomas Jelinek	VP & Commercial Loan Officer
James Rathgeb	VP & Commercial Loan Officer
Jordan Ruppert	VP & Commercial Loan Officer
Gavin Weir	VP & Commercial Loan Officer
Kelli Chasteen	VP & Senior Retail Loan Officer
Gregory Paetow	VP & Business Development Officer
Noelle Flesner	VP & Commercial Ag Officer II
Matthew Eschbach	AVP & Commercial Loan Officer
Craig Gamrath	AVP & Commercial Loan Officer
Daniel Henry	AVP & Commercial Loan Officer
Gordon Rahe	AVP & Commercial Loan Officer
Michael Brokaw	Commercial Loan Officer
Evan Campbell	AVP & Commercial Loan Officer
Michael Davis	Commercial Loan Officer
Andrew Abraham	Commercial Ag Officer

Officer	Title
Jarrett Norris	Commercial Loan Officer
James Sanderson	Commercial Loan Officer
Jack Tinberg	Commercial Loan Officer
Kelly Dulakis	AVP & Retail Lending Officer
Susan Montgomery	AVP & Retail Lending Officer
Michele Martin	Retail Lending Officer & Coordinating Supervisor
Amy Roady	Retail Lending Officer & CSR Supervisor II
Diane Heitzig	Retail Loan Officer
Roberta Wyatt	Loan Administration Supervisor
Debora Zacha	Loan Administration Supervisor
Mortgage	
Sally James	VP Mortgage Lending
Rose Best	AVP Loan Servicing Supervisor
Laura Gerdes	Mortgage Loan Underwriter & Processing Supervisor II
Deposits	
JoAnn Garland	AVP & Senior Regional CSR Supervisor
Heather Jones	Regional CSR Manager
Barbara Bergamo	Regional CSR Supervisor
Cortney Dornhecker	CSR Supervisor
Karen Draper	Retail Lending Officer & CSR Supervisor
Carol Wills	Lead CSR & IRA Specialist
Jeanie Glass	AVP & Regional Teller Supervisor
Angela Levora	AVP & Regional Teller Supervisor
Kelly Wood	AVP & Regional Teller Supervisor
Ann Weller	Assistant Cashier & Teller Supervisor
Debbie Beilsmith	Teller Supervisor
Tina Carter	Teller Supervisor
Angela Hunn	Teller Supervisor
Kendra Lane	Teller Supervisor
Shelley Malik	Teller Supervisor
Jacqueline Schilling	Teller Supervisor
Deborah Stepp	Teller Supervisor
Marketing	
Shelley Singleton	Director of Marketing
Katie Nicholson	CRM Officer & Training Coordinator
Human Resources	
Angel Hopper	VP & Director of Human Resources
Aaron Wilson	Recruiter & HR Specialist
Corporate Services	
Sallie Bowers	AVP BSA Officer & Assistant Controller
Carol Fletcher	CRA & Compliance Officer
Shelley Tallant	Accounts Payable Supervisor
Lori McCoy	Administrative Assistant
Trust/Wealth Management	
Darlene Ward	SVP Trust
Terry Daniels	Director of Trust Investments
Victor Henson	Trust Officer
Ruth Menz	Trust Operations Officer
Matthew Slightom	Farm & Assistant Portfolio Manager
Tina Worthen	Trust Tax Specialist

NOTES

Great News!
CNB Bank Shares, Inc.
2017 Annual Report
is available online:
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