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 **CNB BANK SHARES, INC.**  
ANNUAL REPORT 2021

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James T. Ashworth  
President of CNB Bank Shares, Inc.;  
Vice Chairman of CNB Bank Shares, Inc.  
and CNB Bank & Trust, N.A.

Shawn Davis  
President and CEO of CNB Bank & Trust, N.A.;  
Senior Vice President of CNB Bank Shares, Inc.

## MANAGEMENT REPORT

The year 2021 was the second year of the COVID-19 pandemic. Although we have all grown weary of how nearly everything that touches the US and worldwide economy is now bracketed by COVID impacts, we press on with efforts toward “normalcy”, as defined before the outbreak. Yet it is apparent that some of those impacts have altered or accelerated trends in more permanent ways, such as home delivery versus shopping in stores. Conveyance of banking services is clearly among those examples.

In the 1960’s, the board and management at Carlinville National Bank (now CNB’s headquarters) grappled with the prospect of building a drive-up addition to its facility. Could the expense of property, equipment, and personnel be justified, without directly related revenues to offset the overhead? Of course, the decision was made to move forward with the project, and within a decade, bank drive-ups

became not only commonplace, but necessary in order to compete. Thank goodness for our drive-ups during the pandemic, when for many months lobbies were closed for all but scheduled appointments.

In 1980 the US government deregulated interest on deposits, allowing for N.O.W. and money market accounts. CNB’s “posting machines” would not be able to handle that change, so our first computer was installed in order to efficiently process all deposit and loan transactions. The exponential effects of “Moore’s Law” over the past 40 years (an observation that the number of transistors able to be placed on an integrated circuit doubles about every two years) has allowed computer processing speed and efficiency to keep pace with the creativity of computer programmers. Today, the cell phones in our pockets are Internet connected to banking services, and innovation continues at breakneck speed.

Senior Operations Officer, Deborah McDowell, and Executive Vice President & Chief Operating Officer, Maureen Oswald, discuss efficiency and account acquisition performance to aid in planning for 2022 Strategic Planning efforts.



As you read this management report on CNB’s year, you will learn of the advances made, underway, and contemplated for every department and region in the Bank’s market area. In keeping with our strategic plan, a “digital transformation” is underway, and quite evident at CNB.

The **Operations Department** at CNB serves all branches of our three regions. The mainframe computer and core banking software installed in 1980 have been upgraded several times since then. In 2021 CNB engaged Cornerstone Advisors to help us review our in-house core processing versus other options, and aid in negotiations with related hardware and software vendors for their services. A decision was made to retain Fiserv software as “best in breed”, yet migrate to outsourced processing, which will improve internal efficiencies and allow for deploying personnel towards more direct customer service tasks. The negotiations resulted in several upcoming enhancements to be activated through the core, as well as planned interfaces with peripheral systems. An example of such an application is Q2Gro software which provides CNB customers with an online deposit account opening option. In addition to software enhancements, Operations also oversaw selection and installation of video conferencing equipment for CNB’s board room, and a cash recycler for the Jacksonville drive-up,

which increases efficiency. Contactless debit cards are now being provided as new cards are issued and for customers who so request. Our focus on digital transformation also includes talent recruitment, such as the hiring of Deborah McDowell as Supervisor to Deposit Services/Debit Card Maintenance.

In March of 2021, CNB’s **Human Resources Department (HR)** converted the Bank’s 401(k) plan recordkeeping process to its own Wealth Management Group, which provides those services to other Trust Department clients. An even larger project which began in June, was conversion of the HR Information System software from ADP to UKG. This package of core HR software improves efficiency in many ways. Redundant manual entry of basic HR data is eliminated, and for those employees required to be on a time clock, there has been a reduction of approximately 60% in “missed punches” by allowing for mobile clocking. The UKG system also allowed CNB to revamp our applicant process to paperless when recruiting for open positions, improving the

Regional President, Gary Graham, shows off the new video teller system installed in each lane of the drive-up of the Carlinville branch while Christopher Redshaw is ready to greet customers via video feed.

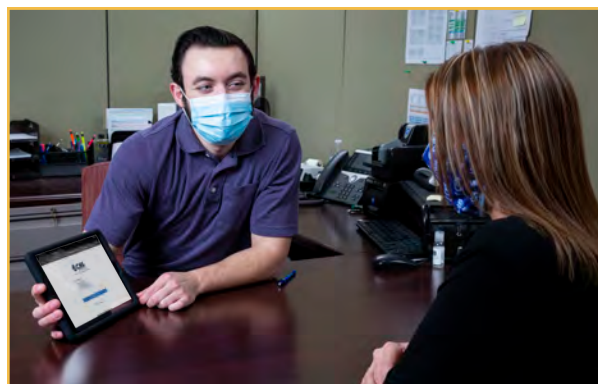


From Left: Wealth Management Group members, Pam Ramsey, Terry Daniels, Matt Slightom and Marian Toth wait to serve customers lunch during the Edwardsville / Glen Carbon Grand opening event held June 19, 2021.



applicant experience. And new hires can now be onboarded online, where the new employee can input necessary HR forms and be introduced to specific benefits prior to their first day on the job. Essentially, moving away from manual and paper-intensive processes into a streamlined integrated HRIS system improves the employer/employee relationship for each step of the employee life cycle.

Consistent with industry trends, loan demand has declined during the pandemic. Yet, at CNB we still processed over 3,200 new commercial and consumer loans in 2021, in addition to the continued strong volume of residential mortgage loan originations in this low interest rate environment. An additional credit analyst has been hired to help with commercial loan underwriting. Plans are to add a digital solution for consumer loan origination in 2022.

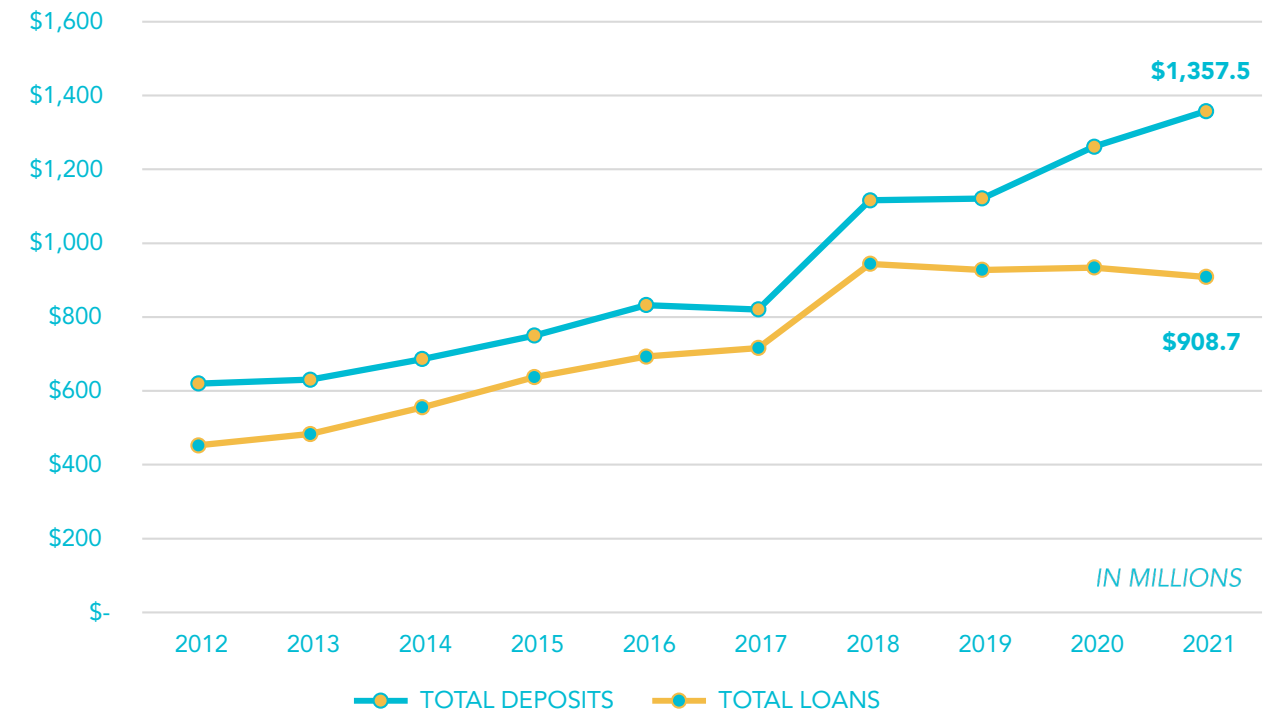


Universal Banker, Tucker Green, demonstrates the ease of online account opening on a newly issued iPad.

The Wealth Management Group (WMG) of CNB's Trust Department continued its trend of growth and expansion during 2021, reaching \$457 million in assets under management, an increase of nearly 35%. In December the WMG completed a major software conversion that will improve operational efficiencies and enhance the customer experience. On the horizon for 2022, software upgrades will allow clients and prospects to open accounts online with a private link to aggregate account information. Farm Management increased acreage under management 5.9% year-over-year; total acreage now exceeds 13,000, an increase of more than 47% since 2015.

CNB's Marketing Department oversaw the implementation of a "search engine optimization" software platform designed to boost the Bank's online presence. Also, a project management package was incorporated to track progress, enhance reporting for advertising audits, and hold compliance records. CNB's Customer Relationship Management software strategies were updated to facilitate client onboarding, and to communicate with customers regarding their Paycheck Protection Program (PPP) loans.

Our regional network of banking facilities also received a few upgrades during the year, including a new communication system and delivery tubes at the drive-up in Carlinville, and new ATMs in Litchfield and Jacksonville. A transition to Universal Bankers throughout all locations (combining traditional teller services



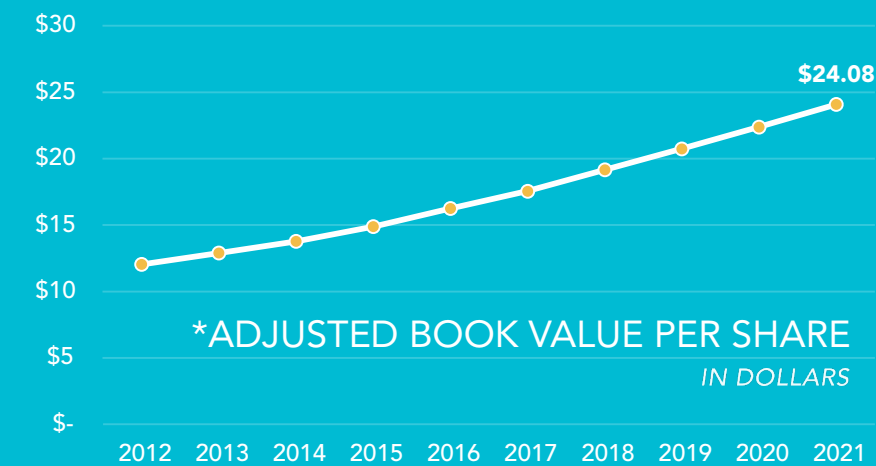
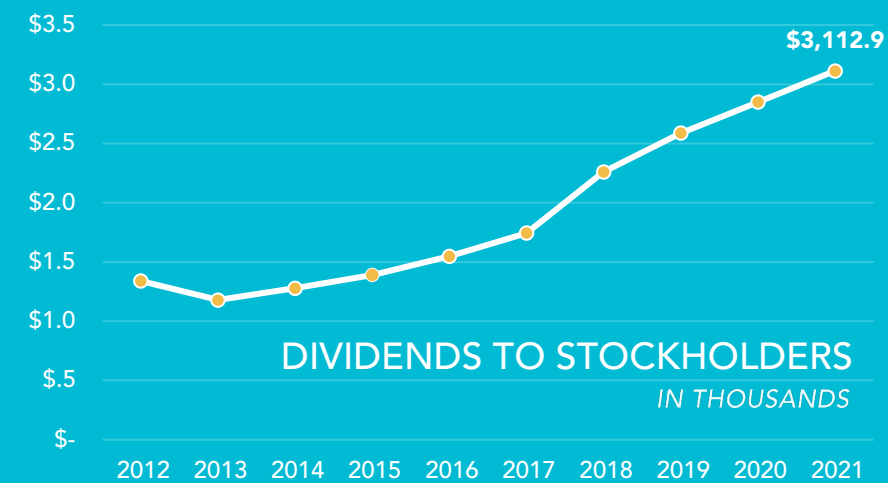
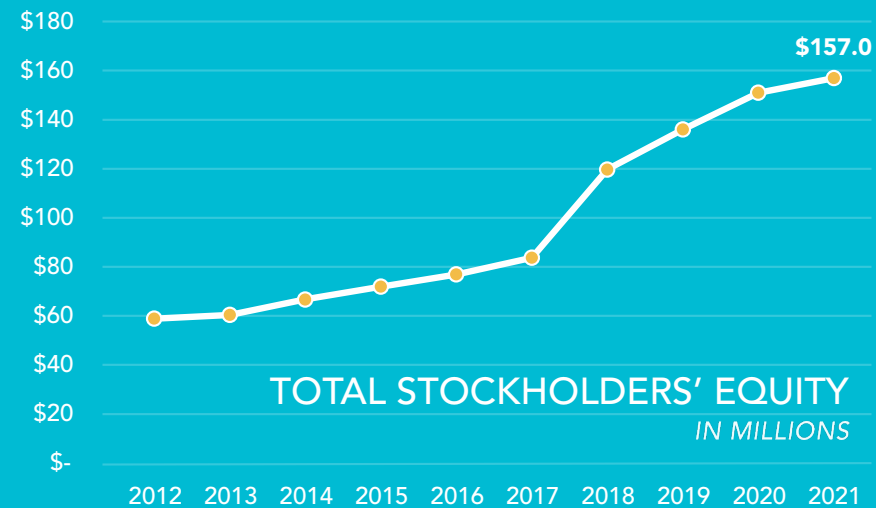
with new accounts) is enhanced by utilizing Q2Gro software and iPads internally for speedy online account opening. The Edwardsville/Glen Carbon branch was opened in January, 2021; a grand opening celebration event was hosted on a warm early-summer day in June. A lobby renovation is planned in 2022 for the Hillsboro branch.

Other innovative customer-benefit solutions offered across all CNB regions includes the America's Recovery Capital program, providing a fixed-rate hedge for commercial loan customers; use of Farmer Mac and USDA FSA programs; and the second round of PPP loans. The holding company and Bank directors are kept informed on the ever changing risk profile of the institution via monitoring of various metrics, utilizing an enterprise risk management program.

Naturally, CNB's financial reports continue to reflect economic changes due to the COVID-19 pandemic. Total loans reported in the Consolidated Balance Sheets on page 14 show a decline of 2.7% from the prior year-end. Meanwhile, total deposits grew 7.6% during 2021; total assets grew 6.1%. Excess funds were deployed into the investment portfolio, which

grew more than \$130 million, an increase of 35%. This is on top of the \$136 million increase in CNB's investment portfolio during 2020, the first year of the pandemic. Note 4 on page 29 reveals some increase in commercial real estate and agricultural production loans, however, total commercial loans were down 6.3%. While real estate construction loans were up 66.8%, residential real estate loans held on CNB's books were down 10.2%. Consumer loans fell 13.6%. Much of the decline in "other commercial loans" was due to SBA's forgiveness of most of CNB's PPP loans during the year. Note 6 on page 36 shows that depositors continued to shift from time deposits to transaction and savings accounts in this low interest rate environment. While stimulus money continued to accumulate and loan demand continued to wane during 2021, CNB maintained profitability, growing retained earnings to \$122 million, an 11% increase.

The Consolidated Statements of Income on page 15 shows the expected decrease in interest and fees on loans (down nearly 12% from 2020), and increase in interest on debt securities (up over 7%), an accumulated decline of 9.9% in total interest income. As depositors shifted to liquid deposits in a period of low



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

interest rates, CNB's interest expense fell a similar amount to the decline in interest income, resulting in a small increase in net interest income of 0.2%. The reduction in past-due loans as shown on page 33 of Note 4 is consistent with a provision for possible loan losses that was 47.7% lower than the provision made in 2020. Total noninterest income did decline in 2021 by 8.6% (despite an increase in income from fiduciary activities of over 30% and in brokerage commissions of over 10%), due to a 31.6% decrease in mortgage banking revenues. Shown on page 18, the \$78.7 million of "mortgage loans originated for sale in secondary market" was down 43% from the torrid pace of mortgage lending in 2020; but 2021 compares favorably to the \$32.7 million and \$40.4 million originated in 2018 and 2019 respectively. Shown on the income statements, overhead, or total noninterest expense, was held relatively stable at a 2.1% increase. The resulting net income eclipsed \$15 million for the first time in CNB's history, a 3.6% improvement over 2020.

The Consolidated Statements of Stockholders' Equity on page 17 displays the impact of net income and the typical transaction activity related to our officers' stock option program. Also, it shows that dividends to stockholders were up 9.2% from the prior year. Note 16 beginning on page 44 reveals that all regulatory measures of our capital ratios remain above minimums for both "capital adequacy" and to be considered "well capitalized".

In addition to the change in mortgage loan originations previously mentioned, the Consolidated Statements of Cash Flows on page 18 also show the large volume of purchases of available-for-sale debt securities into the Bank's investment portfolio during both 2020 and 2021, as well as the net decrease in loans in 2021 and the net increase in deposits for both years.

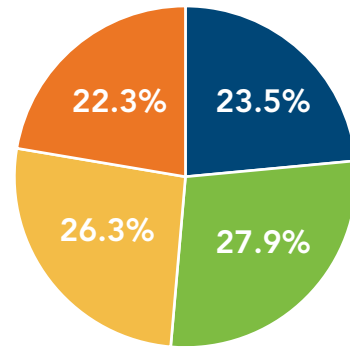
Looking forward to 2022 and beyond, we hope for a return to normalcy for our business clients and population at large in the communities we serve. Yet, we know that there have been shifts in the delivery of goods and services that are likely to prove permanent. For example, one employment dynamic has been labeled "the great resignation", a trend that helps to maintain momentum for further innovation in supply chain and service delivery. In the financial world, the term "fintech" refers to a myriad of primarily software developers, most of which are willing to partner with banks rather than subject themselves to the direct supervision of financial regulators. The board and management at CNB are carefully following such developments, ready to deploy those deemed to be a good fit operationally, and advantageous to customers and stockholders alike. We plan to stay not only relevant, but the best choice as an employer and purveyor of financial services in our communities.

- CNB Management

Vice President & Commercial Loan Officer, Evan Campbell, of CNB Bank & Trust readies to ride with Christian Stewart, assisted by Julie Kregel, at Sensory Solutions in Clayton, MO.

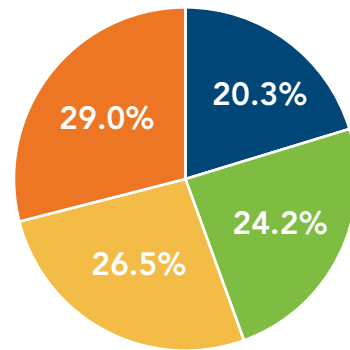


**TOTAL DEPOSITS**  
AS OF DECEMBER 31  
**2021**  
\$1,357,458,414



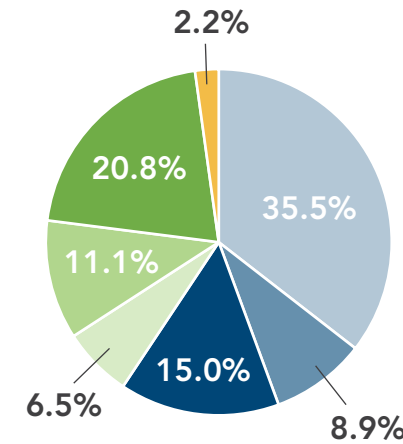
Non-Interest-bearing transaction accounts	\$319,142,332
Interest-bearing transaction accounts	\$378,296,131
Savings	\$356,836,319
Time deposits	\$303,183,632

**TOTAL DEPOSITS**  
AS OF DECEMBER 31  
**2020**  
\$1,261,153,646



Non-Interest-bearing transaction accounts	\$255,957,068
Interest-bearing transaction accounts	\$304,824,165
Savings	\$334,773,464
Time deposits	\$365,598,949

**TOTAL LOANS**  
AS OF DECEMBER 31  
**2021**  
\$908,652,367



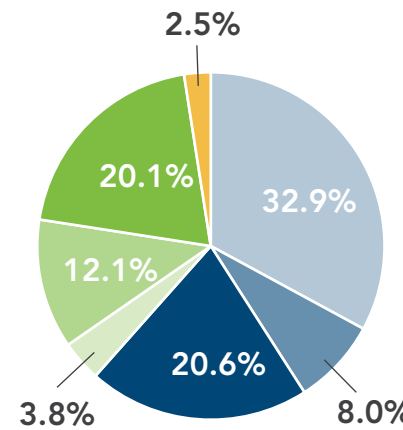
**COMMERCIAL:**

Real Estate	\$322,608,155
Agricultural Production	\$80,644,053
Other	\$135,923,718

**REAL ESTATE:**

Construction	\$59,361,939
Residential	\$101,284,748
Farmland	\$188,811,159
Consumer	\$20,018,595

**TOTAL LOANS**  
AS OF DECEMBER 31  
**2020**  
\$934,210,000



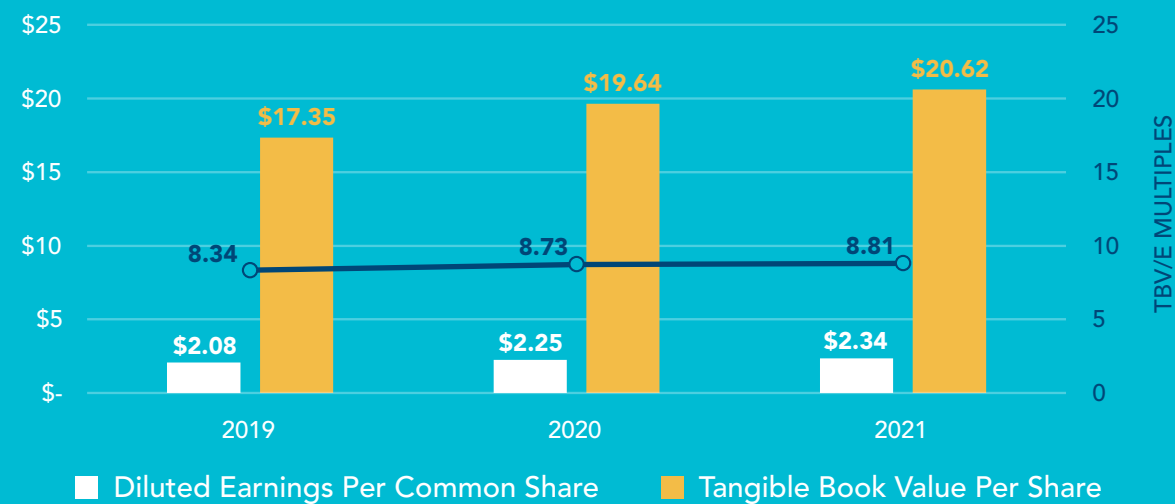
**COMMERCIAL:**

Real Estate	\$307,378,779
Agricultural Production	\$75,039,341
Other	\$192,720,195

**REAL ESTATE:**

Construction	\$35,598,497
Residential	\$112,764,242
Farmland	\$187,526,119
Consumer	\$23,182,827

## TANGIBLE BOOK VALUE / EARNINGS



## PAYROLL PROTECTION PROGRAM (PPP)

LOANS APPROVED IN 2020	946	=	\$79,156,934	DOLLARS APPROVED IN 2020
LOANS APPROVED IN 2021	1,059	=	\$47,394,079	DOLLARS APPROVED IN 2021
<b>TOTAL LOANS APPROVED</b>	<b>2,005</b>	<b>=</b>	<b>\$126,551,013</b>	<b>TOTAL PPP DOLLARS APPROVED</b>
<b>TOTAL LOANS FORGIVEN</b>	<b>1,886</b>	<b>=</b>	<b>\$120,350,987</b>	<b>TOTAL DOLLARS FORGIVEN</b>
NET LOANS REMAINING	119	=	\$6,200,026	NET DOLLARS REMAINING



## Independent Auditors' Report

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

### Opinion

We have audited the accompanying consolidated financial statements of CNB Bank Shares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Bank Shares, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also audited in accordance with auditing standards generally accepted in the United States of America, CNB Bank Shares, Inc.'s and Subsidiary's internal control over financial reporting as of December 31, 2021, based on criteria for effective internal control described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2022 expressed an unqualified opinion.

### Basis for Opinion

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

### Responsibilities of Management for the Consolidated Financial Statements

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

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

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CNB Bank Shares, Inc.'s and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CNB Bank Shares, Inc.'s and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

### Other Information Included in the Company's Annual Report

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

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

February 25, 2022

**CNB BANK SHARES, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Cash and due from banks (note 2)	\$ 27,221,301	23,241,492
Interest-earning deposits in other financial institutions	79,360,329	93,622,195
Investments in available-for-sale debt securities (note 3)	502,225,565	371,728,644
Mortgage loans held for sale	284,993	2,939,799
Loans (notes 4 and 9)	908,652,367	934,210,000
Less:		
Deferred loan fees, net of related costs	(1,509,878)	(896,203)
Reserve for possible loan losses	(11,448,685)	(10,658,789)
Net loans	<u>895,693,804</u>	<u>922,655,008</u>
Bank premises and equipment, net (note 5)	18,811,266	19,170,423
Accrued interest receivable	8,785,085	8,930,116
Bank-owned life insurance policies (note 12)	12,907,510	12,755,038
Identifiable intangible assets, net of accumulated amortization of \$1,637,288 and \$1,169,504 at December 31, 2021 and 2020, respectively	4,599,414	5,148,027
Goodwill	21,415,712	21,415,712
Other assets (note 7)	12,725,745	12,013,696
	<u>\$ 1,584,030,724</u>	<u>1,493,620,150</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits (note 6):		
Noninterest-bearing	\$ 319,142,332	255,957,068
Interest-bearing	1,038,316,082	1,005,196,578
Total deposits	<u>1,357,458,414</u>	<u>1,261,153,646</u>
Short-term borrowings (note 8)	34,235,199	36,589,362
Accrued interest payable	344,607	856,860
Federal Home Loan Bank borrowings (note 9)	14,250,000	22,250,000
Notes payable (note 10)	4,394,437	5,643,309
Other liabilities (note 12)	16,353,517	16,095,252
Total liabilities	<u>1,427,036,174</u>	<u>1,342,588,429</u>
Commitments and contingencies (notes 13 and 15)		
Stockholders' equity (notes 11, 14, and 16):		
Preferred stock and related surplus, \$0.01 par value; 200,000 shares authorized, 9,745 shares issued and outstanding	19,352,310	19,352,310
Common stock, \$0.05 par value; 20,000,000 shares authorized, 5,779,659 shares issued and 5,377,912 and 5,363,812 shares outstanding at December 31, 2021 and 2020, respectively	288,983	288,983
Surplus	18,896,783	19,223,115
Retained earnings	122,065,157	109,936,005
Treasury stock, at cost – 401,747 and 415,847 shares at December 31, 2021 and 2020, respectively	(7,665,099)	(6,890,147)
Accumulated other comprehensive income	4,056,416	9,121,455
Total stockholders' equity	<u>156,994,550</u>	<u>151,031,721</u>
	<u>\$ 1,584,030,724</u>	<u>1,493,620,150</u>

See accompanying notes to consolidated financial statements.

**CNB BANK SHARES, INC. AND SUBSIDIARY**

Consolidated Statements of Income

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest income:		
Interest and fees on loans (note 4)	\$ 43,351,992	49,200,831
Interest on debt securities:		
Taxable	3,484,862	4,234,717
Exempt from federal income taxes	4,264,277	2,987,915
Interest on short-term investments	142,137	432,525
Total interest income	<u>51,243,268</u>	<u>56,855,988</u>
Interest expense:		
Interest on deposits (note 6)	3,961,208	9,405,918
Interest on short-term borrowings (note 8)	69,662	150,749
Interest on longer-term Federal Home Loan Bank borrowings (note 9)	317,835	448,333
Interest on notes payable (note 10)	206,477	254,125
Total interest expense	<u>4,555,182</u>	<u>10,259,125</u>
Net interest income	46,688,086	46,596,863
Provision for possible loan losses (note 4)	2,479,724	4,740,139
Net interest income after provision for possible loan losses	<u>44,208,362</u>	<u>41,856,724</u>
Noninterest income:		
Service charges on deposit accounts	1,648,224	1,667,195
Card-based revenue	2,237,618	1,951,809
Income from fiduciary activities	2,125,244	1,632,241
Mortgage banking revenues	3,347,371	4,896,648
Increase in cash surrender value of life insurance policies	211,617	230,509
Brokerage commissions	1,988,496	1,805,102
Other noninterest income (note 5)	1,133,201	1,704,511
Total noninterest income	<u>12,691,771</u>	<u>13,888,015</u>
Noninterest expense:		
Salaries and employee benefits (notes 11 and 12)	22,632,312	22,368,283
Occupancy and equipment expense (note 5)	6,075,933	5,844,970
Legal and professional fees	1,161,848	1,493,294
Postage, printing, and supplies	741,534	818,410
Amortization of intangible assets	1,362,198	1,106,798
Other real estate owned expense	21,088	20,886
Advertising expense	806,819	649,797
FDIC insurance assessments	619,621	647,693
Other noninterest expense	4,485,020	4,181,856
Total noninterest expense	<u>37,906,373</u>	<u>37,131,987</u>
Income before applicable income taxes	18,993,760	18,612,752
Applicable income tax expense (note 7)	3,751,756	3,902,588
Net income	<u>\$ 15,242,004</u>	<u>14,710,164</u>

See accompanying notes to consolidated financial statements.



**CNB BANK SHARES, INC. AND SUBSIDIARY**

Consolidated Statements of Comprehensive Income

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ <u>15,242,004</u>	<u>14,710,164</u>
Other comprehensive income (loss) before tax:		
Market value adjustment for cash flow hedge	<u>123,446</u>	(175,781)
Net unrealized gains (losses) on available-for-sale debt securities	<u>(6,534,887)</u>	<u>5,629,909</u>
Other comprehensive income (loss) before tax	<u>(6,411,441)</u>	5,454,128
Income tax related to items of other comprehensive income (loss)	<u>(1,346,402)</u>	<u>1,145,367</u>
Total other comprehensive income (loss), net of tax	<u>(5,065,039)</u>	<u>4,308,761</u>
Total comprehensive income	\$ <u>10,176,965</u>	<u>19,018,925</u>

See accompanying notes to consolidated financial statements.

**CNB BANK SHARES, INC. AND SUBSIDIARY**

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2021 and 2020

	Preferred stock and related surplus	Common stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total stock- holders' equity
Balance at December 31, 2019	\$ 19,352,310	288,983	19,481,484	98,075,865	(6,014,200)	4,812,694	135,997,136
Net income	-	-	-	14,710,164	-	-	14,710,164
Compensation expense recorded for stock options granted	-	-	32,002	-	-	-	32,002
Cash dividends paid – \$0.45 per share	-	-	-	(2,850,024)	-	-	(2,850,024)
Purchase of 117,550 common shares for treasury	-	-	-	-	(2,879,395)	-	(2,879,395)
Stock options exercised – 131,810 common shares from treasury	-	-	(290,371)	-	2,003,448	-	1,713,077
Unrealized net holding gains on available-for-sale securities, net of related tax effect	-	-	-	-	-	4,447,628	4,447,628
Market value adjustment for cash flow hedge, net of related tax effect	-	-	-	-	-	(138,867)	(138,867)
Balance at December 31, 2020	19,352,310	288,983	19,223,115	109,936,005	(6,890,147)	9,121,455	151,031,721
<b>Net income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,242,004</b>	<b>-</b>	<b>-</b>	<b>15,242,014</b>
<b>Compensation expense recorded for stock options granted</b>	<b>-</b>	<b>-</b>	<b>27,276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,276</b>
<b>Cash dividends paid – \$0.49 per share</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,112,852)</b>	<b>-</b>	<b>-</b>	<b>(3,112,852)</b>
<b>Purchase of 98,245 common shares for treasury</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,756,085)</b>	<b>-</b>	<b>(2,756,085)</b>
<b>Stock options exercised – 112,345 common shares from treasury</b>	<b>-</b>	<b>-</b>	<b>(353,608)</b>	<b>-</b>	<b>1,981,133</b>	<b>-</b>	<b>1,627,526</b>
<b>Unrealized net holding losses on available-for-sale securities, net of related tax effect</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,162,561)</b>	<b>(5,162,561)</b>
<b>Market value adjustment for cash flow hedge, net of related tax effect</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97,522</b>	<b>97,522</b>
<b>Balance at December 31, 2021</b>	<b>\$ 19,352,310</b>	<b>288,983</b>	<b>18,896,783</b>	<b>122,065,157</b>	<b>(7,665,099)</b>	<b>4,056,416</b>	<b>156,994,550</b>

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 15,242,004	14,710,164
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,228,856	5,340,960
Provision for possible loan losses	2,479,724	4,740,139
Net cash gains on sales of mortgage loans in secondary market	(1,670,999)	(2,686,442)
Capitalized mortgage servicing rights	(813,585)	(1,383,622)
Net gains and write-downs on sales of other real estate owned	(73,152)	(58,490)
Deferred income tax expense (benefit)	(424,798)	683,032
Stock option expense	27,276	32,002
Decrease in accrued interest receivable	145,031	292,813
Decrease in accrued interest payable	(512,253)	(1,639,387)
Mortgage loans originated for sale in secondary market	(78,703,694)	(138,018,763)
Proceeds from mortgage loans sold in secondary market	83,029,499	141,048,551
Increase in cash surrender value of life insurance policies, net of mortality costs	(211,617)	(230,509)
Other operating activities, net	1,622,583	(2,341,414)
Net cash provided by operating activities	<u>29,364,875</u>	<u>20,489,034</u>
Cash flows from investing activities:		
Proceeds from calls and maturities of and principal payments on available-for-sale debt securities	81,999,196	60,986,991
Purchases of available-for-sale debt securities	(225,308,124)	(194,155,485)
Purchase of Federal Home Loan Bank stock	(241,000)	(26,000)
Net decrease (increase) in loans	24,434,258	(12,989,566)
Purchases of bank premises and equipment, net	(1,230,381)	(2,326,906)
Proceeds from sale of other real estate owned	179,652	143,670
Proceeds from redemption of life insurance contract	59,145	114,321
Net cash used in investing activities	<u>(120,107,254)</u>	<u>(148,252,975)</u>
Cash flows from financing activities:		
Net increase in deposits	96,304,768	139,985,550
Net increase (decrease) in short-term borrowings	(2,354,163)	7,967,825
Proceeds from notes payable	1,500,000	-
Principal payments on notes payable	(2,748,872)	(906,691)
Proceeds from Federal Home Loan Bank borrowings	5,000,000	4,000,000
Payments of Federal Home Loan Bank borrowings	(13,000,000)	(4,083,509)
Stock options exercised	1,627,526	1,713,077
Purchase of treasury stock	(2,756,085)	(2,879,395)
Dividends paid	(3,112,852)	(2,850,024)
Net cash provided by financing activities	<u>80,460,322</u>	<u>142,946,833</u>
Net increase (decrease) in cash and cash equivalents	<u>(10,282,057)</u>	<u>15,182,892</u>
Cash and cash equivalents at beginning of year	<u>116,863,687</u>	<u>101,680,795</u>
Cash and cash equivalents at end of year	<u>\$ 106,581,630</u>	<u>116,863,687</u>

See accompanying notes to consolidated financial statements.

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accounting and reporting policies of the Company and Bank conform to generally accepted accounting principles within the financial services industry. In compiling the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change in a short period of time include the determination of the reserve for possible loan losses; valuation of other real estate owned and stock options; and determination of possible impairment of intangible assets. Actual results could differ from those estimates.

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

**Principles of Consolidation**

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

**Basis of Accounting**

The Company and Bank utilize the accrual basis of accounting, which includes in the total of net income all revenues earned and expenses incurred, regardless of when actual cash payments are received or paid. The Company is also required to report comprehensive income, of which net income is a component. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period, except those resulting from investments by, and distributions to, owners, and cumulative effects of any changes in accounting principles. The components of accumulated other comprehensive income are as follows at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Net unrealized gains on available-for-sale securities	\$ 5,187,040	11,721,927
Market value adjustment for cash flow hedge	(52,335)	(175,781)
Deferred tax effect	<u>(1,078,289)</u>	<u>(2,424,691)</u>
	<u>\$ 4,056,416</u>	<u>9,121,455</u>

**Cash Flow Information**

For purposes of the consolidated statements of cash flows, cash equivalents include cash and due from banks and interest-earning deposits in other financial institutions (all of which are payable upon demand). Certain balances maintained in other financial institutions generally exceed the level of deposits insured by the Federal Deposit Insurance Corporation (FDIC). Following is certain supplemental information relating to the Company's consolidated statements of cash flows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash paid for:		
Interest	\$ 5,067,435	11,898,512
Income taxes	3,719,557	4,555,000
Noncash transactions:		
Transfers to other real estate owned in settlement of loans	47,222	85,480
Loans made to facilitate the sale of other real estate owned	-	56,472

**Investments in Debt Securities**

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

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities (for which no securities were so designated at December 31, 2021 and 2020) 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, 2021 and 2020) would be included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and reported as a component of other comprehensive income in stockholders' equity until realized. Transfers of securities between categories would be recorded at fair value at the date of transfer. Unrealized holding gains and losses would be recognized in earnings for any transfers into the trading category.

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

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

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

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

**Loans Acquired Through Transfer**

Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income using a model which approximates a level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a

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

Balance of purchase discount on loans at December 31, 2019	\$ 739,364
Accretable yield for 2020 recorded as interest income	(739,364)
Balance of purchase discount on loans at December 31, 2020	\$ —

**Bank Premises and Equipment**

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

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

**Other Real Estate Owned**

Other real estate owned represents property acquired through foreclosure, or deeded to the Bank in lieu of foreclosure, for loans on which the borrowers have defaulted as to payment of principal and interest. Properties acquired are initially recorded at the lower of the Bank's carrying amount or fair value using observable market prices (less estimated selling costs), and carried in other assets in the consolidated balance sheets. Other real estate owned (all of which was residential real estate properties) at December 31, 2021 and 2020 totaled \$4,550 and \$63,828, 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 \$90,546 and \$539,000 of residential real estate loans in process of foreclosure at December 31, 2021 and 2020, respectively.

**Intangible Assets and Goodwill**

Identifiable intangible assets include the mortgage servicing rights described below under "Mortgage Banking Operations" and core deposit premiums relating to the Company's various bank acquisitions, which are being amortized into noninterest expense on straight-line and accelerated bases over periods ranging from 10 to 15 years. Amortization of the core deposit intangible assets existing at December 31, 2021 will be \$467,784 in 2022, \$467,784 in 2023, \$467,784 in 2024, \$467,784 in 2025, \$467,784 in 2026 and \$701,676 thereafter.

The excess of the Company's consideration given in each subsidiary acquisition transaction over the fair value of the net assets acquired is recorded as goodwill, an intangible asset on the consolidated balance sheets. Goodwill is the Company's only intangible asset with an indefinite useful life, and the Company is required to test the intangible asset for impairment on an annual basis. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. No impairment write-downs were required in 2021 or 2020.

**Federal Home Loan Bank and Federal Reserve Bank Stock**

Included in other assets are the Bank's investments in the common stock of the Federal Home Loan Bank of Chicago, which is administered by the Federal Housing Finance Board, and Federal Reserve Bank stock. As a member of the Federal Home Loan Bank system, the Bank is required to maintain a minimum investment in the capital stock of the Federal Home Loan Bank of Chicago. National banks are also required to maintain stock in the Federal Reserve Bank. The Federal Home Loan Bank and Federal Reserve Bank stock is recorded at cost, which represents redemption value. At December 31, 2021 and 2020, the carrying amount of this investment was \$2,286,250 and \$2,045,250, respectively.

**Securities Sold Under Repurchase Agreements**

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

**Reserve for Unfunded Commitments**

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

**Income Taxes**

The Company and Bank file consolidated federal and state income tax returns. Applicable income taxes are computed based on reported income and expenses, adjusted for permanent differences between reported and taxable income. Penalties and interest assessed by income taxing authorities are included in income tax expense in the year assessed, unless such amounts relate to an uncertain tax position. The Company had no uncertain tax positions at December 31, 2021 and 2020.

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

The Company has not had its consolidated federal income tax returns examined by the taxing authorities for several years, while the State of Illinois has recently completed an examination of the Company's 2017, 2016, and 2015 state income tax returns. The Company's consolidated federal and state income tax returns are generally subject to examination by the Internal Revenue Service and State of Illinois for three years after they are filed. No material adjustments were forthcoming from the State of Illinois' recent examination.

**Mortgage Banking Operations**

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

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

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

At December 31, 2021 and 2020, the Bank serviced loans totaling \$338,285,723 and \$337,746,673, respectively, and the net unamortized balances of mortgage servicing rights were \$1,558,818 and \$1,639,647, respectively. No valuation reserve was required on the mortgage servicing rights at December 31, 2021 and 2020, as Company management believes that the 0.46% and 0.49% of total serviced loans represented by the mortgage servicing rights at December 31, 2021 and 2020, respectively, are less than the amount for which such servicing rights could be sold.

**Financial Instruments**

For purposes of information included in note 15 regarding disclosures about financial instruments, financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract that both (a) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (b) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity.

**Stock Options**

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

**Derivative Instruments and Hedging Activities**

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

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

*Fair Value Hedges*

For derivatives designated as fair value hedges, the fair value of the derivative instrument and related hedged item would be recognized through the related interest income or expense, as applicable, except for the ineffective portion, which would be recorded in noninterest income or expense. All changes in fair value would be measured on a monthly basis. The swap agreement would be accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability. The Company had no fair value hedge instruments at December 31, 2021 or 2020.

*Cash Flow Hedges*

Derivatives designated as cash flow hedges are accounted for at fair value. The effective portion of the change in fair value is recorded as a component of other comprehensive income in stockholders' equity. Amounts recorded in other comprehensive income are subsequently reclassified into interest income or expense when the underlying transaction affects earnings. The ineffective portion of the change in fair value is recorded in noninterest income or expense. The swap agreements are accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability. The Company classified all of its interest rate swaps at December 31, 2021 and 2020 as cash flow hedges.

*Nondesignated Derivatives*

Certain economic hedges are not designated as cash flow or fair value hedges for accounting purposes. These nondesignated derivatives do not meet the criteria for hedge accounting treatment. Changes in the fair value of these instruments would be recorded in interest income or expense at the end of each reporting period. The Company had no nondesignated derivatives at December 31, 2021 or 2020.

**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

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. Financial assets and liabilities carried or reported at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or value assigned to such assets or liabilities.

While certain assets and liabilities may be recorded at the lower of cost or fair value as described above on a nonrecurring basis (e.g., impaired loans, loans held for sale, other real estate owned), the only assets or liabilities recorded at fair value on a recurring basis are the Company's investments in available-for-sale debt securities and derivative instruments. No other assets and liabilities are recorded at fair value on a recurring or nonrecurring basis. The derivative instruments are valued using Level 1 valuation inputs. The Company's available-for-sale debt securities are measured at fair value using Level 2 valuation inputs. For the securities valued using Level 2 inputs, the market valuation utilizes several sources which include observable inputs rather than "significant unobservable inputs" and, therefore, fall into the Level 2 category, and are based on dealer quotes, market spreads, the U.S. Treasury yield curve, trade execution data, market consensus, prepayment speeds, credit information, and the bonds' terms and conditions at the security level.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

	December 31, 2021			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<b>Assets:</b>				
Investments in available-for-sale debt securities:				
Obligations of U.S. government agencies and corporations	\$ -	15,639,850	-	15,639,850
Obligations of states and political subdivisions	-	286,589,835	-	286,589,835
Mortgage-backed securities	-	199,995,880	-	199,995,880
Total available-for-sale debt securities	-	502,225,565	-	502,225,565
Liabilities – derivative financial instruments	\$ 52,335	-	-	52,335

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

	December 31, 2020			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<b>Assets:</b>				
Investments in available-for-sale debt securities:				
Obligations of U.S. government agencies and corporations	\$ -	13,141,239	-	13,141,239
Obligations of states and political subdivisions	-	163,155,866	-	163,155,866
Mortgage-backed securities	-	195,431,539	-	195,431,539
Total available-for-sale debt securities	\$ -	371,728,644	-	371,728,644
Liabilities – derivative financial instruments	\$ 175,781	-	-	175,781

**Reclassifications**

Certain reclassifications have been made to the 2020 consolidated financial statement amounts to conform to the 2021 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, 2021 for possible disclosure through February 25, 2022, 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. Effective March 26, 2020, the Federal Reserve Board reduced reserve requirements to zero percent.

**NOTE 3 – INVESTMENTS IN DEBT SECURITIES**

The amortized cost, gross unrealized gains and losses, and estimated fair value of debt securities classified as available-for-sale at December 31, 2021 and 2020 are as follows:

	Amortized cost	Gross unreal- ized gains	Gross unreal- ized losses	Estimated fair value
<b>2021</b>				
Obligations of U.S. government agencies and corporations	\$ 15,015,323	629,858	(5,331)	15,639,850
Obligations of states and political subdivisions	282,142,281	5,494,635	(1,047,081)	286,589,835
Mortgage-backed securities	199,880,921	2,662,268	(2,547,309)	199,995,880
	\$ 497,038,525	8,786,761	(3,599,721)	502,225,565

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

The amortized cost and estimated fair value of debt securities classified as available-for-sale at December 31, 2021, 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
<b>Due one year or less</b>	\$ 12,578,898	12,707,231
<b>Due one year through five years</b>	29,457,966	30,556,691
<b>Due five years through ten years</b>	66,001,501	68,134,128
<b>Due after ten years</b>	189,119,239	190,831,635
<b>Mortgage-backed securities</b>	<u>199,880,921</u>	<u>199,995,880</u>
	\$ <u>497,038,525</u>	<u>502,225,565</u>

Provided below is a summary of securities which were in an unrealized loss position at December 31, 2021 and 2020:

<u>2021</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>
Obligations of U.S. government agencies and corporations	\$ 5,088,858	5,331	–	–	5,088,858	5,331
Obligations of states and political subdivisions	97,914,882	992,374	3,427,096	54,707	101,341,978	1,047,081
Mortgage-backed securities	<u>104,715,421</u>	<u>2,057,024</u>	<u>19,715,012</u>	<u>490,285</u>	<u>124,430,433</u>	<u>2,547,309</u>
	\$ <u>207,719,161</u>	<u>3,054,729</u>	<u>23,142,108</u>	<u>544,992</u>	<u>230,861,269</u>	<u>3,599,721</u>

<u>2020</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>	<u>Unrealized losses</u>
Obligations of states and political subdivisions	\$ 9,842,442	42,459	958,938	5,774	10,801,380	48,233
Mortgage-backed securities	<u>54,931,943</u>	<u>345,898</u>	<u>815,819</u>	<u>333</u>	<u>55,747,762</u>	<u>346,231</u>
	\$ <u>64,774,385</u>	<u>388,357</u>	<u>1,774,757</u>	<u>6,107</u>	<u>66,549,142</u>	<u>394,464</u>

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,

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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 \$197,949,000 and \$173,281,000 at December 31, 2021 and 2020, respectively. The Bank has also pledged letters of credit from the Federal Home Loan Bank of Chicago totaling \$26,000,000 and \$38,000,000 as additional collateral to secure public funds at December 31, 2021 and 2020, respectively.

**NOTE 4 – LOANS**

The composition of the loan portfolio at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Commercial:		
Real estate	\$ 322,608,155	307,378,779
Agricultural production	80,644,053	75,039,341
Other	135,923,718	192,720,195
Real estate:		
Construction	59,361,939	35,598,497
Residential	101,284,748	112,764,242
Farmland	188,811,159	187,526,119
Consumer	<u>20,018,595</u>	<u>23,182,827</u>
	\$ <u>908,652,367</u>	<u>934,210,000</u>

The Bank grants commercial, industrial, residential, agricultural, and consumer loans throughout south-central Illinois, suburban southwestern Chicago, and the St. Louis, Missouri metropolitan area. With the exception of agricultural credits, the Bank does not have any particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate in the Bank's market areas. The ability of the Bank's borrowers to honor their contractual obligations is dependent upon the local economies and their effect on the real estate market. Included in consumer loans are overdrafts of \$1,114,768 and \$199,970 at December 31, 2021 and 2020, respectively. During 2021 and 2020, the Bank originated 1,059 PPP loans totaling \$47,394,079 and 946 PPP loans totaling \$79,156,934, respectively. At December 31, 2021, 119 loans remained outstanding with a total balance of \$6,200,026. Such loans are guaranteed by the SBA.

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

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

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

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

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

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

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

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

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

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

At December 31, 2021 and 2020, the Bank has loans outstanding to the agricultural sector of \$269,455,212 and \$262,565,460, respectively, which comprised 29.7% and 28.1%, respectively, of the Bank's total loan portfolio. The Bank's agricultural credits are concentrated in the south-central Illinois area and are generally fully secured with either growing crops, farmland, livestock, and/or machinery and equipment. Such loans are subject to the overall national effects of the agricultural economy, as well as the local effects relating to their south-central Illinois location.

The aggregate amount of loans to executive officers and directors and loans made for the benefit of executive officers and directors was \$792,071 and \$1,095,543 at December 31, 2021 and 2020, 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, 2021 is as follows:

Balance, December 31, 2020	\$ 1,095,543
New loans made	53,707
Payments received	<u>(357,179)</u>
Balance, December 31, 2021	\$ <u>792,071</u>

Following is an analysis of the reserve for possible loan losses by loan type and those that have been specifically evaluated or evaluated in aggregate at December 31, 2021 and 2020:

	2021							Total
	Commercial			Real estate				
	Real estate	Agricultural production	Other	Construction	Residential	Farmland	Consumer	
Reserve for possible loan losses:								
Beginning balance	\$ 3,215,016	1,424,509	3,154,272	263,181	1,070,046	1,026,654	505,111	10,658,789
Charge-offs	(1,506,122)	-	(70,916)	-	(167,327)	-	(128,151)	(1,872,516)
Recoveries	35,388	33,084	19,813	-	35,142	-	59,261	182,688
Provision	<u>1,925,460</u>	<u>(426,888)</u>	<u>1,159,881</u>	<u>170,353</u>	<u>(88,979)</u>	<u>(192,000)</u>	<u>(68,103)</u>	<u>2,479,724</u>
Ending balance	\$ <u>3,669,742</u>	<u>1,030,705</u>	<u>4,263,050</u>	<u>433,534</u>	<u>848,882</u>	<u>834,654</u>	<u>368,118</u>	<u>11,448,685</u>
Reserve allocations:								
Individually evaluated for impairment	\$ 8,500	10,000	1,694,140	-	48,304	77,000	22,452	1,860,396
Collectively evaluated for impairment	<u>3,661,242</u>	<u>1,020,705</u>	<u>2,568,910</u>	<u>433,534</u>	<u>800,578</u>	<u>757,654</u>	<u>345,666</u>	<u>9,588,289</u>
Ending balance	\$ <u>3,669,742</u>	<u>1,030,705</u>	<u>4,263,050</u>	<u>433,534</u>	<u>848,882</u>	<u>834,654</u>	<u>368,118</u>	<u>11,448,685</u>
Loans:								
Individually evaluated for impairment	\$ 14,500,535	716,588	6,197,598	8,471,999	5,066,378	13,427,442	272,222	48,652,762
Collectively evaluated for impairment	<u>308,107,620</u>	<u>79,927,465</u>	<u>129,726,120</u>	<u>50,889,940</u>	<u>96,218,370</u>	<u>175,383,717</u>	<u>19,746,373</u>	<u>859,999,605</u>
Ending balance	\$ <u>322,608,155</u>	<u>80,644,053</u>	<u>135,923,718</u>	<u>59,361,939</u>	<u>101,284,748</u>	<u>188,811,159</u>	<u>20,018,595</u>	<u>908,652,367</u>





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- 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, 2021 and 2020:

Grade	2021							
	Commercial real estate	Agricultural production	Commercial other	Real estate construction	Residential real estate	Farmland	Consumer	Total
Pass	\$ 308,107,620	79,927,465	129,726,120	50,889,940	96,218,370	175,383,717	19,746,373	859,999,605
Watch	690,518	289,985	739,561	–	1,232,703	5,733,170	26,046	8,711,983
Substandard	13,810,017	426,603	2,658,037	8,471,999	3,833,675	7,694,272	246,176	37,140,779
Doubtful	–	–	2,800,000	–	–	–	–	2,800,000
	<u>\$ 322,608,155</u>	<u>80,644,053</u>	<u>135,923,718</u>	<u>59,361,939</u>	<u>101,284,748</u>	<u>188,811,159</u>	<u>20,018,595</u>	<u>908,652,367</u>

Grade	2020							
	Commercial real estate	Agricultural production	Commercial other	Real estate construction	Residential real estate	Farmland	Consumer	Total
Pass	\$ 287,710,311	70,568,219	182,896,722	35,598,497	108,476,945	169,345,457	22,871,447	877,467,598
Watch	8,550,670	1,471,614	1,860,037	–	876,903	9,858,185	27,462	22,644,871
Substandard	11,117,798	2,999,508	4,963,436	–	3,410,394	8,322,477	283,918	31,097,531
Doubtful	–	–	3,000,000	–	–	–	–	3,000,000
	<u>\$ 307,378,779</u>	<u>75,039,341</u>	<u>192,720,195</u>	<u>35,598,497</u>	<u>112,764,242</u>	<u>187,526,119</u>	<u>23,182,827</u>	<u>934,210,000</u>

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

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The following table presents information regarding loan modifications during the years ended December 31, 2021 and 2020 which met the definition of troubled debt restructured loans:

	Year ended December 31, 2021			Year ended December 31, 2020		
	Number of loans	Pre-modification outstanding recorded balance	Post-modification outstanding recorded balance	Number of loans	Pre-modification outstanding recorded balance	Post-modification outstanding recorded balance
Commercial:						
Real estate	–	–	–	2	\$1,490,531	1,490,531
Agricultural production	–	–	–	–	–	–
Other	–	–	–	1	83,435	83,435
Real estate:						
Construction	–	–	–	–	–	–
Residential	–	–	–	–	–	–
Farmland	1	3,253,770	3,253,770	–	–	–
Consumer	<u>1</u>	<u>32,774</u>	<u>32,774</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>2</u>	<u>\$ 3,286,544</u>	<u>3,286,544</u>	<u>3</u>	<u>\$1,573,966</u>	<u>1,573,966</u>

No restructured loans defaulted within 12 months of their restructuring in 2021 or 2020. The Bank had no commitments to extend additional credit on any loans classified as troubled debt restructured loans at December 31, 2021.

**NOTE 5 – BANK PREMISES AND EQUIPMENT**

A summary of Bank premises and equipment at December 31, 2021 and 2020 is as follows:

	2021	2020
Land	\$ 3,111,709	3,119,709
Buildings and improvements	20,133,346	20,229,871
Furniture, fixtures, and equipment	12,330,994	12,323,984
	<u>35,576,049</u>	<u>35,673,564</u>
Less accumulated depreciation and amortization	16,764,783	16,503,141
	<u>\$ 18,811,266</u>	<u>19,170,423</u>

Amounts charged to noninterest expense for depreciation and amortization aggregated \$1,589,538 and \$1,625,090 for the years ended December 31, 2021 and 2020, respectively.

The Company leases certain premises and equipment under noncancelable operating lease agreements that expire at various dates through 2026. Minimum rental commitments under these noncancelable operating lease agreements at December 31, 2021, for each of the next five years, and in the aggregate, are as follows:

Year ending December 31:	
2022	\$ 288,803
2023	294,026
2024	224,636
2025	57,715
2026	1,000
Thereafter	–
Total minimum payments required	<u>\$ 866,180</u>

The Company also leases certain equipment under agreements that are cancelable with 30 to 90 days’ notice. Total rent expense for 2021 and 2020 was \$421,989 and \$417,056, respectively.

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The Bank leases a portion of its banking facilities to unaffiliated entities under leases that are cancelable with 30 to 90 days' notice. Total rental income for 2021 and 2020 was \$74,470 and \$81,672, respectively.

**NOTE 6 – DEPOSITS**

A summary of interest-bearing deposits at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Interest-bearing transaction accounts	\$ 378,296,131	304,824,165
Savings	356,836,319	334,773,464
Time deposits	<u>303,183,632</u>	<u>365,598,949</u>
	<u>\$ 1,038,316,082</u>	<u>1,005,196,578</u>

Deposits of executive officers, directors, and their related interests at December 31, 2021 and 2020 totaled \$3,040,494 and \$2,713,077, respectively.

Interest expense on deposits for the years ended December 31, 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Interest-bearing transaction accounts	\$ 1,041,279	1,458,493
Savings	582,913	1,158,990
Time deposits	<u>2,337,016</u>	<u>6,788,435</u>
	<u>\$ 3,961,208</u>	<u>9,405,918</u>

Time deposits meeting or exceeding the FDIC insurance limit of \$250,000 totaled \$66,914,295 and \$86,076,219 at December 31, 2021 and 2020, respectively. Following are the maturities of time deposits for each of the next five years and in the aggregate at December 31, 2021:

Year ending December 31:	
2022	\$ 257,120,136
2023	22,495,042
2024	13,400,503
2025	7,208,023
2026	<u>2,959,928</u>
	<u>\$ 303,183,632</u>

**NOTE 7 – INCOME TAXES**

The components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 2,565,506	1,911,557
State	1,611,048	1,307,999
Deferred	<u>(424,798)</u>	<u>683,032</u>
	<u>\$ 3,751,756</u>	<u>3,902,588</u>

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A reconciliation of expected income tax expense computed by applying the federal statutory rate of 21% to income before applicable income taxes for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Expected statutory federal income tax	\$ 3,988,690	3,908,678
Tax-exempt interest and dividend income	(890,065)	(608,311)
State tax, net of related federal benefit	1,272,728	1,033,320
Stock options	(237,775)	(238,804)
Other, net	<u>(381,822)</u>	<u>(192,295)</u>
	<u>\$ 3,751,756</u>	<u>3,902,588</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2021 and 2020 are presented below:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Reserve for possible loan losses	\$ 3,117,557	2,850,979
Deferred compensation	2,539,358	2,521,192
Purchase adjustments	396,310	498,159
Cash flow hedge	10,990	36,914
Other, net	<u>479,972</u>	<u>419,548</u>
Total deferred tax assets	<u>6,544,187</u>	<u>6,326,792</u>
Deferred tax liabilities:		
Bank premises and equipment	(1,411,792)	(1,416,679)
Intangible assets	(1,608,495)	(1,730,028)
Available-for-sale securities – net gain	(1,089,279)	(2,461,605)
Other, net	<u>(185,368)</u>	<u>(240,427)</u>
Total deferred tax liabilities	<u>(4,294,934)</u>	<u>(5,848,739)</u>
Net deferred tax assets	<u>\$ 2,249,253</u>	<u>478,053</u>

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, 2021 and 2020, due to management's belief that all criteria for recognition have been met, including the existence of a history of taxes paid sufficient to support the realization of deferred tax assets.

**NOTE 8 – SHORT-TERM BORROWINGS**

Short-term borrowings consisted entirely of securities sold under repurchase agreements at December 31, 2021 and 2020, which are collateralized by debt securities consisting of \$37,513,858 (which includes \$35,157,740 of obligations of U.S. government agencies and corporations and mortgage-backed securities, and \$2,356,118 of obligations of states and political subdivisions) at December 31, 2021. 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, 2021 and 2020, and the average rates at each year-end for funds purchased and securities sold under repurchase agreements, are as follows:

	<u>2021</u>	<u>2020</u>
Average balance	\$ 35,854,910	32,311,373
Weighted average interest rate paid during the year	0.19%	0.47%
Maximum amount outstanding at any month-end	\$ 39,138,612	38,159,593
Average rate at end of year	0.17%	0.33%

**NOTE 9 – FEDERAL HOME LOAN BANK BORROWINGS**

At December 31, 2021, the Bank had fixed-rate advances outstanding with the Federal Home Loan Bank of Chicago, maturing as follows:

	<u>Amount</u>	<u>Weighted average rate</u>
Due in 2022	\$ 9,000,000	0.87%
Due in 2024	3,000,000	1.97%
Due in 2026	<u>2,250,000</u>	2.04%
	<u>\$ 14,250,000</u>	

At December 31, 2021, the Bank maintained a line of credit for \$210,568,208 with the Federal Home Loan Bank of Chicago and had availability under this line of \$169,941,302. Federal Home Loan Bank of Chicago advances are secured under a blanket agreement which assigns all Federal Home Loan Bank of Chicago stock, and one- to four-family mortgage, commercial real estate, multifamily real estate, and farmland loans totaling \$345,472,866 at December 31, 2021.

**NOTE 10 – NOTES PAYABLE**

Following is a summary of the Company’s notes payable at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Revolving line of credit note payable	\$ –	–
Term notes payable	<u>4,394,437</u>	<u>5,643,309</u>
	<u>\$ 4,394,437</u>	<u>5,643,309</u>

At December 31, 2021, the Company maintains two notes payable borrowing arrangements with an unaffiliated financial institution. The term note payable had an original balance of \$6,700,000, with a balance of \$4,394,437 and 5,643,309 at December 31, 2021 and 2020, respectively, maturing on May 31, 2025. Effective March 15, 2020, the term note payable was amended to require quarterly interest payments at a variable rate of 2.12% over a designated public index through June 15, 2020. After June 15, 2020, the term note payable requires quarterly principal and interest payments of approximately \$360,000. Future principal and interest payments are \$1,444,010 in 2022, \$1,443,328 in 2023, \$1,442,801 in 2024, and \$360,508 in 2025. The revolving line of credit note payable has a maximum availability of \$2,000,000, matures on March 28, 2022, and requires quarterly interest payments at a variable rate of interest. The line of credit note payable is fully available at December 31, 2021 for future advances.

The notes payable are secured by the common stock of the Bank with a book value of approximately \$159,253,000 at December 31, 2021, 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, 2021 and 2020, the Company was in compliance with all of the financial ratios and covenants specified in the notes payable agreements or has received a waiver from the lender. Company management does not believe the covenants will restrict its future operations. The weighted average interest rates paid on the notes payable in 2021 and 2020 were 3.73% and 4.88%, 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, 2021, 5,779,659 shares were issued and outstanding (including 401,747 shares held in treasury). Holders of the Company’s common stock are entitled to one vote per share on all matters submitted to a shareholder vote, except that 4,000,000 shares of the authorized common shares are designated as

nonvoting shares, none of which were issued at December 31, 2021. Holders of the Company’s common stock are entitled to receive dividends when, as, and if declared by the Company’s Board of Directors. In the event of liquidation of the Company, the holders of the Company’s common stock are entitled to share ratably in the remaining assets after payment of all liabilities and any preferred stock outstanding.

The Company has authorized 200,000 shares of preferred stock, 9,745 of which has been issued at December 31, 2021, as described below. Preferred stock may be issued by the Company’s Board of Directors from time to time, in series, at which time the terms of such series (par value per share, dividend rates and dates, cumulative or noncumulative, liquidation preferences, etc.) shall be fixed by the Board of Directors.

*Castle Creek Transaction*

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

The Company’s shareholders have approved various stock option plans under which options to purchase up to 3,400,000 shares of Company common stock were authorized for grants to directors, officers, and 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, 2021, 1,547,505 options to purchase common shares are available for future grants.

A summary of the activity of nonvested options for the years ended December 31, 2021 and 2020 is as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value</u>
Nonvested at December 31, 2019	175,980	0.39
Granted	35,425	1.28
Vested	(83,634)	0.32
Forfeited	<u>(1,380)</u>	0.21
Nonvested at December 31, 2020	126,391	0.68
Granted	35,535	0.00
Vested	(64,451)	0.27
Forfeited	<u>(2,380)</u>	0.16
Nonvested at December 31, 2021	<u>95,095</u>	<u>0.35</u>

Following is a summary of stock option activity for the years ended December 31, 2021 and 2020:

	Weighted average option price <u>per share</u>	Number of shares	Remaining contractual term (years)	Aggregate intrinsic value per option share
Outstanding at December 31, 2019	\$ 13.56	601,650		
Granted	24.63	35,425		
Exercised	13.00	(131,810)		
Forfeited	14.43	<u>(2,380)</u>		
Outstanding at December 31, 2020	<u>15.67</u>	<u>502,885</u>	<u>4.96</u>	\$ <u>8.96</u>
Exercisable at December 31, 2020	\$ <u>14.32</u>	<u>376,494</u>	<u>4.13</u>	\$ <u>10.31</u>
Outstanding at December 31, 2020	\$ 15.67	502,885		
Granted	28.25	35,535		
Exercised	14.61	(112,345)		
Forfeited	17.40	<u>(3,380)</u>		
Outstanding at December 31, 2021	<u>17.03</u>	<u>422,695</u>	<u>4.68</u>	\$ <u>12.54</u>
Exercisable at December 31, 2021	\$ <u>15.16</u>	<u>327,600</u>	<u>3.84</u>	\$ <u>14.41</u>

The fair value of options vested during 2021 and 2020 was \$1,820,741 and \$1,879,515, respectively. At December 31, 2021, the total unrecognized compensation expense related to nonvested stock options was \$33,493 and the related weighted average period over which it is expected to be recognized in approximately 2.0 years.

During 2021 and 2020, 35,535 and 35,425 shares, respectively, were granted with a weighted average per share option price at the date of grant of \$28.25 and \$24.63, 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 2021 and 2020 were estimated at \$0 and \$1.28, 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, 2021. These assumptions include no volatility in the Company's stock price, 1.70% and 1.66% dividends paid on common stock in 2021 and 2020, 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.

Cash received from options exercised for the years ended December 31, 2021 and 2020 totaled \$316,088 and \$354,904 respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$237,775 and \$238,804 for the years ended December 31, 2021 and 2020, respectively.

During 2021 and 2020, the Company granted 54,120 and 46,390 stock appreciation rights, respectively, to various officers and employees of the Company and Bank, with a grant date value \$28.25 and \$24.63, respectively. The stock appreciation rights provide the recipient the opportunity to share in the appreciation of the Company's common stock. Each stock appreciation right vests one-fifth on its annual anniversary date, at which time the recipient is entitled to the appreciation of the Company's common stock over the original grant date value of the Company's common stock. A liability for this appreciation is recorded on each vesting date and, once fully vested, for any further appreciation in the Company's common stock until the stock appreciation right is exercised. Each stock appreciation right must be exercised within ten years of

the grant date. At December 31, 2021 and 2020, a liability of \$269,833 and \$161,088, respectively, is included in other liabilities in the consolidated balance sheet for the vested balance of these stock appreciation rights. Such rights that were exercised or forfeited totaled 10,845 and 15,765, respectively, in 2021 and 5,640 and 4,150, respectively, in 2020. Total stock appreciation rights outstanding at December 31, 2021 and 2020 totaled 128,210 and 100,700, respectively.

#### NOTE 12 – EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution 401(k) plan to provide retirement benefits to substantially all of its employees. All employees meeting certain age and service requirements are eligible to participate in the plan. Under the 401(k) plan, the Company may make discretionary matching contributions to the plan, up to the amount of employee contributions, subject to certain limitations. Total contributions made by the Company under this plan were \$943,266 and \$917,758 for the years ended December 31, 2021 and 2020, respectively.

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

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

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 cancellation or lapse of the policy. The cash surrender value of the policies increases monthly, based upon an interest factor, net of mortality, administration, and early termination costs that are inherent in the contracts.

The Company and Bank recognize annual compensation expense equal to the sum of the compensation deferred under the incentive deferral plans by the affected directors, plus interest applied to the accumulated balance of the deferred compensation. The Company also administers deferred compensation plans assumed through acquisitions of other banks. The charge to expense for the deferred compensation plans reflects the accrual using the principal and interest method over the vesting period of the present value of benefits due each participant on the full eligibility date. An amount of \$8,729,985 is included in other liabilities in the consolidated balance sheet at December 31, 2021, representing the sum of all deferrals and interest additions accumulated to date.

#### NOTE 13 – LITIGATION

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

#### NOTE 14 – PARENT COMPANY FINANCIAL INFORMATION

The Bank's dividends are the principal source of funds for the payment of dividends by the Company to its stockholders and for debt servicing. The Bank is subject to regulations by regulatory authorities that require

**CNB BANK SHARES, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

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, 2021 and 2020 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):

<b>Condensed Balance Sheets</b>	<u>2021</u>	<u>2020</u>
<b>Assets:</b>		
Cash	\$ 48	142
Investment in subsidiary bank	159,253	154,836
Life insurance policies	727	718
Income tax receivable	1,939	1,536
Other assets	<u>232</u>	<u>212</u>
	<u>\$ 162,199</u>	<u>157,444</u>
<b>Liabilities:</b>		
Market adjustment of cash flow hedge	\$ 52	176
Accounts payable	758	593
Notes payable	<u>4,394</u>	<u>5,643</u>
Total liabilities	<u>5,204</u>	<u>6,412</u>
Total stockholders' equity	<u>156,995</u>	<u>151,032</u>
Total liabilities and stockholders' equity	<u>\$ 162,199</u>	<u>157,444</u>
<b>Condensed Schedules of Income</b>		
<b>Revenue:</b>		
Cash dividends from subsidiary banks	\$ 5,475	4,750
Other income	<u>9</u>	<u>18</u>
Total revenue	<u>5,484</u>	<u>4,768</u>
<b>Expenses:</b>		
Salaries and benefits	233	207
Interest expense	206	254
Depreciation	-	1
Legal and professional fees	83	57
Miscellaneous expenses	<u>146</u>	<u>144</u>
Total expenses	<u>668</u>	<u>663</u>
Income before income tax benefit and equity in undistributed net income of subsidiary bank	<u>4,816</u>	4,105
Income tax benefit	<u>846</u>	<u>844</u>
	<u>5,662</u>	4,949
Equity in undistributed net income of subsidiary bank	<u>9,580</u>	<u>9,761</u>
Net income	<u>\$ 15,242</u>	<u>14,710</u>

**CNB BANK SHARES, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

<b>Condensed Schedules of Cash Flows</b>	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 15,242	14,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary bank	(9,580)	(9,761)
Increase in cash surrender value of life insurance policies	(9)	(11)
Depreciation	-	1
Stock option expense	27	32
Other, net	<u>(284)</u>	<u>(318)</u>
Cash provided by operating activities	<u>5,396</u>	<u>4,653</u>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(2,749)	(907)
Proceeds from notes payable	1,500	-
Dividends paid	(3,113)	(2,850)
Purchase of treasury stock	(2,756)	(2,879)
Stock options exercised	<u>1,628</u>	<u>1,713</u>
Cash used in financing activities	<u>(5,490)</u>	<u>(4,923)</u>
Net increase (decrease) in cash	(94)	(270)
Cash at beginning of year	<u>142</u>	<u>412</u>
Cash at end of year	<u>\$ 48</u>	<u>142</u>

**NOTE 15 – DISCLOSURES ABOUT FINANCIAL INSTRUMENTS**

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for financial instruments included on the consolidated balance sheets. Following is a summary of the Company's off-balance sheet financial instruments at December 31, 2021 and 2020:

<b>Financial instruments for which contractual amounts represent:</b>	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 206,924,923	162,880,656
Standby letters of credit	<u>4,620,157</u>	<u>4,645,029</u>
	<u>\$ 211,545,080</u>	<u>167,525,685</u>

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, 2021, \$60,712,490 were made at fixed rates of interest. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally residential or income-producing commercial property or equipment on which the Bank generally has a superior lien.

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

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

Information pertaining to the outstanding interest rate swap agreement at December 31, 2021 is as follows:

Notional amount	\$ 4,394,437
Underlying loan balance	4,394,437
Fair value recorded in other liabilities	52,335

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

**NOTE 16 – REGULATORY MATTERS**

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). At December 31, 2021, the Company qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, is not subject to the consolidated capital rules at the bank holding company level. The Bank opted into the Community Bank Leverage Ratio ("CBLR") framework, beginning with the call report filed for the first quarter of 2020. At December 31, 2020, the Bank's CBLR ratio was 8.33% which exceeded all regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized." The Bank opted out of the CBLR framework with the call report filed for the third quarter of 2021.

Banks and their bank holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements

in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Accordingly, a qualifying community banking organization that exceeds the 9% CBLR will be considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; and (iii) any other applicable capital or leverage requirements. A qualifying community banking organization that elects to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements. A banking organization meets the definition of a "qualifying community banking organization" if the organization has:

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

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

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, issued interim rules which modified the CBLR framework so that: (i) beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022, before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR will be 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

Company management believes, as of December 31, 2021, that the Company and Bank meet all capital adequacy requirements to which they are subject. As of December 31, 2021 and 2020, the most recent notification from applicable regulatory authorities categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as a well-capitalized bank, a bank that has not opted to use the CBLR option must maintain minimum Total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since those notifications that Company management believes have changed the Bank's risk category.

CNB BANK SHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

The Bank’s actual capital amounts and ratios at December 31, 2021 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
Total capital (to risk-weighted assets):	\$ 143,750	13.28%	\$ 86,606	≥8.0%	\$ 108,258	≥10.0%
Tier 1 capital (to risk-weighted assets):	\$ 131,943	12.19%	\$ 64,955	≥6.0%	\$ 86,606	≥8.0%
Common Equity Tier 1 capital (to risk-weighted assets):	\$ 131,943	12.19%	\$ 48,716	≥4.5%	\$ 70,368	≥6.5%
Tier 1 capital (to average assets):	\$ 131,943	8.39%	\$ 62,907	≥4.0%	\$ 78,634	≥5.0%

# BOARD OF DIRECTORS



**RICHARD WALDEN,**  
Chairman (CNBSI and CNB B&T) 1 2  
Director since 1987  
**Occupation:** Owner of Richard C. Walden, CPA, since established in 1979  
**Past employment:** U.S. Treasury IRS agent  
**Community service:** Directorship for Karmak, Inc.; Carlinville Area Hospital (board and Foundation); Macoupin County Community Foundation  
**Past community service:** Blackburn College (alumni board and Board of Trustees); CAVPAC Board; Macoupin County CEO Program board  
**Education:** B.A. degree, Blackburn College; CPA, University of Illinois



**JAMES T. ASHWORTH,**  
President of CNBSI; Vice Chairman (CNBSI and CNB B&T) 1 2  
Director since 1985  
**Past CNB positions:** President and CEO; Cashier; Internal Auditor  
**Industry affiliations:** Chairman, Federal Home Loan Bank of Chicago; Past Chairman, Community Bankers Association of Illinois; Independent Community Bankers of America Board of Directors  
**Community service:** Macoupin County Community Foundation; Carlinville Rotary Club  
**Past community service:** Federated Church Board of Trustees; President, Carlinville Chamber of Commerce  
**Education:** B.S. degree, University of Miami; Graduate School of Banking, Madison, Wisconsin



**SHAWN DAVIS,**  
President and CEO of CNB B&T; Senior V.P. of CNBSI 1 2  
Director since 1994  
**Industry affiliations:** Past Chairman, Community Bankers Association of Illinois; Past Chairman, Community Bank Services Corp.; Payments Committee, ICBA; Shazam Board of Directors; Illinois Transfer System Board of Directors  
**Community service:** Trustee, Carlinville Public School Foundation; Board member, Carlinville Winning Communities  
**Education:** B.S. degree, Southern Illinois University; Graduate School of Banking, University of Wisconsin

1 CNB Bank Shares, Inc. Board Member | 2 CNB Bank & Trust, N.A. Board Member



## BOARD OF DIRECTORS



**JUDITH BAKER,**  
Director 1&2

Director since 1995  
**Occupation:** Retired  
**Past employment:** Patient Reimbursement Specialist, Carlinville Area Hospital  
**Education:** Attended Blackburn College



**NANCY RUYLE,**  
Director and Corporate Secretary 1&2

Director since 1990  
**Occupation:** Senior partner, Ruyle & Sims, Attorneys at Law  
**Past occupational affiliation:** president, Macoupin County Bar Association  
**Community service:** Carlinville Winning Communities board; CWC Independence Day chairperson  
**Past community service:** Carlinville Public Schools Foundation trustee; Macoupin County CEO Program board  
**Education:** B.S. degree, St. Ambrose College; J.D. degree, St. Louis University School of Law



**PETER GENTA,**  
Director 1&2

Director since 2004  
**Occupation:** Retired  
**Past employment:** Mathematics teacher and professor, Carlinville High School and Blackburn College; also Track coach for Carlinville High School; mathematics teacher, Virden High School  
**Community service:** Trustee, Federated Church; Carlinville Rotary Club (past president)  
**Past community service:** Locust Street Resource Center board (mental health service provider); Carlinville Track Club  
**Education:** B.A. degree, Lake Forest College; M.A. degree, University of Illinois

1 CNB Bank Shares, Inc. Board Member | 2 CNB Bank & Trust, N.A. Board Member

## BOARD OF DIRECTORS



**ANDREW E. TINBERG,**  
Senior Executive Vice President; Chief Banking Officer <sup>2</sup>

Director since 2020  
**Past CNB position:** Regional President over Chicago-area branches  
**Industry affiliations:** Community Bank Service Corp. Board of Directors; Chairman, CBSC Innovation Committee  
**Community service:** Board member, Chamber of Commerce; Congregational member of the Evangelical Lutheran Church of the Good Sheppard  
**Past community service:** President, Rotary; President, Chamber of Commerce; Chairman, Oak Forest Economic Advisory Commission  
**Education:** B.S. Degree, Northern Illinois University; Graduate School of Banking, University of Colorado



**JOE HEITZ,**  
Director 1

Director since 2015; previously on Cornerstone Bank & Trust board  
**Occupation:** President/Owner, Heitz Optical  
**Community service:** Riverbend Growth Association  
**Past community service:** Professional Eyecare of Greater St. Louis  
**Education:** B.S. degree Western Illinois University; University of Missouri, St. Louis.



**JOHN PIETRZAK,**  
Director 1

Director since 2018  
**Occupation:** President and CEO, Castle Creek Capital  
**Previous employment:** Levi Strauss; Diamond Technology Partners; Sara Lee  
**Past industry affiliations:** boards of West Coast Bancorp; Square 1 Financial; Intermountain Community Bancorp; HCSB Financial; and Origin Bancorp; boards of CF Bankshares, Inc. and CF Bank, NA, Worthington, OH  
**Education:** B.S. degree, Indiana University; M.B.A. degree, Wharton School of the University of Pennsylvania

1 CNB Bank Shares, Inc. Board Member | 2 CNB Bank & Trust, N.A. Board Member

## BOARD OF DIRECTORS



**JOHN T. BOEHM,**  
Director 2

Director since 2006  
**Occupation:** Retired  
**Past employment:** Partner and founder of Boehm Farms; farming on the family farm since 1973  
**Military service:** US Army  
**Past community service:** Macoupin County FSA Committee  
**Education:** through Carlinville School District; A.B.A. Illinois Business College/ Universal Career College



**RICK CHAMPLEY,**  
Director 1

Director since 2011; previously served on Palmer Bank boards  
**Occupation:** Owner, Page's Collision Center  
**Past positions:** Chairman of both the Palmer Bank and it's Loan Committee  
**Past community service:** President, Christian County YMCA board; Taylorville Chamber of Commerce Board  
**Education:** through Taylorville School District



**RICHARD FOSS,**  
Director 2

Director since 2018; previously served on Jacksonville Savings Bank board  
**Past position:** President and CEO of Jacksonville Savings Bank  
**Past community service:** Jacksonville Regional Economic Development Corp board; Passavant Area Hospital board; Jacksonville Chamber of Commerce board; Jacksonville Kiwanis Club board; Jacksonville Park board; Jacksonville Country Club board; and various church boards  
**Education:** B.S. degree, Carroll University; Graduate School of Banking, University of Wisconsin

1 CNB Bank Shares, Inc. Board Member | 2 CNB Bank & Trust, N.A. Board Member

## BOARD OF DIRECTORS



**JIM SALSKE,**  
Director 2

Director since 2006  
**Occupation:** Retired  
**Past employment:** Owner/ Operator of McDonald's restaurants  
**Past employment affiliations:** Vice President, St. Louis Co-op board; McDonalds Regional Marketing Committee  
**Community service:** Vice Chairman, Carlinville Area Hospital board; Macoupin County CEO Program board  
**Past community service:** President, Hillsboro Chamber of Commerce  
**Education:** B.S., Purdue University



**GEORGE YARD,**  
Director 2

Director since 2011; previously on Palmer Bank board  
**Occupation:** President of Yard Heating and Cooling  
**Community service:** Christian County Crimestoppers; Taylorville Development Association  
**Past community service:** Taylorville Builders Association  
**Education:** Taylorville Community Schools, Refrigeration Service Engineers Society

1 CNB Bank Shares, Inc. Board Member  
 2 CNB Bank & Trust, N.A. Board Member

Visit the **investor relations** page of our website for anywhere access to information on CNB Bank Shares, Inc., stocks and current and past annual reports.



# OFFICER LIST

## CNB Bank Shares, Inc.

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

## CNB Bank & Trust, N.A.

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

### BRANCH MANAGEMENT & LOANS

Gary Graham	Regional President	Carlinville
Anthony Heitzig	Regional President	Jerseyville
Daniel Walsh	Regional President	Oak Forest
Matthew Cors	Market President	Jacksonville
Mark Haggard	Market President	Alton
Thomas Jelinek	Market President	Palos Heights
Daniel Jung	Market President	Clayton
Michael Liskiewicz	Market President	Tinley Park
Paul Millard	Market President	Edwardsville/Glen Carbon
Kent Richardson	Market President	Taylorville
David Hurley	Senior Vice President & Commercial Lending Team Leader	Carlinville
Noelle Flesner	Vice President & Senior Commercial/Ag Loan Officer	Pittsfield
Craig Frankford	Vice President & Senior Commercial/Ag Loan Officer	Carlinville
Shaan Smith	Vice President & Senior Commercial/Ag Loan Officer	Jacksonville
Evan Campbell	Vice President & Commercial/Ag Loan Officer	Clayton
Daniel Henry	Vice President & Commercial/Ag Loan Officer	Chapin
Allan Krokos	Vice President & Commercial/Ag Loan Officer	Tinley Park
Michael LaTempt	Vice President & Commercial/Ag Loan Officer	Carrollton
Ronald Norris	Vice President & Commercial/Ag Loan Officer	Litchfield
Gordon Rahe	Vice President & Commercial/Ag Loan Officer	Carrollton
Shannon Scheffel	Vice President & Commercial/Ag Loan Officer	Edwardsville/Glen Carbon
Jeremy Scott	Vice President & Commercial/Ag Loan Officer	Clayton
Gavin Weir	Vice President & Commercial/Ag Loan Officer	Palos Heights
Lisa Stambaugh	Vice President & Retail Loan Officer	Jacksonville
Lynn Eyman	Assistant Vice President & Commercial/Ag Loan Officer	Hillsboro
Amy Roady	Assistant Vice President & Commercial/Ag Loan Officer	Alton
Jack Tinberg	Assistant Vice President & Commercial/Ag Loan Officer	Oak Forest
William Vogt	Assistant Vice President & Commercial/Ag Loan Officer	Litchfield
Kelly Dulakis	Assistant Vice President & Retail Loan Officer	Taylorville
Susan Montgomery	Assistant Vice President & Retail Loan Officer	Taylorville
Kimberly Andras	Commercial/Ag Loan Officer	Chapin
James Sanderson	Commercial/Ag Loan Officer	Pittsfield
Regina Cox	Retail Loan Officer	Brighton
Amber Millburg	Retail Loan Officer	Jerseyville
Tonya Scarborough	Retail Loan Officer	Alton
Charles Toland	Mortgage Loan Officer	Oak Forest

### MORTGAGE DEPARTMENT

Matthew Cors	Market President	Jacksonville
Stacy Winder	Mortgage Loan Servicing Supervisor	Jerseyville
Megan Baker	Lead Mortgage Loan Underwriter	Jerseyville
Michael Drake	Loss Mitigation Specialist	Alton
Cathy Gray	Lead Mortgage Loan Operations Assistant	Jerseyville
Dawn Kamp	Lead Mortgage Loan Closer	Jerseyville
Kendra Sobol	Lead Mortgage Loan Processor	Jerseyville

# OFFICER LIST

## RETAIL BANKING

JoAnn Garland	Vice President & Regional Deposit Support Officer	Jerseyville
Barbara Bergamo	Assistant Vice President & Regional Deposit Support Officer	Palos Heights
Heather Jones	Assistant Vice President & Regional Deposit Support Officer	Taylorville
Jeanie Glass	Assistant Vice President & Regional Universal Banker Manager	Jerseyville
Angela Levora	Assistant Vice President & Regional Universal Banker Manager	Carlinville
Joseph Johnson	Regional Universal Banker Manager	Oak Forest
Benjamin Brown	Assistant Vice President & Business Development Officer	Oak Forest
Alicia Vault	Treasury Management & Business Development Officer	Tinley Park
Michelle Barnes	Universal Banker Supervisor	Oak Forest
Stacey Butler	Universal Banker Supervisor	Alton
Tina Carter	Universal Banker Supervisor	Carrollton
Angela Hunn	Universal Banker Supervisor	Brighton
Kendra Lane	Universal Banker Supervisor	Hillsboro
Shelley Malik	Universal Banker Supervisor	Palos Heights
Meagan Marron	Universal Banker Supervisor	Taylorville
Donald Miller	Universal Banker Supervisor	Litchfield
Francesca Neff	Universal Banker Supervisor	Jacksonville (S. Main)
Michelle Optiz	Universal Banker Supervisor	Pittsfield
Paul Summers	Universal Banker Supervisor	Jerseyville
Debra Volante	Universal Banker Supervisor	Palos Heights
Heidi Werries	Universal Banker Supervisor	Jacksonville
Carol Wills	Universal Banker Supervisor & IRA Specialist	Carlinville
Nicole Balcom	Lead Universal Banker	Edwardsville/Glen Carbon
Melissa Caldwell	Lead Universal Banker	Hillsboro
Teresa Clinton	Lead Universal Banker	Jacksonville
Sandra Price	Lead Universal Banker	Clayton
Chelsey Pyatt	Lead Universal Banker	Carrollton
Heather Roberts	Lead Universal Banker	Brighton
Carla Royer	Lead Universal Banker	Virden
Maranda Schmieder	Lead Universal Banker	Jerseyville

## TRUST DEPARTMENT & WEALTH MANAGEMENT GROUP

Darlene Ward	Senior Vice President of Trust	Alton
Darren Wright	Senior Vice President - Director of Fiduciary Investments	Edwardsville/Glen Carbon
Mary Ferguson	Vice President - Trust Portfolio Manager	Jacksonville
Norma Bellcoff	Vice President - Trust Officer	Edwardsville/Glen Carbon
Bryan Gorman	Vice President - Trust Officer	Alton
Deneen Messer	Vice President - Trust Officer	Edwardsville/Glen Carbon
Amy Warren	Vice President - Trust Officer	Edwardsville/Glen Carbon
Terry Daniels	Assistant Vice President & Director of Investment Research	Edwardsville/Glen Carbon
Alan Davies	Assistant Vice President - Trust Portfolio Manager	Edwardsville/Glen Carbon
Matthew Slightom	Assistant Vice President - Trust Portfolio Manager/Farm Manager	Carlinville
Victor Henson	Trust Officer	Jacksonville
Wendi Bolin	Trust Operations Officer	Edwardsville/Glen Carbon
Emily Potts	Assistant Trust Officer	Alton
Christina Kaus	Trust Administrator	Alton
Pamela Ramsey	Trust Administrator	Edwardsville/Glen Carbon
Marian Toth	Trust Administrator	Carlinville
Kimberly Payne	Trust Compliance & Operations Coordinator	Alton
Olivia Pohlman	Trust Tax & Investment Specialist	Alton

## FINANCIAL RESOURCES GROUP

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

# OFFICER LIST

## CORPORATE SERVICES

Thomas DeRobertis	Executive Vice President & Chief Risk Officer	Oak Forest
Diana Tone	Executive Vice President & Chief Financial Officer	Jacksonville
Angel Hopper	Vice President & Director of Human Resources	Edwardsville/Glen Carbon
Susan VanNorman	Director of Marketing & Communications	Alton
Sallie Bowers	Assistant Vice President & Senior Accounting Officer	Pittsfield
Kristine Schulte	Chief Compliance Officer	Jacksonville
Carol Fletcher	Director of AML Risk Management	Alton
Shari Skinkis	CRA Officer	Oak Forest
Kelly Wood	BSA / AML Compliance Officer	Oak Forest
Katie Ashworth	CRM Officer & Training Coordinator	Carlinville
Aaron Wilson	Recruiter & HR Generalist	Alton
Shelley Tallant	Accounts Payable Supervisor	Jerseyville
Dawna King	Lead Operations & Accounting Assistant	Jacksonville
Emily Melton	Accounting Specialist	Jacksonville
Leisa Brooks	Senior HR Assistant	Edwardsville/Glen Carbon
Ryan Petrolina	Senior Marketing Assistant	Alton

## CREDIT ADMINISTRATION

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

## OPERATIONS

Maureen Oswald	Executive Vice President & Chief Operations Officer	Carlinville
Kent Brueggemann	Vice President & Director of Commercial Services & E-Banking	Clayton
Deborah McDowell	Senior Operations Officer	Carlinville
Matthew Turley	Vice President & Chief Information Officer	Carlinville
Lisa Wolf	Vice President Computer Operations	Carlinville
Mark Totsch	Technology Officer	Carlinville
Timothy Bradshaw	Technology Officer & Security Officer	Pittsfield
Natalie Magnuson	E-Banking Coordinator	Jacksonville
Aaron Shipley	Project Coordinator	Carlinville
Lillian McGartland	Lead Operations Assistant	Carlinville
Denise Sanders	Lead Operations Assistant	Jerseyville
Kila Harris	Lead Computer Operator	Carlinville
Thomas Schofield	Document Management Specialist	Carlinville
Stephanie Rich	Loan Document Management Specialist	Jacksonville
Linda Wiser	Senior Executive Assistant	Carlinville
Lori McCoy	Operations Specialist	Alton

ALTON | BRIGHTON | CARLINVILLE | CARROLLTON | CHAPIN  
CLAYTON, MO | EDWARDSVILLE / GLEN CARBON | HILLSBORO

## PROUDLY SERVING 17 COMMUNITIES

JACKSONVILLE | JERSEYVILLE | LITCHFIELD | OAK FOREST | PALOS HEIGHTS  
PITTSFIELD | TAYLORVILLE | TINLEY PARK | VIRDEN



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