

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Consolidated Financial Statements	
Balance Sheets	3
Statements of Income	4
Statements of Comprehensive Income	5
Statements of Changes in Stockholders' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Midwest BankCentre, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Midwest BankCentre, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in 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 Midwest BankCentre, Inc. and Subsidiaries 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.

Report on Internal Control Over Financial Reporting

We also have audited in accordance with auditing standards generally accepted in the United States of America, Midwest BankCentre, Inc.'s internal control over financial reporting as of December 31, 2021, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2022 expressed an unmodified 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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Midwest BankCentre, Inc. and Subsidiaries 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 these 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 Midwest BankCentre, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's 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 auditor's 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.
- 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 Midwest BankCentre, Inc. and Subsidiaries' 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.

UHY LLP

St. Louis, Missouri
March 16, 2022

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
ASSETS	<u>2021</u>	<u>2020</u>
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$ 24,079,538	\$ 17,824,006
Banks—interest bearing balances	<u>89,878,900</u>	<u>5,545,909</u>
Total cash and cash equivalents (Notes 11 and 21)	<u>113,958,438</u>	<u>23,369,915</u>
INVESTMENT SECURITIES (Notes 2, 20 and 21)	<u>297,066,642</u>	<u>292,231,940</u>
LOANS		
Loans, net	1,806,871,231	1,770,145,913
Loans held for sale	<u>5,111,623</u>	<u>33,857,293</u>
Total loans (Notes 3, 20 and 21)	<u>1,811,982,854</u>	<u>1,804,003,206</u>
PREMISES AND EQUIPMENT, NET (Note 4)	<u>15,897,917</u>	<u>17,788,810</u>
BANK OWNED LIFE INSURANCE (Note 21)	<u>70,319,582</u>	<u>71,040,686</u>
GOODWILL	<u>17,342,753</u>	<u>17,342,753</u>
CORE DEPOSIT INTANGIBLE, NET (Note 1)	<u>676,450</u>	<u>1,312,259</u>
ACCRUED INCOME AND OTHER ASSETS (Notes 10, 12, 20 and 21)	<u>45,521,318</u>	<u>46,752,247</u>
TOTAL ASSETS	<u>\$2,372,765,954</u>	<u>\$2,273,841,816</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand	\$ 547,110,836	\$ 480,340,956
Interest—bearing demand	313,572,644	260,572,448
Money market	414,353,168	323,065,354
Savings	308,646,477	272,120,190
Time – \$250,000 and over (Note 5)	92,645,978	105,616,285
Time – under \$250,000 (Note 5)	<u>205,296,871</u>	<u>285,541,514</u>
Total deposits (Note 20 and 21)	1,881,625,974	1,727,256,747
Other borrowed funds (Notes 6 and 21)	202,300,432	305,172,607
Subordinated Debentures, net (Note 7 and 21)	67,239,206	32,707,367
Accrued expenses and other liabilities (Notes 10, 12, 20 and 21)	<u>21,626,433</u>	<u>21,682,167</u>
TOTAL LIABILITIES	<u>2,172,792,045</u>	<u>2,086,818,888</u>
STOCKHOLDERS' EQUITY		
Common stock, \$6.67 par value; 6,000,000 shares authorized; 1,942,655 shares issued at December 31, 2021 and 2020, respectively	12,951,066	12,951,066
Capital surplus	9,499,496	9,657,600
Retained earnings	191,819,386	175,423,618
Accumulated other comprehensive income (Note 9)	<u>2,977,126</u>	<u>5,128,230</u>
	217,247,074	203,160,514
Treasury stock, at cost, 173,273 and 164,579 shares, at December 31, 2021 and 2020, respectively	<u>(17,273,165)</u>	<u>(16,137,586)</u>
Total stockholders' equity (Note 8)	<u>199,973,909</u>	<u>187,022,928</u>
Total liabilities and stockholders' equity	<u>\$2,372,765,954</u>	<u>\$2,273,841,816</u>

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2021	2020
INTEREST INCOME		
Interest and fees on loans	\$ 69,322,110	\$ 67,009,038
Interest and dividends on investment securities		
U.S. Treasury and agencies	1,589,646	2,501,228
Mortgage-backed securities	2,352,525	2,156,125
States and political subdivisions	522,760	573,403
Other securities	3,788,910	3,682,390
Interest on banks—interest bearing balances	51,835	118,523
Total interest income	<u>77,627,786</u>	<u>76,040,707</u>
INTEREST EXPENSE		
Interest on deposits	4,062,747	11,203,297
Interest on other borrowed funds	5,737,592	6,257,810
Total interest expense	<u>9,800,339</u>	<u>17,461,107</u>
NET INTEREST INCOME	67,827,447	58,579,600
PROVISION FOR LOAN LOSSES (NOTE 3)	<u>2,433,738</u>	<u>4,850,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>65,393,709</u>	<u>53,729,600</u>
NONINTEREST INCOME		
Service charges on deposit accounts	2,523,356	2,214,633
Mortgage banking revenue	6,259,279	4,961,967
Bank owned life insurance	2,652,617	1,784,523
Debit card fees	2,483,232	2,031,743
Gains on sales of investment securities	271,384	1,193,524
Other	2,088,761	1,684,853
Total noninterest income	<u>16,278,629</u>	<u>13,871,243</u>
NONINTEREST EXPENSE		
Salaries	29,876,540	25,807,323
Employee benefits	4,863,693	4,320,160
Outside fees	5,443,565	5,076,486
Occupancy	4,508,100	3,944,359
Insurance	1,405,245	1,639,118
Equipment	1,151,951	1,351,170
Software	1,797,620	1,699,595
Marketing	1,251,586	908,917
Debit card expense	1,203,435	1,081,472
Other	5,826,567	7,415,689
Total noninterest expense	<u>57,328,302</u>	<u>53,244,289</u>
INCOME BEFORE INCOME TAXES	24,344,036	14,356,554
INCOME TAXES (NOTE 10)	<u>3,140,247</u>	<u>756,661</u>
NET INCOME	<u>\$ 21,203,789</u>	<u>\$ 13,599,893</u>

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2021	2020
NET INCOME	<u>\$ 21,203,789</u>	<u>\$ 13,599,893</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on securities available-for-sale, net tax expense (benefit) of \$(1,244,031) and \$1,422,509, respectively	(3,905,102)	4,465,362
Unrealized gain (loss) on Bank swap derivatives, net of tax expense (benefit) of \$700,420 and \$(126,253) in 2021 and 2020, respectively	2,198,669	(396,317)
Reclassification adjustment for realized gain included in net income, net of tax expense of \$65,566 and \$288,355, respectively	(205,818)	(905,169)
Reclassification adjustment for realized interest expense on Bank SWAP derivatives included in net income, net of tax benefit of \$76,090 and \$37,531 in 2021 and 2020, respectively	<u>(238,853)</u>	<u>(117,811)</u>
Total other comprehensive income (loss)	<u>(2,151,104)</u>	<u>3,046,065</u>
COMPREHENSIVE INCOME	<u>\$ 19,052,685</u>	<u>\$ 16,645,958</u>

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2021 and 2020

	Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Par Value					
BALANCE AT JANUARY 1, 2020	1,942,655	\$ 12,951,066	\$ 9,733,593	\$ 165,250,465	\$ 2,082,165	\$ (14,544,249)	\$ 175,473,040
NET INCOME	-	-	-	13,599,893	-	-	13,599,893
PURCHASE OF TREASURY STOCK (16,217 SHARES)	-	-	-	-	-	(1,808,129)	(1,808,129)
ISSUANCE OF TREASURY STOCK FOR DIRECTOR FEES (1,710 SHARES)	-	-	14,779	-	-	157,848	172,627
OPTIONS EXERCISED (5,600 SHARES)	-	-	(114,507)	-	-	56,944	(57,563)
STOCK BASED COMPENSATION EXPENSE	-	-	23,735	-	-	-	23,735
CASH DIVIDENDS – \$1.92 PER SHARE	-	-	-	(3,426,740)	-	-	(3,426,740)
OTHER COMPREHENSIVE INCOME							
UNREALIZED GAIN ON INVESTMENT SECURITIES AVAILABLE FOR SALE	-	-	-	-	3,560,193	-	3,560,193
UNREALIZED LOSS ON BANK SWAP DERIVATIVES	-	-	-	-	(514,128)	-	(514,128)
BALANCE AT DECEMBER 31, 2020	1,942,655	\$ 12,951,066	\$ 9,657,600	\$ 175,423,618	\$ 5,128,230	\$ (16,137,586)	\$ 187,022,928
NET INCOME	-	-	-	21,203,789	-	-	21,203,789
PURCHASE OF TREASURY STOCK (11,234 SHARES)	-	-	-	-	-	(1,383,472)	(1,383,472)
ISSUANCE OF TREASURY STOCK FOR DIRECTOR FEES (1,940 SHARES)	-	-	30,423	-	-	186,457	216,880
OPTIONS EXERCISED (7,100 SHARES)	-	-	(207,927)	-	-	61,436	(146,491)
STOCK BASED COMPENSATION EXPENSE	-	-	19,400	-	-	-	19,400
CASH DIVIDENDS – \$2.71 PER SHARE	-	-	-	(4,808,021)	-	-	(4,808,021)
OTHER COMPREHENSIVE INCOME							
UNREALIZED LOSS ON INVESTMENT SECURITIES AVAILABLE FOR SALE	-	-	-	-	(4,110,920)	-	(4,110,920)
UNREALIZED GAIN ON BANK SWAP DERIVATIVES	-	-	-	-	1,959,816	-	1,959,816
BALANCE AT DECEMBER 31, 2021	<u>1,942,655</u>	<u>\$ 12,951,066</u>	<u>\$ 9,499,496</u>	<u>\$ 191,819,386</u>	<u>\$ 2,977,126</u>	<u>\$ (17,273,165)</u>	<u>\$ 199,973,909</u>

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 21,203,789	\$ 13,599,893
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for loan losses	2,433,738	4,850,000
Depreciation, amortization and accretion	3,863,719	3,762,563
Net gains on sales of investment securities	(271,384)	(1,193,524)
Donation of premises	-	1,516,259
Loss on write down or disposal of premises and equipment	460,415	170,695
Gains on sales of loans held for sale, net	(6,212,850)	(4,931,148)
Stock issued for director fees	216,880	172,627
Proceeds from sales of loans held for sale	303,980,141	261,403,261
Net loans made to customers and held for sale	(269,021,620)	(282,157,348)
Increase in cash surrender value of bank owned life insurance	(2,652,617)	(1,784,523)
Deferred income taxes	(1,654,285)	(1,005,399)
Stock-based compensation expense	19,400	23,735
Other, net	8,970,193	719,214
Net cash provided (used) by operating activities	<u>61,335,519</u>	<u>(4,853,695)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment securities	(98,986,579)	(87,605,391)
Proceeds from maturities, prepayments and calls of investment securities	81,047,359	104,001,410
Proceeds from sales of investment securities	6,647,345	45,079,872
Net purchases of Federal Home Loan Bank stock	(2,886,300)	(2,255,400)
Proceeds from bank owned life insurance	3,373,721	-
Net increase in loans	(39,159,057)	(269,834,364)
Proceeds from sale of foreclosed assets	15,000	310,548
Proceeds from sale of premises and equipment	-	2,036,914
Purchase of premises and equipment	(303,890)	(694,468)
Net cash used by investing activities	<u>(50,252,401)</u>	<u>(208,960,879)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	154,369,227	151,878,703
Net increase (decrease) in securities sold under agreements to repurchase	(21,064,175)	7,687,390
Proceeds (repayments) from FHLB borrowings	(81,808,000)	46,808,000
Repayment of MIB borrowings	-	(1,500,000)
Issuance of subordinated debentures	35,000,000	33,250,000
Redemption of subordinated debentures	-	(30,000,000)
Debt issuance cost	(653,663)	(600,488)
Dividends paid	(4,808,021)	(3,426,740)
Exercise of stock options	(146,491)	(57,563)
Purchase of treasury stock	(1,383,472)	(1,808,129)
Net cash provided by financing activities	<u>79,505,405</u>	<u>202,231,173</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	90,588,523	(11,583,401)
CASH AND CASH EQUIVALENTS, Beginning of Year	23,369,915	34,953,316
CASH AND CASH EQUIVALENTS, End of Year	\$ 113,958,438	\$ 23,369,915

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Midwest BankCentre, Inc. and Subsidiaries (the Company) follows accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. The consolidated financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity.

Business Activity

Midwest BankCentre, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, Midwest BankCentre (the Bank), Midwest BankCentre Insurance Agency, LLC. and Rising Analytics, LLC. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in the St. Louis metropolitan area. The Bank operates under a State Chartered Depository Trust Company, is a member of the Federal Reserve Bank and provides full banking services. As a state bank member of the Federal Reserve, the Bank is subject to regulation by the State of Missouri Division of Finance, Federal Reserve, and the Federal Deposit Insurance Corporation.

Principles of Consolidation

The consolidated financial statements include the accounts of Midwest BankCentre, Inc. and its wholly-owned subsidiaries, Midwest BankCentre, Midwest BankCentre Insurance Agency, LLC and Rising Analytics, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. These estimates are based on information available to management at the time the estimates are made. While the consolidated financial statements reflect management's best estimates and judgment, actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near-term. However, the amount of the change that is reasonably possible cannot be estimated.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and due from banks and due from banks—interest bearing. The Bank considers all short-term investments with an original maturity of three months or less to be cash equivalents. The Company's cash deposits in financial institutions are insured by FDIC insurance, which is subject to certain limitations and conditions.

Investment Securities

The Bank's securities are classified in three categories and accounted for as follows:

Debt securities that the Bank has the positive intent and ability to hold-to-maturity are classified as held-to-maturity securities and reported at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity in accumulated other comprehensive income until realized. Investment securities available-for-sale are used as a part of the Bank's asset management strategy and may be sold in response to changes in interest rates or other factors.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses or in other comprehensive income, depending on whether the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Bank does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The classification of investment securities is generally determined at the date of purchase. Gains or losses on the sale of investment securities are based on the net proceeds and the book value of securities sold using the specific identification method. As of December 31, 2021 and 2020, all of the Bank's investment securities were classified as available-for-sale and carried at fair value.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

The Bank is required to purchase Federal Home Loan Bank of Des Moines (FHLB) stock in association with activities utilizing the FHLB. The Bank also has Federal Reserve Bank (FRB) stock that is based on the capital structure of the investing bank. These stocks, which are included in accrued income and other assets on the consolidated balance sheet, are classified as restricted investments and carried at cost.

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of its financial instruments based on the fair value hierarchy established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

For investment securities, changes in fair value are recorded in other comprehensive income. The fair values of securities are priced provided by a third-party pricing service. The prices provided by the third-party pricing service are based on observable market inputs, as described in the sections below.

Valuation methods and inputs, by class of security:

- *U.S. government and federal agency obligations*

U.S. treasury bills, bonds and notes are valued using data from active market makers and inter-dealer brokers.

- *Government-sponsored enterprise obligations*

Government-sponsored enterprise obligations are valued using cash flow valuation models. Inputs used are live market data, cash settlements, Treasury market yields, and floating rate indices such as LIBOR, Constant Maturity Treasury rates (CMT), and Prime.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

- *State and municipal obligations*

A yield curve is generated and applied to bond sectors, and individual bond valuations are extrapolated. Inputs used to generate the yield curve are bellwether issue levels, established trading spreads between similar issuers or credits, historical trading spreads over widely accepted market benchmarks, new issue scales, and verified bid information. Bid information is verified by corroborating the data against external sources such as broker-dealers, trustees/paying agents, issuers, or non-affiliated bondholders.

- *Mortgage and asset-backed securities*

Collateralized mortgage obligations and other asset-backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche-specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

Valuation of agency pass-through securities, typically issued under GNMA, FNMA, FHLMC, and SBA programs, are primarily derived from information from the To Be Announced (TBA) market. This market consists of generic mortgage pools which have not been received for settlement. Snapshots of the TBA market, using live data feeds distributed by multiple electronic platforms, are used in conjunction with other indices to compute a price based on discounted cash flow models.

- *Other debt securities*

Other debt securities are valued using active markets and inter-dealer brokers as well as bullet spread scales and option adjusted spread. The spreads and models use yield curves, terms and conditions of the bonds, and any special features (e.g., call or put options and redemption features.)

Loans and Allowance for Loan Losses

Loans

The Bank grants commercial and industrial, secured by real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans made throughout the greater St. Louis metropolitan area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate economic sector and other current economic conditions.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of the allowance for loan losses and net deferred loan fees and unearned discounts. Interest income on loans generally is accrued on a simple interest basis.

Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

Loan and commitment fees on commercial and consumer loans, net of costs, are deferred and recognized in income over the term of the loan or commitment as an adjustment of yield.

Loan Classifications and Portfolio Segments

Consumer

Individual consumer loans are credits extended to individuals for household, family, and other personal expenditures that do not meet the definition of a “loan secured by real estate” and include both secured and unsecured loans to individuals. Collateral would normally be marketable securities, bank deposits or other personal vehicles or assets. When collateralized, loan to value ratios are generally within industry norms.

Mortgage one to four family loans are open–end and closed–end loans secured by real estate as evidenced by mortgages or other liens on:

- Nonfarm property containing 1–to–4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.
- Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1–to–4 family dwelling units are involved.

Home equity loans consist of revolving, open–end loans secured by 1–4 family residential properties and extended under lines of credit. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card. In addition, loans secured by junior liens are included in this category. These credits are closed–end loans secured by junior (i.e., other than first) liens on 1–to–4 family residential properties.

Secured by Real Estate

Commercial real estate loans are loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, excluding owner–occupied real estate loans. Included in this category are all other nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional), specifically:

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Loan Classifications and Portfolio Segments (Continued)

Secured by Real Estate (Continued)

- Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
- 5 or more unit housekeeping dwellings with commercial units combined where use is primarily residential.
- Cooperative-type apartment buildings containing 5 or more dwelling units.

Loan to value ratios are generally within regulatory guidelines.

Owner-occupied real estate loans are loans secured by owner-occupied nonfarm nonresidential properties. Loans in this category are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. For loans secured by owner-occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans included in this category include credits secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor. Also included are loans secured by churches unless the property is owned by an investor who leases the property to the congregation. Loan to value ratios are generally within regulatory guidelines.

Real estate construction loans are loans made to finance (a) land development (i.e., the process of improving land – laying sewers, water pipes, etc.) preparatory to erecting new structures or (b) the on-site construction of industrial, commercial, residential, or farm buildings. For purposes of this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Also included in this category are the following:

- Loans secured by vacant land, except land known to be used or usable for agricultural purposes, such as crop and livestock production.
- Loans secured by real estate with the proceeds being used to acquire and improve developed and undeveloped property.
- Loans made under Title I or Title X of the National Housing Act that conform to the definition of construction stated above and that are secured by real estate.

Loan to value ratios are generally within regulatory guidelines.

Commercial and Industrial

Commercial and industrial loans include loans for commercial, industrial, and professional purposes including:

- mining, oil- and gas-producing, and quarrying companies;
- manufacturing companies of all kinds, including those which process agricultural commodities;
- construction companies;

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Loan Classifications and Portfolio Segments (Continued)

Commercial and Industrial (Continued)

- transportation and communications companies and public utilities;
- wholesale and retail trade enterprises and other dealers in commodities;
- cooperative associations including farmers' cooperatives;
- service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
- insurance agents;
- practitioners of law, medicine, and public accounting;
- loans for the purpose of financing capital expenditures and current operations;
- loans to business enterprises guaranteed by the Small Business Administration (SBA);
- loans made to finance construction that do not meet the definition of a "loan secured by real estate";
- dealer flooring or floor-plan loans;
- overnight lending for commercial and industrial purposes;
- SBA Loans, including (PPP) Payment Protection Program Loans.

Credits are typically collateralized by business equipment, inventory, accounts receivable and other business assets. Loan to value ratios are ordinarily between 60% – 80% at origination depending on collateral securing the debt.

Loans Held for Sale

Loans held for sale include fixed rate residential mortgage loans. These loans are typically classified as held for sale upon origination based upon management's intent to sell the production of these loans. They are carried at the lower of aggregate cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices, which represent the estimated exit price. Declines in fair value below cost are recognized as a reduction to mortgage banking revenue. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Gains or losses on sales are recognized upon sale.

Non-Accrual Loans

The accrual of interest on impaired loans is discontinued (non-accrual status) when, in the opinion of management, the collection of interest on a loan is unlikely or when either principal or interest is past due over ninety days, unless certain conditions exist. When interest accrual is discontinued, all unpaid interest accrued during the current year is reversed against current period earnings and interest accrued relating to the prior year(s) is charged against the valuation reserve. Interest is included in income only after all previous loan charge-offs have been recovered, and is recorded only as received. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due pursuant to the contractual terms of the loan agreement. Included in impaired loans are all non-accrual loans, as well as loans whose terms have been modified in a troubled debt restructuring. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the 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. Impairment is measured on a loan-by-loan basis for commercial and industrial, secured by real estate loans and consumer loans, by, among other factors, the fair value of the collateral if the loan is collateral dependent.

Troubled Debt Restructurings

A loan is accounted for as a troubled debt restructuring if the Bank, for economic or legal reasons related to the borrowers' financial difficulties, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves a modification of terms such as a reduction of the stated interest rate or face amount of the loan, a reduction of accrued interest, or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk. The Bank measures the impairment loss of a troubled debt restructuring based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original, contractual rate of the loan. Commercial and industrial, secured by real estate, and consumer loans whose terms have been modified in a troubled debt restructuring with impairment charges are generally placed on non-accrual status.

Allowance for Loan Losses

The allowance for loan losses is increased by a provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance is maintained at a level considered adequate to provide for potential loan losses based on management's evaluation of the anticipated impact on the loan portfolio of current economic conditions, changes in the character and size of the portfolio, past and expected future loss experience and other pertinent factors.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management determines the allowance for loan losses by portfolio segment, which includes consumer loans, secured by real estate loans and commercial and industrial loans.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and unallocated components. The specific component relates to loans that are classified as doubtful or substandard. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge-offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. Commercial and industrial, secured by real estate, and consumer loans are generally written down to estimated collectible balances when they are placed on non-accrual status. Consumer loans and related accrued interest are normally written down to the fair value of related collateral (or are charged off in full if there is no associated collateral) once the loans are more than 120 days delinquent.

Loans Acquired Through Transfer

Acquired loans are initially measured at fair value as of the acquisition date without carryover of historical allowance for loan losses.

For loans that meet the criteria stipulated in Accounting Standards Codification (ASC) 310-30, the Company recognizes the accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. Decreases in the expected cash flows in subsequent periods require the establishment of an allowance for loan losses. Improvements in expected cash flows in future periods result in a reduction of the nonaccretable discount, with such amount reclassified as part of the accretable yield and subsequently recognized in interest income over the remaining lives of the acquired loans on a level-yield basis if the amount and timing of future cash flows is reasonably estimable.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

For loans that meet the criteria stipulated in the ASC 310-20, the Company shall amortize/accrete into interest income the premium/discount determined at the date of purchase on a level-yield basis over the life of the loan. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses are similar to originated loans.

Loans accounted for under ASC 310-20 are placed on nonaccrual status when past due in accordance with the Company's nonaccrual policy.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Acquired Through Transfer (Continued)

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is recorded as a charge-off through the allowance for loan losses. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed troubled debt restructurings as the pool, and not the individual loan, represents the unit of account. For the loans acquired in 2015 and 2016 the following is a summary of activity in loans over the two years ended December 31, 2021:

	Contractual amount due	Valuation adjustment	Net loans acquired
Balance at January 1, 2020	\$ 17,742,094	\$ 812,330	\$ 16,929,764
Accretion of purchased discount	—	(308,207)	308,207
Payments/renewals	(8,627,620)	—	(8,627,620)
Charge-offs	(64,251)	—	(64,251)
Balance at December 31, 2020	\$ 9,050,223	\$ 504,123	\$ 8,546,100
Accretion of purchased discount	—	(149,791)	149,791
Payments/renewals	(2,003,234)	—	(2,003,234)
Charge-offs	(14,569)	—	(14,569)
Balance at December 31, 2021	<u>\$ 7,032,420</u>	<u>\$ 354,332</u>	<u>\$ 6,678,088</u>

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Provisions for depreciation are computed on various accelerated and straight-line methods and are based on estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed, while expenditures for improvements and major renewals are capitalized. Gains and losses on dispositions are included in current operations. Estimated useful lives of premises and equipment are assigned as follows:

	Years
Land Improvements	15
Buildings and Improvements	39
Vaults	20
Furniture and Equipment	5 – 15
Software	3

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Identifiable Intangible Assets and Goodwill

The excess of the Company's consideration paid in each acquisition transaction over the fair value of the net assets acquired is recorded as goodwill, an intangible asset in the Company's consolidated balance sheets. The Company tests goodwill for impairment on an annual basis and whenever events or circumstances indicate that the Company may not be able to recover the respective asset's carrying amount. Examples of events and circumstances that could trigger the need for interim impairment testing include: a significant change in legal factors or business climate; an adverse action or assessment by a regulator; unanticipated competition; or loss of key personnel. The Company's annual impairment test was performed at the end of 2021 and no impairment write-down was required.

The goodwill impairment analysis requires the Company to make assumptions and judgments regarding fair value. In the first step, the Company calculates an implied fair value based on a control premium analysis. If the implied fair value is less than the carrying value, the second step is completed to compute the impairment amount, if any, by determining the "implied fair value" of goodwill. This determination requires the allocation of the estimated fair value to the assets and liabilities. Any remaining unallocated fair value represents the "implied fair value" of goodwill, which is compared to the corresponding carrying value of goodwill to compute impairment, if any.

Identifiable intangible assets include a core deposit premium relating to the Bank's assumption of certain deposit liabilities in the Southern Bancshares, Inc. acquisition. This core deposit intangible of \$4,169,060 is being amortized on a straight-line basis over 7.5 years. The amortization of the core deposit premium was \$555,840 during each of the years ended December 31, 2021 and 2020, and will be \$463,200 in 2022 when it will be fully amortized. At year ended December 31, 2021, the gross carrying amount was \$463,200.

Identifiable intangible assets include a core deposit premium relating to the Bank's assumption of certain deposit liabilities in the Bremen Bancorp, Inc. acquisition. This core deposit intangible of \$639,750 is being amortized on a straight-line basis over 8 years. The amortization of the core deposit premium was \$79,969 during each of the years ended December 31, 2021 and 2020, and will be \$79,969 each year from 2022 to 2023 and \$53,312 in 2024 when it will be fully amortized. At year ended December 31, 2021, the gross carrying amount was \$213,250.

Non-Interest Income

Non-interest income is comprised of revenue from contracts with customers. Generally, income is recognized when the transaction is complete, and the customer received the goods or service. For that revenue (excluding certain revenue associated with financial instruments, transferring and servicing of financial assets and other specific revenue transactions), the Company applies the following five-step approach when recognizing revenue: (i) identify the contract with the customer, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) the performance obligation is satisfied. The Company's contracts with customers are generally short term in nature, with a duration of one year or less, and most contracts are cancellable by either the Company or its customer without penalty.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Assets

Foreclosed assets consist of property that has been repossessed. Collateral obtained through foreclosure is comprised of commercial and residential real estate and other non-real estate property, including automobiles. The assets are initially recorded at the lower of the related loan balance or fair value of the collateral less estimated selling costs, with any valuation adjustments charged to the allowance for loan losses. Fair values are estimated primarily on appraisals when available or quoted market prices of liquid assets. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. These appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated costs to sell. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell. Foreclosed assets of \$904,000 and \$1,020,000 are included in Accrued Income and Other Assets on the consolidated balance sheet at December 31, 2021 and 2020, respectively. At December 31, 2021, such foreclosed assets included construction and land development loans. There were no residential mortgage loans in the year-end foreclosed asset total, but the Bank had \$0 and \$488,328 residential mortgage loans in process of foreclosure at December 31, 2021 and 2020, respectively. Further valuation adjustments on these assets, gains and losses realized on sales, and net operating expenses are recorded in other non-interest expense.

Derivatives

Derivative contracts are offered to customers to assist in hedging their risks of adverse changes in interest rates and foreign exchange rates. The Bank serves as an intermediary between its customers and the markets. Each contract between the Bank and its customers is offset by a contract between the Bank and a counterparty. These contracts do not qualify for hedge accounting. They are carried at fair value, with unrealized gains and losses recorded in other non-interest income.

During 2020, the Bank entered into interest rate swap contracts (swap agreements) as an interest rate risk management strategy and follows the guidance provided within ASU 2017.12 Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities. Derivatives designated as cash flow hedges are accounted for at fair value. 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 expense when the underlying transaction affects earnings. 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. See Note 12 for derivatives and hedging activities.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Impairment Assessments

The Company reviews long-lived assets, such as fixed assets, intangibles and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of carry amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within thirty days from the transaction date, with the exception of some agreements which mature in one year or less. Securities sold under agreements to repurchase are included in other borrowed funds on the consolidated balance sheet.

Subordinated Debentures

Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the debt liability.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, and commitments under commercial and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Stock-Based Compensation

Compensation cost for stock options granted on or after January 1, 2006 is calculated using the Black-Scholes option-pricing model.

Treasury Stock

Purchases of the Company's common stock are recorded at cost as treasury stock. Upon re-issuance for acquisitions, exercises of stock-based awards or other corporate purposes, treasury stock is reduced based upon the average cost basis of shares held. Fair value of the re-issued shares in excess of the average cost of treasury stock is recorded as capital surplus.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Income taxes are provided based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income taxes are provided for temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities, net operating losses, and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income when such assets and liabilities are anticipated to be settled or realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as tax expense or benefit in the period that includes the enactment date of the change. In determining the amount of deferred tax assets to recognize in the consolidated financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. A valuation allowance is provided if it is more likely than not that all or some portion of the deferred tax asset will not be realized. The Company recognizes interest and penalties related to income taxes within income tax expense in the consolidated statements of income.

The Company and its subsidiaries file a consolidated federal income tax return.

Concentration of Credit

The Bank's loans, commitments, and commercial and standby letters of credit have been granted primarily to customers in the St. Louis metropolitan area, and St. Charles and Jefferson counties in Missouri. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to service their loans is dependent upon the real estate economic sector. Most of these customers are depositors of the Bank. Investments in state and municipal securities also involve governmental entities within the Bank's market area. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2020 to conform to the presentation for the year ended December 31, 2021.

Accounting Standards Adopted

ASU 2021-01, *Reference Rate Reform (Topic 848): Scope (ASU 2021-01)*. ASU 2021-01 was issued in January 2021 and provided optional expedients and exceptions in ASC 848 to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendment only applies to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The amendments in this update were effective immediately upon issuance and did not have a material effect on the consolidated financial statements.

Subsequent Events

The Company has performed a review of events subsequent to the consolidated balance sheet date through March 16, 2022, the date the consolidated financial statements were available to be issued.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 — INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Available-for-sale				
U.S. Treasuries and agencies	\$ 120,032,135	\$ 717,305	\$ (1,083,919)	\$ 119,665,521
Mortgage-backed securities				
Ginnie Mae	1,073,670	23,087	-	1,096,757
Fannie Mae	9,704,739	518,017	(35,005)	10,187,751
Freddie Mac	1,566,427	54,124	-	1,620,551
	<u>12,344,836</u>	<u>595,228</u>	<u>(35,005)</u>	<u>12,905,059</u>
Collateralized mortgage obligations	55,145,266	1,058,651	(65,805)	56,138,112
State and political subdivisions obligations	24,687,019	538,365	(106,745)	25,118,639
Time deposits	2,447,896	-	-	2,447,896
Corporate debt	80,390,189	1,353,521	(952,295)	80,791,415
	<u>\$ 295,047,341</u>	<u>\$ 4,263,070</u>	<u>\$ (2,243,769)</u>	<u>\$ 297,066,642</u>
December 31, 2020				
Available-for-sale				
U.S. Treasuries and agencies	\$ 103,627,115	\$ 1,918,623	\$ (11,716)	\$ 105,534,022
Mortgage-backed securities				
Ginnie Mae	3,161,180	93,944	-	3,255,124
Fannie Mae	2,822,048	121,229	-	2,943,277
Freddie Mac	18,201,172	1,494,951	-	19,696,123
	<u>24,184,400</u>	<u>1,710,124</u>	<u>-</u>	<u>25,894,524</u>
Collateralized mortgage obligations	60,679,672	2,583,293	(1,801)	63,261,164
State and political subdivisions obligations	23,243,960	815,434	(17,143)	24,042,251
Time deposits	2,447,896	-	-	2,447,896
Corporate debt	70,609,079	679,068	(236,064)	71,052,083
	<u>\$ 284,792,122</u>	<u>\$ 7,706,542</u>	<u>\$ (266,724)</u>	<u>\$ 292,231,940</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 — INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of investment securities available-for-sale at December 31, 2021, by contractual maturity, are presented below. Securities with hard call dates and prerefunded dates are shown accordingly. Securities that paydown each month, mortgage-backed and collateralized mortgage obligations are presented by their estimated maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within One Year	\$ 38,680,660	\$ 39,132,542
After One but Within Five Years	123,294,251	124,689,443
After Five but Within Ten Years	128,926,523	128,929,436
After Ten Years	4,145,907	4,315,221
	<u>\$ 295,047,341</u>	<u>\$ 297,066,642</u>

At December 31, 2021 and 2020, investment securities with carrying value of \$163,213,697 and \$200,015,925, respectively, were pledged to secure public deposits, repurchase agreements and other borrowings.

Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in continuous loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
U.S. Treasuries and agencies	\$ 65,497,952	\$ (970,260)	\$ 4,886,341	\$ (113,659)	\$ 70,384,293	\$ (1,083,919)
Mortgage-backed securities						
Fannie Mae	—	—	978,327	(35,005)	978,327	(35,005)
Collateralized mortgage obligations	2,108,746	(36,562)	1,078,991	(29,243)	3,187,737	(65,805)
State and political subdivisions obligations	3,307,803	(57,415)	1,940,188	(49,330)	5,247,991	(106,745)
Corporate debt	<u>28,259,364</u>	<u>(931,325)</u>	<u>2,979,030</u>	<u>(20,970)</u>	<u>31,238,394</u>	<u>(952,295)</u>
	<u>\$ 99,173,865</u>	<u>\$ (1,995,562)</u>	<u>\$ 11,862,877</u>	<u>\$ (248,207)</u>	<u>\$ 111,036,742</u>	<u>\$ (2,243,769)</u>
December 31, 2020						
U.S. Treasuries and agencies	\$ 2,986,909	\$ (11,716)	\$ —	\$ —	\$ 2,986,909	\$ (11,716)
Collateralized mortgage obligations	880,604	(1,090)	675,073	(711)	1,555,677	(1,801)
State and political subdivisions obligations	1,981,499	(17,143)	—	—	1,981,499	(17,143)
Corporate debt	<u>30,857,380</u>	<u>(236,064)</u>	<u>—</u>	<u>—</u>	<u>30,857,380</u>	<u>(236,064)</u>
	<u>\$ 36,706,392</u>	<u>\$ (266,013)</u>	<u>\$ 675,073</u>	<u>\$ (711)</u>	<u>\$ 37,381,465</u>	<u>\$ (266,724)</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 — INVESTMENT SECURITIES (Continued)

Management evaluates securities for other-than-temporary impairment at least on an annual basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2021, debt securities with unrealized losses have depreciated 2.0% from the Company's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond agencies have occurred, and the results of reviews of the issuer's financial condition. There were no impairment losses during the years ended December 31, 2021 and 2020.

Proceeds from the sale of securities were \$6,647,345 in 2021 and \$45,079,872 in 2020. There were gross gains of \$271,384 and no losses resulting in a net gain of \$271,384 for 2021. There were gross gains of \$1,194,775 and losses of \$1,251 resulting in a net gain of \$1,193,524 for 2020. There were no securities available-for-sale with other-than-temporary impairment losses recognized for the years ended December 31, 2021 and 2020.

There were no trading or held-to-maturity securities at December 31, 2021 and 2020.

There were no securities transferred between classifications during the years ended December 31, 2021 and 2020.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS

Major classifications of loans are as follows:

	December 31,	
	2021	2020
Commercial and Industrial		
Real Estate Construction	\$ 97,187,034	\$ 62,321,687
Commercial and Industrial	<u>515,641,274</u>	<u>546,290,641</u>
	<u>612,828,308</u>	<u>608,612,328</u>
Secured by Real Estate		
Owner–Occupied Real Estate	292,035,479	241,656,362
Commercial Real Estate	<u>633,687,819</u>	<u>611,087,153</u>
	<u>925,723,298</u>	<u>852,743,515</u>
Consumer		
Mortgage 1–4 Family	201,075,120	271,746,533
Home Equity	33,870,844	35,710,154
Individual	<u>60,253,160</u>	<u>54,949,703</u>
	<u>295,199,124</u>	<u>362,406,390</u>
	1,833,750,730	1,823,762,233
Less Allowance for Loan Losses	<u>21,767,876</u>	<u>19,759,027</u>
	<u>\$1,811,982,854</u>	<u>\$1,804,003,206</u>

There were \$5,111,623 and \$33,857,293 of loans held for sale included in mortgage 1–4 family loans above as of December 31, 2021 and 2020, respectively. During 2021 and 2020 respectively, \$78,577,000 and \$206,407,000 of PPP loans were originated and gross fees of \$3,552,000 and \$6,770,000 were received. As of December 31, 2021 and 2020 respectively, there were approximately \$34,811,000 and \$151,546,000 of PPP loans included in the Commercial and Industrial totals above that were still outstanding and approximately \$1,027,000 and \$2,331,000 of gross fees that had not been recognized.

There were loans of \$794,188,000 and \$814,685,000 pledged at the FHLB as collateral for borrowings and letters of credit obtained to secure public deposits at December 31, 2021 and 2020, respectively. There were \$81,798,075 and \$37,201,376 of loans pledged to the Federal Reserve Bank at December 31, 2021 and 2020, respectively.

Changes in the allowance for loan losses by portfolio segment are as follows:

	Commercial & Industrial	Secured By Real Estate	Consumer	Total
December 31, 2021				
Balance, beginning	\$ 6,713,676	\$ 7,252,421	\$ 5,792,930	\$ 19,759,027
Adjustment to provision for loan losses	371,681	1,527,375	534,682	2,433,738
Recoveries on loans previously charged off	58,377	–	102,917	161,294
Less loans charged off	<u>(131,764)</u>	<u>–</u>	<u>(454,419)</u>	<u>(586,183)</u>
Balance, ending	<u>\$ 7,011,970</u>	<u>\$ 8,779,796</u>	<u>\$ 5,976,110</u>	<u>\$ 21,767,876</u>
December 31, 2020				
Balance, beginning	\$ 5,289,491	\$ 5,440,453	\$ 4,806,763	\$ 15,536,707
Adjustment to provision for loan losses	1,939,047	1,790,275	1,120,678	4,850,000
Recoveries on loans previously charged off	9,104	21,693	24,678	55,475
Less loans charged off	<u>(523,966)</u>	<u>–</u>	<u>(159,189)</u>	<u>(683,155)</u>
Balance, ending	<u>\$ 6,713,676</u>	<u>\$ 7,252,421</u>	<u>\$ 5,792,930</u>	<u>\$ 19,759,027</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

The following table shows the balance in the allowance for loan losses at December 31, 2021 and 2020, and the related loan balance, disaggregated on the basis of impairment methodology and portfolio segment. Loans evaluated include loans on non-accrual status with balances exceeding \$500,000, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics, which are collectively evaluated.

	Commercial & Industrial	Secured By Real Estate	Consumer	Total
December 31, 2021				
Allowance for loan losses				
Individually evaluated for impairment	\$ 896,285	\$ 1,525,600	\$ 856,406	\$ 3,278,291
Collectively evaluated for impairment	<u>6,115,685</u>	<u>7,254,196</u>	<u>5,119,704</u>	<u>18,489,525</u>
Balance, end of year	<u>\$ 7,011,970</u>	<u>\$ 8,779,796</u>	<u>\$ 5,976,110</u>	<u>\$ 21,767,876</u>
Loans outstanding, net of allowance				
Individually evaluated for impairment	\$ 10,306,838	\$ 27,114,476	\$ 5,377,436	\$ 42,798,750
Collectively evaluated for impairment	<u>595,509,500</u>	<u>889,829,026</u>	<u>283,845,578</u>	<u>1,769,184,104</u>
Balance, end of year	<u>\$ 605,816,338</u>	<u>\$ 916,943,502</u>	<u>\$ 289,223,014</u>	<u>\$ 1,811,982,854</u>
December 31, 2020				
Allowance for loan losses				
Individually evaluated for impairment	\$ 2,072,499	\$ 1,444,004	\$ 968,768	\$ 4,485,271
Collectively evaluated for impairment	<u>4,641,177</u>	<u>5,808,417</u>	<u>4,824,162</u>	<u>15,273,756</u>
Balance, end of year	<u>\$ 6,713,676</u>	<u>\$ 7,252,421</u>	<u>\$ 5,792,930</u>	<u>\$ 19,759,027</u>
Loans outstanding, net of allowance				
Individually evaluated for impairment	\$ 13,948,727	\$ 30,225,991	\$ 6,639,906	\$ 50,814,624
Collectively evaluated for impairment	<u>587,949,925</u>	<u>815,265,103</u>	<u>349,973,554</u>	<u>1,753,188,582</u>
Balance, end of year	<u>\$ 601,898,652</u>	<u>\$ 845,491,094</u>	<u>\$ 356,613,460</u>	<u>\$ 1,804,003,206</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is in operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

The following tables include the recorded investment and number of modifications for modified loans by class that were determined to be troubled debt restructurings that occurred during the years ended December 31, 2021 and 2020. The Bank reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were modified. There were no troubled debt restructurings within the last year where a concession has been made, that then defaulted in the current reporting period.

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
December 31, 2021			
Commercial Real Estate	—	\$ —	\$ —
Commercial and Industrial	—	—	—
Owner-Occupied Real Estate	—	—	—
Construction Real Estate	—	—	—
Mortgage 1-4 Family	—	—	—
Home Equity	—	—	—
Individual	—	—	—
	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>
December 31, 2020			
Commercial Real Estate	1	\$ 198,120	\$ 198,120
Commercial and Industrial	1	60,987	60,987
Owner-Occupied Real Estate	—	—	—
Construction Real Estate	—	—	—
Mortgage 1-4 Family	—	—	—
Home Equity	—	—	—
Individual	—	—	—
	<u>2</u>	<u>\$ 259,107</u>	<u>\$ 259,107</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

The categories of impaired loans are presented in the following table:

	December 31,	
	2021	2020
Non-Accrual Loans	\$ 5,664,080	\$ 7,096,693
Restructured Loans	—	259,107
Total Impaired Loans	<u>\$ 5,664,080</u>	<u>\$ 7,355,800</u>

For the years presented there were no commitments to lend additional funds for these impaired loans.

The following table provides additional information about impaired loans by loan class held by the Bank at December 31, 2021 and 2020, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
December 31, 2021				
With no related allowance recorded				
Commercial Real Estate	\$ —	\$ —	\$ —	\$ —
Owner-Occupied Real Estate	—	—	—	—
Construction Real Estate	—	—	—	—
Commercial and Industrial	—	—	—	—
Mortgage 1-4 Family	—	—	—	—
Home Equity	—	—	—	—
Individual	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
With an allowance recorded				
Commercial Real Estate	785,591	785,591	59,700	72,090
Owner-Occupied Real Estate	270,315	270,315	27,032	20,084
Construction Real Estate	417,629	417,629	91,810	15,811
Commercial and Industrial	2,004,140	2,004,140	221,941	102,360
Mortgage 1-4 Family	1,819,773	1,819,773	165,197	75,653
Home Equity	361,838	361,838	48,105	19,133
Individual	4,794	4,794	46,612	398
	<u>5,664,080</u>	<u>5,664,080</u>	<u>660,397</u>	<u>305,529</u>
	<u>\$ 5,664,080</u>	<u>\$ 5,664,080</u>	<u>\$ 660,397</u>	<u>\$ 305,529</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
December 31, 2020				
With no related allowance recorded				
Commercial Real Estate	\$ —	\$ —	\$ —	\$ —
Owner–Occupied Real Estate	—	—	—	—
Construction Real Estate	—	—	—	—
Commercial and Industrial	—	—	—	—
Mortgage 1–4 Family	—	—	—	—
Home Equity	—	—	—	—
Individual	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
With an allowance recorded				
Commercial Real Estate	1,022,210	1,022,210	82,567	113,303
Owner–Occupied Real Estate	310,444	10,444	31,045	32,712
Construction Real Estate	—	—	—	—
Commercial and Industrial	3,240,964	3,240,964	608,229	130,326
Mortgage 1–4 Family	2,413,646	2,413,646	153,303	86,605
Home Equity	368,536	368,536	36,741	14,991
Individual	—	—	—	—
	<u>7,355,800</u>	<u>7,355,800</u>	<u>911,885</u>	<u>377,937</u>
	<u>\$ 7,355,800</u>	<u>\$ 7,355,800</u>	<u>\$ 911,885</u>	<u>\$ 377,937</u>

Impaired loans include loans on non–accrual status. The average recorded investment in impaired loans during the years ended December 31, 2021 and 2020 was \$6,705,336 and \$6,012,091, respectively. No interest was recognized on these non–accrual loans during their period of impairment.

The following table provides aging information on the Company’s past due and accruing loans, in addition to the balances of loans on non–accrual status by loan class, at December 31, 2021 and 2020:

	Current or Less Than 30 Days Past Due	30–89 Past Due	90 Days Past Due And Still Accruing	Non– Accrual	Total
December 31, 2021					
Commercial Real Estate	\$ 629,395,752	\$ 3,506,476	\$ —	\$ 785,591	\$ 633,687,819
Owner–Occupied Real Estate	291,765,164	—	—	270,315	292,035,479
Construction Real Estate	96,769,405	—	—	417,629	97,187,034
Commercial and Industrial	513,204,164	392,198	40,772	2,004,140	515,641,274
Mortgage 1–4 Family	197,137,249	1,895,676	222,422	1,819,773	201,075,120
Home Equity	32,941,630	538,627	28,749	361,838	33,870,844
Individual	60,054,228	193,810	328	4,794	60,253,160
	<u>\$1,821,267,592</u>	<u>\$ 6,526,787</u>	<u>\$ 292,271</u>	<u>\$ 5,664,080</u>	<u>\$1,833,750,730</u>
December 31, 2020					
Commercial Real Estate	\$ 609,529,124	\$ 733,940	\$ —	\$ 824,089	\$ 611,087,153
Owner–Occupied Real Estate	241,345,918	—	—	310,444	241,656,362
Construction Real Estate	62,321,687	—	—	—	62,321,687
Commercial and Industrial	539,635,600	3,404,758	70,306	3,179,977	546,290,641
Mortgage 1–4 Family	267,281,860	1,982,469	68,558	2,413,646	271,746,533
Home Equity	34,710,535	625,139	5,943	368,537	35,710,154
Individual	54,789,141	160,562	—	—	54,949,703
	<u>\$1,809,613,865</u>	<u>\$ 6,906,868</u>	<u>\$ 144,807</u>	<u>\$ 7,096,693</u>	<u>\$1,823,762,233</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

The following table provides information about the credit quality of the loan portfolio, by loan class, using the Bank's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. Credit risk grades are reviewed continuously by management based on a variety of sources, including, but not limited to, financial information, collateral valuation updates, and market information. As this information becomes available management analyzes the resulting ratings, as well as other external statistics and factors, to track loan performance. The "average or lower risk" category represents a range of loan grades that are comprised of loans with minimal risk at the lower end of the grading system to higher, though still acceptable, risk at the upper range end. Movement of risk through the various grade levels in the "average or lower risk" category is monitored for early identification of credit deterioration. The "watch" rating is attached to loans where the borrower exhibits material negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. The watch list rating is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. The "doubtful" rating is applied to loans when collection is highly questionable and improbable, but its classification as an estimated loss is deferred until a more exact status can be determined. A "loss" rating is a loan considered uncollectible and of such little value that its continuance as an active bank asset is not warranted.

	Commercial Real Estate	Owner- Occupied Real Estate	Construction Real Estate	Commercial and Industrial	Mortgage 1-4 Family	Home Equity	Individual	Total
December 31, 2021								
Average or lower risk	\$ 391,273,297	\$ 164,495,984	\$ 33,805,453	\$ 364,728,449	\$ 193,531,630	\$ 31,332,090	\$ 47,320,107	\$1,226,487,010
Higher than average risk	228,063,834	113,250,107	62,963,952	140,127,331	2,681,322	1,435,551	12,664,582	561,186,679
Watch	10,856,854	10,809,815	-	3,026,782	1,334,807	207,422	-	26,235,680
Substandard	3,493,834	3,479,573	417,629	7,758,712	3,527,361	895,781	268,471	19,841,361
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
	<u>\$ 633,687,819</u>	<u>\$ 292,035,479</u>	<u>\$ 97,187,034</u>	<u>\$ 515,641,274</u>	<u>\$ 201,075,120</u>	<u>\$ 33,870,844</u>	<u>\$ 60,253,160</u>	<u>\$1,833,750,730</u>
December 31, 2020								
Average or lower risk	\$ 348,909,948	\$ 124,143,310	\$ 17,104,792	\$ 382,701,854	\$ 261,165,167	\$ 32,120,145	\$ 43,960,124	\$1,210,105,340
Higher than average risk	242,846,995	105,173,267	45,216,895	147,567,561	4,457,012	2,257,893	10,837,375	588,356,998
Watch	12,001,787	9,715,650	-	4,606,131	1,315,823	324,543	37,842	28,001,776
Substandard	7,328,423	2,624,135	-	11,415,095	4,808,531	1,007,573	114,362	27,298,119
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
	<u>\$ 611,087,153</u>	<u>\$ 241,656,362</u>	<u>\$ 62,321,687</u>	<u>\$ 546,290,641</u>	<u>\$ 271,746,533</u>	<u>\$ 35,710,154</u>	<u>\$ 54,949,703</u>	<u>\$1,823,762,233</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 — LOANS (Continued)

In addition to the portfolio of loans which are intended to be held to maturity, the Bank historically originates loans which it intends to sell in secondary markets. Loans classified as held for sale primarily consist of fixed rate residential mortgages. These loans are sold in the secondary market, generally within three months of origination. The following table presents information about loans held for sale:

	December 31,	
	2021	2020
Balance Outstanding at End of Year		
Residential mortgage loans, at cost	\$ 5,111,623	\$ 33,857,293
Valuation allowance	<u>—</u>	<u>—</u>
Total Loans Held For Sale, at Lower of Cost or Fair Value	<u>\$ 5,111,623</u>	<u>\$ 33,857,293</u>
Net Gains on Sales of Loans Held For Sale, During the Years Ended December 31, 2021 and 2020	<u>\$ 6,212,850</u>	<u>\$ 4,931,148</u>

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others (primarily for the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank of Des Moines) were \$15,629,073 and \$14,752,830 at December 31, 2021 and 2020, respectively. The carrying value of the mortgage servicing rights is not material to the financial statements.

NOTE 4 — PREMISES AND EQUIPMENT

Premises and equipment consists of the following:

	December 31,	
	2021	2020
Land	\$ 4,818,994	\$ 5,279,409
Land Improvements	1,577,476	1,437,426
Buildings and Improvements	29,300,368	29,080,182
Vaults	364,937	364,937
Furniture and Equipment	15,206,625	15,203,266
Software	4,084,195	4,084,195
Construction in Progress	<u>58,275</u>	<u>117,980</u>
	55,410,870	55,567,395
Less Accumulated Depreciation	<u>39,512,953</u>	<u>37,778,585</u>
	<u>\$ 15,897,917</u>	<u>\$ 17,788,810</u>

Depreciation expense was \$1,734,368 and \$1,961,279 for the years ended December 31, 2021 and 2020, respectively.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5 — TIME DEPOSITS

At December 31, 2021, the scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2022	\$ 240,435,538
2023	28,977,109
2024	15,262,724
2025	7,891,425
2026	<u>5,376,052</u>
	<u>\$ 297,942,849</u>

NOTE 6 — OTHER BORROWED FUNDS

Other borrowed funds consist of the following:

	December 31,	
	2021	2020
FHLB Overnight Borrowings	\$ —	\$ 26,808,000
Securities Sold Under Agreements to Repurchase	67,300,432	88,364,607
FHLB Borrowings	<u>135,000,000</u>	<u>190,000,000</u>
	<u>\$ 202,300,432</u>	<u>\$ 305,172,607</u>

Securities sold under agreements to repurchase generally mature within one year. The repurchase agreements are secured by U.S. government agency securities and State and Municipal securities. At December 31, 2021 overnight repurchase agreements totaled \$67,300,432 and there were no term repurchase agreements. At December 31, 2021, the overnight repurchase agreements were collateralized by \$77,907,091 of securities pledged. At December 31, 2020, \$96,907,117 of collateral was pledged for the overnight repurchase agreements. Information concerning securities sold under repurchase agreements is summarized as follows:

	Years Ended December 31,	
	2021	2020
Average Balance During the Year	\$ 82,727,648	\$ 97,826,636
Average Interest Rate During the Year	0.09 %	0.31 %
Maximum Month-End Balance During the Year	\$ 97,165,399	\$ 123,157,589

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6 — OTHER BORROWED FUNDS (Continued)

Borrowings from FHLB are under a master borrowing agreement which assigns all investments in FHLB stock as well as qualifying first mortgage loans and qualifying commercial real estate loans as collateral to secure the amounts borrowed. Borrowings are under different terms and bear a weighted-average interest rate of 1.18% at December 31, 2021 and 1.46% at December 31, 2020. The Bank had the additional capacity to borrow funds from the FHLB of up to \$271,482,000 at December 31, 2021.

At December 31, 2021, the scheduled maturities of FHLB borrowings are as follows:

<u>Year Ending</u> <u>December 31,</u>	
Overnight	\$ —
2022	100,000,000
2023	—
2024	10,000,000
2025	15,000,000
Thereafter	<u>10,000,000</u>
	<u>\$ 135,000,000</u>

The Bank had the capacity to borrow funds from the Federal Reserve Bank of up to \$45,701,634 at December 31, 2021. The Holding Company had the capacity to borrow funds from Midwest Independent Bank of up to \$10,000,000 at December 31, 2021 on a line of credit as a floating rate with the prime rate minus .25% quoted in the Wall Street Journal and a floor of 3.25%. The line is currently set to mature on June 1, 2022. The loan is secured with Midwest BankCentre stock and includes loan covenants relating to the bank maintaining a “well capitalized” regulatory status and meeting certain credit and performance ratios.

NOTE 7 — SUBORDINATED DEBENTURES

On July 7, 2020 and July 24, 2020, the Company completed the private placement of \$33,250,000 in aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and qualified institutional buyers (QIB). Unless earlier redeemed, the notes mature on July 15, 2030 and bear interest at a fixed rate of 5.75% per year, from and including July 7, 2020, up to July 15, 2025. From and including July 15, 2025 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 567.5 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 7 — SUBORDINATED DEBENTURES (Continued)

On June 7, 2021, the Company completed the private placement of \$35,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and qualified institutional buyers (QIB). Unless earlier redeemed, \$25,000,000 of the notes mature on June 15, 2031 and bear interest at a fixed rate of 3.625% per year, from and including June 7, 2021, up to June 15, 2026. From and including June 15, 2026 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 295 basis points, payable quarterly in arrears. Unless earlier redeemed, \$10,000,000 of the notes mature on June 15, 2036 and bear interest at a fixed rate of 4.00% per year, from and including June 7, 2021, up to June 15, 2031. From and including June 15, 2031 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 267 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest.

Under current regulations, subordinated debentures are included in Tier II capital for regulatory capital purposes, subject to certain limitations. The carrying value of the subordinated debentures as of December 31, 2021 and 2020 respectively, are as follows:

	<u>2021</u>	<u>2020</u>
Subordinated Debentures	\$ 68,250,000	\$ 33,250,000
Less: Unamortized debt issuance costs	<u>(1,010,794)</u>	<u>(542,633)</u>
Carrying value	<u>\$ 67,239,206</u>	<u>\$ 32,707,367</u>

The original issuance costs for the 2020 offering totaled \$600,488 of which \$120,585 and \$57,855 was amortized as an adjustment to interest expense in 2021 and 2020, respectively. The original issuance costs for the 2021 offering totaled \$653,663 of which \$64,917 was amortized as an adjustment to interest expense in 2021.

NOTE 8 — STOCK-BASED COMPENSATION

The Company has a stock option plan. Under the plan, the Company may grant options for up to 243,000 shares of common stock. The exercise price of each option is equal to the market price of the Company's stock on the date of the grant as defined by the agreement. The maximum term of the option is ten years and the options vest over three years. Vested options may be exercised by the individual at any time before the expiration of the grant.

In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of options on the date of grant for options granted on or after January 1, 2006. The Black-Scholes model is a closed-end model that uses the following model assumptions:

Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical exercise behavior and other factors to estimate the expected term of the options, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for the expected term is based on the U.S. Treasury zero coupon spot rates in effect at the time of the grant.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8 — STOCK-BASED COMPENSATION (Continued)

Below are the fair values of stock options granted, using the Black-Scholes option-pricing model, including the model assumptions for those grants.

	Years Ended December 31,	
	2021	2020
Weighted Per Share Average Fair Value at Grant Date	\$ 4.69	\$ 0.86
Assumptions		
Dividend yield	1.67%	1.76%
Volatility	3.70%	3.36%
Risk-free interest rate	1.64%	0.70%
Expected term	10 years	10 years

A summary of the Company's nonvested shares at December 31, 2021 and 2020 and changes during the year are as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2020	8,100	\$ 6.04
Granted	4,800	\$ 0.86
Exercised	(800)	\$ 5.41
Forfeited	(400)	\$ 6.33
Vested	<u>(3,100)</u>	\$ 5.80
Nonvested at December 31, 2020	8,600	\$ 3.29
Granted	5,100	\$ 4.69
Exercised	(1,500)	\$ 4.63
Vested	<u>(3,200)</u>	\$ 4.00
Nonvested at December 31, 2021	<u>9,000</u>	\$ 3.60

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8 — STOCK-BASED COMPENSATION (Continued)

A summary of the Company's stock options outstanding as of December 31, 2021 and 2020, and changes during each year are as follows:

	Number Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2020	30,300	\$ 91.67		
Granted	4,800	\$ 109.20		
Exercised	(5,600)	\$ 86.79		
Forfeited	(400)	\$ 99.80		
Outstanding at December 31, 2020	<u>29,100</u>	\$ 95.39	6.42 years	\$ 588,185
Exercisable at December 31, 2020	<u>20,500</u>	\$ 91.43	5.16 years	\$ 495,527
Outstanding at January 1, 2021	29,100	\$ 95.39		
Granted	5,100	\$ 121.91		
Exercised	(7,100)	\$ 92.09		
Forfeited	—	\$ —		
Outstanding at December 31, 2021	<u>27,100</u>	\$ 101.24	6.64 years	\$ 739,491
Exercisable at December 31, 2021	<u>18,100</u>	\$ 94.41	5.27 years	\$ 617,541

Additional information about stock options is presented below:

	Years Ended December 31,	
	2021	2020
Intrinsic Value of Options Exercised	\$ 220,165	\$ 128,586
Cash Received From Options Exercised	\$ 49,245	\$ 52,587
Tax Benefit Realized From Options Exercised	\$ 53,192	\$ 31,066

As of December 31, 2021, there was \$24,035 of unrecognized compensation cost (net of estimated forfeitures) related to unvested options and stock awards. That cost is expected to be recognized over a weighted-average of 1.97 years.

For the years ended December 31, 2021 and 2020, the Bank recognized \$19,400 and \$23,735, respectively, as compensation cost and recorded related tax benefits of \$3,402 and \$5,734, respectively.

The Bank adopted an Equity Participation Plan (the Plan) in 2004. The Plan calls for awarding of "performance units" to certain employees of the Bank. Under the Plan, the Bank may grant rights up to 10 percent of outstanding shares of common stock. The value of the unit is based on book value with a multiple based on a combination of years of service and age. The accrued liability associated with the Plan is \$8,988,292 and \$7,515,935 as of December 31, 2021 and 2020, respectively. Compensation cost associated with the Plan was \$3,587,542 and \$1,896,000 for the years ended December 31, 2021 and 2020, respectively.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income consists of the following:

	December 31,	
	2021	2020
Investment Securities		
Unrealized gain on investment securities available-for-sale	\$ 2,019,301	\$ 7,439,818
Unrealized gain (loss) on cash flow swap	1,906,234	(677,912)
Deferred income tax expense	<u>(948,409)</u>	<u>(1,633,676)</u>
Net unrealized gain	<u>2,977,126</u>	<u>5,128,230</u>
Accumulated Other Comprehensive Income	<u>\$ 2,977,126</u>	<u>\$ 5,128,230</u>

NOTE 10 — INCOME TAXES

Income tax expense (benefit) consists of the following:

	Years Ended December 31,	
	2021	2020
Current	\$ 4,794,532	\$ 1,762,060
Deferred	<u>(1,654,285)</u>	<u>(1,005,399)</u>
	<u>\$ 3,140,247</u>	<u>\$ 756,661</u>

Income tax expense differs from the federal statutory rates for the reasons shown in the following table:

	Years Ended December 31,	
	2021	2020
Income Taxes at Effective Statutory Rate of 21%	\$ 5,112,248	\$ 3,014,877
Missouri Bank Tax, Net of Federal Benefit	(12,345)	(367,996)
Tax-Exempt Interest Income	(80,962)	(87,845)
Bank Owned Life Insurance	(557,050)	(374,750)
Federal Tax Credits	(1,491,865)	(1,675,391)
Other, Net	<u>170,221</u>	<u>247,766</u>
	<u>\$ 3,140,247</u>	<u>\$ 756,661</u>

Net deferred income taxes are included in accrued income and other assets, and are as follows:

	December 31,	
	2021	2020
Deferred Tax Assets	\$ 10,728,067	\$ 9,290,350
Deferred Tax Liabilities	<u>(2,480,467)</u>	<u>(3,382,303)</u>
	<u>\$ 8,247,600</u>	<u>\$ 5,908,047</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 10 — INCOME TAXES (Continued)

Deferred income taxes relate to the following:

	December 31,	
	2021	2020
Deferred Tax Asset		
Provision for Loan Losses	\$ 5,266,813	\$ 4,758,947
Credit Marks on Loans	85,732	121,418
Net Operating Loss Carryforward	868,021	933,438
Tax Credits	28,800	195,039
Accrued Incentive Units	2,177,168	1,810,207
Deferred Loan Fees, net	494,072	341,941
Other	1,207,532	1,129,360
Deferred Tax Liabilities		
Deferred Loan Costs, net	(595,658)	(1,006,857)
Depreciation and Amortization	(172,802)	(425,714)
Core Deposit Intangible	(163,669)	(316,056)
Securities Available-for-Sale-Other	<u>(948,409)</u>	<u>(1,633,676)</u>
Net Deferred Tax	<u>\$ 8,247,600</u>	<u>\$ 5,908,047</u>

Income taxes currently payable at December 31, 2021 and 2020 are \$623,632 and \$400,427, respectively, and are included in accrued income and other assets.

When the Company acquired Bremen Bancorp, Inc., it acquired federal and state net operating loss carryforwards that are subject to the provisions of Internal Revenue Code Section 382. Such loss carryforwards will expire between 2032 and 2036. The Company's income tax returns are available for examination for the statutory period.

NOTE 11 — RESTRICTIONS ON CASH AND DUE FROM BANKS

At December 31, 2021, no cash and due from banks were required to be maintained in accordance with guidelines as set forth by the Federal Reserve Bank to meet certain average reserve balances. In an effort to help support lending to households and businesses due to COVID-19, the Federal Reserve reduced the reserve requirement ratios to zero percent effective March 26, 2020.

NOTE 12 — DERIVATIVES

Interest Rate SWAPs

The Bank has back-to-back interest rate swap contracts with counterparties. The intent of the swap contracts is to assist customers in hedging their risks of adverse changes in interest rates. The Bank serves as an intermediary between its customers and the markets. The derivatives are not designated as hedges. The notional amounts of the derivatives do not represent amounts exchanged by the parties, but provide a basis for calculating payments.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 12 — DERIVATIVES (Continued)

The contract terms are as follows for the related assets:

	Notional Amount	Weighted- Average Remaining Term
December 31, 2021	\$ 48,597,155	7.57 years
December 31, 2020	\$ 57,169,247	8.49 years

The fair value of the contracts at December 31, 2021 and 2020 is \$1,744,719 and \$2,551,857, respectively, and is included in other assets (Note 20). Unrealized gains (losses) of \$807,138 and \$2,363,832 were recorded in other non-interest income for the years ended December 31, 2021 and 2020, respectively. Interest is accrued using fixed rates defined in the agreements.

The contract terms are as follows for the related liabilities:

	Notional Amount	Weighted- Average Remaining Term
December 31, 2021	\$ 48,597,155	7.57 years
December 31, 2020	\$ 57,169,247	8.49 years

The fair value of the contracts at December 31, 2021 and 2020 is \$1,744,719 and \$2,551,857, respectively, and is included with accrued expenses and other liabilities (Note 20). Unrealized gains (losses) of \$807,138 and \$2,363,832 were recorded in other non-interest income for the years ended December 31, 2021 and 2020, respectively. Interest is charged using a variable rate based on one-month LIBOR plus basis points.

See Note 1 for the policy on derivatives not designated as hedging instruments.

Cash Flow Hedges

In March 2020, the Company entered into two interest rate swap agreements with a total notional amount of \$40,000,000 for a period of seven years. The swap agreements, of which \$20,000,000 matures on March 23, 2027 and \$20,000,000 matures on April 28, 2027, have a fixed rate of 0.81% and the bank will receive interest at a variable rate equal to the 3-month LIBOR rate.

In May 2020, the Company entered into an interest rate swap agreement with a notional amount of \$20,000,000 for a period of seven years. The swap agreement matures on July 1, 2027, has a fixed rate of 0.615% and the bank will receive interest at a variable rate equal to the 3-month LIBOR rate.

Cash flow hedges are accounted for at fair value. The effective portion of the change in the cash flow hedge's gain or loss is reported as a component of other comprehensive income. As of December 31, 2021 and 2020, respectively, the unrealized gain (loss) in other comprehensive income for the cash flow hedges was \$1,959,816 and \$(514,128). The fair value of these as of December 31, 2021 and 2020, respectively, was \$1,906,235 and \$(677,912) and is included in Accrued Expenses and Other Liabilities. Related to the swaps identified above, during the next twelve months the Company estimates that an additional \$18,838 will be reclassified as an increase to interest expense.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 13 — CASH FLOWS

Supplemental disclosures of cash flows information are as follows:

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
Interest Paid	<u>\$ 10,142,853</u>	<u>\$ 17,455,380</u>
Income Taxes Paid (Refunded)	<u>\$ 4,571,327</u>	<u>\$ 445,683</u>
Noncash Investing Activities		
Transfer of loans to foreclosed assets	<u>\$ —</u>	<u>\$ 560,574</u>

Accumulated other comprehensive income was (decreased)/increased by \$(2,151,104) and \$3,046,065 of unrealized gains (losses) on investment securities and cash flow swap gains (losses), net of deferred income tax expense, during the years ended December 31, 2021 and 2020, respectively.

NOTE 14 — EMPLOYEE BENEFIT PLAN

The Bank has a 401(k) plan which covers substantially all full-time employees of the Bank. The Bank's contribution is discretionary and determined annually. Total contributions were \$870,770 and \$766,375 for years ended December 31, 2021 and 2020, respectively.

NOTE 15 — LEASES

The Company leases office space under various operating lease agreements.

Total future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2022	\$ 939,736
2023	593,085
2024	578,039
2025	581,796
2026	441,847
Thereafter	<u>883,260</u>
	<u>\$ 4,016,763</u>

Rent expense was \$1,266,860 and \$1,199,894 for the years ended December 31, 2021 and 2020, respectively.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 16 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include commitments to extend credit and standby letters of credit. Commitments to extend credit aggregated \$663,337,863 at December 31, 2021. Commitments under standby letters of credit aggregated \$28,016,361 at December 31, 2021. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities. The Bank generally requires collateral or other security to support financial instruments with credit risk.

NOTE 17 — RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, stockholders, and companies in which they have beneficial ownership, are summarized as follows:

	Years Ended December 31,	
	2021	2020
Balance, Beginning	\$ 43,278,698	\$ 55,229,102
Additions	2,028,414	6,817,477
Reductions of related party loans, including payments	<u>(19,853,885)</u>	<u>(18,767,881)</u>
Balance, Ending	<u>\$ 25,453,227</u>	<u>\$ 43,278,698</u>

Management believes all loans to directors and executive officers were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The Bank held related party deposits of \$18,500,000 and \$17,800,000 at December 31, 2021 and 2020, respectively.

NOTE 18 — PER SHARE INFORMATION

The net book value per share was \$113.02 and \$105.18 at December 31, 2021 and 2020, respectively, based upon the shares outstanding at those dates (issued and outstanding less treasury shares). Tangible book value per share, which adjusts total equity by the balance of intangible assets, was \$102.82 and \$94.68 at December 31, 2021 and 2020, respectively.

The Company utilizes Earnings Per Share (EPS) for reporting basic and diluted EPS. Basic EPS is calculated by dividing earnings available for common stockholders (net income) by the weighted-average number of shares outstanding during the period. Diluted EPS is similar to basic EPS but adjusts for the effect of potential common shares.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 18 — PER SHARE INFORMATION (Continued)

The following table presents the computation of basic and diluted EPS:

	Years Ended December 31,	
	2021	2020
Net Income Available to Stockholders	<u>\$ 21,203,789</u>	<u>\$ 13,599,893</u>
Weighted-Average Shares Outstanding	1,774,619	1,784,714
Effect of Dilutive Shares		
Stock option plan	<u>4,726</u>	<u>4,294</u>
Total Weighted-Average Diluted Shares	<u>1,779,345</u>	<u>1,789,008</u>
Basic EPS	\$ 11.95	\$ 7.62
Diluted EPS	\$ 11.92	\$ 7.60

NOTE 19 — REGULATORY MATTERS

The Company is not subject to any separate capital requirements from those of the Bank. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly 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 provisions, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification 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 Company to maintain minimum amounts and ratios of total and Tier I Capital to risk-weighted assets, Tier I Capital to average assets, and Common Equity Tier I Capital to risk weighted assets. Management believes, as of December 31, 2021 and 2020, the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent notification from the Federal Reserve System categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 19 — REGULATORY MATTERS (Continued)

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The Company's actual capital amounts and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total capital (to risk-weighted assets)						
Consolidated	\$ 269,594,000	12.8 %	\$ 169,154,320	≥ 8.0 %	N/A	N/A
Midwest BankCentre	\$ 267,335,000	12.6 %	\$ 169,129,360	≥ 8.0 %	\$211,411,700	≥ 10.0 %
Tier I Capital (to risk-weighted assets)						
Consolidated	\$ 180,587,000	8.5 %	\$ 126,865,740	≥ 6.0 %	N/A	N/A
Midwest BankCentre	\$ 245,567,000	11.6 %	\$ 126,847,020	≥ 6.0 %	\$169,129,360	≥ 8.0 %
Tier I Capital (to average assets)						
Consolidated	\$ 180,587,000	7.9 %	\$ 91,790,720	≥ 4.0 %	N/A	N/A
Midwest BankCentre	\$ 245,567,000	10.7 %	\$ 91,745,160	≥ 4.0 %	\$114,681,450	≥ 5.0 %
Common Equity Tier I (to risk weighted assets)						
Consolidated	\$ 180,587,000	8.5 %	\$ 95,149,305	≥ 4.5 %	N/A	N/A
Midwest BankCentre	\$ 245,567,000	11.6 %	\$ 95,135,265	≥ 4.5 %	\$137,417,605	≥ 6.5 %
December 31, 2020						
Total capital (to risk-weighted assets)						
Consolidated	\$ 215,508,000	11.4 %	\$ 150,764,080	≥ 8.0 %	N/A	N/A
Midwest BankCentre	\$ 214,568,000	11.4 %	\$ 150,671,360	≥ 8.0 %	\$188,339,200	≥ 10.0 %
Tier I Capital (to risk-weighted assets)						
Consolidated	\$ 163,042,000	8.7 %	\$ 113,073,060	≥ 6.0 %	N/A	N/A
Midwest BankCentre	\$ 194,809,000	10.3 %	\$ 113,003,520	≥ 6.0 %	\$150,671,360	≥ 8.0 %
Tier I Capital (to average assets)						
Consolidated	\$ 163,042,000	7.1 %	\$ 91,305,880	≥ 4.0 %	N/A	N/A
Midwest BankCentre	\$ 194,809,000	8.5 %	\$ 91,259,720	≥ 4.0 %	\$114,074,650	≥ 5.0 %
Common Equity Tier I Capital (to risk weighted assets)						
Consolidated	\$ 163,042,000	8.7 %	\$ 84,804,795	≥ 4.5 %	N/A	N/A
Midwest BankCentre	\$ 194,809,000	10.3 %	\$ 84,752,640	≥ 4.5 %	\$122,420,480	≥ 6.5 %

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 20 — FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information on how the Company measures fair value, see Note 1.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2021 and 2020, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value
December 31, 2021				
<i>Assets</i>				
Investment securities				
U.S. Treasuries and agencies	\$ —	\$ 119,665,521	\$ —	\$ 119,665,521
Mortgage-backed securities	—	12,905,059	—	12,905,059
Collateralized mortgage obligations	—	56,138,112	—	56,138,112
State and political subdivisions	—	25,118,639	—	25,118,639
Time deposits	—	2,447,896	—	2,447,896
Corporate debt	—	80,791,415	—	80,791,415
	<u>\$ —</u>	<u>\$ 297,066,642</u>	<u>\$ —</u>	<u>\$ 297,066,642</u>
Interest rate swaps	\$ —	\$ 3,650,954	\$ —	\$ 3,650,954
<i>Liabilities</i>				
Interest rate swaps	\$ —	\$ (1,744,719)	\$ —	\$ (1,744,719)
December 31, 2020				
<i>Assets</i>				
Investment securities				
U.S. Treasuries and agencies	\$ —	\$ 105,534,022	\$ —	\$ 105,534,022
Mortgage-backed securities	—	25,894,524	—	25,894,524
Collateralized mortgage obligations	—	63,261,164	—	63,261,164
State and political subdivisions	—	24,042,251	—	24,042,251
Time deposits	—	2,447,896	—	2,447,896
Corporate debt	—	71,052,083	—	71,052,083
	<u>\$ —</u>	<u>\$ 292,231,940</u>	<u>\$ —</u>	<u>\$ 292,231,940</u>
Interest rate swaps	\$ —	\$ 2,551,857	\$ —	\$ 2,551,857
<i>Liabilities</i>				
Interest rate swaps	\$ —	\$ (3,229,768)	\$ —	\$ (3,229,768)

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 20 — FAIR VALUE MEASUREMENTS (Continued)

The following are the major categories of assets and liabilities measured at fair value on a nonrecurring basis during the years ended December 31, 2021 and 2020, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value
December 31, 2021				
<i>Asset</i>				
Impaired loans	\$ —	\$ —	\$ 5,664,080	\$ 5,664,080
Foreclosed assets	—	—	904,000	904,000
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,568,080</u>	<u>\$ 6,568,080</u>
December 31, 2020				
<i>Asset</i>				
Impaired loans	\$ —	\$ —	\$ 7,355,800	\$ 7,355,800
Foreclosed assets	—	—	1,020,000	1,020,000
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,375,800</u>	<u>\$ 8,375,800</u>

See Note 1 and Note 21 for the methods and significant assumptions used to estimate the fair value of these assets.

NOTE 21 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by management using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents – The carrying amounts are a reasonable estimate of fair value.

Investment Securities, available-for-sale – The fair value of Level 1 available-for-sale securities are based on unadjusted, quoted prices from exchanges in active markets. The fair value of Level 2 available-for-sale securities are based on an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. The inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Loans, net – The fair value of loans was estimated utilizing discounted cash flow calculations that applied interest rates currently being offered for similar loans to borrowers with similar risk profiles. The fair value of loans is also net of the allowance for loan losses and unearned income.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 21 — FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Impaired Loans – Impaired loans are carried at the present value of estimated future cash flows using the loan’s existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of collateral securing these loans and is classified as Level 3 in the fair value hierarchy. These fair values are estimated primarily on appraisals which may utilize a single valuation approach or a combination of approaches including comparable sales and income approach.

Loans Held for Sale – The fair value of loans held for sale is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered for similar loans to borrowers with similar risk profiles.

Bank Owned Life Insurance – Fair value is estimated using actuarial data based on mortality rates and effective annual interest rates.

Derivatives (Assets and Liabilities) – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments. See Note 12.

Deposits – The fair value for non–time deposits is by definition, equal to the amount payable on demand at the balance sheet date. The fair value for time deposits is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar time deposits.

Other Borrowed Funds – The carrying value of securities sold under repurchase agreements is a reasonable estimate of fair value. FHLB borrowings fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar borrowings.

Subordinated Debentures – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments.

The estimated fair values of the Bank’s financial instruments are as follows:

	December 31,			
	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 113,958,438	\$ 113,958,438	\$ 23,369,915	\$ 23,369,915
Investment securities	297,066,642	297,066,642	292,231,940	292,231,940
Loans, net	1,806,871,231	1,803,980,237	1,770,145,913	1,766,959,650
Loans held for sale	5,111,623	5,111,623	33,857,293	33,857,293
Bank owned life insurance	70,319,582	70,319,582	71,040,686	71,040,686
Derivatives	3,650,954	3,650,954	2,551,857	2,551,857
Financial Liabilities				
Deposits	1,881,625,974	1,869,091,974	1,727,256,747	1,776,312,747
Other borrowed funds	202,300,432	202,751,000	305,172,607	307,351,000
Subordinated Debentures	67,239,206	68,867,956	32,707,367	34,440,009
Derivatives	1,744,719	1,744,719	3,229,768	3,229,768

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 21 — FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2021 and 2020. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since these dates.

NOTE 22 — PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

The following are the condensed financial statements of Midwest BankCentre, Inc. (parent company only) as of and for the years ended December 31, 2021 and 2020:

Condensed Balance Sheet

	December 31,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 2,499,454	\$ 2,223,601
Other assets	1,145,963	1,090,229
Investment in subsidiaries	<u>266,653,710</u>	<u>218,719,820</u>
Total assets	<u>\$ 270,299,127</u>	<u>\$ 222,033,650</u>
Liabilities		
Subordinated Debentures	\$ 67,239,206	\$ 32,707,367
Accrued expenses and other liabilities	<u>3,086,012</u>	<u>2,303,355</u>
Total Liabilities	70,325,218	35,010,722
Stockholders' Equity	<u>199,973,909</u>	<u>187,022,928</u>
Total liabilities and stockholders' equity	<u>\$ 270,299,127</u>	<u>\$ 222,033,650</u>

Condensed Statement of Income

	Years Ended December 31,	
	2021	2020
Income		
Interest	\$ <u>3,705</u>	\$ <u>26,264</u>
Total Income	3,705	26,264
Expense		
Interest expense on borrowings	2,888,384	2,360,393
Other	<u>257,024</u>	<u>245,383</u>
Total Expense	3,145,408	2,605,776
Loss before income taxes and equity in earnings of subsidiaries	(3,141,703)	(2,579,512)
Income tax benefit	<u>760,498</u>	<u>656,440</u>
Loss before equity in earnings of subsidiaries	(2,381,205)	(1,923,072)
Equity in earnings of subsidiaries	<u>23,584,994</u>	<u>15,522,965</u>
Net income	<u>\$ 21,203,789</u>	<u>\$ 13,599,893</u>

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 22 — PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

Condensed Statement of Cash Flows

	Years Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 21,203,789	\$ 13,599,893
Adjustments to reconcile net income to net cash used by operating activities		
Equity in earnings of subsidiaries	(23,584,994)	(15,522,965)
Amortization of subordinated debt issuance costs	185,502	128,431
Stock based compensation expense	19,400	23,735
Stock issued for director fees	216,880	172,627
Changes in:		
Other assets	(55,734)	(5,717)
Accrued expenses and other liabilities	<u>782,657</u>	<u>688,181</u>
Total adjustments	<u>(22,436,289)</u>	<u>(14,515,708)</u>
Net cash used by operating activities	<u>(1,232,500)</u>	<u>(915,815)</u>
Cash Flows from Investing Activities		
Capital Injection to Bank	(33,000,000)	—
Investment in Rising Analytics, LLC	—	(550,002)
Dividends received	<u>6,500,000</u>	<u>6,500,000</u>
Net cash provided (used) by investing activities	<u>(26,500,000)</u>	<u>5,949,998</u>
Cash Flows from Financing Activities		
MIB line of credit borrowings	—	(1,500,000)
Issuance of subordinated debentures	35,000,000	33,250,000
Redemption of subordinated debentures	—	(30,000,000)
Debt issuance cost	(653,663)	(600,488)
Dividends paid	(4,808,021)	(3,426,740)
Exercise of stock options	(146,491)	(57,563)
Purchase of treasury stock	<u>(1,383,472)</u>	<u>(1,808,129)</u>
Net cash provided (used) by financing activities	<u>28,008,353</u>	<u>(4,142,920)</u>
Net Increase in Cash and Cash Equivalents	275,853	891,263
Cash and Cash Equivalents, Beginning of Year	<u>2,223,601</u>	<u>1,332,338</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,499,454</u>	<u>\$ 2,223,601</u>

Supplemental Disclosures

Noncash investing activities

Change in investment in subsidiary due to subsidiary's net unrealized gain on securities available-for-sale and cash flow swap was \$(2,151,104) and \$3,046,065 for the years ended December 31, 2021 and 2020, respectively.