

# **CNB Financial Services, Inc.**

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**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders  
of CNB Financial Services, Inc.  
Berkeley Springs, West Virginia

### Opinion

We have audited the accompanying financial statements of CNB Financial Services, Inc. and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CNB Financial Services, Inc. and its subsidiary as of December 31, 2022 and 2021, 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.

### 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 CNB Financial Services, Inc. and its subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Consolidated Financial Statements

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

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

### 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CNB Financial Services, Inc. and its subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CNB Financial Services, Inc. and its subsidiary's ability to continue as a going concern for a reasonable period of time.

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

*Smith Elliott Keorns + Company, LLC*

**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2022 AND 2021**

<b>ASSETS</b>	<u><b>2022</b></u>	<u><b>2021</b></u>
Cash and due from banks	\$ 8,632,915	\$ 41,181,598
Securities available for sale (at approximate market value)	114,203,755	103,402,954
Federal Home Loan Bank (FHLB) stock, at cost	2,065,000	655,300
Loans and leases receivable, net	429,812,925	368,517,496
Lease purchase agreement	1,000,000	1,000,000
Accrued interest receivable	1,857,190	1,362,197
Foreclosed real estate (held for sale), net	2,320,000	2,429,144
Premises and equipment, net	6,262,239	6,115,576
Right of use asset	1,552,427	1,755,087
Deferred income taxes	5,372,586	1,261,645
Cash surrender value of life insurance	7,812,793	7,711,134
Other assets	1,805,524	2,689,454
	<u>1,805,524</u>	<u>2,689,454</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 582,697,354</b></u>	<u><b>\$ 538,081,585</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 145,187,889	\$ 146,704,907
Interest-bearing demand	160,322,765	143,731,297
Savings	96,311,649	96,850,510
Time deposits	95,228,526	90,356,874
	<u>\$ 497,050,829</u>	<u>\$ 477,643,588</u>
Accrued interest payable	106,866	86,049
FHLB borrowings	45,500,000	10,500,000
Lease liability	1,616,977	1,809,598
Accrued expenses and other liabilities	6,482,240	7,520,581
	<u>6,482,240</u>	<u>7,520,581</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 550,756,912</b></u>	<u><b>\$ 497,559,816</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1 par value; 5,000,000 shares authorized; 444,976 shares issued at December 31, 2022 and December 31, 2021 and 379,826 and 380,698 outstanding at December 31, 2022 and December 31, 2021, respectively	\$ 444,976	\$ 444,976
Class A Common stock, \$1 par value; 5,000,000 shares authorized; 13,072 shares issued at December 31, 2022 and December 31, 2021 and 10,060 and 10,136 outstanding at December 31, 2022 and December 31, 2021, respectively	13,072	13,072
Capital surplus	4,163,592	4,163,592
Retained earnings	44,916,041	41,867,159
Accumulated other comprehensive (loss)	(13,948,395)	(2,376,566)
	<u>\$ 35,589,286</u>	<u>\$ 44,112,233</u>
Less treasury stock, at cost, 65,150 common shares and 3,012 Class A common shares at December 31, 2022 and 64,278 common shares and 2,936 Class A common shares at December 31, 2021	(3,648,844)	(3,590,464)
	<u>(3,648,844)</u>	<u>(3,590,464)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u><b>\$ 31,940,442</b></u>	<u><b>\$ 40,521,769</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><b>\$ 582,697,354</b></u>	<u><b>\$ 538,081,585</b></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 17,116,952	\$ 16,543,179
Interest and dividends on securities:		
U.S. Treasury securities	219,870	945
U.S. Government agencies and corporations	136,879	116,942
Certificates of deposits	9,754	-
Corporate bonds	103,322	152,978
Mortgage backed securities	608,621	233,086
State and political subdivisions	1,368,458	1,073,056
Dividend income on FHLB stock	47,434	27,179
Interest on FHLB deposits	5,836	41
Interest on federal funds sold and deposits	80,172	25,247
	<u>\$ 19,697,298</u>	<u>\$ 18,172,653</u>
<b>INTEREST EXPENSE</b>		
Interest on interest bearing demand, savings and time deposits	\$ 1,786,546	\$ 1,680,924
Interest on federal funds purchased	455	9
Interest on FHLB borrowings	813,867	278,612
	<u>\$ 2,600,868</u>	<u>\$ 1,959,545</u>
<b>NET INTEREST INCOME</b>	\$ 17,096,430	\$ 16,213,108
<b>PROVISION FOR LOAN LOSSES</b>	<u>608,000</u>	<u>415,000</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>\$ 16,488,430</u>	<u>\$ 15,798,108</u>
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	\$ 1,384,345	\$ 1,189,567
Other service charges and fees	1,533,664	1,532,002
Trust fee income	863,746	766,559
Other operating income	283,250	283,945
Net gain on sales of loans	376,638	1,518,746
Net gain on sales and calls of securities	45,775	46,740
Net gain on sale of other real estate owned	76,753	-
Net (loss) on disposal of premises, equipment and software	(5,649)	(31,763)
	<u>\$ 4,558,522</u>	<u>\$ 5,305,796</u>
<b>NONINTEREST EXPENSES</b>		
Salaries	\$ 6,290,713	\$ 5,760,621
Employee benefits	2,067,413	3,193,880
Occupancy of premises	1,072,813	1,143,014
Furniture and equipment expense	945,067	1,089,540
Data processing expense	1,045,968	1,085,190
Other operating expenses	4,904,892	4,529,154
	<u>\$ 16,326,866</u>	<u>\$ 16,801,399</u>
<b>INCOME BEFORE INCOME TAXES</b>	\$ 4,720,086	\$ 4,302,505
<b>PROVISION FOR INCOME TAXES</b>	<u>967,350</u>	<u>902,045</u>
<b>NET INCOME</b>	<u>\$ 3,752,736</u>	<u>\$ 3,400,460</u>
<b>EARNINGS PER COMMON SHARE - BASIC AND DILUTED</b>	<u>\$ 9.59</u>	<u>\$ 8.66</u>
<b>EARNINGS PER CLASS A COMMON SHARE - BASIC AND DILUTED</b>	<u>\$ 10.55</u>	<u>\$ 9.53</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
Net Income	\$ 3,752,736	\$ 3,400,460
Other Comprehensive Income net of tax:		
Change in unrealized gains (losses) on securities available for sale (net of tax of \$4,257,670 and \$(472,732))	(12,362,917)	(1,339,290)
Change in unfunded pension liability (net of tax of \$(295,723) and \$669,267)	791,088	1,900,127
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ (7,819,093)</b>	<b>\$ 3,961,297</b>

**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	Common Stock	Class A Common Stock	Treasury Stock Common and Class A	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<b>BALANCE, DECEMBER 31, 2020</b>	\$ 444,976	\$ 13,072	\$ (2,773,614)	\$ 4,163,592	\$ 39,368,441	\$ (2,937,403)	\$ 38,279,064
Net income for 2021	-	-	-	-	3,400,460	-	3,400,460
Change in unrealized gains on securities available for sale (net of tax of \$472,732)	-	-	-	-	-	(1,339,290)	(1,339,290)
Change in unfunded pension liability (net of tax of \$669,267)	-	-	-	-	-	1,900,127	1,900,127
Acquisition of treasury stock, at cost, 14,794 common shares	-	-	(816,850)	-	-	-	(816,850)
Cash dividends (\$2.30 per share-Common)	-	-	-	-	(876,098)	-	(876,098)
Cash dividends (\$2.53 per share-Class A Common)	-	-	-	-	(25,644)	-	(25,644)
<b>BALANCE, DECEMBER 31, 2021</b>	\$ 444,976	\$ 13,072	\$ (3,590,464)	\$ 4,163,592	\$ 41,867,159	\$ (2,376,566)	\$ 40,521,769
Net income for 2022	-	-	-	-	3,752,736	-	3,752,736
Change in unrealized gains on securities available for sale (net of tax of \$4,257,670)	-	-	-	-	-	(12,362,917)	(12,362,917)
Change in unfunded pension liability (net of tax of \$295,723)	-	-	-	-	-	791,088	791,088
Acquisition of treasury stock, at cost, 948 common shares	-	-	(58,380)	-	-	-	(58,380)
Cash dividends (\$1.80 per share-Common)	-	-	-	-	(683,866)	-	(683,866)
Cash dividends (\$1.98 per share-Class A Common)	-	-	-	-	(19,988)	-	(19,988)
<b>BALANCE, DECEMBER 31, 2022</b>	<b>\$ 444,976</b>	<b>\$ 13,072</b>	<b>\$ (3,648,844)</b>	<b>\$ 4,163,592</b>	<b>\$ 44,916,041</b>	<b>\$ (13,948,395)</b>	<b>\$ 31,940,442</b>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,752,736	\$ 3,400,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on premises, equipment and software	929,919	1,011,233
Provision for loan losses	608,000	415,000
Deferred income taxes	(148,994)	(133,510)
Net (gain) on sales and calls of securities	(45,775)	(46,740)
Net (gain) on sale of other real estate owned	(76,753)	-
Net loss on disposal of premises, equipment and software	5,649	31,763
Net (gain) on loans sold	(376,638)	(1,518,746)
Loans originated for sale	(16,782,152)	(67,014,883)
Proceeds from loans sold	17,155,003	68,546,761
(Increase) decrease in accrued interest receivable	(494,993)	7,710
Decrease in other assets	809,240	5,718,208
Increase (decrease) in accrued interest payable	20,817	(51,647)
(Increase) in cash surrender value on life insurance in excess of premiums paid	(147,860)	(155,368)
Increase (decrease) in accrued expenses and other liabilities	(144,151)	889,208
Amortization of deferred loan (fees) cost	321,570	(690,104)
Amortization (accretion) of premium and discount on investments	654,052	686,820
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,039,670</b>	<b>\$ 11,096,165</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (increase) in loans	\$ (62,221,212)	\$ (21,624,523)
Proceeds from sales of securities	3,073,750	-
Proceeds from maturities, repayments and calls of securities	9,969,913	19,758,063
Purchases of securities	(41,076,414)	(43,845,673)
Redemptions of Federal Home Loan Bank stock	980,000	-
Purchases of Federal Home Loan Bank stock	(2,389,700)	(24,100)
Purchases of premises, equipment and software	(801,795)	(315,995)
Proceeds from sale of other real estate owned	185,897	-
Proceeds from life insurance death benefits	104,309	-
Premiums paid on life insurance	(58,108)	(50,256)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>\$ (92,233,360)</b>	<b>\$ (46,102,484)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand and savings deposits	\$ 14,535,589	\$ 67,290,431
Net increase (decrease) in time deposits	4,871,652	(11,135,798)
Net increase in FHLB borrowings	35,000,000	-
Purchase of treasury stock	(58,380)	(816,850)
Cash dividends paid	(703,854)	(901,742)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ 53,645,007</b>	<b>\$ 54,436,041</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (32,548,683)</b>	<b>\$ 19,429,722</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>41,181,598</b>	<b>21,751,876</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 8,632,915</b>	<b>\$ 41,181,598</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year:		
Interest paid on deposits and borrowed funds	\$ 2,580,051	\$ 2,011,192
Income taxes	\$ 1,065,000	\$ 540,000
Non cash investing and financing activities:		
Net transfer to foreclosed real estate, held for sale from loans receivable	\$ -	\$ 109,144
Unrealized (loss) on investment securities available for sale (net of tax)	\$ (12,362,917)	\$ (1,339,290)

The Notes to Consolidated Financial Statements are an integral part of these statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a description of the more significant accounting policies of CNB Financial Services, Inc. and its subsidiary.

#### **Nature of Operations:**

CNB Financial Services, Inc. ("CNB" or the "Company") is a financial services holding company incorporated under the laws of West Virginia on March 20, 2000. It became a bank holding company when it acquired all of the common stock of Citizens National Bank of Berkeley Springs on August 31, 2000.

Citizens National Bank operated as a national banking association until October 16, 2006 at which time it became a West Virginia state chartered bank. Concurrent with the charter change, the Bank began operating under the legal name of CNB Bank, Inc.

CNB Bank, Inc. (the "Bank"), a wholly owned subsidiary of CNB, provides a variety of banking services to individuals and businesses through its two locations in Morgan County, West Virginia, three locations in Berkeley County, West Virginia and three locations in Washington County, Maryland. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, real estate mortgage and installment loans.

The accounting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

#### **Principles of Consolidation:**

The consolidated financial statements of CNB Financial Services, Inc. include the accounts of the Company and its wholly owned subsidiary, CNB Bank, Inc. All significant intercompany transactions and balances have been eliminated.

#### **Use of Estimates:**

The preparation of the 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. CNB's most significant estimates are the allowance for loan losses, fair values of investments, the fair value of foreclosed property and the collateral for impaired loans, depreciable lives of fixed assets and actuarial and other assumptions used in determining pension expense and liability, liability for postretirement benefits, liability for deferred compensation, liability for current taxes, and deferred tax valuation allowances.

#### **Securities and Mortgage-Backed Securities:**

Investments in debt securities are classified and accounted for as follows:

- a. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- b. 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.
- c. 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 generally excluded from earnings and reported in a separate component of shareholders' equity as accumulated other comprehensive income.

CNB classifies all securities as available for sale, except for stock in the Federal Home Loan Bank, which are restricted investments.



Interest and dividends on securities, including amortization of premiums and accretion of discounts, are included in interest income. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses except for the non-credit component of other than temporary impairment losses on debt securities, which are recognized in other comprehensive income. 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains and losses from the sales of securities are determined using the specific identification method.

**Impaired loans:**

Impaired loans are defined as those loans for which it is probable that contractual amounts due will not be received in accordance with the contractual terms. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Larger groups of small-balance loans such as residential mortgage and installment loans that are considered to be part of homogeneous loan pools are aggregated for the purpose of measuring impairment, and therefore, are not subject to these statements unless they are considered troubled debt restructuring (TDR). Commercial loans and commercial real estate loans that are risk rated substandard, doubtful or loss with a current balance greater than the average loan balance for that call report code are evaluated for impairment. Also, troubled debt restructurings and loans in process of foreclosure, not included in the criteria above, are evaluated individually for impairment. At December 31, 2022, there are seventeen loans considered to be impaired with a recorded investment of \$3.7 million. At December 31, 2021, there were seventeen loans considered to be impaired with a recorded investment of \$1.9 million. See Note 4: Loans and Leases Receivable in the Notes to Consolidated Financial Statements for additional discussion.

**Allowance for Loan Losses:**

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and current economic conditions.

Allowances for loan losses on impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by partial or complete charge-offs, net of recoveries. Changes in the allowance are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

**Loans Held for Sale:**

Mortgage loans held for sale are recorded at the lower of cost or market value. Gains and losses realized from the sale of loans and adjustments to market value are included in non-interest income. Mortgage loans are sometimes sold to secondary market investors and other commercial banks. The majority of residential mortgage loans with a fixed rate of fifteen years or longer are sold to secondary market investors with servicing released. At December 31, 2022 and 2021, the Bank had no loans held for sale.

**Loan Servicing:**

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans: product type, investor type, interest rate, term and geographic location. An analysis of the risk characteristics of CNB's loan servicing portfolio allows for all loans to be defined by one risk category. As of December 31, 2022 and 2021, there were no mortgage servicing assets or liabilities. See Note 5: Loan Servicing in the Notes to Consolidated Financial Statements for additional discussion.

**Interest Income on Loans:**

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued at the time the loan becomes 90 days past due unless in management's judgment collectability of interest is assured.

**Nonperforming/Nonaccrual Assets:**

Nonperforming/nonaccrual assets consist of loans on which interest is no longer accrued, loans which have been restructured in order to allow the borrower the ability to maintain control of the collateral, real estate acquired by foreclosure and real estate upon which deeds in lieu of foreclosure have been accepted. Interest previously accrued but not collected on nonaccrual loans is reversed against current income when a loan is placed on a nonaccrual basis. Nonaccrual loans are restored to accrual status when all delinquent principal and interest have been paid and the loan remains current for six consecutive months, or when management determines that the collectibility of interest is assured.

A loan modification constitutes a troubled debt restructuring when CNB concludes that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. See presentation of the disclosure in Note 4 to the Consolidated Financial Statements.

**Loans and Leases Receivable:**

Loans and leases receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

**Loan Origination Fees and Costs:**

Loan origination fees, net of certain direct costs of originating loans are being deferred and recognized over the contractual life of the loan as an adjustment of the yield on the related loan.

**Premises and Equipment:**

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of 5 to 40 years for buildings and improvements, 10 to 20 years for land improvements, 8 to 10 years for leasehold improvements, 5 years for bank owned automobiles and 3 to 40 years for equipment. Computer software is being amortized over 3 years. Maintenance and repairs are charged to operating expenses as incurred.

**Income Taxes:**

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. See Note 18 to the Consolidated Financial Statements.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

**Pension Plan:**

Pension plan costs are funded by annual contributions as required by applicable regulations. As discussed further in Note 12 to the Consolidated Financial Statements, the plan was amended effective July 31, 2016 to restrict participation to employees eligible as of the date the plan was frozen and to revise the benefit calculation methodology.

**Cash and Cash Equivalents:**

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less except for federal funds sold. Those amounts are included in the balance sheet captions "Cash and due from banks." Included in "Cash and due from banks" are interest bearing deposits with FHLB and TCM Bank in the amount of \$278,253 and \$146,243 at December 31, 2022 and 2021, respectively and deposits with the Federal Reserve Bank of Richmond in the amount of \$5,197,470 and \$32,216,120 at December 31, 2022 and 2021, respectively.

**Earnings and Dividends Per Share:**

Earnings and dividends per share are computed using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share (EPS) separately for common stock and Class A common stock according to dividends declared and participation rights in undistributed earnings. Basic EPS is calculated based on the following formula: income from continuing operations (or net income) is reduced by the amount of dividends declared/paid in the current period for each class of stock (\$683,867 and \$876,098 for common and \$19,988 and \$25,644 for Class A common in 2022 and 2021, respectively). The remaining earnings are allocated to common stock and Class A common stock to the extent that each security class may share in earnings as if all of the earnings for the period had been distributed. The total earnings allocated to each security class are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature. Class A common stock receives a ten percent premium; therefore, the participation rate on Class A is 1.10, while the participation rate on common stock is 1.00. Finally, the total earnings allocated to each security are divided by the weighted number of outstanding shares of the security (380,167 and 381,414 shares of common stock and 10,113 and 10,136 shares of Class A common stock in 2022 and 2021, respectively) to determine basic and diluted earnings per share.

**Off-Balance Sheet Financial Instruments:**

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

**Postretirement and Postemployment Benefits Other Than Pensions:**

Postretirement insurance benefits are provided to selected officers and employees. During the years that the employee renders the necessary service, the Bank accrues the cost of providing postretirement health and life insurance benefits to the employee. The Bank has recorded a liability of \$403,400 and \$387,800 as of December 31, 2022 and 2021, respectively.

**Foreclosed Real Estate:**

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of actual or in-substance foreclosure (also referred to as other real estate owned or OREO), establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in gain/loss on foreclosed real estate. The historical average holding period for such properties is twelve to eighteen months. At December 31, 2022 and 2021, CNB owned properties acquired through loan foreclosure with a carrying value of \$2,320,000 and \$2,429,144, respectively.

**Trust Assets:**

Assets held by CNB in a fiduciary or agency capacity are not included in the consolidated financial statements since such assets are not assets of CNB. In accordance with banking industry practice, income from fiduciary activities is generally recognized on the cash basis which is not significantly different from amounts that would have been recognized on the accrual basis. Trust and investment assets totaled \$170,644,504 and \$166,197,189 at December 31, 2022 and 2021, respectively. Of these amounts, trust and investment assets totaling \$4,328,730 and \$4,717,799 were held by related parties of the Bank at December 31, 2022 and 2021, respectively.

**Advertising Costs:**

The Company expenses advertising costs in the period in which they are incurred. Advertising costs amounted to \$492,581 and \$485,727 for the years ended December 31, 2022 and 2021, respectively.

**Comprehensive Income:**

Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of “other comprehensive income” including: employers’ accounting for pensions and accounting for certain investments in debt and equity securities.

CNB reports its comprehensive income in a separate statement following the consolidated statements of income.

The components of “accumulated other comprehensive income” were as follows:

	<b>AOCI Attributed To:</b>		
	<b>Unrealized Gain (Loss) on Available for Sale Securities (Net of Tax)</b>	<b>Unrecognized Pension Costs (Net of Tax)</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
<b>BALANCE, DECEMBER 31, 2020</b>	\$ 1,461,818	\$ (4,399,221)	\$ (2,937,403)
Change for 2021, net of tax	(1,373,410)	1,900,127	526,717
Reclassification adjustment for realized gains included in net income, net of tax	<u>34,120</u>	<u>-</u>	<u>34,120</u>
<b>BALANCE, DECEMBER 31, 2021</b>	\$ 122,528	\$ (2,499,094)	\$ (2,376,566)
Change for 2022, net of tax	(12,396,333)	791,088	(11,605,245)
Reclassification adjustment for realized gains included in net income, net of tax	<u>33,416</u>	<u>-</u>	<u>33,416</u>
<b>BALANCE, DECEMBER 31, 2022</b>	<u>\$ (12,240,389)</u>	<u>\$ (1,708,006)</u>	<u>\$ (13,948,395)</u>

**Recent Accounting Pronouncements:**

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a Weighted Average Remaining Maturity (WARM) methodology. In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included call report codes. The Bank primarily utilizes empirical data with high correlation to historical losses by call report code for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Bank uses the nine qualitative factors.

**NOTE 2. REVENUE RECOGNITION**

The sources of revenue for the Bank are interest income from loans and investments and non-interest income. Non-interest income is generally earned from various banking and financial services that the Bank offers, from changes in the value of investments and from the sale of assets. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided.

Following is further detail of the various types of revenue the Bank earns and when it is recognized.

*Interest and dividend income:* Interest and dividend income is generated from various sources, including loans outstanding and investments, and is recognized on an accrual basis according to loan agreements, securities contracts or other such written contracts. These revenues are outside the scope of ASC Update 2014-09.

*Service charges on deposit accounts:* The Bank earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation.

*Other service charges and fees:* The Bank earns various other transaction-based service charges and fees, including but not limited to debit card fees, ATM fees, and wire transfer fees. Such service fees are recognized in income at the time or within the same period that the Bank's performance obligation is satisfied. The Bank earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions are primarily driven by a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

*Trust fee income:* Income is primarily comprised of fees earned from the management and administration of trusts and estates, the sale of insurance products, and investment brokerage and insurance services. Fees that are transaction-based (e.g., execution of trades and insurance commissions) are recognized at the time of the transaction. Other fees are earned over time as the contracted monthly or quarterly services are provided and are generally assessed based on either account activity or the market value of assets under management at month end.

*Other operating income:* Income is primarily comprised of revenues generated by life insurance policies as a result of increases in cash surrender values as premiums are paid, and by the redemption and payout of the policies. These revenues are recognized at the time of carriers reporting cash surrender values to the Bank and at the time proceeds are received. These revenues are outside the scope of ASU 2014-09. Also included in other operating income are safe deposit box fees which are recognized in income at the time or within the same period that the Bank's performance obligation is satisfied. These revenues are within the scope of ASU 2014-09.

*Gains from sales and calls of securities:* Gains are recognized at the time the investments are marked to market (generally daily) or upon being realized, as applicable. These revenues are outside the scope of ASU 2014-09.

*Gains on sale of assets:* Realized gains on the sale of assets (including sales of loans, other real estate owned, disposal of premises, equipment, and software, or repossessed assets) are recognized at a point in time once control of the assets has transferred to the buyers and collectability of the transaction price is reasonably assured.

### **NOTE 3. SECURITIES**

The amortized cost and estimated market value of debt securities at December 31, 2022 and 2021 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities as of December 31 are summarized as follows:

	2022			Estimated Fair Value	Weighted Average Tax Equivalent Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
Available for sale:					
Certificates of deposit					
Within one year	\$ 250,000	\$ -	\$ 2,457	\$ 247,543	3.05 %
After 1 but within 5 years	\$ 495,000	\$ -	\$ 11,893	\$ 483,107	3.35
	<u>\$ 745,000</u>	<u>\$ -</u>	<u>\$ 14,350</u>	<u>\$ 730,650</u>	3.25 %
U.S. Treasury bills					
After 1 but within 5 years	\$ 12,437,477	\$ -	\$ 361,696	\$ 12,075,781	2.40 %
	<u>\$ 12,437,477</u>	<u>\$ -</u>	<u>\$ 361,696</u>	<u>\$ 12,075,781</u>	2.40 %
U.S. Government agencies and corporations					
After 1 but within 5 years	\$ 1,000,000	\$ -	\$ 99,338	\$ 900,662	1.00 %
After 5 but within 10 years	1,976,308	-	359,036	\$ 1,617,272	1.77
	<u>\$ 2,976,308</u>	<u>\$ -</u>	<u>\$ 458,374</u>	<u>\$ 2,517,934</u>	1.51 %
Corporate Bonds					
After 1 but within 5 years	\$ 1,974,044	\$ -	\$ 62,371	\$ 1,911,673	3.14 %
After 5 but within 10 years	1,549,480	-	238,734	1,310,746	2.65
	<u>\$ 3,523,524</u>	<u>\$ -</u>	<u>\$ 301,105</u>	<u>\$ 3,222,419</u>	2.92 %
States and political subdivisions					
Within one year	\$ 527,109	\$ -	\$ 4,117	\$ 522,992	1.88 %
After 1 but within 5 years	8,226,552	596	613,707	7,613,441	2.02
After 5 but within 10 years	15,592,422	-	2,120,848	13,471,574	2.08
Over 10 years	40,596,008	-	6,519,986	34,076,022	2.31
	<u>\$ 64,942,091</u>	<u>\$ 596</u>	<u>\$ 9,258,658</u>	<u>\$ 55,684,029</u>	2.22 %
Mortgage backed securities:					
Government issued or guaranteed	\$ 11,038,437	\$ -	\$ 1,398,740	\$ 9,639,697	1.65 %
Collateralized mortgage obligations:					
Government issued or guaranteed	\$ 28,630,020	\$ -	\$ 4,307,677	\$ 24,322,343	1.82 %
Privately issued	7,774	-	3,500	4,274	0.00
	<u>\$ 28,637,794</u>	<u>\$ -</u>	<u>\$ 4,311,177</u>	<u>\$ 24,326,617</u>	1.81 %
Small business obligations:					
Government issued or guaranteed	\$ 6,357,845	\$ 567	\$ 351,784	\$ 6,006,628	3.70 %
Total securities available for sale	<u>\$ 130,658,476</u>	<u>\$ 1,163</u>	<u>\$ 16,455,884</u>	<u>\$ 114,203,755</u>	2.18 %
Restricted:					
Federal Home Loan Bank stock	<u>\$ 2,065,000</u>				6.90 %

	2021			Weighted Average Tax Equivalent Yield	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Available for sale:					
U.S. Government agencies and corporations					
After 1 but within 5 years	\$ 1,000,000	\$ -	\$ 9,343	\$ 990,657	1.00 %
After 5 but within 10 years	1,972,818	-	17,040	1,955,778	1.77
	<u>\$ 2,972,818</u>	<u>\$ -</u>	<u>\$ 26,383</u>	<u>\$ 2,946,435</u>	1.51 %
Corporate Bonds					
After 1 but within 5 years	\$ 3,998,548	\$ 136,591	\$ -	\$ 4,135,139	2.79 %
After 5 but within 10 years	1,556,442	40,793	11,140	1,586,095	2.65
	<u>\$ 5,554,990</u>	<u>\$ 177,384</u>	<u>\$ 11,140</u>	<u>\$ 5,721,234</u>	2.75 %
States and political subdivisions					
After 1 but within 5 years	\$ 4,111,762	\$ 31,310	\$ 30,917	\$ 4,112,155	1.50 %
After 5 but within 10 years	13,658,909	191,419	134,584	13,715,744	2.00
Over 10 years	40,352,695	720,669	299,775	40,773,589	2.23
	<u>\$ 58,123,366</u>	<u>\$ 943,398</u>	<u>\$ 465,276</u>	<u>\$ 58,601,488</u>	2.12 %
Mortgage backed securities:					
Government issued or guaranteed	\$ 7,764,942	\$ 6,211	\$ 125,194	\$ 7,645,959	0.82 %
Collateralized mortgage obligations:					
Government issued or guaranteed	\$ 19,520,556	\$ 47,842	\$ 377,963	\$ 19,190,435	1.22 %
Privately issued	9,734	-	4,209	5,525	0.00
	<u>\$ 19,530,290</u>	<u>\$ 47,842</u>	<u>\$ 382,172</u>	<u>\$ 19,195,960</u>	2.25 %
Small business obligations:					
Government issued or guaranteed	\$ 9,290,683	\$ 45,968	\$ 44,773	\$ 9,291,878	1.41 %
Total securities available for sale	<u>\$ 103,237,089</u>	<u>\$ 1,220,803</u>	<u>\$ 1,054,938</u>	<u>\$ 103,402,954</u>	1.80 %
Restricted:					
Federal Home Loan Bank stock	<u>\$ 655,300</u>				4.86 %

The market value of securities pledged to secure public deposits and for other purposes as required or permitted by law totaled \$44,997,864 at December 31, 2022, and \$28,411,559 at December 31, 2021.

Proceeds from sales of securities available for sale (excluding maturities and calls) for the years ended December 31, 2022 and 2021 were \$3,073,750 and \$0, respectively. Gross gains and (losses) of \$45,780 and \$0 in 2022 and \$0 and \$0 in 2021 were realized on the respective sales. Gross gains (losses) of \$0 and \$0 and \$0 and \$(13,199) were realized on called securities during 2022 and 2021, respectively. Gross gains (losses) of \$0 and \$(5) and \$59,939 and \$0 were realized on paydowns on securities during 2022 and 2021, respectively.

The following tables show the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021, respectively.

Description of Securities	2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	\$ 730,650	\$ 14,350	\$ -	\$ -	\$ 730,650	\$ 14,350
US treasury notes	12,075,782	361,696	-	-	12,075,782	361,696
US agencies	-	-	2,517,934	458,374	2,517,934	458,374
Corporate bonds	2,382,864	107,163	839,555	193,942	3,222,419	301,105
Small business obligations	3,040,362	140,095	2,676,969	211,689	5,717,331	351,784
State and political subdivisions	26,419,990	2,235,414	24,881,031	7,023,245	51,301,021	9,258,659
Mortgage backed securities:						
Government issued or guaranteed	4,370,227	452,563	5,269,470	946,177	9,639,697	1,398,740
Collateralized mortgage obligations:						
Government issued or guaranteed	11,319,245	1,287,854	13,003,098	3,019,823	24,322,343	4,307,677
Privately issued	-	-	4,274	3,500	4,274	3,500
Total temporarily impaired securities	<u>\$ 60,339,120</u>	<u>\$ 4,599,135</u>	<u>\$ 49,192,331</u>	<u>\$ 11,856,750</u>	<u>\$ 109,531,451</u>	<u>\$ 16,455,885</u>

  

Description of Securities	2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	\$ 1,026,886	\$ 11,140	\$ -	\$ -	\$ 1,026,886	\$ 11,140
Small business obligations	5,628,571	63,559	806,808	7,597	6,435,379	71,156
State and political subdivisions	22,716,803	419,394	1,601,725	45,881	24,318,528	465,275
Mortgage backed securities:						
Government issued or guaranteed	6,238,692	106,767	831,540	18,428	7,070,232	125,195
Collateralized mortgage obligations:						
Government issued or guaranteed	13,373,848	296,576	2,496,480	81,387	15,870,328	377,963
Privately issued	-	-	5,525	4,209	5,525	4,209
Total temporarily impaired securities	<u>\$ 48,984,800</u>	<u>\$ 897,436</u>	<u>\$ 5,742,078</u>	<u>\$ 157,502</u>	<u>\$ 54,726,878</u>	<u>\$ 1,054,938</u>



At December 31, 2022, there were 203 available for sale securities that have unrealized losses with aggregate depreciation of 13.1% from their amortized cost basis. At December 31, 2021, there were 92 available for sale securities that have unrealized losses with aggregate depreciation of 1.9% from their amortized cost basis. The unrealized losses relate principally to collateralized mortgage obligations, mortgage-backed securities, municipal obligations and US government agency securities and it is more likely than not that management will not be required to sell the securities before the market value has recovered. When analyzing the unrealized losses related to collateralized mortgage obligations, management considers the collateral composition, prepayment history and the overall credit worthiness of the investment.

At December 31, 2022 and 2021, management analyzed the investment portfolio and determined no other-than-temporary losses exist.

#### **NOTE 4. CREDIT QUALITY OF FINANCING RECEIVABLES AND THE ALLOWANCE FOR LOAN LOSSES**

Management segregates the loan portfolio into segments based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate. These segments are used to assist the Bank in developing and documenting a systematic method for determining its allowance for loan losses. The Bank's loan portfolio is segregated into the following portfolio segments.

***Construction, land development and other land loans.*** This portfolio segment includes construction loans to individuals and builders, primarily for the construction of residential properties and land loans, which are loans made with land as security. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Bank may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment. Construction loans also expose the Bank to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties. In addition, many of these borrowers have more than one outstanding loan, so an adverse development with respect to one loan or credit relationship can expose the Bank to significantly greater risk of non-payment and loss.

***Residential properties.*** This portfolio segment includes the origination of first mortgage loans and home equity second mortgage loans secured by one to four family owner occupied or non-owner occupied residential properties.

***Non-farm nonresidential properties.*** This portfolio segment includes loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, non-profit organizations, clubs, lodges, association buildings, recreational facilities and similar properties.

***Commercial and Industrial loans.*** This portfolio segment includes commercial business loans generally secured by assignments of corporate assets and/or personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than one to four family residential loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business. This portfolio segment also includes loans originated as part of the Paycheck Protection Program (PPP). These loans were part of the federal government's response to the economic impact of COVID-19 by providing businesses with funding to cover payroll and other operating costs. The loans associated with this program will either be forgiven, if the business meets the requirements for forgiveness, or will remain loans that have maturities of two or five years. The loans are guaranteed by the Small Business Administration (SBA) and have an interest rate of one percent. Total loan originations in 2021 were \$19,792,674, of which \$3,579,345 was outstanding at December 31, 2021. Total loan originations in 2020 were \$28,109,535, of which \$2,070,058 and \$19,835,735 was outstanding at December 31, 2021 and 2020, respectively. The fees on these loans range from one percent to five percent and are amortized over the life of the loan. Upon loan forgiveness approval by the SBA, the unamortized fee is recognized as income. All fees earned on the origination of PPP loans in 2021 were received from the SBA by December 31, 2021. As of December 31, 2022, all PPP loans have been paid off.

**Consumer loans.** This portfolio segment includes credit extended to individuals for household, family and other personal expenditures that are not secured by real estate, whether direct loans or purchased paper. Consumer loans generally have higher interest rates and shorter terms than one to four family residential loans but involve lower average balances. The carrying value of repossessed property held at December 31, 2022 and 2021 totaled \$0.

An analysis of the loans by segment as of December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Real estate loans:		
Secured by construction, land and land development	\$ 67,111,086	\$ 52,156,194
Secured by residential properties	233,847,457	183,077,246
Secured by nonfarm nonresidential	105,598,910	106,740,833
Commercial and industrial loans	21,247,681	24,940,158
Loans to individuals for household, family, or other personal expenditures	<u>5,076,976</u>	<u>4,431,531</u>
Total loans, gross	<u>\$ 432,882,110</u>	<u>\$ 371,345,962</u>
Net deferred loan fees, costs, premiums and discounts	1,973,193	1,706,758
Less: Allowance for possible loan losses	<u>(5,042,378)</u>	<u>(4,535,224)</u>
Net loans	<u><u>\$ 429,812,925</u></u>	<u><u>\$ 368,517,496</u></u>

Loans are generally carried at the amount of unpaid principal, less the allowance for loan losses and adjusted for deferred loan fees, which are amortized over the term of the loan using the interest method. Interest on loans is accrued based on the principal amounts outstanding.

Management further disaggregates the loan portfolio segments into classes of loans, which are based on the initial measurement of the loan, risk characteristics of the loan and the method for monitoring and assessing the credit risk of the loan.

The allowance for loan losses is established through a provision for loan losses. The Bank maintains the allowance at a level believed by management to cover all known and inherent losses in the loan portfolio that are both probable and reasonable to estimate at each reporting date.

Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify those inherent losses and to assess the overall collection probability for the loan portfolio. The evaluation process by portfolio segment includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, economic conditions and industry experience.

The establishment of the allowance for loan losses is significantly affected by uncertainties and by management's judgment, and there is a likelihood that different amounts would be reported under different conditions or assumptions. The Federal Deposit Insurance Corporation, as an integral part of its examination process, periodically reviews the allowance for loan losses and may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management.

The Bank will continue to monitor and modify its allowance for loan losses as conditions dictate. No assurances can be given that the level of allowance for loan losses will cover all of the inherent losses on the loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the anticipated future economic and other conditions used by management to determine the current level of the allowance for loan losses.

The following tables set forth as of December 31, 2022 and 2021 respectively, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance from absorbing losses in other portfolio segments.

**Allowance for Credit Losses and Recorded Investment in Loans**

December 31, 2022

	Secured by construction, land and land development	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Unallocated	Total
<b>Allowance for credit losses:</b>								
Beginning balance	\$ 741,395	\$ 2,150,873	\$ 1,206,639	\$ 209,424	\$ 226,893	\$ -	\$ -	\$ 4,535,224
Charged off loans	-	2,396	-	20,458	195,576	-	-	218,430
Recoveries of previously charged off loans	-	45,103	-	20,851	51,630	-	-	117,584
Provision for (recovery of) loan losses	118,114	306,595	(124,349)	4,062	145,282	-	158,296	608,000
Ending balance	<u>\$ 859,509</u>	<u>\$ 2,500,175</u>	<u>\$ 1,082,290</u>	<u>\$ 213,879</u>	<u>\$ 228,229</u>	<u>\$ -</u>	<u>\$ 158,296</u>	<u>\$ 5,042,378</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 55,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,201</u>
Ending balance: collectively evaluated for impairment	<u>\$ 859,509</u>	<u>\$ 2,444,974</u>	<u>\$ 1,082,290</u>	<u>\$ 213,879</u>	<u>\$ 228,229</u>	<u>\$ -</u>	<u>\$ 158,296</u>	<u>\$ 4,987,177</u>
<b>Loan receivables:</b>								
Ending balance	<u>\$ 67,111,086</u>	<u>\$ 233,847,457</u>	<u>\$ 105,598,910</u>	<u>\$ 21,247,681</u>	<u>\$ 5,076,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,882,110</u>
Ending balance: individually evaluated for impairment	<u>\$ 46,907</u>	<u>\$ 1,662,358</u>	<u>\$ 1,968,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,678,223</u>
Ending balance: collectively evaluated for impairment	<u>\$ 67,064,179</u>	<u>\$ 232,185,099</u>	<u>\$ 103,629,952</u>	<u>\$ 21,247,681</u>	<u>\$ 5,076,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429,203,887</u>

**Allowance for Credit Losses and Recorded Investment in Loans**  
December 31, 2021

	Secured by construction, land and land development	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Unallocated	Total
<b>Allowance for credit losses:</b>								
Beginning balance	\$ 408,538	\$ 2,248,194	\$ 1,074,812	\$ 222,345	\$ 230,987	\$ 24	\$ 43,966	\$ 4,228,866
Charged off loans	-	84,576	-	41,933	124,216	-	-	250,725
Recoveries of previously charged off loans	62	37,455	-	41,933	62,633	-	-	142,083
Provision for (recovery of) loan losses	332,795	(50,200)	131,827	(12,921)	57,489	(24)	(43,966)	415,000
Ending balance	<u>\$ 741,395</u>	<u>\$ 2,150,873</u>	<u>\$ 1,206,639</u>	<u>\$ 209,424</u>	<u>\$ 226,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,535,224</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 59,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,057</u>
Ending balance: collectively evaluated for impairment	<u>\$ 741,395</u>	<u>\$ 2,091,816</u>	<u>\$ 1,206,639</u>	<u>\$ 209,424</u>	<u>\$ 226,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,476,167</u>
<b>Loan receivables:</b>								
Ending balance	<u>\$ 52,156,194</u>	<u>\$ 183,077,246</u>	<u>\$ 106,740,833</u>	<u>\$ 24,940,158</u>	<u>\$ 4,431,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 371,345,962</u>
Ending balance: individually evaluated for impairment	<u>\$ 54,769</u>	<u>\$ 1,868,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,923,662</u>
Ending balance: collectively evaluated for impairment	<u>\$ 52,101,425</u>	<u>\$ 181,208,353</u>	<u>\$ 106,740,833</u>	<u>\$ 24,940,158</u>	<u>\$ 4,431,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 369,422,300</u>

A summary of transactions in the allowance for loan and lease losses for the years ended December 31, 2022 and 2021, respectively follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 4,535,224	\$ 4,228,866
Charged off loans	(218,430)	(250,725)
Recoveries of loans previously charged off	117,584	142,083
Provision charged to (recovery from) operations	<u>608,000</u>	<u>415,000</u>
Balance, ending	<u>\$ 5,042,378</u>	<u>\$ 4,535,224</u>

The Bank utilizes loan risk grades from 1 through 10. Under the rating system, the Bank's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard (8), doubtful (9) or loss (10) assets. Loans graded 1 – 6 are loans with acceptable risk. A loan graded special mention (7) is considered less than acceptable risk due to potential weaknesses that deserve management's close attention. An asset is considered substandard (8) if it is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Key characteristics are negative trends in cash flow, profitability, net worth, liquidity or leverage, significant deviation from the original repayment source, numerous extensions and/or renewals, diversion of

repayment funds, delinquency, failure to clean-up a short-term operating line and/or whenever debt is carried over. Assets classified as doubtful (9) have all the weaknesses inherent in those classified substandard (8) with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values highly questionable and improbable. Key characteristics are weaknesses noted for loans classified substandard and not readily identified loss and/or undetermined value of collateral.

Assets classified as loss (10) are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Key characteristics of these loans include: (1) no readily identifiable source of repayment (cash flow or liquidation of collateral), (2) not well secured and (3) not in process of collection and/or severe delinquency.

Determinations as to the classification of assets and the amount of loss allowances are subject to review by the Bank's principal federal regulator, the Federal Deposit Insurance Corporation, which can require that the Bank establish additional loss allowances. The Bank regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following tables are a summary of the loan portfolio risk indicators by loan class as of December 31, 2022 and 2021, respectively.

**Credit Quality Indicators**  
**As of December 31, 2022**  
**Commercial and Consumer Credit Exposure**  
**Credit Risk Profile by Creditworthiness Category**

<b>Risk Ratings</b>	<b>Secured by construction, land and land development</b>	<b>Secured by residential properties</b>	<b>Secured by nonfarm nonresidential</b>	<b>Commercial and industrial loans</b>	<b>Loans to individuals</b>	<b>Total</b>
Excellent (1)	\$ -	\$ 73,741	\$ -	\$ 647,999	\$ 438,535	\$ 1,160,275
Good (2)	3,277,906	20,412,403	2,348,653	87,002	691,668	26,817,632
Above Average (3)	30,433,394	80,077,573	18,511,965	3,293,882	1,668,186	133,985,000
Average (4)	25,177,406	94,700,505	44,324,413	4,850,997	1,512,274	170,565,595
Below Average (5)	8,025,746	33,699,640	36,193,216	7,815,788	584,312	86,318,702
Watch (6)	-	2,851,618	2,245,427	4,052,878	47,544	9,197,467
Special Mention (7)	187,116	630,693	1,651,319	499,135	27,564	2,995,827
Substandard (8)	9,518	1,401,284	323,917	-	-	1,734,719
Doubtful (9)	-	-	-	-	-	-
Loss (10)	-	-	-	-	-	-
Unrated *	-	-	-	-	106,893	106,893
<b>Total</b>	<b>\$ 67,111,086</b>	<b>\$ 233,847,457</b>	<b>\$ 105,598,910</b>	<b>\$ 21,247,681</b>	<b>\$ 5,076,976</b>	<b>\$ 432,882,110</b>

\* - Unrated loans to individuals consist of overdrafts.

**Credit Quality Indicators**  
**As of December 31, 2021**  
**Commercial and Consumer Credit Exposure**  
**Credit Risk Profile by Creditworthiness Category**

<u>Risk Ratings</u>	<u>Secured by construction, land and land development</u>	<u>Secured by residential properties</u>	<u>Secured by nonfarm nonresidential</u>	<u>Commercial and industrial loans</u>	<u>Loans to individuals</u>	<u>Total</u>
Excellent (1)	\$ -	\$ -	\$ -	\$ 727,493	\$ 407,938	\$ 1,135,431
Good (2)	5,256,366	12,443,451	1,273,282	5,649,403	565,325	25,187,827
Above Average (3)	21,450,239	59,482,012	15,346,191	1,451,451	1,271,944	99,001,837
Average (4)	15,169,713	74,099,531	46,757,939	4,228,878	1,380,516	141,636,577
Below Average (5)	10,075,692	31,399,490	38,547,355	8,023,475	630,881	88,676,893
Watch (6)	-	3,355,311	4,808,349	4,429,627	47,114	12,640,401
Special Mention (7)	193,247	846,466	-	429,831	35,522	1,505,066
Substandard (8)	10,937	1,450,985	7,717	-	978	1,470,617
Doubtful (9)	-	-	-	-	-	-
Loss (10)	-	-	-	-	-	-
Unrated *	-	-	-	-	91,313	91,313
Total	<u>\$ 52,156,194</u>	<u>\$ 183,077,246</u>	<u>\$ 106,740,833</u>	<u>\$ 24,940,158</u>	<u>\$ 4,431,531</u>	<u>\$ 371,345,962</u>

When a loan is 10 days past due, the Bank sends the borrower a late notice. The Bank also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Bank mails the borrower a consumer's right to cure the default notice and attempts to contact the borrower personally to determine the reason for the delinquency in order to ensure that the borrower understands the terms of the loan and the importance of making payments on or before the due date. If necessary, subsequent delinquency notices are issued and the account is monitored on a regular basis thereafter. If the loan is secured by the borrower's primary residence, by the 90<sup>th</sup> day of delinquency the Bank will send the borrower a final demand for payment and on the 120<sup>th</sup> day of delinquency, foreclosure proceedings will commence. If the loan is not secured by the borrower's primary residence, by the 60<sup>th</sup> day of delinquency the Bank will begin action to secure the collateral associated with the loan. Loans are charged off when the Bank believes that the recovery of principal is improbable. A summary report of all loans 60 days or more past due is provided to the Board of Directors of the Bank each month.

Loans are automatically placed on non-accrual status when payment of principal or interest is more than 90 days delinquent, unless in management's judgment collectability of interest is assured. When loans are placed on non-accrual status unpaid accrued interest is fully reversed. Cash collections on such loans are applied as reductions of the loan principal and no interest income is recognized on those loans until the loan returns to accrual status. Nonaccrual loans are restored to accrual status when all delinquent principal and interest have been paid and the loan remains current for six consecutive months.

The following tables set forth certain information with respect to the Bank's loan portfolio delinquencies by loan class and amount as of December 31, 2022 and 2021:

**Age Analysis of Past Due Loans  
December 31, 2022**

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Gross Loans</u>
Secured by Real Estate:						
1-4 Family 1st Lien	\$ 123,094	\$ 233,135	\$ 224,245	\$ 580,474	\$ 198,458,753	\$ 199,039,227
1-4 Family Jr. Lien	17,945	-	-	17,945	22,792,535	22,810,480
5+ multi family	-	-	-	-	11,665,207	11,665,207
Secured by construction, land and land development	-	-	-	-	67,111,086	67,111,086
Secured by farmland	-	-	-	-	332,543	332,543
Secured by nonfarm nonresidential	-	-	317,639	317,639	105,281,271	105,598,910
Commercial and industrial loans	-	-	-	-	21,247,681	21,247,681
Consumer loans	13,395	-	-	13,395	5,063,581	5,076,976
Total	<u>\$ 154,434</u>	<u>\$ 233,135</u>	<u>\$ 541,884</u>	<u>\$ 929,453</u>	<u>\$ 431,952,657</u>	<u>\$ 432,882,110</u>

**Age Analysis of Past Due Loans  
December 31, 2021**

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Gross Loans</u>
Secured by Real Estate:						
1-4 Family 1st Lien	\$ 1,350,692	\$ 99,929	\$ 88,338	\$ 1,538,959	\$ 160,568,263	\$ 162,107,222
1-4 Family Jr. Lien	40,515	-	-	40,515	13,943,366	13,983,881
5+ multi family	-	-	-	-	6,633,423	6,633,423
Secured by construction, land and land development	30,886	548	312	31,746	52,124,448	52,156,194
Secured by farmland	-	-	-	-	352,720	352,720
Secured by nonfarm nonresidential	49,675	-	303,089	352,764	106,388,069	106,740,833
Commercial and industrial loans	-	-	-	-	24,940,158	24,940,158
Consumer loans	8,798	35,522	-	44,320	4,387,211	4,431,531
Total	<u>\$ 1,480,566</u>	<u>\$ 135,999</u>	<u>\$ 391,739</u>	<u>\$ 2,008,304</u>	<u>\$ 369,337,658</u>	<u>\$ 371,345,962</u>

The following table sets forth certain information with respect to the Bank's loan portfolio delinquencies and nonaccrual loans by loan class and amount as of December 31, 2022 and 2021:

	2022		2021	
	Recorded Investment > 90 Days and Accruing	Nonaccrual	Recorded Investment > 90 Days and Accruing	Nonaccrual
Secured by Real Estate:				
1-4 Family 1st Lien	\$ -	\$ 658,697	\$ 50,143	\$ 1,475,570
1-4 Family Jr. Lien	-	65,978	-	162,302
Secured by construction, land and land development	-	-	312	10,625
Secured by nonfarm nonresidential	-	317,639	-	303,089
Commercial and industrial loans	-	-	-	-
Consumer loans	-	27,564	-	35,522
Total	<u>\$ -</u>	<u>\$ 1,069,878</u>	<u>\$ 50,455</u>	<u>\$ 1,987,108</u>

The Bank accounts for impaired loans under generally accepted accounting principles. An impaired loan generally is one for which it is probable, based on current information and events, that the Bank will not collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Commercial and commercial real estate loans that are risk rated substandard, doubtful or loss with a current balance greater than the average loan balance for that call report code are evaluated individually for impairment by management. Also, troubled debt restructurings and loans in the process of foreclosure, not included in the criteria above, are evaluated individually for impairment. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Cash collections on such loans are applied as reductions of the loan principal and no interest income is recognized on those loans until the principal balance has been collected.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Bank further identifies all loans in nonaccrual status and troubled debt restructured loans as impaired loans, except large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless the loans are the subject of a restructuring agreement. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. When the measure of an impaired loan results in a realizable value that is less than the recorded investment in the loan, the difference is recorded as a specific valuation allowance against that loan or a partial charge off is recorded and the Bank will make the appropriate adjustment to the allowance for loan losses.



The following tables set forth certain information with respect to the Bank's impaired loan portfolio as of December 31, 2022 and 2021:

<b>Impaired Loans</b>					
<b>December 31, 2022</b>					
	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded:					
Secured by commercial real estate	\$ 46,907	\$ 67,479	\$ -	\$ 50,838	\$ 6,242
Secured by residential real estate	682,607	936,985	-	756,581	39,545
Non-farm, non-residential	1,968,958	1,968,958	-	984,479	112,484
With an allowance recorded:					
Secured by residential real estate	979,751	997,361	55,201	1,009,045	50,439
Total:					
Secured by commercial real estate	46,907	67,479	-	50,838	6,242
Secured by residential real estate	1,662,358	1,934,346	55,201	1,765,626	89,984
Non-farm, non-residential	1,968,958	1,968,958	-	984,479	112,484
Total	<u>\$ 3,678,223</u>	<u>\$ 3,970,783</u>	<u>\$ 55,201</u>	<u>\$ 2,800,943</u>	<u>\$ 208,710</u>

<b>Impaired Loans</b>					
<b>December 31, 2021</b>					
	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
With no related allowance recorded:					
Secured by commercial real estate	\$ 54,769	\$ 73,620	\$ -	\$ 27,385	\$ 5,119
Secured by residential real estate	830,554	1,072,885	-	479,583	50,502
Non-farm, non-residential	-	-	-	273,404	11,906
With an allowance recorded:					
Secured by commercial real estate	-	-	-	30,959	-
Secured by residential real estate	1,038,339	1,050,737	59,057	1,393,481	46,634
Non-farm, non-residential	-	-	-	3,096	-
Total:					
Secured by commercial real estate	54,769	73,620	-	27,385	5,119
Secured by residential real estate	1,868,893	2,123,622	59,057	1,873,064	97,136
Non-farm, non-residential	-	-	-	276,500	11,906
Total	<u>\$ 1,923,662</u>	<u>\$ 2,197,242</u>	<u>\$ 59,057</u>	<u>\$ 2,218,207</u>	<u>\$ 114,161</u>

Impaired loans also included all loans modified and identified as troubled debt restructuring (TDR). A loan is deemed to be a TDR when the Bank agrees to a modification in terms of a loan resulting in a concession made by the Bank in an effort to mitigate potential loss arising from a borrower's financial difficulty.

As of December 31, 2022, there were fifteen restructured loans totaling \$3,360,584 to thirteen separate and unrelated borrowers who were experiencing financial difficulty.

As of December 31, 2021, there were seventeen restructured loans totaling \$1,923,663 to fourteen separate and unrelated borrowers who were experiencing financial difficulty. The modifications on these loans include reductions in interest rates, extension of maturity dates and provisions for interest only payments.

The following tables presents the number of loans and recorded investment in loans restructured and identified as troubled debt restructurings for the twelve months ended December 31, 2022 and 2021, as well as the number of and recorded investment in previously identified TDRs that subsequently defaulted. Defaulted loans are those which are 30 days or more past due for payment under the modified terms.

<b>December 31, 2022:</b>		<b>Pre-Modification</b>		<b>Post-Modification</b>
<b>Troubled Debt Restructurings:</b>	<b>Number of</b>	<b>Outstanding Recorded</b>		<b>Outstanding Recorded</b>
	<b>Contracts</b>	<b>Investment</b>		<b>Investment</b>
Secured by Real Estate:				
1-4 Family 1st Lien	-	\$ -	\$ -	-
1-4 Family Jr. Lien	-	-	-	-
5+ multi family	-	-	-	-
Secured by construction, land and land development	-	-	-	-
Secured by farmland	-	-	-	-
Secured by nonfarm nonresidential	1	1,651,319	1,651,319	-
Commercial and industrial loans	-	-	-	-
Consumer loans	-	-	-	-
Other loans	-	-	-	-
Leases	-	-	-	-

<b>Troubled Debt Restructurings That</b>			
<b>Subsequently Defaulted:</b>	<b>Number of</b>	<b>Recorded Investment</b>	
	<b>Contracts</b>		
Secured by Real Estate:			
1-4 Family 1st Lien	4	\$ 327,246	-
1-4 Family Jr. Lien	-	-	-
5+ multi family	-	-	-
Secured by construction, land and land development	-	-	-
Secured by farmland	-	-	-
Secured by nonfarm nonresidential	-	-	-
Commercial and industrial loans	-	-	-
Consumer loans	-	-	-
Other loans	-	-	-
Leases	-	-	-

<b>December 31, 2021:</b>		<b>Pre-Modification</b>	<b>Post-Modification</b>
<b>Troubled Debt Restructurings:</b>	<b>Number of</b>	<b>Outstanding Recorded</b>	<b>Outstanding Recorded</b>
	<b>Contracts</b>	<b>Investment</b>	<b>Investment</b>
Secured by Real Estate:			
1-4 Family 1st Lien	1	\$ 170,934	\$ 169,757
1-4 Family Jr. Lien	-	-	-
5+ multi family	-	-	-
Secured by construction, land and land development	-	-	-
Secured by farmland	-	-	-
Secured by nonfarm nonresidential	-	-	-
Commercial and industrial loans	-	-	-
Consumer loans	-	-	-
Other loans	-	-	-
Leases	-	-	-

<b>Troubled Debt Restructurings That</b>		
<b>Subsequently Defaulted:</b>	<b>Number of</b>	<b>Recorded Investment</b>
	<b>Contracts</b>	
Secured by Real Estate:		
1-4 Family 1st Lien	6	\$ 413,396
1-4 Family Jr. Lien	-	-
5+ multi family	-	-
Secured by construction, land and land development	-	-
Secured by farmland	-	-
Secured by nonfarm nonresidential	-	-
Commercial and industrial loans	-	-
Consumer loans	-	-
Other loans	-	-
Leases	-	-

The Bank did not have any commitments to loan additional funds to borrowers whose loans have been classified as TDR's.

## NOTE 5. LOAN SERVICING

Mortgage and commercial loans serviced for others are not included in the accompanying financial statements. The unpaid principal balances of mortgage and commercial loans serviced for others were \$3,138,065 and \$4,339,062 at December 31, 2022 and 2021, respectively.

Custodial balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were \$2,203 and \$2,201 at December 31, 2022 and 2021, respectively.

The Bank did not capitalize or have any amortization of mortgage servicing rights in 2022 or 2021. There were no assets or liabilities for mortgage servicing rights at December 31, 2022 or 2021.

## NOTE 6. LEASE PURCHASE AGREEMENT

In August 2017, the Bank executed a Lease Purchase Agreement with the Board of Education of Morgan County West Virginia (Board). The purpose of the agreement was to provide for the Bank's advance of \$1,000,000 to the Board to finance the Board's acquisition of equipment for facilities at Berkeley Springs High School. The Bank deposited funds into a special account of the Board, designated as the 2015 Qualified Zone Academy Bond (QZAB) Allocation – Board of Education of the Morgan County Project Fund (Fund). The Fund will be invested in a savings account with the Bank until utilized. As of December 31, 2022, and 2021 respectively, the savings account with the Bank carried a balance of \$39,909 and \$39,710. Terms of the lease purchase agreement require 14 annual principal

payments of \$66,666 beginning June 2018, with a final payment of \$66,676 due June 2032. These payments are deposited into another savings account, Morgan County Board of Education Sinking Fund and will accumulate until 2032 at which time the \$1,000,000 will be repaid to the Bank in full. In lieu of cash interest payments, the Bank may receive a tax credit annually for 15 years approximately equal to 4.16% of the outstanding principal amount. For 2022 and 2021, the Bank opted to use the tax credit.

## NOTE 7. PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 2,300,422	\$ 2,300,422
Buildings and building improvements	6,426,261	6,148,749
Bank owned automobiles	100,212	100,212
Furniture, fixtures and equipment	4,486,772	4,401,400
	<u>\$ 13,313,667</u>	<u>\$ 12,950,783</u>
Less accumulated depreciation	7,051,428	6,835,207
	<u>\$ 6,262,239</u>	<u>\$ 6,115,576</u>

Depreciation expense amounted to \$640,713 and \$692,889 in 2022 and 2021, respectively.

Computer software, net of accumulated amortization, included in the statement of financial condition caption "Other Assets" amounted to \$76,802 and \$154,578 at December 31, 2022 and 2021, respectively. Amortization expense on computer software amounted to \$86,546 and \$121,409 in 2022 and 2021, respectively.

The remaining amortization included in depreciation and amortization on premises, equipment and software in the Consolidated Statements of Cash Flows is the amortization expense related to the Bank's right of use asset as a result of the implementation of ASU 2016-02, *Leases (Topic 842)*. See Note 19 for further details.

## NOTE 8. FORECLOSED REAL ESTATE HELD FOR SALE

During 2022, the Bank did not foreclose on any loans. During 2022, one foreclosed property was sold at a net gain of \$58,652 which is included in noninterest income on the statement of income. The carrying value of the properties held at December 31, 2022 for loans secured by land totaled \$2.3 million. The property held at December 31, 2022 consists of a 69+/- acre parcel for commercial development at the intersection of Route 9 and Route 340 within the City of Ranson, along with two contiguous properties, known as 284 and 290 Jefferson Terrace Road, Charles Town WV. The Bank obtained a ratified contract with a buyer in 2021 and the sale is expected to be finalized by the first quarter 2024. The cumulative charge to earnings related to these properties, which consisted of loan charge offs, OREO write-downs and non-capitalized expenses incurred to prepare the property for resale, totaled \$817,455, of which \$24,677 was incurred in 2022.

During 2022, the Bank facilitated the sale of four parcels of land from the borrowers to a third party. These parcels were previously accounted for as in-substance foreclosures with a carrying value of \$201,560 with a valuation allowance of \$80,000. These parcels of land were sold at a net gain of \$18,101 which is included in noninterest income on the statement of income.

During 2021, the Bank foreclosed on one loan secured by residential real estate. During 2021, no foreclosed properties were sold. The carrying value of the residential real estate property held at December 31, 2021 totaled \$109,144. During 2021, there was no charge to earnings related to this property. At December 31, 2021, there was one loan secured by residential real estate in the process of foreclosure.

No additional loans were foreclosed on in 2021 and no previously foreclosed properties were sold. The only property held at December 31, 2021 was the same property held in 2022. The cumulative charge to earnings related to this property, which consisted of loan charge offs, OREO write-downs and non-capitalized expenses incurred to prepare the property for resale, totaled \$792,778, of which \$21,925 was incurred in 2021.

## NOTE 9. DEPOSITS

At December 31, 2022, the scheduled maturities of time deposits are as follows:

	<u>Time Deposits</u> <u>\$250,000 and over</u>	<u>All Time</u> <u>Deposits</u>
2023	\$ 8,878,598	\$ 42,730,225
2024	8,072,800	44,699,447
2025	622,582	4,358,260
2026	-	1,665,351
2027	-	1,775,243
	<u>\$ 17,573,980</u>	<u>\$ 95,228,526</u>

The aggregate amount of deposit overdrafts reclassified as loan balances was \$106,893 and \$91,313 at December 31, 2022 and 2021, respectively.

## NOTE 10. FEDERAL HOME LOAN BANK BORROWINGS

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Federal Home Loan Bank advances	\$ 45,500,000	\$ 10,500,000

CNB Bank, Inc. is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and, as such, can take advantage of the FHLB program for overnight and term advances at published daily rates. At December 31, 2022, the Bank had short term and medium term advances with FHLB and a maximum borrowing capacity of \$197,551,500. At December 31, 2022, the bank had two medium term advances with FHLB. The first medium term advance carries an interest rate of 3.06% and matures August 2023. The second medium term advance carries an interest rate of 3.11% and matures December 2023. At December 31, 2021, the bank had three medium term advances with FHLB. The first medium term advance carries an interest rate of 3.06% and matures August 2023. The second medium term advance carries an interest rate of 3.11% and matures December 2023. The third medium term advance carries an interest rate of 1.88% and matures September 2024. The third medium term advance was paid off on April 29, 2022. Under the terms of a blanket collateral agreement, term advances from the FHLB are collateralized by qualifying mortgages and U.S. Government agencies and mortgage-backed securities. In addition, all of the Bank's stock in the FHLB is pledged as collateral for such debt. Term advances available under this agreement are limited by available and qualifying collateral and the amount of FHLB stock held by the borrower.

	<u>2022</u>	<u>2021</u>
Maximum balance outstanding at any month-end during the year	\$ 51,500,000	\$ 10,500,000
Average balance for the year	\$ 25,611,507	\$ 10,500,000
Weighted average rate for the year	2.84 %	2.66 %
Weighted average rate at year-end	4.25 %	2.62 %
Collateral at year-end	\$ 277,071,000	\$ 240,202,000

#### **NOTE 11. UNUSED LINES OF CREDIT**

The Bank entered into a line of credit with SunTrust Bank for \$4,500,000, M&T Bank for \$2,000,000 and PCBB for \$20,000,000 for federal fund purchases. Funds issued under these agreements are at the correspondent Bank federal funds rate effective at the time of borrowing. The Bank had not drawn on these funds at December 31, 2022 and 2021.

#### **NOTE 12. PENSION PLAN**

The Bank sponsors The Allegheny Group Retirement Plan for Employees of CNB Bank, Inc., a defined benefit pension plan. Prior to August 1, 2016, all employees participated in the plan upon completion of one year of service and attaining the age of 21. Effective July 31, 2016, the plan was frozen and only employees eligible to participate as of that date were covered by the plan. All participants in the plan became fully vested as a result of the freeze. Revisions to the benefit calculation were also implemented at this same time to base the benefit on the number of years served prior to July 31, 2016. Therefore, the accumulated benefit obligation is the same as the projected benefit obligation and there is no annual service cost. The benefits were based on years of service and the highest average earnings during any five consecutive calendar years prior to the pension freeze date of July 31, 2016.

During 2022, the Bank contributed \$0 to the plan. During 2021, the Bank contributed \$2,000,000 to the plan. In addition in 2021, the Bank directed the asset custodian to execute a partial curtailment through the purchase of non-recourse annuities from Mutual of Omaha for a subset of retired participants in the plan. This action transferred to Mutual of Omaha all pension related obligations and liabilities for the retired participant subset totaling forty-seven plan participants. The total purchase price of these annuities was \$3,543,447.

The following table sets forth information about the Bank's plan:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 9,819,363	\$ 14,063,332
Interest cost	274,312	334,148
Actuarial gain (loss)	1,630	(59,439)
Benefits paid	(133,505)	(471,669)
Partial curtailment	-	(3,543,447)
Assumption changes	<u>(2,831,097)</u>	<u>(503,562)</u>
 Benefit obligation at end of year	 <u>\$ 7,130,703</u>	 <u>\$ 9,819,363</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 8,891,908	\$ 9,869,171
Contributions	-	2,000,000
Actual return on plan assets	(1,553,957)	1,037,853
Benefits paid	(133,505)	(471,669)
Purchase of annuities	<u>-</u>	<u>(3,543,447)</u>
 Fair value of plan assets at end of year	 <u>\$ 7,204,446</u>	 <u>\$ 8,891,908</u>
Funded status	\$ 73,743	\$ (927,455)
Unrecognized net actuarial loss	<u>2,296,075</u>	<u>3,382,886</u>
 Prepaid benefit cost	 <u>\$ 2,369,818</u>	 <u>\$ 2,455,431</u>
	 <u>December 31, 2022</u>	 <u>December 31, 2021</u>
<b>Components of net periodic cost:</b>		
Interest cost	\$ 274,312	\$ 334,148
Expected return on plan assets	(501,835)	(727,850)
Recognized net actuarial loss	313,136	488,231
Settlement/curtailment	<u>-</u>	<u>1,208,158</u>
 Net periodic plan cost	 <u>\$ 85,613</u>	 <u>\$ 1,302,687</u>

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<b>Weighted average assumptions used to determine benefit obligations for the years ended:</b>		
Discount rate	5.2%	2.8%
Expected return on plan assets	6.0%	6.8%
Rate of compensation increase	N/A	N/A
<b>Weighted average assumptions used to determine net periodic benefit cost for the years ended:</b>		
Discount rate	2.8%	2.5%
Expected return on plan assets	6.0%	6.8%
Rate of compensation increase	N/A	N/A
<b>Amounts recognized in the statements of financial condition consist of:</b>		
Prefunded (accrued) benefit cost	\$ 73,743	\$ (927,455)
Accumulated other comprehensive loss	<u>2,296,075</u>	<u>3,382,886</u>
Net amount recognized	<u>\$ 2,369,818</u>	<u>\$ 2,455,431</u>

	<u>Target Allocation 2022</u>	<u>Allowable Allocation Range</u>	<u>Percentage of Plan Assets at December 31, 2022</u>
Plan assets			
Domestic Equities	30%	10 - 50%	26%
Fixed Income	30%	10 - 70%	28%
Foreign Equities	20%	5 - 30%	22%
Real Estate Investment Trusts	2%	0 - 10%	4%
Cash Equivalent	5%	2 - 20%	7%
Alternative Investments	13%	0 - 30%	<u>13%</u>
Total			<u><u>100%</u></u>

	<u>Target Allocation 2021</u>	<u>Allowable Allocation Range</u>	<u>Percentage of Plan Assets at December 31, 2021</u>
Plan assets			
Domestic Equities	35%	10 - 50%	25%
Fixed Income	25%	10 - 70%	25%
Foreign Equities	20%	5 - 30%	18%
Real Estate Investment Trusts	0%	0 - 30%	0%
Cash Equivalent	5%	1 - 20%	3%
Alternative Investments	15%	0 - 30%	<u>29%</u>
Total			<u><u>100%</u></u>



## Investment Policy and Strategy

The investments are pooled with the pension assets of certain other participating Allegheny Group Retirement Plan member banks, which specifically excludes those member banks who have elected to invest using a liability-driven investment approach, and are allocated based on a formula established by the pension committee.

The policy, as established by the Pension Committee, is to invest in assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations. The objective of the portfolio is to meet present and future benefit obligations through investments in capital markets to enable payment of benefits in a timely manner. The investment policy will be reviewed at least annually, under the advisement of an investment advisor, to determine if the policy should be changed.

The overall investment return goal is to achieve a return greater than a blended index of the S&P 500 and the Barclay's Capital Aggregate Bond Index, which is comprised of an asset mix similar to the retirement plan assets, by 0.5% annualized after fees over a rolling 5-year moving average basis.

Allowable assets include but are not limited to: cash and cash equivalents, fixed income securities, equity securities, hedge funds and fund of funds, mutual funds, exchange traded index funds, managed separate accounts, investment partnerships and commingled funds. Prohibited assets include, but are not limited to: private placements, limited partnerships, venture-capital investments, direct investment in private real estate properties, and residual real estate mortgage investment conduits. Unless explicitly authorized by the Pension Committee, the use of leverage or speculative use of derivatives is prohibited unless as part of an alternative asset program or as a means for real asset managers to hedge investment risk or replicate investment positions at a lower cost than would otherwise be created in a cash market.

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 15% of the cost and/or market value of the total retirement plan assets, and no more than the 25% of the total retirement plan assets should be invested in any one industry other than securities of U.S. Government or agencies thereof. Additionally, no more than 25% of the market value of the total retirement plan assets shall be invested in foreign securities (both equity and fixed), if any.

## Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class.

### Cash flows

Expected contributions for fiscal year ending December 31, 2023

Expected employer contributions	\$	-
Expected employee contributions	\$	-

Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending

12/31/2023	\$	259,943
12/31/2024	\$	325,102
12/31/2025	\$	333,858
12/31/2026	\$	385,137
12/31/2027	\$	404,538
12/31/2028 - 12/31/2032	\$	2,327,356

The following table summarizes the fair value of the Pension Plan's investments in the Master Trust as of December 31, 2022 and 2021. See Note 26 for a description of the fair value inputs for each level.

	December 31, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Pension Plan Master Trust Investments:</b>				
Cash and cash equivalents	\$ 1,743,129	\$ 1,743,129	\$ -	\$ -
Mutual funds	2,566,109	-	2,566,109	-
Government bonds	3,175,200	-	3,175,200	-
Hedge fund of funds	3,218,797	-	-	3,218,797
Corporate bonds	18,568,673	-	18,568,673	-
Asset and mortgage-backed securities	1,185,132	-	1,185,132	-
Domestic common stock and options	6,552,896	6,552,896	-	-
International common stock and options	5,213,187	5,213,187	-	-
International mutual funds	359,654	-	359,654	-
Real estate investment trusts	1,079,509	-	1,079,509	-
Total Pension Plan Master Trust Investments	<u>\$ 43,662,286</u>	<u>\$ 13,509,212</u>	<u>\$ 26,934,277</u>	<u>\$ 3,218,797</u>

	December 31, 2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Pension Plan Master Trust Investments:</b>				
Cash and cash equivalents	\$ 2,277,298	\$ 2,277,298	\$ -	\$ -
Mutual funds	2,983,024	-	2,983,024	-
Government bonds	6,312,996	-	6,312,996	-
Hedge fund of funds	5,660,143	-	-	5,660,143
Corporate bonds	21,155,437	-	21,155,437	-
Asset and mortgage-backed securities	125,939	-	125,939	-
Domestic common stock and options	8,020,279	8,020,279	-	-
International common stock and options	5,458,461	5,458,461	-	-
Hedge funds	2,520,563	-	-	2,520,563
Hedge fund mutual funds	-	-	-	-
International mutual funds	481,680	-	481,680	-
Real estate investment trusts	1,403,220	-	1,403,220	-
Total Pension Plan Master Trust Investments	<u>\$ 56,399,040</u>	<u>\$ 15,756,038</u>	<u>\$ 32,462,296</u>	<u>\$ 8,180,706</u>

The Master Trust uses an October 31 year end and therefore the information to reconcile the level 3 fair values for the years ended December 31, 2022 and 2021 is not available.

The Bank's funding policy is to pay at least the minimum amount required by the funding requirements of federal law and regulations, with consideration given to the maximum funding amounts allowed. The Bank contributed \$0 and \$2,000,000 in 2022 and 2021, respectively. The Bank regularly reviews the funding of its pension plan.

In 2022, the assumption regarding mortality rates of participants changed due to the adoption of the PRI-2012 (MP-2021) mortality table. This change is reflected in the above actuarial calculations.

### **NOTE 13. 401(k) PROFIT SHARING PLAN**

All employees are eligible to participate in the Bank's 401(k) Profit Sharing Plan on the first of the month after completing sixty days of service. Employees may defer a portion of their salary up to the maximum amount allowable by law. The Bank may, at the discretion of the Board of Directors, match all or part of the employee deferrals. For 2022, the Bank matched 100% of employee deferrals up to 4% of salary. In addition, the Bank made a 3% safe harbor contribution for all eligible plan participants. The Bank's contribution charged to income during 2022 and 2021 was \$456,123 and \$455,964, respectively. The assets of the 401(k) Profit Sharing Plan are managed by a third party.

### **NOTE 14. DEFERRED COMPENSATION PLAN**

The Bank has a plan pursuant to which a director may elect to waive receipt of all or a portion of their fees for Board of Directors' meetings or committee meetings in exchange for a retirement benefit to be received during a ten-year period after attaining a certain age. The Bank has acquired life insurance on the lives of participating directors to fund its obligation under the plan. The Bank is the owner and sole beneficiary of these policies. The cash surrender value of these life insurance policies has been recorded as an asset and amounted to \$2,519,463 on December 31, 2022. The present value of payments to be paid to directors or their beneficiaries for services rendered to date has been recorded as a liability and is included in accrued expenses and other liabilities on the consolidated statement of financial condition. The net expense for these benefits was \$185,680 and \$201,691 for 2022 and 2021, respectively. The liability to the Bank was \$1,861,378 and \$1,911,471 at December 31, 2022 and 2021, respectively.

### **NOTE 15. BANK OWNED LIFE INSURANCE**

The Bank purchased split-dollar life insurance on select employees. The cash surrender value of these life insurance policies was \$5,293,330 and \$5,165,864 at December 31, 2022 and 2021, respectively, and has been recorded as an asset on the consolidated statements of financial condition. The Bank is the owner of all policies. The employee can name a beneficiary; however, upon realization of the death benefit, the bank recoups its investment (cash surrender value), with a set amount of the death benefit paid to the employee's beneficiary.

### **NOTE 16. SUPPLEMENTAL RETIREMENT PLANS**

On January 2, 2004, the Bank entered into a nonqualified supplemental retirement benefit agreement with the Bank's then-President which when fully vested would pay the President or his beneficiary an amount of \$36,000 per year for 10 years beginning February 2013. At December 31, 2022 and 2021, a liability has been established for the present value of the remaining expected payments of \$3,000 and \$39,000, respectively. For 2022 and 2021, the expense to the Bank to fund this retirement benefit was \$0.

The bank has a supplemental employee retirement plan agreement for select executive officers. The plan is a non-qualified defined benefit plan where participants are 100% vested upon attainment of combined age and service equaling 75. The agreements call for fixed payments for 15 years after retirement or certain other events that meet separation of service criteria. At December 31, 2022 and 2021, a liability has been established for the present value of future payments of \$640,078 and \$473,833, and using a discount rate of 2.8% and 2.5%, respectively. For 2022 and 2021, the expense to the Bank to fund this retirement benefit was \$166,245 and \$167,044, respectively.

### **NOTE 17. HEALTH INSURANCE PLAN**

The Bank maintains a qualified high deductible health insurance plan and maintains health savings accounts (HSA) for each employee in the plan. The Bank funded the HSA \$1,250 for each employee in the plan with an additional funding of \$250 for dependent coverage. As an alternative to the qualified high deductible health insurance plan, the Bank maintains a non-qualified high deductible health insurance plan and maintains flexible savings accounts (FSA) and funded \$500 for each employee in the plan. The expense for 2022 incurred for the funding of the HSA/FSA totaled \$86,449 offset by the forfeiture of \$2,984 for the unused portion of the FSA accounts at the end of 2021. The expense for 2021 incurred for the funding of the HSA/FSA totaled \$95,188 offset by the forfeiture of \$3,066 for the unused portion of the FSA accounts at the end of 2020.

## NOTE 18. INCOME TAXES

CNB and its subsidiary, the Bank, file income tax returns in the U.S. federal jurisdiction, State of Maryland and the State of West Virginia.

CNB follows the provisions of ASC Topic 740-10, “*Accounting for Uncertainty in Income Taxes*”, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Bank follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an organization’s financial statements. The Bank’s policy is to charge penalties and interest to income tax expense as incurred. The tax years before 2019 are no longer subject to examination by federal, state or local taxing authorities.

Income taxes reflected in the statements of income are as follows:

	<b>Years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Federal:		
Current	\$ 825,711	\$ 791,366
Deferred	(78,833)	(97,009)
State:		
Current	290,632	244,190
Deferred	(70,160)	(36,502)
	<u>\$ 967,350</u>	<u>\$ 902,045</u>

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting income, with the income tax provisions in the statements of income:

	<b>Years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Income tax expense at the statutory rate of 21%	\$ 991,218	\$ 903,526
Increases (decreases) resulting from:		
Nontaxable interest income, net of non-deductible interest expense	(116,978)	(106,854)
State income taxes, net of federal income tax benefit	201,659	189,932
Life insurance	(35,287)	(32,627)
Tax credits	(41,600)	(41,600)
Other	(31,662)	(10,332)
	<u>\$ 967,350</u>	<u>\$ 902,045</u>
Effective income tax rate	<u>20.50%</u>	<u>21.00%</u>

Federal and state income tax obligations and refundable taxes are included in the statements of financial condition as other assets totaling \$164,521 and \$0 at December 31, 2022 and 2021, respectively.

The components of deferred taxes included in the statements of financial condition as of December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Provision for loan losses	\$ 1,195,723	\$ 1,073,743
Nonaccrual interest	-	623
Deferred compensation plan	476,731	499,377
PTO benefits	139,844	128,409
Postretirement benefits	103,318	101,314
SERP benefits	163,935	123,790
Split dollar benefits	-	6,753
Unrecognized pension costs	588,064	883,787
Deferred loan origination fees	138,305	167,657
Lease liability	414,136	472,762
Net unrealized losses on securities available for sale	4,214,336	-
NOL carryforward	-	2,893
	<u>\$ 7,434,392</u>	<u>\$ 3,461,108</u>
Deferred tax liabilities:		
Net unrealized (gain) on securities available for sale	\$ -	\$ (43,333)
Right of use asset	(397,602)	(458,521)
Defined benefit pension plan	(606,951)	(641,487)
Depreciation	(413,580)	(442,570)
Deferred loan origination costs	(643,673)	(613,552)
	<u>\$ (2,061,806)</u>	<u>\$ (2,199,463)</u>
Net deferred tax asset	<u>\$ 5,372,586</u>	<u>\$ 1,261,645</u>

Generally accepted accounting principles require a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Management believes that the deferred tax assets will be realized and therefore no valuation allowance was established.

## NOTE 19. LEASE AGREEMENTS

On January 1, 2019, CNB adopted ASU No. 2016-02 “Leases (Topic 842)” and all subsequent ASUs that modified Topic 842. The Bank elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. Financial results and disclosures for reporting periods beginning on or after January 1, 2019 are presented under the Topic 842 requirements. CNB also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases.

Lease liabilities represent the Bank’s obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at CNB’s incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Bank’s right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

CNB’s long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide the residual value guarantees and have no restrictions or covenants that would require incurring additional financial obligations.

The following tables present information about CNB's leases:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Lease liabilities	\$ 1,616,977	\$ 1,809,598
Right-of-use assets	\$ 1,552,428	\$ 1,755,087
Weighted average remaining lease term	6.28 years	7.28 years
Weighted average discount rate	3.07%	3.07%

The weighted average discount rate is calculated based on Federal Home Loan Bank (FHLB) liquidity and funding advance fixed rates for borrowings with terms similar to the expected lease terms in effect at the date of lease inception.

The operating lease cost for the years ended December 31, 2022 and 2021 were \$255,154 and \$255,154, respectively. There are no variable or short-term lease costs for the years ended December 31, 2022 and 2021. Cash paid for amounts included in the measure of lease liability totaled \$245,164 and \$240,860 for the years ended December 31, 2022 and 2021, respectively.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

	<u>Lease Payments Due</u>
<b>Years ending December 31,</b>	
2023	\$ 248,646
2024	252,547
2025	259,283
2026	271,578
2027	254,713
Thereafter	<u>522,839</u>
Total undiscounted cash flows	\$ 1,809,606
Discount	<u>(192,629)</u>
Lease liabilities	<u>\$ 1,616,977</u>

CNB leases land in Hancock, Maryland on which its Hancock branch is located. This lease was transferred to CNB from Fidelity Bank, a Maryland commercial bank upon the purchase of the Hancock, Maryland building. CNB owns the building which is situated on the leased land. The lease, as amended, expired on May 1, 2017 with the lessee having the right to renew the lease for two additional 5-year optional terms for a total optional renewal right of up to 10 years. The Bank exercised the first of two additional 5-year optional terms as of May 1, 2017 with a monthly payment of \$2,165 and a 2% annual increase each May. In December 2021, the Bank exercised the second additional 5-year optional term which was effective May 1, 2022. Total lease payments for years ended December 31, 2022 and 2021 were \$28,493 and \$27,934, respectively. The building owned by CNB will revert to and become the property of the lessor in the event of default or termination of the lease.

In 2015, CNB entered into a lease for a building in Hagerstown, Maryland for the purpose of opening a full-service branch office. The lease term began on October 1, 2015 and will terminate on September 30, 2025. The lessee has the right to renew the lease for two additional 5-year optional terms for a total optional renewal right of up to 10 years. The lease payments for the twelve months beginning October 2015 are \$99,000 annually plus monthly common area maintenance and real estate taxes based on the agreement terms. Beginning October 2020, the base lease payment increased to \$108,900 annually. The lease payments for the two additional 5-year optional terms beginning in October 2025 are \$119,790 annually.

In 2019, CNB entered into a lease for a building in Hagerstown, Maryland for the purpose of opening a full-service branch office. The lease term began on June 4, 2019 and will terminate on June 30, 2029. The lessee has the right to renew the lease for two additional 5-year optional terms for a total optional renewal right of up to 10 years. The lease payments for the twelve months beginning July 2021 are \$105,871 annually. The lease payments for the twelve months beginning July 2022 are \$109,047 annually and upon each anniversary thereafter, the annual base rent shall increase by three percent.

From time to time, the Bank rents foreclosed properties if they are unable to sell them. The Bank has received \$0 in rental income in both the years ended December 31, 2022 and 2021.

## NOTE 20. OTHER OPERATING EXPENSES

	<b>Years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Director's fees and deferred compensation	\$ 430,355	\$ 466,191
Professional fees	517,709	502,102
Kasasa expenses	320,078	294,645
Regulatory assessment fees	352,725	299,424
ATM and debit card fees	787,103	782,077
Advertising	492,581	485,727
Loan related expenses	445,163	450,129
Other	<u>1,559,178</u>	<u>1,248,859</u>
Total other operating expenses	<u>\$ 4,904,892</u>	<u>\$ 4,529,154</u>

## NOTE 21. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

CNB is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk which are not reflected in the statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement CNB has in particular classes of financial instruments.

CNB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. CNB uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend funds as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commercial line of credit arrangements usually requires payment of a fee.

CNB evaluates each customer's creditworthiness and related collateral on a case-by-case basis. The amount of collateral obtained if deemed necessary by CNB upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment and income-producing commercial properties.

Standby letters of credit written are conditional commitments issued by CNB to guarantee the performance of a customer to a third party. Those guarantees are issued to support public and private borrowing arrangements, bond financing and similar transactions. The credit risk involved in issuing a letter of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of off-balance sheet instruments as of December 31 is as follows:

	<b>Contract or notional amount</b>	
	<b>2022</b>	<b>2021</b>
Commitments to originate:		
Fixed rate loans:		
Residential real estate	280,000	285,530
Commerical real estate and construction	-	-
Commercial and industrial (non real estate)	-	-
Adjustable rate loans:		
Residential real estate	835,357	1,868,480
Commerical real estate and construction	862,500	7,299,200
Commercial and industrial (non real estate)	129,000	269,750
Letters of credit	1,469,591	767,975
Available credit on existing commitments:		
Residential real estate	41,175,376	35,330,066
Commerical real estate and construction	11,186,461	9,267,985
Commercial and industrial (non real estate)	7,383,376	11,770,843
Personal expenditures	6,228,128	5,966,439
	<u>\$ 69,549,789</u>	<u>\$ 72,826,268</u>

## **NOTE 22. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK**

CNB's primary business is mortgage loans, which consists of originating residential, construction, multi-family and commercial real estate loans and consumer and commercial loans. CNB's primary lending area is Morgan and Berkeley Counties, West Virginia and Washington County, Maryland. Loans are occasionally made in surrounding counties in West Virginia, Maryland, Virginia and Pennsylvania.

CNB also invests in mortgage-backed securities and collateralized mortgage obligations. See Note 3: Securities.

The Company maintains substantial balances of cash on hand and investments held in safekeeping at corresponding banks. The balances held at the correspondent banks are in excess of the Federal Deposit Insurance Corporation insurance limit. Management considers this to be a normal business risk.

## **NOTE 23. LEGAL CONTINGENCIES**

Various legal claims have been asserted or arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

## **NOTE 24. REGULATORY MATTERS**

The primary source of funds for the dividends paid by CNB Financial Services, Inc. is dividends received from its banking subsidiary. The payment of dividends by banking subsidiaries is subject to various banking regulations. The most restrictive provision requires regulatory approval if dividends declared in any calendar year exceed the total net profits, as defined, of that year plus the retained net profits, as defined, of the preceding two years. At December 31, 2022, CNB has \$8,492,000 available for dividends.

The Bank is subject to various regulatory capital requirements administered by the banking regulatory agencies. Pursuant to capital adequacy guidelines, the Bank must meet specific capital guidelines that involve various



quantitative measures of the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, Tier I, and Common Equity Tier I capital to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

As of December 31, 2022 and 2021, the most recent notification from the banking regulatory agencies categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I risk-based and Tier I leverage ratios. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	in Thousands		in Thousands		in Thousands	
<b>As of December 31, 2022:</b>						
Common Equity Tier I Capital (to Risk Weighted Assets)	\$ 45,501	11.27%	\$ 18,161	4.5%	\$ 26,233	6.5%
Total Capital (to Risk Weighted Assets)	\$ 50,543	12.52%	\$ 32,287	8.0%	\$ 40,359	10.0%
Tier I Capital (to Risk Weighted Assets)	\$ 45,501	11.27%	\$ 24,215	6.0%	\$ 32,287	8.0%
Tier I Capital (to Average Assets)	\$ 45,501	7.77%	\$ 23,424	4.0%	\$ 29,280	5.0%
<b>As of December 31, 2021:</b>						
Common Equity Tier I Capital (to Risk Weighted Assets)	\$ 42,641	11.86%	\$ 16,179	4.5%	\$ 23,370	6.5%
Total Capital (to Risk Weighted Assets)	\$ 47,136	13.11%	\$ 28,763	8.0%	\$ 35,954	10.0%
Tier I Capital (to Risk Weighted Assets)	\$ 42,641	11.86%	\$ 21,572	6.0%	\$ 28,763	8.0%
Tier I Capital (to Average Assets)	\$ 42,641	7.98%	\$ 21,374	4.0%	\$ 26,717	5.0%

## NOTE 25. REGULATORY RESTRICTIONS

Included in Cash and Due From Banks are average daily reserve balances the Bank is required to maintain with the Federal Reserve Bank. Effective March 26, 2020, the Board of Governors of the Federal Reserve System set the reserve requirements ratios to zero percent. As a result, the amount of the required reserve at December 31, 2022 was \$0.

Certain regulations prohibit the transfer of funds from the Bank to affiliates in the form of loans or advances exceeding 10% of its capital stock and surplus. In addition, all loans or advances to nonbank affiliates must be secured by specific collateral. Based on this limitation, there was approximately \$5.0 million available for loans or advances to affiliates of the Bank as of December 31, 2022, at which time there were no material loans or advances outstanding.

## NOTE 26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The FASB ASC Topic 820, “*Financial Instruments*,” requires the disclosure of the estimated fair value of certain financial instruments. Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are most transparent or reliable.

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation techniques used by CNB to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

### Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. At December 31, 2022 and 2021, all of the Bank’s securities are considered to be Level 1 or Level 2 investments.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31:

### Valuation of our Financial Instruments by Fair Value Hierarchy Levels - Recurring Basis

<u>Description</u>	<u>December 31, 2022</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Certificates of deposit	\$ 730,650	\$ -	\$ 730,650	\$ -
U.S. treasury notes	12,075,781	-	12,075,781	-
U.S. government agencies and corporations	2,517,934	-	2,517,934	-
Corporate bonds	3,222,419	-	3,222,419	-
State and municipal securities	55,684,029	-	55,684,029	-
Residential mortgage-backed securities	9,639,697	-	9,639,697	-
Collateralized mortgage obligations	24,326,617	-	24,326,617	-
Small business obligations	6,006,628	-	6,006,628	-
<u>Description</u>	<u>December 31, 2021</u>			
<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
U.S. government agencies and corporations	\$ 2,946,435	\$ -	\$ 2,946,435	\$ -
Corporate bonds	5,721,234	-	5,721,234	-
State and municipal securities	58,601,488	-	58,601,488	-
Residential mortgage-backed securities	7,645,959	-	7,645,959	-
Collateralized mortgage obligations	19,195,960	-	19,195,960	-
Small business obligations	9,291,878	-	9,291,878	-

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States (“GAAP”). Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by CNB to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

#### Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans.

Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data. If the collateral is a house or building in the process of construction or if an appraisal of the real estate property or the underlying comparables are over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business’ financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

#### Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. Gains and losses are measured net of any write-downs.

The following table summarizes CNB’s financial and nonfinancial assets that were measured at fair value on a nonrecurring basis during the periods:

<u>Description</u>	<u>December 31, 2022</u>				<u>Recognized Gains (Losses)</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:					
Impaired loans, net of government agency guarantees and reserve for losses	\$ 924,550	\$ -	\$ -	\$ 924,550	\$ -
Other real estate owned	2,320,000	-	-	2,320,000	76,753
<u>Description</u>	<u>December 31, 2021</u>				<u>Recognized Gains (Losses)</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:					
Impaired loans, net of government agency guarantees and reserve for losses	\$ 979,282	\$ -	\$ -	\$ 979,282	\$ -
Other real estate owned	2,429,144	-	-	2,429,144	-

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level 3 techniques:

<b>2022</b>				
	<b>Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired Loans	\$ 924,550	Appraised collateral values and discounted cash flows	Discount for time since appraisal Selling costs	0-25% 10-20%
Other Real Estate Owned	2,320,000	Appraised collateral values	Discount for time since appraisal Selling costs	0-25% 10-20%
<b>2021</b>				
	<b>Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired Loans	\$ 979,282	Appraised collateral values and discounted cash flows	Discount for time since appraisal Selling costs	0-25% 10-20%
Other Real Estate Owned	2,429,144	Appraised collateral values	Discount for time since appraisal Selling costs	0-25% 10-20%

The fair value of financial instruments is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business, and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

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

**Financial Assets:**

The carrying amounts of cash, due from banks and federal funds sold are considered to approximate fair value. The fair value of investment securities, including available for sale, are generally based on quoted market prices. The fair value of loans is estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments where available. The carrying amounts of the cash surrender value of life insurance are based on the contract price, which is considered to approximate fair value.

**Financial Liabilities:**

The carrying amounts of deposit liabilities payable on demand are considered to approximate fair value. For fixed maturity (time) deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities.

**Off-Balance-Sheet-Financial Instruments:**

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements.

The estimated fair value of financial instruments at December 31, is summarized as follows:

	December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash, due from banks and federal funds sold	\$ 8,632,915	\$ 8,632,915	\$ 8,632,915	\$ -	\$ -
Securities available for sale	114,203,755	114,203,755	-	114,203,755	-
Loans	429,812,925	412,813,832	-	409,190,809	3,623,023
Accrued interest receivable	1,857,190	1,857,190	1,857,190	-	-
Cash surrender value of life insurance	7,812,793	7,812,793	-	7,812,793	-
Financial Liabilities:					
Demand deposits	401,822,303	401,822,303	-	401,822,303	-
Time deposits	95,228,526	95,286,147	-	95,286,147	-
Accrued interest payable	106,866	106,866	106,866	-	-
FHLB borrowings	45,500,000	45,500,000	-	45,500,000	-
Lease liability	1,616,977	1,616,977	-	1,616,977	-
Off-Balance Sheet					
Financial Instruments:					
Letters of credit	-	18,139	-	18,139	-

	December 31, 2021				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash, due from banks and federal funds sold	\$ 41,181,598	\$ 41,181,598	\$ 41,181,598	\$ -	\$ -
Securities available for sale	103,402,954	103,402,954	-	103,402,954	-
Loans	368,517,496	368,255,049	-	366,390,444	1,864,605
Accrued interest receivable	1,362,197	1,362,197	1,362,197	-	-
Cash surrender value of life insurance	7,711,134	7,711,134	-	7,711,134	-
Financial Liabilities:					
Demand deposits	387,286,714	387,286,714	-	387,286,714	-
Time deposits	90,356,874	91,511,077	-	91,511,077	-
Accrued interest payable	86,049	86,049	86,049	-	-
FHLB borrowings	10,500,000	10,500,000	-	10,500,000	-
Lease liability	1,809,598	1,809,598	-	1,809,598	-
Off-Balance Sheet					
Financial Instruments:					
Letters of credit	-	5,837	-	5,837	-

## NOTE 27. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to executive officers, directors, principal shareholders and their affiliates amounting to \$2,859,512 and \$3,379,382 at December 31, 2022 and 2021, respectively. During 2022, \$0 of new loans were made, or became reportable, and repayments and other decreases totaled \$519,870. Deposits from executive officers, directors, principal shareholders and their affiliates held by the Bank at December 31, 2022 and 2021 amounted to \$13,581,692 and \$13,271,713, respectively.

The Bank paid fees and commissions to insiders totaling \$87,594 and \$172,698 in 2022 and 2021, respectively. Amounts due to related parties totaled \$19,313 and \$15,738 at December 31, 2022 and 2021, respectively.

## NOTE 28. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following represents parent company only financial information:

### STATEMENTS OF FINANCIAL CONDITION (PARENT ONLY) DECEMBER 31, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
Cash	\$ 417,971	\$ 270,711
Investment in CNB Bank, Inc.	<u>31,553,183</u>	<u>40,265,253</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 31,971,154</u></u>	<u><u>\$ 40,535,964</u></u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Due to CNB Bank, Inc.	<u>\$ 30,712</u>	<u>\$ 14,194</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 30,712</u>	<u>\$ 14,194</u>
 <b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1 par value; 5,000,000 shares authorized; 444,976 shares issued at December 31, 2022 and December 31, 2021 and 379,826 and 380,698 outstanding at December 31, 2022 and December 31, 2021, respectively	\$ 444,976	\$ 444,976
Class A Common stock, \$1 par value; 5,000,000 shares authorized; 13,072 shares issued at December 31, 2022 and December 31, 2021 and 10,060 and 10,136 outstanding at December 31, 2022 and December 31, 2021, respectively	13,072	13,072
Capital surplus	4,163,592	4,163,592
Retained earnings	44,916,041	41,867,160
Accumulated other comprehensive (loss)	<u>(13,948,395)</u>	<u>(2,376,566)</u>
	\$ 35,589,286	\$ 44,112,234
Less treasury stock, at cost, 65,150 common shares and 3,012 Class A common shares at December 31, 2022 and 64,278 common shares and 2,936 Class A common shares at December 31, 2021	<u>(3,648,844)</u>	<u>(3,590,464)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>\$ 31,940,442</u>	<u>\$ 40,521,770</u>
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	 <u><u>\$ 31,971,154</u></u>	 <u><u>\$ 40,535,964</u></u>

**STATEMENTS OF COMPREHENSIVE INCOME (PARENT ONLY)**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Dividend income	\$ 938,403	\$ 901,741
Noninterest expense	<u>(60,143)</u>	<u>(55,470)</u>
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF CNB BANK, INC.</b>	<b>\$ 878,260</b>	<b>\$ 846,271</b>
Income tax (benefit)	<u>(14,717)</u>	<u>(31,235)</u>
<b>INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF CNB BANK, INC.</b>	<b>\$ 892,977</b>	<b>\$ 877,506</b>
Equity in undistributed earnings of CNB Bank, Inc.	<u>2,859,759</u>	<u>2,522,954</u>
<b>NET INCOME/COMPREHENSIVE INCOME</b>	<b><u>\$ 3,752,736</u></b>	<b><u>\$ 3,400,460</u></b>

**STATEMENTS OF CASH FLOWS (PARENT ONLY)**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,752,736	\$ 3,400,460
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in other assets	16,518	(2,171)
Equity in undistributed earnings of CNB Bank, Inc.	<u>(2,859,759)</u>	<u>(2,522,954)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 909,495</u></b>	<b><u>\$ 875,335</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	\$ (703,855)	\$ (901,741)
Purchase of treasury stock, cost	<u>(58,380)</u>	<u>(816,850)</u>
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<b><u>\$ (762,235)</u></b>	<b><u>\$ (1,718,591)</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 147,260</b>	<b>\$ (843,256)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>\$ 270,711</u></b>	<b><u>\$ 1,113,967</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 417,971</u></b>	<b><u>\$ 270,711</u></b>

## NOTE 29. STOCKHOLDERS' EQUITY

CNB has three classes of common stock (Common, Class A Common and Class B Common) with 5,000,000 shares authorized in each class. The rights and privileges of the various classes of Common Stock are as follows:

### CNB Financial Services, Inc. Stock Comparison Chart

<u>Characteristic</u>	<u>Common</u>	<u>Class A Common</u>	<u>Class B Common <sup>(1)</sup></u>
Voting Rights	Full voting rights	As required by law and for a merger/share exchange	As required by law and for a merger/share exchange
Dividends	As declared	10% premium over CNB Common Stock dividends with payment before all other shares	20% premium over CNB Common Stock dividends with payment before CNB Common Stock but after Class A Common Stock
Liquidation Preference	Last Preference	Priority over all others Distribution - same as CNB Common Stock or book value of CNB Common Stock, whichever is greater	After Class A Common Stock but before CNB Common Stock
Conversion to Common Stock	N/A	Conversion to CNB Common Stock at change in control	Conversion to CNB Common Stock at change in control
Transfer Restrictions	No	Yes - Holding Company has right of first refusal	Yes - Holding Company has right of first refusal

<sup>(1)</sup> No shares outstanding

## NOTE 30. SUBSEQUENT EVENTS

The Company has evaluated events and transactions subsequent to December 31, 2022 through February 23, 2023, the date these consolidated financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, we have not identified any events that have occurred subsequent to December 31, 2022 and through February 23, 2023, the date these consolidated financial statements were available to be issued, that require recognition or disclosure in the consolidated financial statements.