CNB Financial Services, Inc.

CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of CNB Financial Services, Inc. and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Financial Services, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note 1 to the financial statements, in 2019 CNB Financial Services, Inc. adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to lease accounting.

Our opinion is not modified with respect to these matters.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
February 20, 2020

CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

ASSETS	**2019**	**2018**
Cash and due from banks	$ 10,275,600	$ 6,925,658
Federal funds sold	5,650,000	-
Securities available for sale		
(at approximate market value)	58,577,999	63,977,136
Federal Home Loan Bank (FHLB) stock, at cost	624,000	1,340,400
Loans and leases receivable, net	315,921,403	300,889,279
Lease purchase agreement	1,000,000	1,000,000
Accrued interest receivable	1,170,305	1,201,565
Foreclosed real estate (held for sale), net	2,666,812	191,070
Premises and equipment, net	6,939,057	5,591,051
Right of use asset	2,232,107	-
Deferred income taxes	1,057,253	1,636,105
Cash surrender value of life insurance	7,297,855	6,414,256
Other assets	3,765,628	1,925,621
TOTAL ASSETS	$ 417,178,019	$ 391,092,141

LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 87,409,285	$ 84,428,497
Interest-bearing demand	100,680,433	82,430,467
Savings	56,646,257	55,023,821
Time deposits	116,324,489	102,105,812
	$ 361,060,464	$ 323,988,597
Accrued interest payable	260,247	265,442
FHLB borrowings	10,500,000	26,800,000
Lease liability	2,248,132	-
Accrued expenses and other liabilities	7,486,533	6,986,223
TOTAL LIABILITIES	$ 381,555,376	$ 358,040,262
SHAREHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 444,976 shares issued at December 31, 2019 and 2018, with 397,352 and 398,465 outstanding at December 31, 2019 and 2018, respectively	$ 444,976	$ 444,976
Class A Common stock, $1 par value; 5,000,000 shares authorized; 13,072 shares issued at December 31, 2019 and 2018, with 10,355 and 10,501 shares outstanding at December 31, 2019 and 2018, respectively	13,072	13,072
Capital surplus	4,163,592	4,163,592
Retained earnings	37,127,890	35,198,668
Accumulated other comprehensive (loss)	(3,467,618)	(4,174,569)
	$ 38,281,912	$ 35,645,739
Less treasury stock, at cost, 47,624 common shares and 2,717 Class A common shares in 2019 and 46,511 common shares and 2,571 Class A common shares in 2018	(2,659,269)	(2,593,860)
TOTAL SHAREHOLDERS' EQUITY	$ 35,622,643	$ 33,051,879
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 417,178,019	$ 391,092,141

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, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 14,376,376	$ 13,015,816
Interest and dividends on securities:		
U.S. Government agencies and corporations	129,442	137,787
Corporate bonds	63,650	63,485
Mortgage backed securities	398,409	427,791
State and political subdivisions	925,893	946,210
Dividend income on FHLB stock	62,110	68,974
Interest on FHLB deposits	5,059	2,684
Interest on federal funds sold and deposits	123,941	36,205
	$ 16,084,880	$ 14,698,952
INTEREST EXPENSE		
Interest on interest bearing demand, savings and time deposits	$ 3,180,004	$ 1,911,143
Interest on federal funds purchased	9	70
Interest on FHLB borrowings	333,408	545,317
	$ 3,513,421	$ 2,456,530
NET INTEREST INCOME	$ 12,571,459	$ 12,242,422
PROVISION FOR LOAN LOSSES	435,000	201,259
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	$ 12,136,459	$ 12,041,163
NONINTEREST INCOME		
Service charges on deposit accounts	$ 1,555,261	$ 1,455,109
Other service charges and fees	1,145,650	1,026,636
Trust fee income	517,889	485,883
Other operating income	245,651	276,672
Net gain on sales of loans	459,156	225,001
Net gain on sales and calls of securities	413,292	18,549
Net gain on sale of other real estate owned	20,779	9,370
Net gain (loss) on disposal of premises, equipment and software	(7,543)	(1,140)
Net gain on sale of repossessed assets	-	1,576
	$ 4,350,135	$ 3,497,656
NONINTEREST EXPENSES		
Salaries	$ 4,569,891	$ 4,386,018
Employee benefits	1,581,773	1,560,650
Occupancy of premises	948,289	713,578
Furniture and equipment expense	840,324	711,095
Foreclosure expenses and writedowns	89,436	68,957
Other operating expenses	4,990,140	4,553,643
	$ 13,019,853	$ 11,993,941
INCOME BEFORE INCOME TAXES	$ 3,466,741	$ 3,544,878
PROVISION FOR INCOME TAXES	682,655	675,369
NET INCOME	$ 2,784,086	$ 2,869,509
EARNINGS PER COMMON SHARE - BASIC AND DILUTED	$ 6.80	$ 6.97
EARNINGS PER CLASS A COMMON SHARE - BASIC AND DILUTED	$ 7.48	$ 7.66

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, 2019 AND 2018

	2019	2018
Net Income	$ 2,784,086	$ 2,869,509
Other Comprehensive Income net of tax:		
Change in unrealized gains (losses) on securities available for sale (net of tax of $477,756 and $(124,144))	1,337,526	(335,606)
Change in unfunded pension liability (net of tax of $(213,960) and $4,959)	(630,575)	77,281
TOTAL COMPREHENSIVE INCOME	$ 3,491,037	$ 2,611,184

CNB FINANCIAL SERVICES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Class A Common Stock	Treasury Stock Common and Class A	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, DECEMBER 31, 2017	$ 444,976	$ 13,072	$ (2,446,572)	$ 4,163,592	$ 33,188,296	$ (3,916,244)	$ 31,447,120
Net income for 2018	-	-	-	-	2,869,509	-	2,869,509
Change in unrealized (losses) on securities available for sale (net of tax of $124,144)	-	-	-	-	-	(335,606)	(335,606)
Change in unfunded pension liability (net of tax of $4,959)	-	-	-	-	-	77,281	77,281
Acquisition of treasury stock, at cost,							
2,580 common shares	-	-	(131,580)	-	-	-	(131,580)
308 Class A common shares	-	-	(15,708)	-	-	-	(15,708)
Cash dividends ($2.09 per share-Common)	-	-	-	-	(834,818)	-	(834,818)
Cash dividends ($2.299 per share-Class A Common)	-	-	-	-	(24,319)	-	(24,319)
.							
BALANCE, DECEMBER 31, 2018	$ 444,976	$ 13,072	$ (2,593,860)	$ 4,163,592	$ 35,198,668	$ (4,174,569)	$ 33,051,879
Net income for 2019	-	-	-	-	2,784,086	-	2,784,086
Change in unrealized gains on securities available for sale (net of tax of $477,756)	-	-	-	-	-	1,337,526	1,337,526
Change in unfunded pension liability (net of tax of $213,960)	-	-	-	-	-	(630,575)	(630,575)
Acquisition of treasury stock, at cost,							
1,113 common shares	-	-	(57,859)	-	-	-	(57,859)
146 Class A common shares	-	-	(7,550)	-	-	-	(7,550)
Cash dividends ($2.09 per share-Common)	-	-	-	-	(830,977)	-	(830,977)
Cash dividends ($2.299 per share-Class A Common)	-	-	-	-	(23,887)	-	(23,887)
.							
BALANCE, DECEMBER 31, 2019	$ 444,976	$ 13,072	$ (2,659,269)	$ 4,163,592	$ 37,127,890	$ (3,467,618)	$ 35,622,643

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,784,086	$ 2,869,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on premises, equipment and software	825,769	527,741
Provision for loan losses	435,000	201,259
Deferred income taxes	315,055	454,686
Net (gain) on sales and calls of securities	(413,292)	(18,549)
Net (gain) on sale of other real estate owned	(25,369)	(9,370)
Writedowns of other real estate owned	4,590	44,600
Net loss on disposal of premises, equipment and software	7,543	1,140
Net (gain) on loans sold	(459,156)	(225,001)
Loans originated for sale	(23,273,718)	(11,972,733)
Proceeds from loans sold	23,732,874	12,197,733
(Increase) decrease in accrued interest receivable	31,260	(99,751)
(Increase) decrease in other assets	(1,789,390)	1,427,842
Increase (decrease) in accrued interest payable	(5,195)	4,554
(Increase) in cash surrender value on life insurance in excess of premiums paid	(165,087)	(199,628)
Increase (decrease) in accrued expenses and other liabilities	(506,766)	548,005
Amortization of deferred loan (fees) cost	585,721	516,575
Amortization (accretion) of premium and discount on investments	336,161	394,305
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,420,086	$ 6,662,917
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) in loans	$ (18,726,987)	$ (30,817,130)
Proceeds from sales of securities	23,713,382	3,269,294
Proceeds from maturities, repayments and calls of securities	8,734,611	7,592,780
Purchases of securities	(25,190,146)	(9,344,343)
Redemptions of Federal Home Loan Bank stock	1,192,400	2,661,900
Purchases of Federal Home Loan Bank stock	(476,000)	(2,790,000)
Purchases of premises, equipment and software	(2,021,165)	(969,746)
Proceeds from sale of other real estate owned	219,179	193,099
Proceeds from sale of premises, equipment and software	1,500	-
Net (increase) in federal funds sold	(5,650,000)	-
Premiums paid on life insurance	(718,512)	(51,129)
NET CASH (USED IN) INVESTING ACTIVITIES	$ (18,921,738)	$ (30,255,275)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand and savings deposits	$ 22,853,190	$ 22,662,118
Net increase (decrease) in time deposits	14,218,677	(1,471,354)
Net increase (decrease) in FHLB borrowings	(16,300,000)	2,900,000
Purchase of treasury stock	(65,409)	(147,288)
Cash dividends paid	(854,864)	(859,137)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 19,851,594	$ 23,084,339
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 3,349,942	$ (508,019)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,925,658	7,433,677
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,275,600	$ 6,925,658
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year:		
Interest paid on deposits and borrowed funds	$ 3,518,616	$ 2,451,976
Income taxes	$ 284,000	$ 20,000
Non cash investing and financing activities:		
Net transfer to foreclosed real estate, held for sale from loans receivable	$ 3,490,079	$ 379,988
Unrealized gain (loss) on investment securities available for sale (net of tax)	$ 1,337,526	$ (335,606)

The Notes to Consolidated Financial Statements are an integral part of these 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 four 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, 2019, there are twenty loans considered to be impaired with a current balance of $2.6 million. At December 31, 2018, there were twenty-two loans considered to be impaired with a current balance of $3.3 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. Since 2007, the majority of residential mortgage loans with a fixed rate of fifteen years or longer have been sold to secondary market investors with servicing released. At December 31, 2019 and 2018, 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, 2019 and 2018, 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.

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 50 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, TCM Bank and First State Bank in the amount of $135,330 and $593,804 at December 31, 2019 and 2018, respectively and deposits with the Federal Reserve Bank of Richmond in the amount of $4,919,074 and $3,458,635 at December 31, 2019 and 2018, 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 ($830,977 and $834,818 for common and $23,887 and $24,319 for Class A common in 2019 and 2018, 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 (397,892 and 399,851 shares of common stock and 10,416 and 10,644 shares of Class A common stock in 2019 and 2018, 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 $383,313 and $483,695 as of December 31, 2019 and 2018, 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, 2019 and 2018, CNB owned properties acquired through loan foreclosure with a carrying value of $2,666,812 and $191,070, 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.

Advertising Costs:
The Company expenses advertising costs in the period in which they are incurred. Advertising costs amounted to $514,704 and $368,417 for the years ended December 31, 2019 and 2018, respectively.

Reclassifications:
Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Recently Adopted Accounting Standards:
ASU 2014-09 – Revenue from Contracts with Customers
On January 1, 2018, the Bank adopted Accounting Standards Codification ("ASC") Update 2014-09, *Revenue from Contracts with Customers* and all subsequent Accounting Standards Updates that modified this standard under the modified retrospective approach with no material impact on its consolidated financial statements. Under this standard, the Bank recognizes revenue when the control of goods or services are transferred to customers at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods and services.

ASU 2016-01 – Recognition and Measurement of Financial Assets and Financial Liabilities
In 2018, the Bank also adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* This standard update amended the guidance on the classification and measurement of financial instruments. The adoption of this standard had no material impact on CNB's financial statements.

ASU 2016-02 – Leases (Topic 842)
In February 2016, the Financial Accounting Standards Board (FASB) released Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. The Update is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of the Update is that a lessee recognizes the assets and liabilities that arise from leases, which is a change from previous GAAP that did not require lease assets and lease liabilities to be recognized on the balance sheet for operating leases.

The Bank implemented ASU 2016-02 and all subsequent ASUs that modified Topic 842 on January 1, 2019 using the modified retrospective approach. As allowed by ASU 2018-11, the guidance was applied on a prospective basis using the alternative transition method, which eliminates the requirement to restate periods prior to the date of implementation. As such, financial information related to December 31, 2018 and the year then ended have not been updated and the disclosures required under the new standard have not been provided for dates and periods prior to January 1, 2019. Additionally, implementation of this Update did not result in a cumulative-effect adjustment to retained earnings.

The standard provides for several practical expedients in transition, which have been described at Note 19. The Bank elected to apply the practical expedients, which, among other things, allowed it to carryforward the prior conclusions on lease identification, lease classification, initial direct costs and determination of the lease term.

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:

	AOCI Attributed To:		
	Unrealized Gain (Loss) on Available for Sale Securities (Net of Tax)	Unrecognized Pension Costs (Net of Tax)	Total Accumulated Other Comprehensive Income (Loss)
BALANCE, DECEMBER 31, 2017	$ (579,256)	$ (3,336,988)	$ (3,916,244)
Change for 2018, net of tax	(349,264)	77,281	(271,983)
Reclassification adjustment for realized gains included in net income, net of tax	13,658	-	13,658
BALANCE, DECEMBER 31, 2018	$ (914,862)	$ (3,259,707)	$ (4,174,569)
Change for 2019, net of tax	1,039,957	(630,575)	409,382
Reclassification adjustment for realized gains included in net income, net of tax	297,569	-	297,569
BALANCE, DECEMBER 31, 2019	$ 422,664	$ (3,890,282)	$ (3,467,618)

NOTE 2. REVENUE RECOGNITION

As discussed in Note 1, CNB implemented ASU 2014-09 during the year ended December 31, 2018. 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, 2019 and 2018 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:

	2019				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	$ 650,000	$ -	$ 1,363	$ 648,637	1.50 %
	$ 650,000	$ -	$ 1,363	$ 648,637	1.50 %
Corporate Bonds					
Within one year	$ 703,776	$ 4,294	$ -	$ 708,070	3.78 %
After 5 but within 10 years	523,035	32,913	-	555,948	3.54
	$ 1,226,811	$ 37,207	$ -	$ 1,264,018	3.68 %
States and political subdivisions					
After 1 but within 5 years	$ 2,607,006	$ 8,447	$ 1,469	$ 2,613,984	2.78 %
After 5 but within 10 years	5,604,520	24,722	3,744	5,625,498	2.08
Over 10 years	25,210,942	540,865	36,582	25,715,225	2.62
	$ 33,422,468	$ 574,034	$ 41,795	$ 33,954,707	2.54 %
Mortgage backed securities:					
Government issued or guaranteed	$ 5,426,418	$ 39,098	$ 9,605	$ 5,455,911	2.28 %
Collateralized mortgage obligations:					
Government issued or guaranteed	$ 10,536,803	$ 54,581	$ 60,684	$ 10,530,700	2.25 %
Privately issued	18,288	-	4,568	13,720	0.00
	$ 10,555,091	$ 54,581	$ 65,252	$ 10,544,420	2.25 %
Small business obligations:					
Government issued or guaranteed	$ 6,724,454	$ 18,248	$ 32,396	$ 6,710,306	1.81 %
Total securities available for sale	$ 58,005,242	$ 723,168	$ 150,411	$ 58,577,999	2.39 %
Restricted:					
Federal Home Loan Bank stock	$ 624,000				7.12 %

	2018				Weighted Average
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Tax Equivalent Yield
Available for sale:					
U.S. Government agencies and corporations					
Within one year	$ 500,000	$ -	$ 5,162	$ 494,838	1.45 %
After 1 but within 5 years	650,000	-	18,693	631,307	1.50
	$ 1,150,000	$ -	$ 23,855	$ 1,126,145	1.48 %
Corporate Bonds					
After 1 but within 5 years	$ 1,305,528	$ 12,207	$ 19,247	$ 1,298,488	3.40 %
After 5 but within 10 years	732,142	-	32,540	699,602	2.82
	$ 2,037,670	$ 12,207	$ 51,787	$ 1,998,090	3.19 %
States and political subdivisions					
After 1 but within 5 years	$ 3,850,867	$ 23,877	$ 12,630	$ 3,862,114	2.84 %
After 5 but within 10 years	15,668,482	48,412	331,332	15,385,562	2.77
Over 10 years	17,600,032	61,216	373,186	17,288,062	2.62
	$ 37,119,381	$ 133,505	$ 717,148	$ 36,535,738	2.70 %
Mortgage backed securities:					
Government issued or guaranteed	$ 5,836,312	$ 5,142	$ 180,466	$ 5,660,988	2.13 %
Collateralized mortgage obligations:					
Government issued or guaranteed	$ 13,415,029	$ 16,921	$ 320,158	$ 13,111,792	2.40 %
Privately issued	21,542	-	4,419	17,123	0.99
	$ 13,436,571	$ 16,921	$ 324,577	$ 13,128,915	2.40 %
Small business obligations:					
Government issued or guaranteed	$ 5,639,727	$ 16,453	$ 128,920	$ 5,527,260	2.50 %
Total securities available for sale	$ 65,219,661	$ 184,228	$ 1,426,753	$ 63,977,136	2.57 %
Restricted:					
Federal Home Loan Bank stock	$ 1,340,400				6.72 %

The market value of securities pledged to secure public deposits and for other purposes as required or permitted by law totaled $20,543,503 at December 31, 2019, and $19,631,731 at December 31, 2018.

Proceeds from sales of securities available for sale (excluding maturities and calls) for the years ended December 31, 2019 and 2018 were $23,713,382 and $3,269,294, respectively. Gross gains and (losses) of $417,784 and $(6,012) in 2019 and $19,482 and $(750) in 2018 were realized on the respective sales. Gross gains (losses) of $1,665 and $(0) and $0 and $(0) were realized on called securities during 2019 and 2018, respectively.

The following tables show our 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, 2019 and 2018, respectively.

	2019					
	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ -	$ -	$ -	$ -	$ -	$ -
Small business obligations	3,494,027	31,623	588,251	773	4,082,278	32,396
State and political subdivisions	8,962,949	38,325	501,515	3,470	9,464,464	41,795
Mortgage backed securities:						
Government issued or guaranteed	1,495,399	3,220	686,246	6,385	2,181,645	9,605
Collateralized mortgage obligations:						
Government issued or guaranteed	2,899,227	9,873	3,523,602	50,811	6,422,829	60,684
Privately issued	-	-	13,720	4,568	13,720	4,568
US government agencies and corporations	-	-	648,637	1,363	648,637	1,363
Total temporarily impaired securities	$ 16,851,602	$ 83,041	$ 5,961,971	$ 67,370	$ 22,813,573	$ 150,411

	2018					
	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ -	$ -	$ 1,284,769	$ 51,787	$ 1,284,769	$ 51,787
Small business obligations	549,766	3,565	3,043,075	125,355	3,592,841	128,920
State and political subdivisions	3,515,606	18,161	17,963,345	698,987	21,478,951	717,148
Mortgage backed securities:						
Government issued or guaranteed	-	-	5,080,676	180,466	5,080,676	180,466
Collateralized mortgage obligations:						
Government issued or guaranteed	-	-	10,106,036	320,158	10,106,036	320,158
Privately issued	-	-	17,123	4,419	17,123	4,419
US government agencies and corporations	-	-	1,126,145	23,855	1,126,145	23,855
Total temporarily impaired securities	$ 4,065,372	$ 21,726	$ 38,621,169	$ 1,405,027	$ 42,686,541	$ 1,426,753

At December 31, 2019, there were 47 available for sale securities that have unrealized losses with aggregate depreciation of 0.7% from their amortized cost basis. At December 31, 2018, there were 92 available for sale securities that have unrealized losses with aggregate depreciation of 3.2% 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, 2019 and 2018, 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.

Farmland. This portfolio segment includes loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens. Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not. The Bank had no loans in this segment for the years ended December 31, 2019 and 2018.

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 secured by assignments of corporate assets and 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.

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. During 2019, the Bank sold previously repossessed assets consisting of a vehicle and a piece of equipment. The carrying value of repossessed property held at December 31, 2019 totaled $0.

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

	2019	2018
Real estate loans:		
Secured by construction, land and land development	$ 26,223,290	$ 25,821,298
Secured by residential properties	190,773,745	185,596,584
Secured by nonfarm nonresidential	78,071,601	71,738,044
Commercial and industrial loans	17,142,595	14,234,852
Loans to individuals for household, family, or other personal expenditures	5,167,787	5,449,741
	$ 317,379,018	$ 302,840,519
Leases	19,632	38,252
Total loans, gross	$ 317,398,650	$ 302,878,771
Net deferred loan fees, costs, premiums and discounts	1,780,254	1,676,894
Less: Allowance for possible loan losses	(3,257,501)	(3,666,386)
Net loans	$ 315,921,403	$ 300,889,279

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, 2019 and 2018 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, 2019

	Secured by construction, land and land development	Secured by farmland	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 381,392	$ -	$ 2,059,871	$ 731,478	$ 143,692	$ 169,010	$ 296	$ 180,647	$ 3,666,386
Charged off loans	673,188	-	95,482	-	-	232,314	-	-	1,000,984
Recoveries of previously charged off loans	41,104	-	44,433	-	21,000	50,562	-	-	157,099
Provision for (recovery of) loan losses	609,273	-	(142,253)	(13,550)	(24,652)	186,989	(160)	(180,647)	435,000
Ending balance	$ 358,581	$ -	$ 1,866,569	$ 717,928	$ 140,040	$ 174,247	$ 136	$ -	$ 3,257,501
Ending balance: individually evaluated for impairment	$ 184	$ -	$ 5,960	$ 129	$ -	$ -	$ -	$ -	$ 6,273
Ending balance: collectively evaluated for impairment	$ 358,397	$ -	$ 1,860,609	$ 717,799	$ 140,040	$ 174,247	$ 136	$ -	$ 3,251,228
Loan receivables:									
Ending balance	$ 26,223,290	$ -	$ 190,773,745	$ 78,071,601	$ 17,142,595	$ 5,167,787	$ 19,632	$ -	$ 317,398,650
Ending balance: individually evaluated for impairment	$ 65,628	$ -	$ 1,954,032	$ 595,685	$ 12,092	$ -	$ -	$ -	$ 2,627,437
Ending balance: collectively evaluated for impairment	$ 26,157,662	$ -	$ 188,819,713	$ 77,475,916	$ 17,130,503	$ 5,167,787	$ 19,632	$ -	$ 314,771,213

Allowance for Credit Losses and Recorded Investment in Loans
December 31, 2018

	Secured by construction, land and land development	Secured by farmland	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 652,723	$ -	$ 1,759,491	$ 964,264	$ 95,015	$ 124,574	$ 282	$ 93,851	$ 3,690,200
Charged off loans	-	-	149,002	-	-	229,876	-	-	378,878
Recoveries of previously charged off loans	38,091	-	26,446	-	39,815	49,453	-	-	153,805
Provision for (recovery of) loan losses	(309,422)	-	422,936	(232,786)	8,862	224,859	14	86,796	201,259
Ending balance	$ 381,392	$ -	$ 2,059,871	$ 731,478	$ 143,692	$ 169,010	$ 296	$ 180,647	$ 3,666,386
Ending balance: individually evaluated for impairment	$ 374	$ -	$ 11,965	$ 430	$ -	$ -	$ -	$ -	$ 12,769
Ending balance: collectively evaluated for impairment	$ 381,018	$ -	$ 2,047,906	$ 731,048	$ 143,692	$ 169,010	$ 296	$ 180,647	$ 3,653,617
Loan receivables:									
Ending balance	$ 25,821,298	$ -	$ 185,596,584	$ 71,738,044	$ 14,234,852	$ 5,449,741	$ 38,252	$ -	$ 302,878,771
Ending balance: individually evaluated for impairment	$ 71,944	$ -	$ 2,497,173	$ 621,152	$ 70,423	$ -	$ -	$ -	$ 3,260,692
Ending balance: collectively evaluated for impairment	$ 25,749,354	$ -	$ 183,099,411	$ 71,116,892	$ 14,164,429	$ 5,449,741	$ 38,252	$ -	$ 299,618,079

A summary of transactions in the allowance for loan and lease losses for the years ended December 31, 2019 and 2018, respectively follows:

	2019	2018
Balance, beginning	$ 3,666,386	$ 3,690,200
Charged off loans	(1,000,984)	(378,878)
Recoveries of loans previously charged off	157,099	153,805
Provision charged to (recovery from) operations	435,000	201,259
Balance, ending	$ 3,257,501	$ 3,666,386

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, 2019 and 2018, respectively.

Credit Quality Indicators
As of December 31, 2019
Commercial and Consumer Credit Exposure
Credit Risk Profile by Creditworthiness Category

Risk Ratings	Secured by construction, land and land development	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Total
Excellent (1)	$ -	$ 102,232	$ -	$ 701,078	$ 493,520	$ -	$ 1,296,830
Good (2)	1,658,246	10,992,273	2,606,960	31,749	621,727	-	15,910,955
Above Average (3)	7,957,017	61,277,073	10,771,733	551,544	1,050,688	-	81,608,055
Average (4)	9,648,254	80,013,848	27,875,448	3,076,269	1,784,280	9,907	122,408,006
Below Average (5)	6,224,515	30,857,821	32,156,028	7,845,027	913,140	9,725	78,006,256
Watch (6)	531,542	4,625,401	3,907,705	4,437,837	71,260	-	13,573,745
Special Mention (7)	179,736	2,154,147	177,257	486,999	41,620	-	3,039,759
Substandard (8)	23,980	748,710	576,470	12,092	54,271	-	1,415,523
Doubtful (9)	-	-	-	-	-	-	-
Loss (10)	-	-	-	-	-	-	-
Unrated *	-	2,240	-	-	137,281	-	139,521
Total	$ 26,223,290	$ 190,773,745	$ 78,071,601	$ 17,142,595	$ 5,167,787	$ 19,632	$ 317,398,650

* - Unrated loans secured by residential properties consist of loan modification receivable. Unrated loans to individuals consist of overdrafts, repossessed assets, and loan settlement accounts.

Credit Quality Indicators
As of December 31, 2018
Commercial and Consumer Credit Exposure
Credit Risk Profile by Creditworthiness Category

Risk Ratings	Secured by construction, land and land development	Secured by residential properties	Secured by nonfarm nonresidential	Commercial and industrial loans	Loans to individuals	Leases	Total
Excellent (1)	$ 37,781	$ 163,576	$ -	$ 626,724	$ 528,496	$ -	$ 1,356,577
Good (2)	919,000	10,909,253	2,113,995	56,735	431,385	-	14,430,368
Above Average (3)	8,434,160	55,150,271	10,021,156	1,406,722	1,108,975	-	76,121,284
Average (4)	10,697,529	80,364,641	31,383,871	7,011,252	2,034,863	21,421	131,513,577
Below Average (5)	4,311,308	32,897,842	21,917,668	4,244,594	1,038,019	16,831	64,426,262
Watch (6)	1,404,541	2,693,143	5,489,591	331,217	92,758	-	10,011,250
Special Mention (7)	-	1,607,782	178,149	487,185	17,419	-	2,290,535
Substandard (8)	16,979	1,807,836	633,614	70,423	28,825	-	2,557,677
Doubtful (9)	-	-	-	-	-	-	-
Loss (10)	-	-	-	-	-	-	-
Unrated *	-	2,240	-	-	169,001	-	171,241
Total	$ 25,821,298	$ 185,596,584	$ 71,738,044	$ 14,234,852	$ 5,449,741	$ 38,252	$ 302,878,771

* - Unrated loans secured by residential properties consist of loan modification receivable. Unrated loans to individuals consist of overdrafts, repossessed assets, and loan settlement accounts.

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 90th day of delinquency the Bank will send the borrower a final demand for payment and on the 120th day of delinquency, foreclosure proceedings will commence. If the loan is not secured by the borrower's primary residence, by the 60th 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 our loan portfolio delinquencies by loan class and amount as of December 31, 2019 and 2018:

Age Analysis of Past Due Loans
December 31, 2019

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Gross Loans
Secured by Real Estate:						
1-4 Family 1st Lien	$ 1,015,449	$ 1,146,818	$ 383,255	$ 2,545,522	$ 173,873,479	$ 176,419,001
1-4 Family Jr. Lien	140,258	-	-	140,258	9,730,687	9,870,945
5+ multi family	-	-	-	-	4,483,799	4,483,799
Secured by construction, land and land development	24,745	-	-	24,745	26,198,545	26,223,290
Secured by nonfarm nonresidential	21,824	-	-	21,824	78,049,777	78,071,601
Commercial and industrial loans	131,574	-	12,092	143,666	16,998,929	17,142,595
Consumer loans	4,725	-	53,128	57,853	5,109,934	5,167,787
Leases	-	-	-	-	19,632	19,632
Total	$ 1,338,575	$ 1,146,818	$ 448,475	$ 2,933,868	$ 314,464,782	$ 317,398,650

Age Analysis of Past Due Loans
December 31, 2018

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Gross Loans
Secured by Real Estate:						
1-4 Family 1st Lien	$ 692,581	$ 252,328	$ 222,809	$ 1,167,718	$ 170,431,431	$ 171,599,149
1-4 Family Jr. Lien	17,477	-	-	17,477	8,479,323	8,496,800
5+ multi family	-	-	-	-	5,500,635	5,500,635
Secured by construction, land and land development	16,979	-	-	16,979	25,804,319	25,821,298
Secured by nonfarm nonresidential	-	-	-	-	71,738,044	71,738,044
Commercial and industrial loans	-	-	70,423	70,423	14,164,429	14,234,852
Consumer loans	3,357	21,477	11,303	36,137	5,413,604	5,449,741
Leases	-	-	-	-	38,252	38,252
Total	$ 730,394	$ 273,805	$ 304,535	$ 1,308,734	$ 301,570,037	$ 302,878,771

The following table sets forth certain information with respect to our loan portfolio delinquencies and nonaccrual loans by loan class and amount as of December 31, 2019 and 2018:

	2019		2018	
	Recorded Investment > 90 Days and Accruing	**Nonaccrual**	**Recorded Investment > 90 Days and Accruing**	**Nonaccrual**
Secured by Real Estate:				
1-4 Family 1st Lien	$ -	$ 1,131,081	$ -	$ 1,024,869
1-4 Family Jr. Lien	-	11,269	-	-
Secured by construction, land and land development	-	13,620	-	-
Secured by nonfarm nonresidential	-	-	-	-
Commercial and industrial loans	-	12,092	-	70,423
Consumer loans	-	53,128	-	57,547
Total	$ -	$ 1,221,190	$ -	$ 1,152,839

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 our impaired loan portfolio as of December 31, 2019 and 2018:

	Impaired Loans December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Secured by residental real estate	$ 82,313	$ 82,313	$ -	$ 41,157	$ 2,553
Non-farm, non-residential	565,092	565,092	-	565,530	32,530
Commercial	12,092	12,092	-	41,258	-
With an allowance recorded:					
Secured by commercial real estate	65,628	65,628	184	68,786	5,414
Secured by residental real estate	1,871,719	1,807,856	5,961	2,184,446	118,430
Non-farm, non-residential	30,593	30,593	128	42,889	2,675
Total:					
Secured by commercial real estate	65,628	65,628	184	68,786	5,414
Secured by residental real estate	1,954,032	1,890,169	5,961	2,225,602	120,983
Non-farm, non-residential	595,685	595,685	128	608,419	35,205
Commercial	12,092	12,092	-	41,258	-
Total	$ 2,627,437	$ 2,563,574	$ 6,273	$ 2,944,064	$ 161,602

	Impaired Loans December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Secured by residental real estate	$ -	$ -	$ -	$ 466,224	$ -
Non-farm, non-residential	565,968	565,968	-	615,043	33,226
Commercial	70,423	70,423	-	71,173	5,039
With an allowance recorded:					
Secured by commercial real estate	71,944	71,944	374	75,006	5,064
Secured by residental real estate	2,497,173	2,497,173	11,965	2,152,515	96,751
Non-farm, non-residential	55,184	55,184	430	27,592	3,489
Consumer - other	-	-	-	161	5
Total:					
Secured by commercial real estate	71,944	71,944	374	75,006	5,064
Secured by residental real estate	2,497,173	2,497,173	11,965	2,618,739	96,751
Non-farm, non-residential	621,152	621,152	430	642,635	36,715
Commercial	70,423	70,423	-	71,173	5,039
Consumer - other	-	-	-	161	5
Total	$ 3,260,692	$ 3,260,692	$ 12,769	$ 3,407,712	$ 143,574

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, 2019, there were eighteen restructured loans totaling $2,050,252 to fourteen separate and unrelated borrowers who were experiencing financial difficulty. As of December 31, 2018, there were eighteen restructured loans totaling $2,442,920 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, 2019 and 2018, as well as the number of and recorded investment in these loans that subsequently defaulted. Defaulted loans are those which are 30 days or more past due for payment under the modified terms.

December 31, 2019: **Troubled Debt Restructurings:**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Secured by Real Estate:			
1-4 Family 1st Lien	1	$ 69,344	$ 68,209
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	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted:	**Number of Contracts**	**Recorded Investment**
Secured by Real Estate:		
1-4 Family 1st Lien	4	$ 227,850
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	-	-

December 31, 2018: Troubled Debt Restructurings:	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Secured by Real Estate:			
1-4 Family 1st Lien	1	$ 20,224	$ 19,674
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	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Contracts	Recorded Investment
Secured by Real Estate:		
1-4 Family 1st Lien	3	$ 207,443
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 $2,603,120 and $2,731,492 at December 31, 2019 and 2018, respectively.

Custodial balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were $2,808 and $2,501 at December 31, 2019 and 2018, respectively.

The Bank did not capitalize or have any amortization of mortgage servicing rights in 2019 or 2018. There were no assets or liabilities for mortgage servicing rights at December 31, 2019 or 2018.

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, 2019 and 2018 respectively, the savings account with the

Bank carried a balance of $104,500 and $567,611. 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 2019 and 2018, 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:

	2019	2018
Land and land improvements	$ 2,300,422	$ 2,091,298
Buildings and building improvements	6,065,042	5,637,179
Bank owned automobiles	122,262	114,537
Furniture, fixtures and equipment	4,354,796	4,294,561
	$ 12,842,522	$ 12,137,575
Less accumulated depreciation	5,903,465	6,546,524
	$ 6,939,057	$ 5,591,051

Depreciation expense amounted to $529,472 and $440,858 in 2019 and 2018, respectively.

Computer software, net of accumulated amortization, included in the statement of financial condition caption "Other Assets" amounted to $238,587 and $221,673 at December 31, 2019 and 2018, respectively. Amortization expense on computer software amounted to $117,730 and $86,883 in 2019 and 2018, 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 implication of ASU 2016-02, *Leases (Topic 842).* See Note 19 for further details.

NOTE 8. FORECLOSED REAL ESTATE HELD FOR SALE

During 2019, the Bank foreclosed on four loans secured by residential real estate. During 2019, four foreclosed properties were sold at a net gain of $25,369 which is included in noninterest income on the statement of income. This gain is partially offset by write-downs of $4,590. The carrying value of the five real estate properties held at December 31, 2019 totaled $346,812. 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 properties for resale, totaled $160,678, of which $114,977 were incurred in 2019. At December 31, 2019, there was one loan secured by residential real estate in the process of foreclosure totaling $72,714.

During 2019, the Bank foreclosed on two loans secured by land. The carrying value of the properties held at December 31, 2019 totaled $2.3 million. 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 properties for resale, totaled $713,357 all of which was incurred in 2019.

During 2018, the Bank foreclosed on four loans secured by residential real estate. During 2018, five foreclosed properties were sold at a net gain of $9,370 which is included in noninterest income on the statement of income. Included in this gain is a write-up on a property in the amount of $12,543. This gain is offset by write-downs in the amount of $44,600. The carrying value of the five real estate properties held at December 31, 2018 totaled $191,070. 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 properties for resale, totaled $109,229, of which $59,493 were incurred in 2018. At December 31, 2018, there was one loan secured by residential real estate in the process of foreclosure totaling $61,600.

NOTE 9. DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

	Time Deposits $250,000 and over	All Time Deposits
2020	$ 16,600,678	$ 62,422,432
2021	2,112,196	18,395,652
2022	2,053,266	10,975,775
2023	2,185,511	13,380,317
2024	2,345,749	11,150,313
	$ 25,297,400	$ 116,324,489

The aggregate amount of deposit overdrafts reclassified as loan balances was $137,281 and $169,001 at December 31, 2019 and 2018, respectively.

NOTE 10. FEDERAL HOME LOAN BANK BORROWINGS

	December 31, 2019	December 31, 2018
Federal Home Loan Bank advances	$ 10,500,000	$ 26,800,000

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, 2019, the Bank had medium term advances with FHLB and a maximum borrowing capacity of $138,819,200. At December 31, 2019, 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. 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.

	2019	2018
Maximum balance outstanding at any month-end during the year	$ 29,000,000	$ 32,000,000
Average balance for the year	$ 11,454,247	$ 24,747,123
Weighted average rate for the year	2.91 %	2.20 %
Weighted average rate at year-end	2.62 %	2.73 %
Collateral at year-end	$ 189,177,000	$ 191,970,000

NOTE 11. UNUSED LINES OF CREDIT

The Bank entered into a line of credit with SunTrust Bank for $4,500,000 and M&T Bank for $2,000,000 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, 2019 and 2018.

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.

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

	December 31, 2019	December 31, 2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,985,077	$ 12,092,986
Interest cost	454,263	420,699
Actuarial gain	165,586	84,228
Benefits paid	(436,823)	(454,301)
Assumption changes	1,672,970	(1,158,535)
Benefit obligation at end of year	$ 12,841,073	$ 10,985,077
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 8,545,240	$ 9,630,494
Actual return on plan assets	1,407,591	(630,953)
Employer contribution	-	-
Benefits paid	(436,823)	(454,301)
Fair value of plan assets at end of year	$ 9,516,008	$ 8,545,240
Funded status	$ (3,325,065)	$ (2,439,837)
Unrecognized net actuarial loss	5,271,742	4,427,207
Prepaid benefit cost	$ 1,946,677	$ 1,987,370

	December 31, 2019	December 31, 2018
Components of net periodic cost:		
Interest cost	$ 454,263	$ 420,699
Expected return on plan assets	(639,068)	(656,964)
Recognized net actuarial loss	225,498	295,850
Net periodic plan cost	$ 40,693	$ 59,585

	December 31, 2019	December 31, 2018
Weighted average assumptions used to determine benefit obligations for the years ended:		
Discount rate	3.2%	4.2%
Expected return on plan assets	6.8%	6.8%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost for the years ended:		
Discount rate	4.2%	3.6%
Expected return on plan assets	6.8%	6.8%
Rate of compensation increase	N/A	N/A
Amounts recognized in the statements of financial condition consist of:		
Accrued benefit cost (in accrued expenses)	$ (3,325,065)	$ (2,439,837)
Accumulated other comprehensive loss	5,271,742	4,427,207
Net amount recognized	$ 1,946,677	$ 1,987,370

	Target Allocation 2019	Allowable Allocation Range	Percentage of Plan Assets at December 31, 2019
Plan assets			
Domestic Equities	38%	25 - 60%	33%
Fixed Income	20%	10 - 40%	23%
Foreign Equities	22%	10 - 30%	24%
Real Estate Investment Trusts	0%	0 - 15%	1%
Cash Equivalent	5%	2 - 20%	4%
Alternative Investments	15%	0 - 25%	15%
Total			100%

	Target Allocation 2018	Allowable Allocation Range	Percentage of Plan Assets at December 31, 2018
Plan assets			
Domestic Equities	38%	25 - 60%	31%
Fixed Income	20%	10 - 40%	24%
Foreign Equities	22%	10 - 30%	23%
Real Estate Investment Trusts	0%	0 - 15%	1%
Cash Equivalent	5%	2 - 20%	5%
Alternative Investments	15%	0 - 25%	16%
Total			100%

Investment Policy and Strategy

The investments are pooled with the pension assets of other participating Allegheny Group Retirement Plan member banks 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, 2020		
Expected employer contributions	$	-
Expected employee contributions	$	-
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending		
12/31/2020	$	520,439
12/31/2021	$	532,520
12/31/2022	$	540,215
12/31/2023	$	577,890
12/31/2024	$	578,461
12/31/2025 - 12/31/2029	$	3,242,769

The following table summarizes the fair value of the Pension Plan's investments in the Master Trust as of December 31, 2019 and 2018. See Note 26 for a description of the fair value inputs for each level.

	December 31, 2019	Fair Value Measurements Using Level 1	Level 2	Level 3
Pension Plan Master Trust Investments:				
Cash and cash equivalents	$ 1,969,705	$ 1,969,705	$ -	$ -
Mutual funds	4,859,842	-	4,859,842	-
Government bonds	3,657,517	-	3,657,517	-
Hedge fund of funds	7,076,560	-	-	7,076,560
Corporate bonds	2,188,629	-	2,188,629	-
Asset and mortgage-backed securities	207,764	-	207,764	-
Domestic common stock and options	11,635,710	11,635,710	-	-
International common stock and options	8,958,613	8,958,613	-	-
Domestic exchange traded and closed end funds	3,941,589	3,941,589	-	-
International exchange traded and closed end funds	2,323,914	2,323,914	-	-
Real estate investment trusts	465,045	-	465,045	-
Total Pension Plan Master Trust Investments	$ 47,284,888	$ 28,829,531	$ 11,378,797	$ 7,076,560

	December 31, 2018	Fair Value Measurements Using Level 1	Level 2	Level 3
Pension Plan Master Trust Investments:				
Cash and cash equivalents	$ 2,063,279	$ 2,063,279	$ -	$ -
Mutual funds	4,538,970	-	4,538,970	-
Government bonds	3,095,868	-	3,095,868	-
Hedge fund of funds	6,837,884	-	-	6,837,884
Corporate bonds	2,203,222	-	2,203,222	-
Asset and mortgage-backed securities	339,730	-	339,730	-
Domestic common stock and options	9,532,582	9,532,582	-	-
International common stock and options	7,708,628	7,708,628	-	-
Domestic exchange traded and closed end funds	3,068,181	3,068,181	-	-
International exchange traded and closed end funds	1,959,155	1,959,155	-	-
Real estate investment trusts	339,231	-	339,231	-
Total Pension Plan Master Trust Investments	$ 41,686,730	$ 24,331,825	$ 10,517,021	$ 6,837,884

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, 2019 and 2018 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 $0 in 2019 and 2018, respectively. The Bank regularly reviews the funding of its pension plan.

In 2019, the assumption regarding mortality rates of participants changed due to the adoption of the PRI-2012 (MP-2019) 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 after completing one year 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 2019, the Bank matched 100% of employee deferrals up to 4% of salary. The Bank's contribution charged to income during 2019 and 2018 was $369,353 and $326,764, 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 $2,392,883 at December 31, 2019. 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 $204,382 and $195,414 for 2019 and 2018, respectively. The liability to the Bank was $2,023,327 and $2,064,502 at December 31, 2019 and 2018, respectively.

NOTE 15. BANK OWNED LIFE INSURANCE

During the year ended December 31, 2017, the Bank purchased split-dollar life insurance on select employees. During the year ended December 31, 2019, the Bank purchased additional split-dollar life insurance on select employees. The cash surrender value of these life insurance policies was $4,904,972 and $4,113,607 at December 31, 2019 and 2018, 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, 2019 and 2018, a liability has been established for the present value of the remaining expected payments of $111,000 and $144,424, respectively. For 2019 and 2018, the expense to the Bank to fund this retirement benefit was $2,576 and $14,309, respectively.

In 2018, the Bank entered into a supplemental employee retirement plan agreement for select executive officers. In 2019, the Bank entered into a supplemental employee retirement plan agreement for additional 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, 2019 and 2018, a liability has been established for the present value of future payments of $167,625 and $102,322, and using a discount rate of 4.2% and 3.6%, respectively. For 2019 and 2018, the expense to the Bank to fund this retirement benefit was $65,303 and $102,322, respectively.

NOTE 17. HEALTH INSURANCE PLAN

The Bank maintains a high deductible health insurance plan and concurrently establishes health reimbursement accounts for each employee in the plan. The Bank funded $750 for each participant in 2019 and 2018. The expense incurred for the health reimbursement accounts was $38,526 and $57,206 for 2019 and 2018, respectively.

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 2012 are no longer subject to examination by federal, state or local taxing authorities.

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

	Years ended December 31, 2019	2018
Federal:		
Current	$ 225,959	$ 54,277
Deferred	216,268	404,897
State:		
Current	141,641	166,406
Deferred	98,787	49,789
Provision for income taxes	$ 682,655	$ 675,369

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:

	Years ended December 31, 2019	2018
Income tax expense at the statutory rate of 21%	$ 728,016	$ 744,424
Increases (decreases) resulting from:		
Nontaxable interest income, net of non-deductible interest expense	(171,164)	(180,732)
State income taxes, net of federal income tax benefit	111,581	113,839
Life insurance	(34,668)	(41,922)
Other	48,890	39,760
Provision for income taxes	$ 682,655	$ 675,369
Effective income tax rate	19.69%	19.05%

Federal and state income tax obligations and refundable taxes are included in the statements of financial condition as other assets totaling $632,389 and $715,988 at December 31, 2019 and 2018, respectively.

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

	2019	2018
Deferred tax assets:		
Provision for loan losses	$ 690,067	$ 650,804
Nonaccrual interest	10,537	19,224
Deferred compensation plan	530,211	544,429
Postretirement benefits	100,447	127,555
SERP benefits	43,926	26,984
Intangible asset	-	6,290
Unrecognized pension costs	1,381,457	1,167,498
OREO writedowns	3,019	1,851
Net unrealized loss on securities available for sale	-	327,666
Deferred loan origination fees	77,449	76,794
Lease liability	589,122	-
NOL carryforward	2,938	-
	$ 3,429,173	$ 2,949,095
Deferred tax liabilities:		
Net unrealized (gain) on securities available for sale	$ (150,090)	$ -
Right of use asset	(584,922)	-
Defined benefit pension plan	(510,125)	(524,090)
Depreciation	(582,818)	(269,893)
Deferred loan origination costs	(543,965)	(519,007)
	$ (2,371,920)	$ (1,312,990)
Net deferred tax asset	$ 1,057,253	$ 1,636,105

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 AGREEMENT

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, while prior period amounts and disclosures are not adjusted and continue to be reported in accordance with previous guidance. 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. Adoption of the new standard resulted in recognition of a right-of-use asset and lease liability of $1,410,146 at the date of adoption, which is related to the Bank's lease of premises used in operations. Since the calculated right of use asset and lease liability were materially the same, a cumulative effect adjustment to retained earnings as of the implication date was not recorded.

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 for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about CNB's leases:

	December 31, 2019	
Lease liabilities	$	2,248,132
Right-of-use assets	$	2,232,107
Weighted average remaining lease term		7.73 years
Weighted average discount rate		3.05%

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 year ended December 31, 2019 is $238,274. There are no variable or short-term lease costs for the year ended December 31, 2019. Cash paid for amounts included in the measure of lease liability totaled $213,933 for the year ended December 31, 2019.

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

		Lease Payments Due
Years ending December 31,		
2020	$	260,854
2021		271,866
2022		275,554
2023		248,646
2024		252,547
Thereafter		1,308,413
Total undiscounted cash flows	$	2,617,880
Discount		(369,748)
Lease liabilities	$	2,248,132

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 branch. 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. The annual cost for years ended December 31, 2019 and 2018 were $28,896 and $26,323, 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 2014, CNB entered into a lease for office space in Hagerstown, Maryland for the purpose of opening a new limited purpose office. The original lease term began on January 1, 2015 and terminated on December 31, 2018. The lease automatically renewed January 1, 2019 for another four-year term expiring December 31, 2022. The lease payments prior to renewal were $29,808 annually. The lease payments for the additional four-year term beginning in January 2019 are $30,702 annually.

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 increases 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 June 2019 are $99,794 annually. Beginning July 2020, and upon each anniversary thereafter, the annual base rent shall be increased 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, 2019 and 2018.

NOTE 20. OTHER OPERATING EXPENSES

	Years ended December 31, 2019	2018
Stationery, supplies and printing	$ 134,213	$ 126,189
Data processing	1,026,217	997,971
Director's fees and deferred compensation	499,357	463,364
Postage	134,586	129,001
Telephone	197,048	172,787
Professional fees	496,054	258,412
Kasasa expenses	246,562	218,170
Regulatory assessment fees	86,433	143,955
ATM and debit card fees	539,284	486,871
Advertising	514,704	363,417
Other	1,115,682	1,193,506
Total other operating expenses	$ 4,990,140	$ 4,553,643

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:

	Contract or notional amount	
	2019	2018
Commitments to originate:		
Fixed rate loans:		
Residential real estate loans to be sold	$ 617,500	$ 976,000
Other residential real estate	473,520	561,000
Other commerical real estate and construction	110,000	750,000
Adjustable rate loans:		
Other commerical real estate and construction	4,000,000	4,750,000
Other residential real estate	2,506,347	2,247,490
Commerical and other	-	268,000
Letters of credit	747,239	416,437
Undisbursed portion of construction loans	5,875,266	9,111,751
Available credit granted on commercial loans	11,330,644	13,041,018
Available credit on personal lines of credit	49,716	54,209
Undisbursed portion of home equity loans	6,753,517	5,742,177
	$ 32,463,749	$ 37,918,082

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, 2019, CNB has $6,224,000 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). Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019 and 2018, 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 table.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount in Thousands	Ratio	Amount in Thousands	Ratio	Amount in Thousands	Ratio
As of December 31, 2019:						
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 39,053	13.96%	$ 12,589	4.5%	$ 18,184	6.5%
Total Capital (to Risk Weighted Assets)	$ 42,310	15.12%	$ 22,386	8.0%	$ 27,983	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 39,053	13.96%	$ 16,785	6.0%	$ 22,380	8.0%
Tier I Capital (to Average Assets)	$ 39,053	9.42%	$ 16,583	4.0%	$ 20,729	5.0%
As of December 31, 2018:						
Common Equity Tier I Capital (to Risk Weighted Assets)	$ 37,083	14.23%	$ 11,726	4.5%	$ 16,938	6.5%
Total Capital (to Risk Weighted Assets)	$ 40,345	15.48%	$ 20,846	8.0%	$ 26,058	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 37,083	14.23%	$ 15,635	6.0%	$ 20,847	8.0%
Tier I Capital (to Average Assets)	$ 37,083	9.54%	$ 15,550	4.0%	$ 19,438	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. The amount of these required reserves, calculated based on percentages of certain deposit balances was $1,054,000 at December 31, 2019.

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 $4.2 million available for loans or advances to affiliates of the Bank as of December 31, 2019, 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, 2019 and 2018, 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

	December 31, 2019			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
U.S. government agencies and corporations	$ 648,637	$ -	$ 648,637	$ -
Corporate bonds	1,264,018	-	1,264,018	-
State and municipal securities	33,954,708	1,244,276	32,710,432	-
Residential mortgage-backed securities	5,455,910	-	5,455,910	-
Collateralized mortgage obligations	10,544,420	-	10,544,420	-
Small business obligations	6,710,306	477,988	6,232,318	-

	December 31, 2018			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
U.S. government agencies and corporations	$ 1,126,145	$ -	$ 1,126,145	$ -
Corporate bonds	1,998,090	-	1,998,090	-
State and municipal securities	36,535,738	-	36,535,738	-
Residential mortgage-backed securities	5,660,988	-	5,660,988	-
Collateralized mortgage obligations	13,128,915	-	13,128,915	-
Small business obligations	5,527,260	-	5,527,260	-

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:

Valuation of our Financial Instruments by Fair Value Hierarchy Levels - Non-recurring Basis

	December 31, 2019				
Description	**Total**	**Level 1**	**Level 2**	**Level 3**	**Recognized Gains (Losses)**
Assets:					
Impaired loans, net of government agency guarantees and reserve for losses	$ 2,621,163	$ -	$ -	$ 2,621,163	$ -
Other real estate owned	2,666,812	-	-	2,666,812	20,779

Description	December 31, 2018				
	Total	**Level 1**	**Level 2**	**Level 3**	**Recognized Gains (Losses)**
Assets:					
Impaired loans, net of government agency guarantees and reserve for losses	$ 3,247,923	$ -	$ -	$ 3,247,923	$ -
Other real estate owned	191,070	-	-	191,070	(35,230)

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

2019					
		Value	Valuation Techniques	Unobservable Input	Range
Impaired Loans	$	2,621,163	Appraised collateral values	Discount for time since appraisal	0-25%
			and discounted cash flows	Selling costs	10-20%
Other Real Estate Owned		2,666,812	Appraised collateral values	Discount for time since appraisal	0-25%
				Selling costs	10-20%

2018					
		Value	Valuation Techniques	Unobservable Input	Range
Impaired Loans	$	3,247,923	Appraised collateral values	Discount for time since appraisal	0-25%
			and discounted cash flows	Selling costs	10-20%
Other Real Estate Owned		191,070	Appraised collateral values	Discount for time since appraisal	0-25%
				Selling costs	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, 2019				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash, due from banks and federal funds sold	$ 15,925,600	$ 15,925,600	$ 15,925,600	$ -	$ -
Securities available for sale	58,577,999	58,577,999	-	58,577,999	-
Loans	315,921,403	313,125,773	-	310,504,610	2,621,163
Accrued interest receivable	1,170,305	1,170,305	1,170,305	-	-
Cash surrender value of life insurance	7,297,855	7,297,855		6,414,256	-
Financial Liabilities:					
Demand deposits	244,735,975	244,735,975	-	244,735,975	-
Time deposits	116,324,489	117,578,180	-	117,578,180	-
Accrued interest payable	260,247	260,247	260,247	-	-
FHLB borrowings	10,500,000	10,500,000	-	10,500,000	-
Lease liability	2,248,132	2,248,132	-	2,248,132	-
Off-Balance Sheet Financial Instruments:					
Letters of credit	-	4,781	-	4,781	-

	December 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash, due from banks and federal funds sold	$ 6,925,658	$ 6,925,658	$ 6,925,658	$ -	$ -
Securities available for sale	63,977,136	63,977,136	-	63,977,136	-
Loans	300,889,279	297,039,016	-	293,791,093	3,247,923
Accrued interest receivable	1,201,565	1,201,565	1,201,565	-	-
Cash surrender value of life insurance	6,414,256	6,414,256		6,414,256	-
Financial Liabilities:					
Demand deposits	221,882,785	221,882,785	-	221,882,785	-
Time deposits	102,105,812	101,983,957	-	101,983,957	-
Accrued interest payable	265,442	265,442	265,442	-	-
FHLB borrowings	26,800,000	26,800,000	-	26,800,000	-
Off-Balance Sheet Financial Instruments:					
Letters of credit	-	4,021	-	4,021	-

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 $964,631 and $808,498 at December 31, 2019 and 2018, respectively. During 2019, $100,000 of new loans were made, or became reportable, and repayments and other decreases totaled $56,133. Deposits from executive officers, directors, principal shareholders and their affiliates held by the Bank at December 31, 2019 and 2018 amounted to $4,125,292 and $3,823,318 respectively.

NOTE 28. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following represents parent company only financial information:

STATEMENTS OF FINANCIAL CONDITION (PARENT ONLY)
DECEMBER 31, 2019 AND 2018

ASSETS	2019	2018
Cash	$ 61,831	$ 168,707
Investment in CNB Bank, Inc.	35,585,639	32,909,166
TOTAL ASSETS	$ 35,647,470	$ 33,077,873
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Due to CNB Bank, Inc.	$ 24,827	$ 25,994
TOTAL LIABILITIES	$ 24,827	$ 25,994
SHAREHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 444,976 shares issued at December 31, 2019 and 2018, with 397,352 and 398,465 outstanding at December 31, 2019 and 2018, respectively	$ 444,976	$ 444,976
Class A Common stock, $1 par value; 5,000,000 shares authorized; 13,072 shares issued at December 31, 2019 and 2018, with 10,355 and 10,501 shares outstanding at December 31, 2019 and 2018, respectively	13,072	13,072
Capital surplus	4,163,592	4,163,592
Retained earnings	37,127,890	35,198,668
Accumulated other comprehensive (loss)	(3,467,618)	(4,174,569)
	$ 38,281,912	$ 35,645,739
Less treasury stock, at cost, 47,624 common shares and 2,717 Class A common shares in 2019 and 46,511 common shares and 2,571 Class A common shares in 2018	(2,659,269)	(2,593,860)
TOTAL SHAREHOLDERS' EQUITY	$ 35,622,643	$ 33,051,879
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 35,647,470	$ 33,077,873

STATEMENTS OF COMPREHENSIVE INCOME (PARENT ONLY)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Dividend income	$ 854,864	$ 1,059,137
Noninterest expense	(54,558)	(50,085)
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF CNB BANK, INC.	$ 800,306	$ 1,009,052
Income tax (benefit)	(14,258)	(13,090)
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF CNB BANK, INC.	$ 814,564	$ 1,022,142
Equity in undistributed earnings of CNB Bank, Inc.	1,969,522	1,847,367
NET INCOME/COMPREHENSIVE INCOME	$ 2,784,086	$ 2,869,509

STATEMENTS OF CASH FLOWS (PARENT ONLY)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,784,086	$ 2,869,509
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in other assets	(1,167)	28,772
Equity in undistributed earnings of CNB Bank, Inc.	(1,969,522)	(1,847,367)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 813,397	$ 1,050,914
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	$ (854,864)	$ (859,137)
Purchase of treasury stock, cost	(65,409)	(147,288)
NET CASH (USED IN) FINANCING ACTIVITIES	$ (920,273)	$ (1,006,425)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (106,876)	$ 44,489
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$ 168,707	$ 124,218
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 61,831	$ 168,707

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

Characteristic	Common	Class A Common	Class B Common (1)
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

(1) No shares outstanding

NOTE 30. SUBSEQUENT EVENTS

The Company has evaluated events and transactions subsequent to December 31, 2019 through February 20, 2020, 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, 2019 and through February 20, 2020, the date these consolidated financial statements were available to be issued, that require recognition or disclosure in the consolidated financial statements.