CNB CORPORATION

2020
ANNUAL REPORT

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CNB Corporation

Contents

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Independent Auditor's Report

To the Board of Directors
CNB Corporation

We have audited the accompanying consolidated financial statements of CNB Corporation and its subsidiary (collectively, the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 and 2019 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we 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 Corporation as of December 31, 2020 and 2019 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 8, 2021

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CNB Corporation

Consolidated Balance Sheet

December 31, 2020 and 2019

(000s omitted, except per share data)

	2020	2019
Assets		
Cash and due from banks	$ 8,255	$ 6,437
Interest-bearing deposits with other financial institutions	36,640	19,232
Total cash and cash equivalents	44,895	25,669
Time deposits with other financial institutions	12,632	15,614
Investment securities - Available for sale (Note 3)	148,049	91,245
Investment securities - Held to maturity (Note 3)	3,524	1,240
Other securities	957	957
Loans held for sale	5,485	3,106
Loans - Net of allowance for loan losses of $3,004 and $1,671 as of December 31, 2020 and 2019, respectively (Note 4)	167,311	157,645
Bank premises and equipment - Net (Note 6)	5,751	5,855
Other assets (Notes 5, 7, and 10)	10,274	9,931
Total assets	**$ 398,878**	**$ 311,262**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits: (Note 8)		
Non-interest bearing	$ 123,493	$ 82,654
Interest bearing	239,426	196,358
Total deposits	362,919	279,012
Accrued and other liabilities (Note 9)	5,291	5,039
Total liabilities	368,210	284,051
Stockholders' Equity		
Common stock - $2.50 par value; 2,000,000 shares authorized; 1,210,717 and 1,210,718 shares issued and outstanding in 2020 and 2019, respectively	3,027	3,027
Additional paid-in capital	19,473	19,473
Retained earnings	6,335	4,492
Accumulated other comprehensive income - Net of tax	1,833	219
Total stockholders' equity	30,668	27,211
Total liabilities and stockholders' equity	**$ 398,878**	**$ 311,262**

Consolidated Statement of Income

Years Ended December 31, 2020 and 2019
(000s omitted, except per share data)

	2020	2019
Interest Income		
Loans - Including fees	$ 9,062	$ 8,282
Investment securities:		
Taxable	1,607	1,610
Tax exempt	310	307
Other	435	687
Total interest income	11,414	10,886
Interest Expense	469	346
Net Interest Income	10,945	10,540
Provision for Loan Losses (Note 4)	1,225	-
Net Interest Income - After provision for loan losses	9,720	10,540
Noninterest Income		
Service charges and fees	1,039	1,106
Net gain on sale of loans and mortgage banking income	3,182	706
Loan servicing fees - Net of amortization	(127)	48
Other	521	698
Total noninterest income	4,615	2,558
Noninterest Expense		
Salaries and employee benefits	5,671	4,886
Occupancy and equipment	1,286	1,367
Data processing	1,006	885
Pension settlement cost (Note 9)	-	797
FDIC premiums	142	122
Deferred compensation (Note 9)	141	146
Hospitalization	529	441
Legal and professional	782	891
Other	1,350	1,272
Total noninterest expense	10,907	10,807
Income - Before income taxes	3,428	2,291
Income Tax Expense (Note 10)	616	375
Net Income	**$ 2,812**	**$ 1,916**
Earnings per share - Basic	$ 2.32	$ 1.58
Earnings per share - Diluted	$ 2.32	$ 1.58

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2020 and 2019
(000s omitted, except per share data)

	2020	2019
Net Income	$ 2,812	$ 1,916
Other Comprehensive Income (Loss)		
Unrealized income (loss) on securities:		
Arising during the year	2,049	2,780
Reclassification adjustment	(6)	(2)
Tax effect	(429)	(583)
Total other comprehensive income	1,614	2,195
Comprehensive Income	**$ 4,426**	**$ 4,111**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2020 and 2019

(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance - January 1, 2019	$ 3,027	$ 19,473	$ 3,545	$ (1,976)	$ 24,069
Net income	-	-	1,916	-	1,916
Other comprehensive income	-	-	-	2,195	2,195
Dividends declared $0.80 per share	-	-	(969)	-	(969)
Balance - December 31, 2019	3,027	19,473	4,492	219	27,211
Net income	-	-	2,812	-	2,812
Other comprehensive income	-	-	-	1,614	1,614
Dividends declared $0.80 per share	-	-	(969)	-	(969)
Balance - December 31, 2020	**$ 3,027**	**$ 19,473**	**$ 6,335**	**$ 1,833**	**$ 30,668**

CNB Corporation

Consolidated Statement of Cash Flows

Years Ended December 31, 2020 and 2019

(000s omitted, except per share data)

	2020	2019
Cash Flows from Operating Activities		
Net income	$ 2,812	$ 1,916
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	479	615
Provision for loan losses	1,225	-
Loans originated for sale	(81,155)	(23,843)
Proceeds from sales of loans originated for sale	76,311	22,643
Gain on sale of investment securities	(6)	(2)
Gain on sale of loans	(2,465)	(506)
Gain on sales of other real estate owned properties	(10)	-
Other real estate owned write-downs	-	5
Increase in cash surrender value of life insurance	(152)	(155)
Deferred tax benefit	(178)	(151)
(Decrease) increase in other assets	(567)	261
Increase (decrease) in other liabilities	251	(11)
Loss on disposal of premises and equipment	25	9
Amortization of securities	984	492
Net cash and cash equivalents (used in) provided by operating activities	(2,446)	1,273
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from sales of available-for-sale securities	4,331	2,500
Proceeds from maturities and calls of securities available for sale	29,197	16,450
Purchase of securities available for sale	(89,265)	(16,489)
Proceeds from paydowns and maturities of securities held to maturity	400	3,401
Purchase of securities held to maturity	(2,684)	(2,442)
Purchase of time deposits	-	(245)
Net change in portfolio loans	(5,961)	(8,068)
Premises and equipment expenditures	(400)	(628)
Proceeds from sales and redemptions of other real estate owned properties	134	56
Proceeds from maturities of securities held to maturity	2,982	-
Net cash and cash equivalents used in investing activities	(61,266)	(5,465)
Cash Flows from Financing Activities		
Net increase in deposit accounts	83,907	16,575
Dividends paid	(969)	(969)
Net cash and cash equivalents provided by financing activities	82,938	15,606
Net Increase in Cash and Cash Equivalents	19,226	11,414
Cash and Cash Equivalents - Beginning of year	25,669	14,255
Cash and Cash Equivalents - End of year	**$ 44,895**	**$ 25,669**
Supplemental Cash Flow Information - Cash paid for interest	$ 469	$ 343
Significant Noncash Transactions - Transfer from loans to other real estate owned	$ -	$ 86

See notes to consolidated financial statements.

Note 1 - Nature of Business

CNB Corporation (the "Company") is a one-bank holding company that conducts no direct business activities. All business activities are performed by Citizens National Bank (the "Bank").

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses, and light industries located in its service area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles, personal expenditures, and loans to business enterprises for current operations and expansion. The Bank offers a variety of deposit accounts, including checking, savings, money market, and individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the Michigan communities in which the Bank is located and the area immediately surrounding these communities. The Bank serves these markets through eight branches located in Cheboygan, Presque Isle, and Emmet counties and a loan production office in Presque Isle County in northern lower Michigan. On January 1, 2021, the Bank closed the loan production office in Presque Isle County.

Note 2 - Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary bank. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the valuation of investment securities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits with other financial institutions (if the original maturity date is less than 90 days), and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings. Securities not classified as held to maturity or trading are classified as available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method. For purchase premiums and discounts on equity securities and noncallable debt securities, the amounts are recognized into income over the term of the securities. For premiums on callable debt securities, the premium is amortized against income over the period until the earlier of the first call date or maturity.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Note 2 - Significant Accounting Policies (Continued)

The Company conducts periodic reviews of held-to-maturity and available-for-sale securities with declines in fair value below their cost to evaluate if the impairment is other than temporary. 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 amortized 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. Credit-related impairments of debt securities are recorded through earnings, and any impairment as a result of other factors is included in accumulated other comprehensive income.

Other Securities

The Bank, as a member of the Federal Reserve Bank of Chicago (FRB) and the Federal Home Loan Bank of Indianapolis (FHLB), is required to maintain an investment in the capital stock of the FRB and the FHLB. No ready market exists for the stock, and it has no quoted market value. The stock is redeemable at par by the issuers and, therefore, is carried at cost and periodically evaluated for impairment. The Company records dividends in income on the ex-dividend date.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses.

A troubled debt restructuring (TDR) of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructuring. A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

Loan Income

Interest income is earned on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Note 2 - Significant Accounting Policies (Continued)

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers nonclassified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller balance homogenous loans of similar nature, such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are the following: (1) is the borrower currently in default on any of its debts; (2) has the borrower declared or is the borrower in the process of declaring bankruptcy; and (3) absent the current modification, would the borrower likely default.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets' useful lives. For furniture and fixtures, the useful life ranges from 3 to 7 years, while the useful life for buildings is 39 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense, and improvements are capitalized.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of the loan carrying amount or fair value at acquisition and are included in other assets on the consolidated balance sheet. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss. After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported as expenses on the consolidated statement of income.

Servicing Rights

Servicing rights represent the allocated value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenue. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain directors and executives. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be effectively realized at the consolidated balance sheet date. At December 31, 2020 and 2019, the cash surrender value of the underlying policies was $6,472,000 and $6,320,000, respectively, which is included in other assets on the consolidated balance sheet.

Note 2 - Significant Accounting Policies (Continued)

Employee Benefits

Prior to 2019, a defined benefit pension plan covered certain employees with benefits based on years of service and compensation prior to retirement. Contributions to the plan were based on the maximum amount deductible for income tax purposes. The plan was amended to no longer accept new participants as of December 31, 2008. In 2019, the plan was settled. A 401(k) savings and retirement plan has also been established and covers substantially all employees. Discretionary employer contributions to the 401(k) plan are expensed as made.

Income Taxes

Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Off-balance-sheet Instruments

The Company, in the ordinary course of business, makes commitments to extend credit that are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 12.

Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities are reported as a direct adjustment to the equity section of the consolidated balance sheet. Such items, along with net income, are considered components of comprehensive income.

Earnings per Common Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period, which was 1,210,717 in 2020 and 1,210,718 in 2019. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no outstanding stock options as of December 31, 2020 or 2019. Accordingly, no dilutive impact is presented.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Company's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Company's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still quantifying the impact of the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 8, 2021, which is the date the consolidated financial statements were available to be issued.

Note 3 - Securities

The year-end fair values and related gross unrealized gains and losses recognized in accumulated other comprehensive loss for securities available for sale were as follows as of December 31, 2020 and 2019 (000s omitted):

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 10,207	$ 257	$ -	$ 10,464
Mortgage backed	104,989	1,396	(315)	106,070
Collateralized mortgage obligations	9,473	265	-	9,738
State and municipal	21,059	718	-	21,777
Total available-for-sale securities	145,728	2,636	(315)	148,049
Held-to-maturity securities - State and municipal	3,524	147	-	3,671
Total available-for-sale and held-to-maturity securities	$ 149,252	$ 2,783	$ (315)	$ 151,720

Note 3 - Securities (Continued)

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 15,733	$ 59	$ (47)	$ 15,745
Mortgage backed	38,626	249	(132)	38,743
Collateralized mortgage obligations	13,707	6	(129)	13,584
State and municipal	22,902	314	(43)	23,173
Total available-for-sale securities	90,968	628	(351)	91,245
Held-to-maturity securities - State and municipal	1,240	29	-	1,269
Total available-for-sale and held-to-maturity securities	$ 92,208	$ 657	$ (351)	$ 92,514

During 2020 and 2019, the Company sold one investment. Proceeds from sales were approximately $4,331,000 and $2,500,000, resulting in gains of approximately $6,000 and $2,000 during 2020 and 2019, respectively.

Contractual maturities of debt securities at December 31, 2020 are presented below. Expected maturities may differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are presented separately.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 are as follows (000s omitted):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 7,050	$ 7,099	$ 84	$ 86
Due in one through five years	21,903	22,640	1,205	1,213
Due after five years through ten years	1,857	1,991	1,760	1,897
Thereafter	456	511	475	475
Mortgage backed	104,989	106,070	-	-
Collateralized mortgage obligations	9,473	9,738	-	-
Total	$ 145,728	$ 148,049	$ 3,524	$ 3,671

Note 3 - Securities (Continued)

Securities with unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (000s omitted):

	2020			
	Less Than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities - Mortgage backed	$ (314)	$ 58,863	$ (1)	$ 94

	2019			
	Less Than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ (15)	$ 3,062	$ (32)	$ 6,191
Mortgage backed	(42)	4,322	(90)	7,482
Collateralized mortgage obligations	(95)	7,934	(34)	3,479
State and municipal	(29)	5,538	(14)	2,217
Total available-for-sale securities	$ (181)	$ 20,856	$ (170)	$ 19,369

Unrealized losses remaining on the consolidated balance sheet at December 31, 2020 and 2019 have not been recognized into income because they are not considered to be other than temporary. Management considers the unrealized losses to be market driven, resulting from changes in interest rates, and the Company has the intent and ability to hold the securities until their value recovers.

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. When evaluating investment securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions, and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies or U.S. government-sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. There were no investments with an OTTI at December 31, 2020 or 2019.

Note 4 - Loans

Year-end loan balances as of December 31, 2020 and 2019 were as follows (000s omitted):

	2020	2019
Residential real estate	$ 62,822	$ 69,004
Consumer	6,067	6,459
Commercial real estate	73,999	71,210
Commercial	27,850	12,676
Total loans	170,738	159,349
Less:		
Deferred fees	(423)	(33)
Allowance for possible loan losses	(3,004)	(1,671)
Net loans	$ 167,311	$ 157,645

Activity in the allowance for loan losses for the years ended December 31, 2020 and 2019 is summarized below (000s omitted):

	2020					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 488	$ 60	$ 700	$ 75	$ 348	$ 1,671
Charge-offs	(1)	(42)	(6)	-	-	(49)
Recoveries	1	20	62	74	-	157
Provision	111	105	747	96	166	1,225
Ending balance	$ 599	$ 143	$ 1,503	$ 245	$ 514	$ 3,004
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 15	$ -	$ 18	$ -	$ -	$ 33
Collectively evaluated for impairment	584	143	1,485	245	514	2,971
Ending allowance balance	$ 599	$ 143	$ 1,503	$ 245	$ 514	$ 3,004
Loans:						
Individually evaluated for impairment	$ 356	$ -	$ 2,334	$ 173	$ -	$ 2,863
Collectively evaluated for impairment	62,466	6,067	71,665	27,677	-	167,875
Total loans	$ 62,822	$ 6,067	$ 73,999	$ 27,850	$ -	$ 170,738

Note 4 - Loans (Continued)

	2019					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 374	$ 32	$ 790	$ 48	$ 472	$ 1,716
Charge-offs	(11)	(36)	(9)	(74)	(33)	(163)
Recoveries	26	11	81	-	-	118
Provision	99	53	(162)	101	(91)	-
Ending balance	$ 488	$ 60	$ 700	$ 75	$ 348	$ 1,671
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 29	$ -	$ 41	$ -	$ -	$ 70
Collectively evaluated for impairment	459	60	659	75	348	1,601
Ending allowance balance	$ 488	$ 60	$ 700	$ 75	$ 348	$ 1,671
Loans:						
Individually evaluated for impairment	$ 340	$ -	$ 2,229	$ 173	$ -	$ 2,742
Collectively evaluated for impairment	68,664	6,459	68,981	12,503	-	156,607
Total loans	$ 69,004	$ 6,459	$ 71,210	$ 12,676	$ -	$ 159,349

Credit Risk Grading

The Company evaluates the credit quality of loans in the consumer loan portfolio, based primarily on the aging status of the loan. Accordingly, loans past due as to principal or interest 90 days or more are considered to be in a nonperforming status for the purpose of credit quality evaluation. All consumer loans were performing as of December 31, 2020 and 2019, and, accordingly, all consumer loans are presented as pass in the credit quality indicator table below.

Risk Ratings 1-3 (Pass)

All loans in risk ratings 1-3 are considered to be acceptable credit risks by the Company and are grouped for the purposes of allowance for loan loss considerations and financial reporting. The three ratings essentially represent a ranking of loans that are all viewed to be of acceptable credit quality, taking into consideration the various factors mentioned above, but with varying degrees of financial strength, debt coverage, management, and factors that could impact credit quality.

Risk Rating 4 (Special Mention)

A special mention business credit has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the Company’s credit position at some future date. Special mention business credits are not adversely ranked and do not expose the Company to sufficient risk to warrant adverse ranking.

Note 4 - Loans (Continued)

Risk Rating 5 (Substandard)

A substandard business credit is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Business credits classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. If the likelihood of full collection of interest and principal may be in doubt, such loans are placed on nonaccrual status.

Risk Rating 6 (Doubtful)

A business credit rated as doubtful has all the weaknesses inherent in a substandard business credit under risk rating 5, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis or currently existing facts, conditions, and values, highly questionable and improbable. Due to the high probability of loss, nonaccrual treatment is required for doubtful-rated loans.

Risk Rating 7 (Loss)

A business credit rated as loss is considered uncollectible and of such little value that its continuance as a collectible loan is not warranted. This rating does not necessarily result in absolutely no recovery or salvage value, but rather it is not practical or desirable to defer charging off even if partial recovery may be a consideration in the future.

The Company's credit quality indicators, by loan segment and class, at December 31, 2020 and 2019 are summarized below (000s omitted):

	December 31, 2020			
	Pass	Special Mention	Substandard	Total
Residential real estate	$ 62,564	$ -	$ 258	$ 62,822
Consumer	6,067	-	-	6,067
Commercial real estate	71,690	1,637	672	73,999
Commercial	27,677	173	-	27,850
Total	$ 167,998	$ 1,810	$ 930	$ 170,738

	December 31, 2019			
	Pass	Special Mention	Substandard	Total
Residential real estate	$ 68,664	$ -	$ 340	$ 69,004
Consumer	6,459	-	-	6,459
Commercial real estate	68,425	1,505	1,280	71,210
Commercial	12,365	138	173	12,676
Total	$ 155,913	$ 1,643	$ 1,793	$ 159,349

Note 4 - Loans (Continued)

Age Analysis of Past-due Loans

The following schedule represents the aging analysis of past-due loans by loan type reported at December 31 (000s omitted):

	December 31, 2020							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Residential real estate	$ 58	$ -	$ -	$ 58	$ 62,764	$ 62,822	$ -	$ 17
Consumer	-	-	-	-	6,067	6,067	-	-
Commercial real estate	133	126	133	392	73,607	73,999	-	265
Commercial	-	14	-	14	27,836	27,850	2	-
Total	$ 191	$ 140	$ 133	$ 464	$ 170,274	$ 170,738	$ 2	$ 282

	December 31, 2019						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Nonaccrual Loans
Residential real estate	$ 411	$ 1	$ -	$ 412	$ 68,592	$ 69,004	$ 93
Consumer	-	-	-	-	6,459	6,459	-
Commercial real estate	95	-	182	277	70,933	71,210	326
Commercial	4	-	2	6	12,670	12,676	-
Total	$ 510	$ 1	$ 184	$ 695	$ 158,654	$ 159,349	$ 419

At December 31, 2019, there were no loans over 90 days still accruing interest.

Note 4 - Loans (Continued)

Impaired Loans

Impaired loans are presented in the tables below (000s omitted):

	As of and for the Year Ended December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Residential real estate	$ 98	$ 98	$ -	$ 66	$ 449
Commercial real estate	150	150	-	145	10
Commercial	173	173	-	90	9
Total with no related allowance recorded	421	421	-	301	468
With an allowance recorded:					
Residential real estate	258	258	15	267	11
Commercial real estate	2,184	2,184	18	2,275	117
Total with an allowance recorded	2,442	2,442	33	2,542	128
Total	$ 2,863	$ 2,863	$ 33	$ 2,843	$ 596

	As of and for the Year Ended December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Residential real estate	$ 97	$ 97	$ -	$ 66	$ 449
Commercial real estate	149	149	-	145	10
Commercial	173	173	-	90	9
Total with no related allowance recorded	419	419	-	301	468
With an allowance recorded:					
Residential real estate	243	243	29	245	11
Commercial real estate	2,080	2,080	41	2,168	111
Total with an allowance recorded	2,323	2,323	70	2,413	122
Total	$ 2,742	$ 2,742	$ 70	$ 2,714	$ 590

For the purpose of the disclosure above, recorded investment represents the borrower's unpaid principal balance less partial charge-offs to date.

Note 4 - Loans (Continued)

Paycheck Protection Program

During 2020, the Small Business Administration (SBA) Paycheck Protection Program (PPP) was designed to provide liquidity to small businesses during the COVID-19 pandemic. The loans are guaranteed by the SBA, and loan proceeds to borrowers are forgivable by the SBA if certain criteria are met. The Company originated PPP loans totaling approximately $23,245,000 during the year. As of December 31, 2020, there was approximately $13,300,000 of PPP loans included in the commercial loan segment. PPP processing fees received from the SBA totaling $924,000 were deferred, net of loan origination costs and recognized as interest income using the effective yield method. Upon forgiveness of a loan and resulting repayment by the SBA, any unrecognized net fee for a given loan is recognized as interest income. At December 31, 2020, there was approximately $381,000 of the fees yet to be recognized into income.

CARES Act Modifications

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspends the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic. As a result of the pandemic, the Company provided a modification program to borrowers that included certain concessions, such as interest-only or payment deferrals. The Company granted pandemic-related modifications of loans totaling approximately $33,957,000. As of December 31, 2020, there were loans totaling approximately $1,199,000 that remained under a modification agreement but are not disclosed as TDRs. Regardless of whether a modification is classified as a TDR, the Company continues to apply policies for risk rating, accruing interest, and classifying loans as impaired.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

The following schedule represents the modification activity for loans considered troubled debt restructurings that were modified during the years ended December 31, 2020 and 2019 (000s omitted, except number of contracts):

	2020			2019		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Residential real estate	-	$ -	$ -	1	$ 20	$ 20

There were no loans modified as troubled debt restructurings within the previous 12 months that became 30 days or more past due during the years ended December 31, 2020 and 2019.

Note 5 - Loan Servicing

Mortgage servicing rights are included in other assets on the consolidated balance sheet. For the years ended December 31, 2020 and 2019, activity for capitalized mortgage servicing rights was as follows (000s omitted):

	2020	2019
Balance - Beginning of year	$ 849	$ 796
Additions	717	200
Amortization	(342)	(147)
Balance - End of year	$ 1,224	$ 849

The fair value of mortgage servicing rights is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration the expected prepayment rates and other economic factors that are based on current market conditions. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. The fair value calculation is performed by a third-party model. Assumptions used in the 2020 model include an average prepayment rate of 15.15 percent and an average discount rate of 5.04 percent. Assumptions used in the 2019 model include an average prepayment rate of 13.21 percent and an average discount rate of 5.86 percent. The fair value of the mortgage servicing rights was last calculated as of November 30, 2020 and 2019 and had a fair value of approximately $1,250,000 and $925,000, respectively.

Mortgage loans serviced for others are not reported as assets. At December 31, 2020 and 2019, total mortgage loans serviced for others totaled $143,780,000 and $106,127,000, respectively. Related escrow deposit balances were $496,000 and $389,000 at December 31, 2020 and 2019, respectively.

Note 6 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31, 2020 and 2019 is as follows (000s omitted):

	2020	2019
Real estate and buildings	$ 9,066	$ 8,922
Furniture, fixtures, and equipment	4,147	4,104
Construction in progress	137	59
Total cost	13,350	13,085
Accumulated depreciation	(7,599)	(7,230)
Net property and equipment	$ 5,751	$ 5,855

Depreciation expense for the years ended December 31, 2020 and 2019 totaled approximately $479,000 and $615,000, respectively.

Note 7 - Other Real Estate Owned

Occasionally, the Bank forecloses on certain loans secured by real estate and transfers this real estate collateral to other real estate. At the time of acquisition, amounts are charged off against the allowance for loan losses to bring the carrying amount of these properties to their estimated fair value, less estimated costs to sell. Activity in other real estate owned is as follows for the years ended December 31, 2020 and 2019 (000s omitted):

	2020	2019
Balance at beginning of year	$ 124	$ 99
Transfers from loans	-	86
Sales/Redemptions	(134)	(56)
Gain on sales	10	-
Write-down adjustments and loss on sales	-	(5)
Total	$ -	$ 124

Management periodically reviews the other real estate owned properties for a valuation allowance to determine if the values of these properties have declined since the date of acquisition. There were no properties held in other real estate at December 31, 2020.

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2020 and 2019 (000s omitted):

	2020	2019
Non-interest-bearing deposits	$ 123,493	$ 82,654
NOW accounts	71,587	56,906
Savings and money market accounts	133,791	105,785
Time deposits:		
Under $250,000	24,995	26,754
$250,000 and over	9,053	6,913
Total	$ 362,919	$ 279,012

At December 31, 2020, the scheduled maturities of time deposits are as follows (000s omitted):

Years Ending	Amount
2021	$ 10,651
2022	14,624
2023	7,007
2024	1,177
2025	589
Total	$ 34,048

Note 9 - Employee Benefits

Defined Benefit Retirement Plan

Prior to 2019, the Company had a funded noncontributory defined benefit pension plan. The plan was amended to no longer accept new participants as of December 31, 2008. During 2018, the plan was curtailed and approved to be settled, with an additional expense of a $797,000 settlement in 2019.

Note 9 - Employee Benefits (Continued)

401(k) Plan

The Company has a 401(k) savings and retirement plan covering substantially all employees. Under the plan, employees may defer up to the lesser of 100 percent of their eligible compensation or the limitations set by the Internal Revenue Service (IRS). The employees may also make catch-up contributions to the extent the IRS allows. During 2020 and 2019, the board of directors elected to contribute a matching contribution equal to 100 percent of the first 5 percent of employee contributions. Employee contributions and the Company's matching contributions are vested immediately. The Company's matching percentages are determined annually by the board of directors and resulted in total contributions of $199,000 and $154,000 in 2020 and 2019, respectively.

Deferred Compensation Plan

The Company has a deferred compensation plan that allows executive officers of the Bank and certain directors an opportunity to defer a portion of their compensation. On a monthly basis, the account of each participant accrues interest based on the interest rate determined for that year. Total liabilities under the plan are $1,874,000 and $1,662,000 at December 31, 2020 and 2019, respectively, and are included within other liabilities on the consolidated balance sheet. The interest expense of the plan was $68,000 and $59,000 in 2020 and 2019, respectively. Distributions under the plan were $145,000 and $112,000 in 2020 and 2019, respectively. Deferrals into the plan were $289,000 and $264,000 in 2020 and 2019, respectively.

The Company also has a deferred compensation plan to provide retirement benefits to certain directors, at their option, in lieu of annual directors' fees. The plan was amended as of December 31, 2009; participants are no longer able to defer compensation in accordance with this plan, and no additional benefits accrue under this plan. The present value of future benefits was accrued annually over the period of active service of each participant using a 6.00 percent discount rate. Total liabilities under this plan are $1,138,000 and $1,343,000 at December 31, 2020 and 2019, respectively, and are included in other liabilities on the consolidated balance sheet. The expense for the plan was $73,000 and $87,000 in 2020 and 2019, respectively. Distributions under the plan were $278,000 and $322,000 in 2020 and 2019, respectively.

The following benefit payments reflect expected future cash flows as anticipated (000s omitted):

Years Ending	Amount
2021	$ 293
2022	354
2023	347
2024	280
2025	280

Note 10 - Income Taxes

Income tax expense consists of the following (000s omitted):

	2020	2019
Current income tax expense	$ 794	$ 526
Deferred income tax benefit	(178)	(151)
Total income tax expense	$ 616	$ 375

Note 10 - Income Taxes (Continued)

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows (000s omitted):

	2020	2019
Income tax expense, computed at statutory rates	$ 720	$ 481
Effect of nontaxable income	(104)	(106)
Total provision for income taxes	$ 616	$ 375

The details of the net deferred tax asset are as follows (000s omitted):

	2020	2019
Deferred tax assets:		
Allowance for doubtful accounts	$ 341	$ 84
Deferred compensation	633	631
Other	158	131
Gross deferred tax assets	1,132	846
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	(487)	(58)
Mortgage servicing rights	(257)	(178)
Fixed asset and other	(224)	(195)
Gross deferred tax liabilities	(968)	(431)
Net deferred tax asset	$ 164	$ 415

Note 11 - Related Party Transactions

Certain directors and executive officers of the Company and the Bank (including family members, affiliates, and companies in which they are principal owners) had loans outstanding with the Company in the ordinary course of business. Related party loan balances totaled $4,283,000 and $4,700,000 at December 31, 2020 and 2019, respectively. Related party deposits totaled $11,399,000 and $6,363,000 at December 31, 2020 and 2019, respectively.

Note 12 - Commitments, Off-balance-sheet Risk, and Contingencies

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or result of operations of the Company.

At December 31, 2019, the Bank was required to maintain average balances on hand or with the Federal Reserve Bank of $930,000. As of March 26, 2020, the Federal Reserve Bank eliminated reserve requirements for certain depository institutions, including the Bank. As such, there was no reserve requirement at December 31, 2020.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit. These involve, to a varying degree, credit and interest rate risk in excess of the amount reported in the consolidated financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

Note 12 - Commitments, Off-balance-sheet Risk, and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments to guarantee a customer's performance to a third party.

A summary of the unused contractual amounts of financial instruments with off-balance-sheet risk at year end is as follows (000s omitted):

	2020	2019
Commitments to extend credit	$ 61,484	$ 50,054
Standby letters of credit	34	525

The fair values of these commitments are not material. Substantially all of these commitments are at variable or uncommitted rates.

Note 13 - Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments of certain assets and liabilities and to determine fair value disclosure.

Fair Value Hierarchy

Under Accounting Standards Codification (ASC) 820, the Company groups assets and liabilities at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Company uses the following methods and significant assumptions to estimate fair value.

Note 13 - Fair Value Measurements (Continued)

Securities classified as available for sale are generally reported at fair value utilizing Level 2 inputs, where the Company obtains fair value measurements from an independent pricing service that uses matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, and the bonds' terms and conditions, among other things. Securities in Level 1 include preferred stock securities. Securities in Level 2 include U.S. government agencies, mortgage-backed securities, corporate obligations, and state and municipal securities. The state and municipal portfolio also contains obligations issued by local municipalities and does not have a registered CUSIP. These bonds are classified based on Level 3 inputs. Based on the lack of observable market data, the Company estimated fair values based on the observable data available and reasonable unobservable market data. The Company estimated fair value based on a discounted cash flow model, which used appropriately adjusted discount rates reflecting credit and liquidity risks.

Investment securities available for sale are valued primarily by a third-party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies and assumptions, are reviewed for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, our investment securities do not possess a complex structure that could introduce greater valuation risk. Pricing for such instruments is fairly generic and is easily obtained. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to prices obtained from other third-party sources for a material portion of the portfolio.

Both the market and income valuation approaches are implemented using the following types of inputs:

- Government-sponsored agency debt securities and corporate bonds are primarily priced using available market information through processes, such as benchmark curves, market valuations of like securities, sector groupings, and matrix pricing.
- Other government-sponsored mortgage-backed securities are primarily priced using available market information, including benchmark yields, prepayment speeds, spreads, and volatility of similar securities.
- Corporate obligations are primarily priced using consensus pricing and dealer quotes.
- State and municipal bonds are largely grouped by characteristics (i.e., geographical data and source of revenue in trade dissemination systems). Since some securities are not traded daily, and, due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities. Local tax anticipation warrants, with very little market activity, are priced using an appropriate market yield curve.

Note 13 - Fair Value Measurements (Continued)

The following tables present information about the Company's assets measured at fair value on a recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Company to determine those fair values (000s omitted):

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 10,464	$ -	$ 10,464
Mortgage backed	-	106,070	-	106,070
State and municipal	-	16,935	4,842	21,777
Collateralized mortgage obligations	-	9,738	-	9,738
Total investment securities available for sale	$ -	$ 143,207	$ 4,842	$ 148,049

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 15,745	$ -	$ 15,745
Mortgage backed	-	38,743	-	38,743
State and municipal	-	-	23,173	23,173
Collateralized mortgage obligations	-	13,584	-	13,584
Total investment securities available for sale	$ -	$ 68,072	$ 23,173	$ 91,245

The Company also reviews the fair value of certain assets and, if necessary, adjusts the carrying value of the assets to fair value on a nonrecurring basis.

Impaired loans categorized as Level 3 assets consist of nonhomogeneous loans that are considered impaired and had write-downs to fair value during the period. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payments ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Note 13 - Fair Value Measurements (Continued)

The Company's other real estate owned is held at an estimated realizable value, and that value changes periodically with the real estate market. Losses for the period associated with other real estate owned represent valuation adjustments and write-downs through the consolidated statement of income.

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2020 (000s omitted)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Assets - Impaired loans	$ -	$ -	$ 2,863	$ 2,863

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2019 (000s omitted)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Impaired loans	$ -	$ -	$ 2,742	$ 2,742
Other real estate owned	-	-	124	124

Note 14 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amount is considered to approximate fair value for cash and variable-rate loans or deposits that reprice frequently and fully. Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer. For fixed-rate loans or deposits and for variable-rate loans or deposits with infrequent repricing or repricing limits, the fair value is estimated by discounted cash flow analysis or underlying collateral values, where applicable. The fair value of off-balance-sheet items approximates cost and is not considered significant to this presentation.

The estimated year-end values of financial instruments were as follows (000s omitted):

	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 44,895	$ 44,895	$ 25,669	$ 25,669
Time deposits with other financial institutions	12,632	12,632	15,614	15,614
Securities available for sale	148,049	148,049	91,245	91,245
Securities held to maturity	3,524	3,671	1,240	1,269
Other securities	957	957	957	957
Loan held for sale	5,485	5,671	3,106	3,150
Loans - Net	167,311	178,851	157,645	161,388
Accrued interest receivable on loans	699	699	503	503
Financial Liabilities				
Deposits	362,919	264,125	279,012	264,125
Accrued interest payable	15	15	10	10

Note 15 - Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios, as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are also presented in the table. This table does not include the 2.5 percent capital conservation buffer requirement. A bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Actual	Ratio	Actual	Ratio	Actual	Ratio
As of December 31, 2020						
Common equity Tier 1 capital (to risk-weighted assets)	$ 27,763	13.77 %	$ 9,073	4.50 %	$ 13,103	6.50 %
Total risk-based capital (to risk-weighted assets)	30,289	15.02	16,130	8.00	20,163	10.00
Tier 1 capital (to risk-weighted assets)	27,763	13.77	12,098	6.00	16,130	8.00
Tier 1 capital (to average assets)	27,763	7.03	15,794	4.00	19,742	5.00
As of December 31, 2019						
Common equity Tier 1 capital (to risk-weighted assets)	26,391	15.33	7,747	4.50	11,190	6.50
Total risk-based capital (to risk-weighted assets)	28,062	16.30	13,772	8.00	17,215	10.00
Tier 1 capital (to risk-weighted assets)	26,391	15.33	10,329	6.00	13,772	8.00
Tier 1 capital (to average assets)	26,391	8.32	12,686	4.00	15,857	5.00

Note 15 - Regulatory Capital (Continued)

One of the principal sources of cash for the Company is dividends from the Bank. Regulatory agencies can place dividend restrictions on the Bank based on their evaluation of its financial condition. No restrictions are currently imposed by regulatory agencies on the Bank other than the limitations found in the regulations that govern the payment of dividends to the Company. Under the most restrictive of these regulations, in 2020, the Bank is limited to paying dividends of the Company's results from operations from 2020 and the retained net income of the prior two calendar years.

Officers of CNB Corporation and Citizens National Bank

CNB Corporation Officers

Matthew E. Keene
President & CEO

Victoria J. Hand
Secretary

Amy E. Essex
Treasurer

Citizens National Bank Officers

Matthew E. Keene
President &
Chief Executive Officer

Victoria J. Hand
Executive Vice President,
Chief Operating Officer,
Cashier & Compliance Officer

Amy E. Essex
Senior Vice President &
Chief Financial Officer

Joseph P. Garber
Senior Vice President &
Chief Credit Officer

David A. Woods
Senior Vice President &
Chief Loan Officer

Stephen J. Crusoe
Senior Vice President
Residential Banking

Joseph M. Daly
Senior Vice President
Business Banking

Nicole M. Drake
Senior Vice President
Business Banking

Matthew H DeWildt
Vice President Wealth &
Retirement Strategies

Trisha M. Dobias
Vice President
Human Resources

Valerie A. Jones
Vice President
Cash Management

Nancy K. Lindsay
Vice President
Marketing

Darren M. Selden
Vice President
Residential Banking

Timothy J. Timmer
Vice President
Business Banking

Cynthia D. Lamberson
Assistant Vice President
Business Banking

Rebecca L. Tomaski
Assistant Vice President
Shareholder Relations

Quinn C. Bonnett
Facilities Manager &
Security Officer

Sharon L. Coppernoll
Residential Officer

Stephen J. Daly
Business Banking Officer

Mylise M. Hext-Pyle
Loan Operations Officer

Michelle M. Miller
Residential Officer

Dennis S. Myers
Residential Officer

Amanda J. Nicholson
Universal Banking Officer

Regina H. Patton
Residential Officer

Chandlar E. Rush
Technology Officer

Sherry M. Wichlacz
Operations Officer

Staff of Citizens National Bank

Cheboygan

Angie Baker
Valiant Bondie III
Maghan Brooks
Amber Cannon
Samantha Darga
Angie Derk
Katherine H. Eldridge
Brandie Ford
Mary Greenwood
Jessica Gross
Allison Grosso
Marilee G. Gustafson
Hannah Hudak
Jessica Hutchinson
Heather Keranen
Ronda A. Kinzey
Courtney Lewis
Jill Lynch
Lacey Mansfield
Alexandria Martin
Memory Massey
Gretchen McClymont
Jami McDill
Desiree McKenzie
Rachel Nave
Ashley R. Plaunt
Amy Rampinelli
Alishia Sanford
Stefani Stewart
M. Teresa Sullivan
Pamela Taylor
Carmen Tibbits
David Tomaski
Jessica Smith
Jordan C. Velandia
Corinna Willis
Jenna Wood

South Branch Cheboygan

Maria Grantner
Christina Hartman
Emily Maynard
Christine A. Ostwald
Jeremy Pasella

Mackinaw City

Deborah Closs
Adam Schulz

Onaway

Misty Curtis
Sara LaLonde
Lynn Porter
Charee Wilcox

Indian River

Julie Douglas
Jennifer Levernier
Erika Price
Olivia Skrine
Tiffany Stevens

Alanson

Danette Cool
Lora Frye
Amanda Ide
Erica McDowell

Petoskey

Talenna Calhoun
Tawni Holley
Kelly Leist
Sheri Popp
Ariana Whipp

Directors of CNB Corporation and Citizens National Bank

Current Directors

RICK A. TROMBLE
Chairman, CNB Corporation
Chairman, Citizens National Bank
Owner, Tromble Bay Farms

*DANA F ANDREWS
President, Sturgeon River Pottery, Inc.

STEVEN J. BAKER, D.V.M.
Retired, Indian River Veterinary Clinic

THOMAS J. ELLENBERGER
Past Audit Committee Chairman, CNB Corporation
Vice President & Secretary
Albert Ellenberger Lumber Company

SUSAN A. ENO
Retired, President & Chief Executive Officer
CNB Corporation & Citizens National Bank

VINCENT J. HILLESHEIM
Past Chairman, CNB Corporation & Citizens National Bank
Retired President, Anchor In Marina of Northern Michigan, Inc.

MATTHEW E. KEENE
President & Chief Executive Officer, CNB Corporation
President & Chief Executive Officer, Citizens National Bank

*SCOTT D. LANDON
President, Landon Auto Parts

KATHLEEN A. LIEDER
Retired, Partner, Bodman LLP

THOMAS J. REDMAN
President, Tube Fab

CHRISTOPHER B. SHEPLER
President, Shepler's Mackinac Island Ferry Service

R. JEFFERY SWADLING
Audit Committee Chairman, CNB Corporation
Vice President, Ken's Village Market

Directors Emeriti

JAMES C. CONBOY, JR.
KATHLEEN M. DARROW
FRANCIS J. VANANTWERP, JR
JOHN P. WARD

*Officers of Citizens National Bank Only

CNB CORPORATION COMMON STOCK

CNB Corporation common stock is listed on the OTC Markets and is traded under the symbol “CNBZ.” The Company had 834 shareholders as of December 31, 2020.

SHAREHOLDER RELATIONS AND ANNUAL REPORT AVAILABLE

Shareholders may obtain, without charge, a copy of the 2020 Annual Report by submitting a written request to:

Shareholder Relations
CNB Corporation
303 N. Main St. P.O. Box 10,
Cheboygan, Michigan 49721
or
registrar@cnbismybank.com

The reports can also be downloaded from our website https://www.cnbismybank.com/about-us/shareholder-relations.html.

WEBSITE INFORMATION

The most current news releases and CNB Corporation financial reports and product information are available at our website, www.cnbismybank.com.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Thursday, May 20, 2021 at the Knights of Columbus Hall, 9840 N. Straits Highway, Cheboygan, Michigan, 49721 at 5:30 p.m.

INDEPENDENT AUDITOR

Plante & Moran, PLLC
Grand Rapids, Michigan

STOCK SALES & MARKET MAKERS

Stock sales can be handled by stockbrokers serving as market makers. You may work with a broker of your choice or facilitate a private party sale. Market information for CNB Corporation is identified on the OTC Markets website at www.otcmarkets.com.

TRANSFER AGENT

The transfer agent for CNB Corporation continues to be Citizens National Bank. Inquiries regarding a change of name, address or ownership of stock, as well as information on shareholder records, lost or stolen certificates should be directed to shareholder relations.

The following table presents the high and low selling prices of known transactions in common stock of the Company for each quarter of 2020 and 2019:

	2020			2019		
	Market Price		Cash Dividends	Market Price		Cash Dividends
Quarter	High	Low	Declared	High	Low	Declared
1st	$23.00	$19.80	$0.40	$22.50	$19.50	$0.40
2nd	$19.25	$16.50	$ -	$20.50	$19.55	$ -
3rd	$20.00	$15.50	$0.40	$20.75	$19.60	$0.40
4th	$19.50	$18.55	$ -	$26.00	$19.60	$ -