CNB Corporation

Consolidated Financial Report
December 31, 2022

Contents

FORVIS

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Independent Auditor's Report

Audit Committee
CNB Corporation
Cheboygan, Michigan

Opinion

We have audited the consolidated financial statements of CNB Corporation and subsidiary, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CNB Corporation and subsidiary as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Year Audited by Other Auditors

The 2021 consolidated financial statements were audited by other auditors, and their report thereon, dated March 18, 2022, expressed an unmodified opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CNB Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CNB Corporation's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

FORVIS, LLP

Fort Wayne, Indiana
March 17, 2023

Consolidated Balance Sheets

December 31, 2022 and 2021

(000s omitted, except per share data)

	2022	2021
Assets		
Cash and due from banks	$ 8,177	$ 15,922
Federal funds sold	785	-
Interest-bearing deposits with other financial institutions	1,960	5,969
Total cash and cash equivalents	10,922	21,891
Time deposits with other financial institutions	8,144	9,653
Investment securities - Available for sale (Note 3)	222,381	267,609
Investment securities - Held to maturity (Note 3)	6,476	4,665
Other securities	2,206	1,644
Loans held for sale	-	2,271
Loans - Net of allowance for loan losses of $2,792 and $2,770 as of December 31, 2022 and 2021, respectively (Note 4)	207,658	165,122
Bank premises and equipment - Net (Note 6)	6,414	7,525
Other assets (Notes 5, 7 and 10)	19,547	11,714
Total assets	**$ 483,748**	**$ 492,094**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits: (Note 8)		
Non-interest bearing	$ 173,737	$ 165,687
Interest bearing	301,758	291,533
Total deposits	475,495	457,220
Accrued and other liabilities (Note 9)	5,596	5,726
Total liabilities	481,091	462,946
Stockholders' Equity		
Common stock - $2.50 par value; 2,000,000 shares authorized; 1,210,717 shares issued and outstanding in 2022 and 2021	3,027	3,027
Additional paid-in capital	19,473	19,473
Retained earnings	10,871	8,251
Accumulated other comprehensive loss - Net of tax	(30,714)	(1,603)
Total stockholders' equity	2,657	29,148
Total liabilities and stockholders' equity	**$ 483,748**	**$ 492,094**

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 2022 and 2021
(000s omitted, except per share data)

	2022	2021
Interest Income		
Loans - Including fees	$ 9,145	$ 9,351
Investment securities:		
Taxable	3,972	1,852
Tax exempt	313	320
Other	557	299
Total interest income	13,987	11,822
Interest Expense	645	618
Net Interest Income	13,342	11,204
Benefit for Loan Losses (Note 4)	-	(250)
Net Interest Income - After benefit for loan losses	13,342	11,454
Noninterest Income		
Service charges and fees	1,365	1,198
Net gain on sale of loans and mortgage banking income	497	2,323
Loan servicing fees - Net of amortization	34	(56)
Other	933	750
Total noninterest income	2,829	4,215
Noninterest Expense		
Salaries and employee benefits	6,711	7,026
Occupancy and equipment	1,315	1,378
Data processing	937	1,047
FDIC premiums	343	255
Deferred compensation (Note 9)	98	128
Legal and professional	866	887
Other	1,334	1,281
Total noninterest expense	11,604	12,002
Income - Before income taxes	4,567	3,667
Income Tax Expense (Note 10)	857	663
Net Income	**$ 3,710**	**$ 3,004**
Earnings per share - Basic	$ 3.07	$ 2.48
Earnings per share - Diluted	$ 3.07	$ 2.48

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Loss

Years Ended December 31, 2022 and 2021
(000s omitted, except per share data)

	2022	2021
Net Income	$ 3,710	$ 3,004
Other Comprehensive Loss		
Unrealized (loss) income on securities:		
Arising during the year	(36,849)	(4,471)
Reclassification adjustment	-	122
Tax effect	7,738	913
Total other comprehensive loss	(29,111)	(3,436)
Comprehensive Loss	**$ (25,401)**	**$ (432)**

See notes to consolidated financial statements.

CNB Corporation

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2022 and 2021

(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2021	$ 3,027	$ 19,473	$ 6,335	$ 1,833	$ 30,668
Net income	-	-	3,004	-	3,004
Other comprehensive income	-	-	-	(3,436)	(3,436)
Dividends declared $0.90 per share	-	-	(1,088)	-	(1,088)
Balance - December 31, 2021	3,027	19,473	8,251	(1,603)	29,148
Net income	-	-	3,710	-	3,710
Other comprehensive loss	-	-	-	(29,111)	(29,111)
Dividends declared $0.90 per share	-	-	(1,090)	-	(1,090)
Balance - December 31, 2022	**$ 3,027**	**$ 19,473**	**$ 10,871**	**$ (30,714)**	**$ 2,657**

See notes to consolidated financial statements.

CNB Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021
(000s omitted, except per share data)

	2022	2021
Cash Flows from Operating Activities		
Net income	$ 3,710	$ 3,004
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	442	483
Benefit for loan losses	-	(250)
Loans originated for sale	(10,055)	(64,071)
Proceeds from sales of loans originated for sale	11,416	65,574
Gain on sale of investment securities	-	(122)
Gain on sale of loans	(385)	(1,710)
Proceeds from sale of other real estate	185	-
Gain on sale of other real estate	(47)	-
Deferred tax expense	364	68
Increase in cash surrender value of life insurance	(151)	(150)
Loss on disposal of premises and equipment	-	70
Amortization of securities	870	2,044
Gain on sale of premises and equipment	(391)	-
Net change in:		
Other assets	(446)	(302)
Accrued expenses and other liabilities	(129)	433
Net cash and cash equivalents provided by operating activities	5,383	5,071
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from sales of available-for-sale securities	-	64,464
Proceeds from maturities and calls of securities available for sale	32,870	45,710
Purchase of securities available for sale	(25,362)	(236,005)
Proceeds from paydowns and maturities of securities held to maturity	531	415
Purchase of securities held to maturity	(2,342)	(1,556)
Net change in portfolio loans	(41,241)	5,722
Proceeds from premises and equipment	1,283	-
Purchases of premises and equipment	(223)	(2,330)
Purchase of FHLB stock	(562)	(687)
Proceeds from maturities of time deposits	5,940	3,227
Purchase of time deposits	(4,431)	(248)
Net cash and cash equivalents used in investing activities	(33,537)	(121,288)
Cash Flows from Financing Activities		
Net increase in deposit accounts	18,275	94,301
Dividends paid	(1,090)	(1,088)
Net cash and cash equivalents provided by financing activities	17,185	93,213
Net Decrease in Cash and Cash Equivalents	(10,969)	(23,004)
Cash and Cash Equivalents - Beginning of year	21,891	44,895
Cash and Cash Equivalents - End of year	**$ 10,922**	**$ 21,891**
Supplemental Cash Flow Information - Cash paid for interest	$ 642	$ 606
Significant Noncash Transactions		
Transfer from loans to other real estate owned	$ -	$ 138
Reclassification of LHFS to loans held for investment	1,295	-

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, 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. On January 1, 2021, the Bank closed its 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. At December 31, 2022, the Company's cash accounts exceeded federally insured limits by approximately $2,055,000.

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 loss.

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 loss.

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.

The Company's only other equity security is an investment in United Bankers' Bank (UBB) stock which does not have a readily determinable fair value and is carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment. Under this practicability exception, the Company performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value.

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.

Loan Servicing

Servicing assets are recognized initially at fair value as separate assets when rights are acquired through the purchase or sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined by using prices for similar assets with similar characteristics, when available, or based on discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum of servicing assets to the extent that fair value is less than the capitalized amount for the stratum.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain executives and employees. 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, 2022 and 2021, the cash surrender value of the underlying policies was approximately $6,773,000 and $6,622,000, respectively, which is included in other assets on the consolidated balance sheet.

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 Loss

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 loss.

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 2022 and 2021. 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, 2022 or 2021. Accordingly, no dilutive impact is presented.

Note 2 - Significant Accounting Policies (Continued)

Reclassification

Certain reclassifications have been made to the 2021 consolidated financial statements to conform to the 2022 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

Revisions

Certain immaterial revisions have been made to the 2021 consolidated financial statements for the level classification of state and municipal securities. These revisions did not have a significant impact on the financial statement line items impacted.

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. The standard will have a significant effect on the Company's consolidated financial statements, as credit losses will be accelerated with the elimination of the probable threshold for initial recognition.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 17, 2023, 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) income for securities available for sale were as follows as of December 31, 2022 and 2021 (000s omitted):

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 25,047	$ -	$ (2,832)	$ 22,215
Mortgage backed	205,058	-	(32,947)	172,111
Collateralized mortgage obligations	18,300	-	(2,496)	15,804
State and municipal	12,854	160	(763)	12,251
Total available for sale	$ 261,259	$ 160	$ (39,038)	$ 222,381
Held-to-maturity securities - State and municipal	6,476	-	(179)	6,297

Note 3 - Securities (Continued)

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Total available-for-sale and held-to-maturity securities	$ 267,735	$ 160	$ (39,217)	$ 228,678

The carrying value of securities pledged as collaterla, to secure borrowings, as $10,874,000 and $0 at December 31, 2022 and 2021, respectively.

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 25,066	$ 10	$ (374)	$ 24,702
Mortgage backed	211,327	499	(2,447)	209,379
Collateralized mortgage obligations	13,637	66	(131)	13,572
State and municipal	19,608	401	(53)	19,956
Total available for sale	$ 269,638	$ 976	$ (3,005)	$ 267,609
Held-to-maturity securities - State and municipal	4,665	93	(5)	4,753
Total available-for-sale and held-to-maturity securities	$ 274,303	$ 1,069	$ (3,010)	$ 272,362

During 2021, proceeds from sales of available-for-sale securities were approximately $64,464,000, resulting in gross gains and losses of approximately $425,000 and $303,000, respectively, in 2021. There were no proceeds from sales in 2022.

Contractual maturities of debt securities at December 31, 2022 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, 2022 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	$ 4,901	$ 4,868	$ 1,388	$ 1,383
Due in one through five years	29,671	26,648	1,292	1,272
Due after five years through ten years	3,329	2,950	2,654	2,474
Thereafter	-	-	1,142	1,168
Mortgage backed	205,058	172,111	-	-
Collateralized mortgage obligations	18,300	15,804	-	-
Total	$ 261,259	$ 222,381	$ 6,476	$ 6,297

Note 3 - Securities (Continued)

Securities with unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (000s omitted):

	2022			
	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	$ (3)	$ 496	$ (2,829)	$ 21,719
Mortgage backed	(2,537)	19,024	(30,410)	153,087
Collateralized mortgage obligations	(1,141)	7,694	(1,355)	8,110
State and municipal	(111)	4,543	(652)	4,608
Held-to-maturity securities	(179)	6,267	-	-
Total	$ (3,971)	$ 38,024	$ (35,246)	$ 187,524

	2021			
	Less Than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities - Mortgage backed:				
U.S. government and agency	$ (374)	$ 24,196	$ -	$ -
Mortgage backed	(2,185)	160,751	(262)	14,772
Collateralized mortgage obligations	(131)	7,403	-	-
State and municipal	(53)	5,214	-	-
Total available-for-sale securities	$ (2,743)	$ 197,564	$ (262)	$ 14,772

Unrealized losses remaining on the consolidated balance sheet at December 31, 2022 and 2021 have not been recognized into income because they are not considered to be other than temporary. There were 158 and 81 securities in an unrealized loss position at December 31, 2022 and 2021, respectively. 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.

There were no investments with an OTTI at December 31, 2022 or 2021. 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. 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.

Note 3 - Securities (Continued)

The majority of unrealized losses at December 31, 2022 are related to federal agency securities, mortgage-backed securities, and collateralized mortgage obligations. Agency-issued securities are generally guaranteed by a U.S. government agency, such as the Government National Mortgage Association. Government-sponsored enterprises, such as the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association, have an implied guarantee by the U.S. government. At December 31, 2022, all of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies.

Unrealized losses on corporate and municipal bonds have not been recognized into income because the issuers' bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recover, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

Note 4 - Loans

Year-end loan balances as of December 31, 2022 and 2021 were as follows (000s omitted):

	2022	2021
Residential real estate	$ 89,028	$ 66,149
Consumer	9,179	6,104
Commercial real estate	89,120	74,332
Commercial	23,130	21,335
Total loans	210,457	167,920
Less:		
Deferred fees	(7)	(28)
Allowance for loan losses	(2,792)	(2,770)
Net loans	$ 207,658	$ 165,122

Note 4 - Loans (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2022 and 2021 is summarized below (000s omitted):

	2022					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 600	$ 121	$ 1,506	$ 279	$ 264	$ 2,770
Charge-offs	-	(41)	(1)	-	-	(42)
Recoveries	-	24	40	-	-	64
Provision (credit)	(50)	27	(200)	177	46	-
Ending balance	$ 550	$ 131	$ 1,345	$ 456	$ 310	$ 2,792
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 8	$ -	$ 4	$ -	$ -	$ 12
Collectively evaluated for impairment	542	131	1,341	456	310	2,780
Ending allowance balance	$ 550	$ 131	$ 1,345	$ 456	$ 310	$ 2,792
Loans:						
Individually evaluated for impairment	$ 143	$ -	$ 666	$ -	$ -	$ 809
Collectively evaluated for impairment	88,885	9,179	88,454	23,130	-	209,648
Total loans	$ 89,028	$ 9,179	$ 89,120	$ 23,130	$ -	$ 210,457

	2021					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 599	$ 143	$ 1,503	$ 245	$ 514	$ 3,004
Charge-offs	-	(35)	(1)	-	-	(36)
Recoveries	1	13	4	34	-	52
Provision (credit)	-	-	-	-	(250)	(250)
Ending balance	$ 600	$ 121	$ 1,506	$ 279	$ 264	$ 2,770
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 7	$ -	$ 13	$ -	$ -	$ 20
Collectively evaluated for impairment	513	134	1,578	452	73	2,750
Ending allowance balance	$ 520	$ 134	$ 1,591	$ 452	$ 73	$ 2,770
Loans:						
Individually evaluated for impairment	$ 153	$ -	$ 798	$ -	$ -	$ 951
Collectively evaluated for impairment	65,996	6,104	73,534	21,335	-	166,969
Total loans	$ 66,149	$ 6,104	$ 74,332	$ 21,335	$ -	$ 167,920

Note 4 - Loans (Continued)

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, 2022 and 2021, and, accordingly, all consumer loans are presented as pass in the credit quality indicator table below.

Risk Ratings 1-4 (Pass)

All loans in risk ratings 1-4 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 5 (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.

Risk Rating 6 (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 credit 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 7 (Doubtful)

A business credit rated as doubtful has all the weaknesses inherent in a substandard business credit under risk rating 6, 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 8 (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, 2022 and 2021 are summarized below (000s omitted):

	December 31, 2022			
	Pass	Special Mention	Substandard	Total
Residential real estate	$ 88,885	$ -	$ 143	$ 89,028
Consumer	9,179	-	-	9,179
Commercial real estate	89,029	62	29	89,120
Commercial	23,130	-	-	23,130
Total	$ 210,223	$ 62	$ 172	$ 210,457

Note 4 - Loans (Continued)

	December 31, 2021			
	Pass	Special Mention	Substandard	Total
Residential real estate	$ 65,996	$ -	$ 153	$ 66,149
Consumer	6,104	-	-	6,104
Commercial real estate	72,679	880	773	74,332
Commercial	21,335	-	-	21,335
Total	$ 166,114	$ 880	$ 926	$ 167,920

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, 2022						
	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	$ 268	$ -	$ -	$ 268	$ 88,760	$ 89,028	$ 2
Consumer	15	-	-	15	9,164	9,179	-
Commercial real estate	-	-	-	-	89,120	89,120	62
Commercial	-	-	-	-	23,130	23,130	-
Total	$ 283	$ -	$ -	$ 283	$ 210,174	$ 210,457	$ 64

	December 31, 2021						
	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	$ 323	$ 118	$ -	$ 441	$ 65,708	$ 66,149	$ 7
Consumer	1	-	-	1	6,103	6,104	-
Commercial real estate	-	48	-	48	74,284	74,332	106
Commercial	-	-	-	-	21,335	21,335	-
Total	$ 324	$ 166	$ -	$ 490	$ 167,430	$ 167,920	$ 113

At December 31, 2022 and 2021, 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, 2022				
	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	$ 3	$ 3	$ -	$ 5	$ -
Commercial real estate	101	101	-	125	4
Total with no related allowance recorded	104	104	-	130	4
With an allowance recorded:					
Residential real estate	140	140	8	141	6
Commercial real estate	565	565	4	591	29
Total with an allowance recorded	705	705	12	732	35
Total	$ 809	$ 809	$ 12	$ 862	$ 39

	As of and for the Year Ended December 31, 2021				
	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	$ 10	$ 10	$ -	$ 17	$ -
Commercial real estate	143	143	-	158	3
Total with no related allowance recorded	153	153	-	175	3
With an allowance recorded:					
Residential real estate	143	143	7	146	6
Commercial real estate	655	655	13	695	39
Total with an allowance recorded	798	798	20	841	45
Total	$ 951	$ 951	$ 20	$ 1,016	$ 48

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 $0 and approximately $15,371,000 during 2022 and 2021, respectively. As of December 31, 2022 and 2021, there were PPP loans of $0 and approximately $1,268,000, respectively, included in the commercial loan segment. PPP processing fees received from the SBA were approximately $0 and $810,000 in 2022 and 2021, respectively. These fees are 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, 2022 and 2021, there were fees of approximately $0 and $17,000, respectively, yet to be recognized into income.

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.

There were no troubled debt restructurings that were modified during the years ended December 31, 2022 and 2021.

Note 5 - Loan Servicing

Mortgage servicing rights are included in other assets on the consolidated balance sheet. For the years ended December 31, 2022 and 2021, activity for capitalized mortgage servicing rights was as follows (000s omitted):

	2022	2021
Balance - Beginning of year	$ 1,521	$ 1,224
Additions	112	613
Amortization	(255)	(316)
Balance - End of year	$ 1,378	$ 1,521

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 2022 model include an average prepayment rate of 4.92 percent and an average discount rate of 8.87 percent. Assumptions used in the 2021 model include an average prepayment rate of 12.26 percent and an average discount rate of 5.27 percent. The fair value of the mortgage servicing rights was last calculated as of November 30, 2022. The fair value of mortgage servicing rights was approximately $2,231,000 and $1,773,000, as of December 31, 2022 and 2021, respectively.

Mortgage loans serviced for others are not reported as assets. At December 31, 2022 and 2021, total mortgage loans serviced for others totaled approximately $164,975,000 and $172,066,000, respectively. Related escrow deposit balances were approximately $575,000 and $618,000 at December 31, 2022 and 2021, respectively.

Note 6 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31, 2022 and 2021 is as follows (000s omitted):

	2022	2021
Real estate and buildings	$ 9,093	$ 9,083
Furniture, fixtures, and equipment	4,459	4,404
Construction in progress	1,272	2,006
Total cost	14,824	15,493
Accumulated depreciation	(8,410)	(7,968)
Net property and equipment	$ 6,414	$ 7,525

Depreciation expense for the years ended December 31, 2022 and 2021 totaled approximately $442,000 and $483,000, 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, 2022 and 2021 (000s omitted):

	2022	2021
Balance at beginning of year	$ 138	$ -
Transfers from loans	-	138
Sales/Redemptions	(185)	-
Gain on sales	47	-
Total	$ -	$ 138

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.

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2022 and 2021 (000s omitted):

	2022	2021
Non-interest-bearing deposits	$ 173,737	$ 165,687
NOW accounts	94,128	79,958
Savings and money market accounts	180,251	175,721
Time deposits:		
Under $250,000	21,204	27,140
$250,000 and over	6,175	8,714
Total	$ 475,495	$ 457,220

Note 8 - Deposits (Continued)

At December 31, 2022, the scheduled maturities of time deposits are as follows (000s omitted):

Years Ending	Amount
2023	$ 11,044
2024	7,141
2025	7,530
2026	607
2027	1,057
Total	$ 27,379

Note 9 - Employee Benefits

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 2022 and 2021, 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 approximately $236,000 and $222,000 in 2022 and 2021, 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 under individual agreements. 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 approximately $1,195,000 and $1,678,000 at December 31, 2022 and 2021, respectively, and are included within other liabilities on the consolidated balance sheet. The interest expense of the plan was approximately $47,000 and $66,000 in 2022 and 2021, respectively. Distributions under the plan were approximately $120,000 and $438,000 in 2022 and 2021, respectively. Deferrals into the plan were approximately $132,000 and $176,000 in 2022 and 2021, 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 approximately $846,000 and $952,000 at December 31, 2022 and 2021, respectively, and are included in other liabilities on the consolidated balance sheet. The expense for the plan was approximately $51,000 and $62,000 in 2022 and 2021, respectively. Distributions under the plan were approximately $247,000 and $248,000 in 2022 and 2021, respectively.

The following benefit payments reflect expected future cash flows as anticipated in total for both plans (000s omitted):

Years Ending	Amount
2023	$ 374
2024	284
2025	284
2026	284
2027	265

Note 10 - Income Taxes

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

	2022	2021
Current income tax expense	$ 493	$ 595
Deferred income tax expense	364	68
Total income tax expense	$ 857	$ 663

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):

	2022	2021
Income tax expense, computed at statutory rates	$ 959	$ 770
Effect of change in bank-owned life insurance	(129)	-
Effect of other nontaxable income	27	(107)
Total provision for income taxes	$ 857	$ 663

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

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 318	$ 350
Deferred compensation	524	552
Unrealized losses on available-for-sale securities	8,165	426
Other	38	-
Gross deferred tax assets	9,045	1,328
Deferred tax liabilities:		
Mortgage servicing rights	(290)	(319)
Fixed assets	(198)	-
Other assets	(99)	-
Gross deferred tax liabilities	(587)	(319)
Net deferred tax asset	$ 8,458	$ 1,009

The Company is no longer subject to examination by federal or state taxing authorities for years before 2019.

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 approximately $5,223,000 and $488,000 at December 31, 2022 and 2021, respectively. Related party deposits totaled approximately $4,303,000 and $5,698,000 at December 31, 2022 and 2021, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

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 results of operations of the Company.

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.

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):

	2022	2021
Commitments to extend credit	$ 61,423	$ 63,292
Standby letters of credit	88	34

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.

Note 13 - Fair Value Measurements (Continued)

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.

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.

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, 2022 and 2021 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, 2022			
	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, 2022
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 22,215	$ -	$ 22,215
Mortgage backed	-	172,111	-	172,111
State and municipal	-	12,251	-	12,251
Collateralized mortgage obligations	-	15,804	-	15,804
Total investment securities available for sale	$ -	$ 222,381	$ -	$ 222,381

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2021			
	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, 2021
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 24,702	$ -	$ 24,702
Mortgage backed	-	209,379	-	209,379
State and municipal	-	19,956	-	19,956
Collateralized mortgage obligations	-	13,572	-	13,572
Total investment securities available for sale	$ -	$ 267,609	$ -	$ 267,609

The Company 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, 2022 (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, 2022
Assets				
Impaired loans	$ -	$ -	$ 797	$ 797

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2021 (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, 2021
Assets				
Impaired loans	$ -	$ -	$ 951	$ 951
Other real estate owned	-	-	138	138

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):

	2022		2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 10,922	$ 10,922	$ 21,891	$ 21,891
Time deposits with other financial institutions	8,144	8,144	9,653	9,653
Securities available for sale	222,381	222,381	267,609	267,609
Securities held to maturity	6,476	6,297	4,665	4,753
Other securities	2,206	2,206	1,644	1,644
Loan held for sale	-	-	2,271	2,327
Loans - Net	207,658	178,840	165,122	177,673
Accrued interest receivable	737	737	1,076	1,076
Financial Liabilities				
Deposits	475,495	411,534	457,220	439,326
Accrued interest payable	11	11	19	19

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, 2022 and 2021, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2022, 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, 2022 and 2021 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, 2022						
Common equity Tier 1 capital (to risk-weighted assets)	$ 32,291	13.03 %	$ 11,052	4.50 %	$ 15,965	6.50 %
Total risk-based capital (to risk-weighted assets)	35,083	14.14	19,649	8.00	24,561	10.00
Tier 1 capital (to risk-weighted assets)	32,291	13.03	14,737	6.00	19,649	8.00
Tier 1 capital (to average assets)	32,291	6.44	20,064	4.00	25,080	5.00
As of December 31, 2021						
Common equity Tier 1 capital (to risk-weighted assets)	29,450	13.97	9,487	4.50	13,704	6.50
Total risk-based capital (to risk-weighted assets)	31,976	15.17	16,867	8.00	21,083	10.00
Tier 1 capital (to risk-weighted assets)	29,450	13.97	12,650	6.00	16,867	8.00
Tier 1 capital (to average assets)	29,450	6.02	19,583	4.00	24,479	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 2022, the Bank is limited to paying dividends of the Company’s results from operations from 2022 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

Trisha M. Dobias
Vice President
Human Resources

Marily J. Galloway
Vice President,
Operations

Valerie A. Jones
Vice President
Cash Management

Nancy K. Lindsay
Vice President
Marketing

Amanda J. Nicholson
Vice President,
Retail Banking

Timothy J. Timmer
Vice President
Business Banking

Sharon L. Coppernoll
Assistant Vice President,
Residential Banking

Stephen J. Daly
Assistant Vice President,
Business Banking

Cynthia D. Lamberson
Assistant Vice President
Business Banking

Michelle M. Miller
Assistant Vice President
Residential Banking

Quinn C. Bonnett
Facilities Manager &
Security Officer

Maghan J. Brooks
Loan Operations Officer

Leslie L. Budnik
Business Operations Officer

Regina H. Patton
Residential Officer

Sheri L. Popp
Credit Officer

Chandlar E. Rush
Technology Officer

Sherry M. Wichlacz
Operations Officer

Staff of Citizens National Bank

Cheboygan
Angela M. Baker
Valiant Bondie III
Amber Cannon
Danette Cool
Julie Douglas
Katherine H. Eldridge
Brandie M. Ford
Mary E. Greenwood
Jessica Gross
Allison Grosso
Marilee G. Gustafson
Alishia R. Howell
Renee Irwin
Heather M. Keranen
Ronda A. Kinzey
Courtney L. Lewis
Jill Lynch
Memory Massey
Todd Mattingly
Desiree McKenzie
Ashley R. Plaunt
Amy Rampinelli
Adam Schulz
Hannah Seldon
Jessica Smith
Shirley Snyder
Stefani Stewart
Pamela M. Taylor
Carmen R. Tibbits
Mykaela Tillotson
David Tomaski
Jordan C. Velandia
MaKayla Watson
Corinna M. Willis

South Branch Cheboygan
Courtney Kolatski
Kimberly Lytle
Jessica J. Schley
Alexis Tanner

Mackinaw City
Caelyn Foth
Lora L. Frye
Mindy Rogala

Onaway
Misty D. Curtis
Olivia Skrine
Charee Stachon
Becky Tennant

Indian River
Kaysi Jakeway
Drew Rose
Tiffany Stevens
Ariana Whipp

Alanson
Amanda Ide
Erica McDowell
Megan Osier
Jenna M. Wood

Petoskey
Talenna Calhoun
Tawni Kibbe
Emily Lennington
Rebekah Olds

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.

STEPHANIE V. BALDWIN
President, Edgewater Design Group

MELISSA K. BRIDGES
Attorney, Bodman LLP

BRIAN B. EWBANK
President & COO, Stafford's Hospitality

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

SCOTT D. LANDON
President, Landon Auto Parts

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

STEVEN J. BAKER, D.V.M.
JAMES C. CONBOY, JR.
THOMAS J. ELLENBERGER
SUSAN A. ENO
VINCENT J. HILLESHEIM
KATHLEEN A. LIEDER
THOMAS J. REDMAN
FRANCIS J. VANANTWERP, JR

Supplemental Shareholder Information

CNB CORPORATION COMMON STOCK

CNB Corporation common stock is listed on the OTC Markets and is traded under the symbol CNBZ. The Company had 820 shareholders as of December 31, 2022.

SHAREHOLDER RELATIONS AND ANNUAL REPORT AVAILABLE

Shareholders may obtain, without charge, a copy of the 2022 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 Tuesday, May 16, 2023 at the Knights of Columbus Hall, 9840 N. Straits Highway, Cheboygan, Michigan, 49721 at 5:30 p.m.

INDEPENDENT AUDITOR

Forvis

Fort Wayne, Indiana

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 2022 and 2021:

	2022			2021		
	Market Price		Cash Dividends	Market Price		Cash Dividends
Quarter	High	Low	Declared	High	Low	Declared
1st	$27.00	$15.00	$0.50	$20.50	$17.30	$0.50
2nd	$25.00	$22.05	$ -	$21.40	$17.77	$ -
3rd	$22.00	$21.00	$0.40	$25.50	$20.25	$0.40
4th	$23.00	$20.00	$ -	$25.00	$22.00	$ -