CNB Corporation

Consolidated Financial Report
December 31, 2023

Contents

FORVIS

111 E. Wayne Street, Suite 600 / Fort Wayne, IN 46802
P 260.460.4000 / F 260.426.2235
forvis.com

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 sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CNB Corporation and subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2023, the entity changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated financial statements are available to be issued.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 13, 2024

CNB Corporation

Consolidated Balance Sheets

December 31, 2023 and 2022

(000s omitted, except per share data)

	2023	2022
Assets		
Cash and due from banks	$ 6,965	$ 8,177
Federal funds sold	2,611	785
Interest-bearing deposits with other financial institutions	3,069	1,960
Total cash and cash equivalents	12,645	10,922
Time deposits with other financial institutions	6,167	8,144
Investment securities - Available for sale (Note 3)	202,135	222,381
Investment securities - Held to maturity (Note 3)	6,672	6,476
Other securities	2,634	2,206
Loans held for sale	1,019	-
Loans - Net of allowance for credit losses of $3,488 and $2,792 as of December 31, 2023 and 2022, respectively (Note 4)	225,843	207,658
Bank premises and equipment - Net (Note 6)	9,746	6,414
Other assets (Notes 5, 7 and 10)	19,542	19,547
Total assets	**$ 486,403**	**$ 483,748**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits: (Note 8)		
Non-interest bearing	$ 151,680	$ 173,737
Interest bearing	257,854	301,758
Brokered deposits	5,000	-
Total deposits	414,534	475,495
Borrowings	57,000	-
Accrued and other liabilities (Note 9)	5,908	5,596
Total liabilities	477,442	481,091
Stockholders' Equity		
Common stock - $2.50 par value; 2,000,000 shares authorized; 1,210,717 shares issued and outstanding in 2023 and 2022	3,027	3,027
Additional paid-in capital	19,473	19,473
Retained earnings	12,560	10,871
Accumulated other comprehensive loss - Net of tax	(26,099)	(30,714)
Total stockholders' equity	8,961	2,657
Total liabilities and stockholders' equity	**$ 486,403**	**$ 483,748**

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 2023 and 2022
(000s omitted, except per share data)

	2023	2022
Interest Income		
Loans - Including fees	$ 11,567	$ 9,145
Investment securities:		
Taxable	3,734	3,972
Tax exempt	316	313
Other	622	557
Total interest income	16,239	13,987
Interest Expense		
Deposits	537	645
Brokered deposits	598	-
Borrowings	1,167	-
Total interest expense	2,302	645
Net Interest Income	13,937	13,342
Provision for credit losses		
Credit loss expense – loans	64	-
Credit loss expense – off-balance sheet credit exposure	(40)	-
Total provision for credit losses	24	-
Net Interest Income - After provision for credit losses	13,913	13,342
Noninterest Income		
Service charges and fees	1,517	1,365
Net gain on sale of loans and mortgage banking income	400	497
Loan servicing fees - Net of amortization	33	34
Other	397	933
Total noninterest income	2,347	2,829
Noninterest Expense		
Salaries and employee benefits	6,622	6,711
Occupancy and equipment	1,332	1,315
Data processing	1,099	937
FDIC premiums	343	343
Deferred compensation (Note 9)	89	98
Legal and professional	848	866
Other	1,576	1,334
Total noninterest expense	11,909	11,604
Income - Before income taxes	4,351	4,567
Income Tax Expense (Note 10)	814	857
Net Income	$ 3,537	$ 3,710
Earnings per share - Basic	$ 2.92	$ 3.07
Earnings per share - Diluted	$ 2.92	$ 3.07

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022
(000s omitted, except per share data)

	2023	2022
Net Income	$ 3,537	$ 3,710
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on securities:		
Arising during the year	5,842	(36,849)
Tax effect	(1,227)	7,738
Total other comprehensive income (loss)	4,615	(29,111)
Comprehensive Income (Loss)	**$ 8,152**	**$ (25,401)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2023 and 2022
(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2022	$ 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
Adoption of ASU 2016-13	-	-	(758)	-	(758)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	3,027	19,473	10,113	(30,714)	1,899
Net income	-	-	3,537	-	3,537
Other comprehensive income	-	-	-	4,615	4,615
Dividends declared $0.90 per share	-	-	(1,090)	-	(1,090)
Balance - December 31, 2023	$ 3,027	$ 19,473	$ 12,560	$ (26,099)	$ 8,961

CNB Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

(000s omitted, except per share data)

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 3,537	$ 3,710
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	361	442
Provision for credit losses	64	-
Loans originated for sale	(10,609)	(10,055)
Proceeds from sales of loans originated for sale	9,328	11,416
Recovery for credit losses - off-balance sheet credit exposures	(40)	-
Gain on sale of loans	(263)	(385)
Proceeds from sale of other real estate	-	185
Gain on sale of other real estate	-	(47)
Deferred tax (recovery) expense	163	364
Increase in cash surrender value of life insurance	(157)	(151)
Amortization of securities	537	870
Gain on sale of premises and equipment	-	(391)
Net change in:		
Other assets	(454)	(446)
Accrued expenses and other liabilities	58	(129)
Net cash and cash equivalents provided by operating activities	2,525	5,383
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from maturities and calls of securities available for sale	25,550	32,870
Purchase of securities available for sale	-	(25,362)
Proceeds from paydowns and maturities of securities held to maturity	1,804	531
Purchase of securities held to maturity	(2,000)	(2,342)
Net change in portfolio loans	(18,959)	(41,241)
Proceeds from premises and equipment	-	1,283
Purchases of premises and equipment	(3,694)	(223)
Purchase of FHLB stock	(428)	(562)
Proceeds from maturities of time deposits	21,076	5,940
Purchase of time deposits	(19,099)	(4,431)
Net cash and cash equivalents provided by (used in) investing activities	4,250	(33,537)
Cash Flows from Financing Activities		
Net change in deposit accounts	(60,962)	18,275
Proceeds from issuance of borrowings	57,000	-
Dividends paid	(1,090)	(1,090)
Net cash and cash equivalents (used in) provided by financing activities	(5,052)	17,185
Net Increase (Decrease) in Cash and Cash Equivalents	1,723	(10,969)
Cash and Cash Equivalents - Beginning of year	10,922	21,891
Cash and Cash Equivalents - End of year	**$ 12,645**	**$ 10,922**
Supplemental Cash Flow Information - Cash paid for interest	$ 1,387	$ 642
Significant Noncash Transactions		
Reclassification of LHFS to loans held for investment	$ -	$ 1,295
Transfer from loans to other real estate owned	572	-

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.

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 credit 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. From time to time, the Company's cash accounts may exceed federally insured limits. As of December 31, 2023 none of the Company's cash accounts exceeded federally insured limits.

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, net of allowance for credit losses. 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, for those which no allowance for credit losses are recorded, excluded from earnings and reported in other comprehensive gain or 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.

Note 2 - Significant Accounting Policies (Continued)

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

Beginning January 1, 2023, the Company measures expected credit losses on held to maturity securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information, adjusted for current conditions and reasonable and supportable forecasts. All held to maturity securities are municipal bonds. Accrued interest receivable on held to maturity debt securities is excluded from the estimate of credit losses. As of December 31, 2023, there was no allowance for credit losses on held to maturity securities.

Also beginning January 1, 2023, for available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or more likely than not that will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income.

For debt securities available for sale that do not meet either criteria, the Company evaluates whether the decline in fair value resulted from credit losses. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an allowance for credit losses is recorded, limited to the amount that the fair value is less than the amortized cost basis. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. As of December 31, 2023, there was no allowance for credit losses on available for sale securities.

Through December 31, 2022, the Company conducted 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 readily determinable fair value 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.

Note 2 - Significant Accounting Policies (Continued)

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 credit losses.

Through December 31, 2022, the Company applied troubled debt restructuring (TDR) guidance. A 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 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.

Note 2 - Significant Accounting Policies (Continued)

Allowance for Credit Losses

The Company adopted ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The standard replaced the previously ‘incurred loss’ method with an ‘expected loss’ model. The new model applies to financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures.

For unfunded loan commitments which the Company does not have the unconditional ability to cancel, and for loans held for investment, an allowance for credit losses (ACL) is established for amounts expected to be uncollectible over the contractual life of the loans. The Company collectively evaluates notes receivable to determine the allowance for credit losses based on collateral value and loan type. The Company has elected to not include accrued interest receivable in the calculation of expected credit losses.

Loans that do not share similar risk characteristics with other loans are evaluated individually. When repayment of collateral is expected to be dependent on the operation of or sale of the collateral, expected credit losses are based on the fair value of the collateral as of the reporting date.

The Company uses the Scaled CECL Allowance for Losses Estimator (SCALE). The SCALE method was developed by the Federal Reserve to community banks in calculating their CECL compliant allowances for credit losses using proxy expected lifetime loss rates. Expected lifetime loss rates are developed using publicly available data for calculating lifetime expected losses. The Company makes adjustments to this information for difference in asset specific risk characteristics as well as institution specific forecast of economic conditions for facts and circumstances to better reflect the Company's own credit risk. These adjustments may be qualitative in nature. Uncollectible amounts are written off against the allowance for credit losses in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received. Notes are considered delinquent if the repayment terms are not met.

Prior to the adoption of ASU 2016-13 described above, the allowance for loan losses was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance.

The allowance for loan losses was evaluated on a quarterly basis by management and was 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 was inherently subjective, as it required estimates that are susceptible to significant revision as more information becomes available.

The allowance consisted 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 was based on historical loss experience adjusted for current factors.

A loan was impaired when full payment under the loan terms was not expected. Impairment was 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 was 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 was expected solely from the collateral.

Note 2 - Significant Accounting Policies (Continued)

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.

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, 2023 and 2022, the cash surrender value of the underlying policies was approximately $6,930,000 and $6,773,000, 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 Income and 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 income or loss.

Note 2 - Significant Accounting Policies (Continued)

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 2023 and 2022. 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, 2023 or 2022. Accordingly, no dilutive impact is presented.

New Accounting Pronouncement

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loans and held to maturity debt securities. It also applies to off-balance sheet credit exposures. In addition, ASC 326 made changes to the accounting for available for sale debt securities.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for 2023 are presented under ASC 326 while 2022 amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $758,000 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $663,000 increase in the allowance for credit losses, a $296,000 liability recognized for credit losses on off-balance-sheet exposures, and a $201,000 increase in deferred tax assets.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 13, 2024, 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, 2023 and 2022 (000s omitted):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 24,527	$ -	$ (2,128)	$ 22,399
Mortgage backed	186,150	-	(28,304)	157,846
Collateralized mortgage obligations	16,090	-	(2,262)	13,828
State and municipal	8,406	124	(468)	8,062
Total available for sale	$ 235,173	$ 124	$ (33,162)	$ 202,135
Held-to-maturity securities - State and municipal	6,672	293	(66)	6,899

Note 3 - Securities (Continued)

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Total available-for-sale and held-to-maturity securities	$ 241,844	$ 417	$ (33,228)	$ 209,033

The carrying value of securities pledged as collateral, to secure borrowings, was $115,316,000 and $10,874,000 at December 31, 2023 and 2022, respectively.

	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
Total available-for-sale and held-to-maturity securities	$ 267,735	$ 160	$ (39,217)	$ 228,678

There were no proceeds from sales of available-for-sale securities in 2023 and 2022.

Contractual maturities of debt securities at December 31, 2023 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, 2023 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	$ 2,760	$ 2,747	$ 187	$ 187
Due in one through five years	27,708	25,441	991	980
Due after five years through ten years	2,465	2,273	4,394	4,578
Thereafter	-	-	1,100	1,154
Mortgage backed	186,150	157,846	-	-
Collateralized mortgage obligations	16,090	13,828	-	-
Total	$ 235,173	$ 202,135	$ 6,672	$ 6,899

Note 3 - Securities (Continued)

Securities with unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (000s omitted):

	2023			
	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	$ -	$ -	$ (2,128)	$ 22,399
Mortgage backed	-	-	(28,304)	157,846
Collateralized mortgage obligations	-	-	(2,262)	13,828
State and municipal	(3)	741	(465)	6,880
Held-to-maturity securities:				
Other	-	-	(66)	1,043
Total	$ (3)	$ 741	$ (33,225)	$ 201,996

	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

Unrealized losses remaining on the consolidated balance sheet at December 31, 2023 and 2022 have not been recognized into income. There were 142 and 158 securities in an unrealized loss position at December 31, 2023 and 2022, 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.

Management evaluates securities for credit loss 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 credit loss 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, 2023 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, 2023, 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 and Allowance for Credit Losses

A summary of the balances of loans follows:

	2023
Real estate - construction	$ 22,944
Real estate - commercial	79,931
Real estate - residential	95,870
Commercial	18,857
Credit cards	214
Other consumer	11,522
Total loans	229,338
Less:	
Deferred fees	(7)
Allowance for credit losses	(3,488)
Net loans	$ 225,843

	2022
Residential real estate	$ 89,028
Consumer	9,179
Commercial real estate	89,120
Commercial	23,130
Total loans	210,457
Deferred fees	(7)
Allowance for loan losses	(2,792)
Total	$ 207,658

Note 4 - Loans and Allowance for Credit Losses (Continued)

The Company's activity in the allowance for credit losses for the years ended December 31, 2023 and 2022, by loan segment, is summarized below:

	Year Ended December 31, 2023							
	Real Estate - construction	Real Estate - commercial	Real Estate - residential	Commercial	Credit Cards	Other Consumer	Unallocated	Total
Beginning balance	$ -	$ 1,345	$ 550	$ 456	$ -	$ 131	$ 310	$ 2,792
Cumulative effect of change in accounting principle	512	(72)	459	(56)	22	110	(312)	663
Balance at January 1, 2023	512	1,273	1,009	400	22	241	(2)	3,455
Charge-offs	-	-	(9)	(38)	-	(47)	-	(94)
Recoveries	-	-	11	34	-	18	-	63
Credit loss expense	(51)	(54)	45	(92)	7	99	110	64
Ending balance	$ 461	$ 1,219	$ 1,056	$ 304	$ 29	$ 311	$ 108	$ 3,488

	Year Ended December 31, 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

Note 4 - Loans and Allowance for Credit Losses (Continued)

Credit Quality Disclosures

The Company categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Company uses the following definitions for credit risk ratings:

Risk Rating 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 credit loss considerations and financial reporting. The four 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 (Watch)

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 welldefined 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.

Note 4 - Loans and Allowance for Credit Losses (Continued)

The following tables present the amortized cost basis of loans by credit quality indicator, class of financing receivable, and year of origination for term loans:

	December 31, 2023					
	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
Commercial construction						
Pass	$ 2,554	$ 1,769	$ 2,479	$ 1,228	$ -	$ 8,030
Total commercial construction	2,554	1,769	2,479	1,228	-	8,030
Current year-to-date gross write-offs	-	-	-	-	-	-
Residential construction						
Pass	7,573	7,341	-	-	-	14,914
Total residential construction	7,573	7,341	-	-	-	14,914
Current year-to-date gross write-offs	-	-	-	-	-	-
Real estate - commercial						
Pass	15,258	24,071	13,863	25,380	44	78,616
Watch	-	-	-	161	-	161
Substandard	-	-	-	886	-	886
Doubtful	-	268	-	-	-	268
Total real estate - commercial	15,258	24,339	13,863	26,427	44	79,931
Current year-to-date gross write-offs	-	9	-	-	-	9
1-4 Family						
Pass	22,404	25,584	14,387	19,590	3,294	85,259
Substandard	-	-	-	29	-	29
Total 1-4 Family	22,404	25,584	14,387	19,619	3,294	85,288
Current year-to-date gross write-offs	-	-	-	-	-	-
1-4 Family Junior Lien						
Pass	596	144	-	38	4,597	5,375
Total 1-4 Family junior lien	596	144	-	38	4,597	5,375
Current year-to-date gross write-offs	-	-	-	-	-	-

Note 4 - Loans and Allowance for Credit Losses (Continued)

Multi Family						
Pass	542	3,459	302	862	42	5,207
Total multi family	542	3,459	302	862	42	5,207
Current year-to-date gross write-offs	-	-	-	-	-	-
Credit cards						
Pass	-	-	-	-	214	214
Total credit card	-	-	-	-	214	214
Current year-to-date gross write-offs	-	-	-	-	-	-
Commercial						
Pass	3,428	4,902	5,507	3,382	1,462	18,681
Doubtful	-	176	-	-	-	176
Total commercial	3,428	5,078	5,507	3,382	1,462	18,857
Current year-to-date gross write-offs	-	38	-	-	-	38
Auto						
Pass	2,766	2,189	492	150	-	5,597
Doubtful	-	29	-	-	-	29
Total auto	2,766	2,218	492	150	-	5,626
Current year-to-date gross write-offs	-	-	-	10	-	10
Other Consumer						
Pass	2,330	2,070	624	369	503	5,896
Total other consumer	2,330	2,070	624	369	503	5,896
Current year-to-date gross write-offs	-	-	-	37	-	37
Total loans	$ 57,451	$ 72,002	$ 37,654	$ 52,075	$ 10,156	$ 229,338

	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 and Allowance for Credit Losses (Continued)

Age Analysis of Past Due Loans

The Company's age analysis of past due loans at December 31, 2023 and 2022, by loan segment and class, is summarized below:

	December 31, 2023						
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days	Total	Current	Total Loans	90 or More Days Past Due and Accruing
Real estate - construction:							
Commercial construction	$ -	$ -	$ -	$ -	$ 8,030	$ 8,030	$ -
Residential construction	-	-	-	-	14,914	14,914	-
Total real estate - construction	-	-	-	-	22,944	22,944	-
Real estate - commercial	48	-	268	316	79,615	79,931	-
Real estate - residential:							
1-4 Family Owner Occupied	59	162	29	250	85,038	85,288	29
1-4 Family Junior Lien	-	-	-	-	5,375	5,375	-
Multi Family	-	-	-	-	5,207	5,207	-
Total real estate - residential	59	162	29	250	95,620	95,870	29
Commercial	-	-	176	176	18,681	18,857	-
Credit cards	-	-	-	-	214	214	-
Other consumer:							
Auto	35	-	29	64	5,562	5,626	-
Other consumer loans	-	7	-	7	5,889	5,896	-
Total other consumer	35	7	29	71	11,451	11,522	-
Total	$ 142	$ 169	$ 502	$ 813	$ 228,525	$ 229,338	$ 29

	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

Note 4 - Loans and Allowance for Credit Losses (Continued)

Collateral-Dependent Loans

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Real Estate	Other
Real Estate - Commercial	$ 291	$ -
Real Estate - Residential	136	-
Commercial	-	16
Total	$ 427	$ 16

Impaired Loans

Impaired loans, by loan segment and class, are as follows at December 31, 2022:

	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 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

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

No additional funds were committed to be advanced in connection with impaired loans at December 31, 2022.

Note 4 - Loans and Allowance for Credit Losses (Continued)

Nonaccrual Loans

The Company's loans on nonaccrual status at December 31, 2023, by loan segment and class, are summarized below:

	2023		
	Nonaccrual Loans with No ACL	Total Nonaccrual Loans	Interest Income Recognized During the Period on Nonaccrual Loans
Real estate - commercial	$ -	$ 268	$ -
Commercial	-	176	-
Auto	-	29	-
Total	$ -	$ 473	$ -

There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023. There were no troubled debt restructurings that were modified during the year ended December 31, 2022. There were no loans that defaulted during 2023 or 2022 and had been modified in a troubled loan modification or troubled debt restructuring in the 12 months prior to default.

Note 5 - Loan Servicing

Mortgage servicing rights are included in other assets on the consolidated balance sheet. For the years ended December 31, 2023 and 2022, activity for capitalized mortgage servicing rights was as follows (000s omitted):

	2023	2022
Balance - Beginning of year	$ 1,378	$ 1,521
Additions	87	112
Amortization	(226)	(255)
Balance - End of year	$ 1,239	$ 1,378

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 2023 model include an average prepayment rate of 6.28 percent and an average discount rate of 9.87 percent. Assumptions used in the 2022 model include an average prepayment rate of 4.92 percent and an average discount rate of 8.87 percent. The fair value of the mortgage servicing rights was last calculated as of November 30, 2023. The fair value of mortgage servicing rights was approximately $1,872,000 and $2,231,000, as of December 31, 2023 and 2022, respectively.

Mortgage loans serviced for others are not reported as assets. At December 31, 2023 and 2022, total mortgage loans serviced for others totaled approximately $158,186,000 and $164,975,000, respectively. Related escrow deposit balances were approximately $542,000 and $575,000 at December 31, 2023 and 2022, respectively.

Note 6 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31, 2023 and 2022 is as follows (000s omitted):

	2023	2022
Real estate and buildings	$ 9,093	$ 9,093
Furniture, fixtures, and equipment	4,474	4,459
Construction in progress	4,937	1,272
Total cost	18,504	14,824
Accumulated depreciation	(8,758)	(8,410)
Net property and equipment	$ 9,746	$ 6,414

Depreciation expense for the years ended December 31, 2023 and 2022 totaled approximately $361,000 and $442,000, 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 credit 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, 2023 and 2022 (000s omitted):

	2023	2022
Balance at beginning of year	$ -	$ 138
Transfers from loans	572	-
Sales/Redemptions	-	(185)
Gain on sales	-	47
Balance at year end	$ 572	$ -

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, 2023 and 2022 (000s omitted):

	2023	2022
Non-interest-bearing deposits	$ 151,680	$ 173,737
NOW accounts	79,087	94,128
Savings and money market accounts	149,146	180,251
Time deposits:		
Under $250,000	22,020	21,204
$250,000 and over	7,601	6,175
Total	$ 409,534	$ 475,495

Note 8 - Deposits (Continued)

At December 31, 2023, the scheduled maturities of time deposits are as follows (000s omitted):

Years Ending	Amount
2024	$ 18,253
2025	6,625
2026	3,349
2027	925
2028	469
Total	$ 29,621

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 2023 and 2022, 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 $226,000 and $236,000 in 2023 and 2022, 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 $1,060,000 and $1,195,000 at December 31, 2023 and 2022, respectively, and are included within other liabilities on the consolidated balance sheet. The interest expense of the plan was approximately $50,000 and $47,000 in 2023 and 2022, respectively. Distributions under the plan were approximately $122,000 and $120,000 in 2023 and 2022, respectively. Deferrals into the plan were approximately $133,000 and $132,000 in 2023 and 2022, 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 $631,000 and $846,000 at December 31, 2023 and 2022, respectively, and are included in other liabilities on the consolidated balance sheet. The expense for the plan was approximately $39,000 and $51,000 in 2023 and 2022, respectively. Distributions under the plan were approximately $217,000 and $247,000 in 2023 and 2022, respectively.

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

Years Ending	Amount
2024	$ 308
2025	284
2026	284
2027	265
2028	167

Note 10 - Income Taxes

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

	2023	2022
Current income tax expense	$ 852	$ 493
Deferred income tax (recovery) expense	(38)	364
Total income tax expense	$ 814	$ 857

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):

	2023	2022
Income tax expense, computed at statutory rates	$ 914	$ 959
Effect of nontaxable income	(115)	(129)
Effect of non deductible expenses	15	27
Total provision for income taxes	$ 814	$ 857

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

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 465	$ 318
Deferred compensation	499	524
Unrealized losses on available-for-sale securities	6,938	8,165
Other	117	38
Gross deferred tax assets	8,019	9,045
Deferred tax liabilities:		
Mortgage servicing rights	(260)	(290)
Fixed assets	(162)	(198)
Other	(126)	(99)
Gross deferred tax liabilities	(548)	(587)
Net deferred tax asset	$ 7,471	$ 8,458

The Company is no longer subject to examination by federal or state taxing authorities for years before 2020.

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 $4,989,000 and $5,223,000 at December 31, 2023 and 2022, respectively. Related party deposits totaled approximately $3,504,000 and $4,303,000 at December 31, 2023 and 2022, 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):

	2023	2022
Commitments to extend credit	$ 52,149	$ 61,423
Standby letters of credit	88	88

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, 2023 and 2022 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, 2023			
	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, 2023
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 22,399	$ -	$ 22,399
Mortgage backed	-	157,846	-	157,846
State and municipal	-	8,062	-	8,062
Collateralized mortgage obligations	-	13,828	-	13,828
Total investment securities available for sale	$ -	$ 202,135	$ -	$ 202,135

	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

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.

Loans categorized as Level 3 assets consist of nonhomogeneous loans that 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, 2023 (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, 2023
Assets				
Collateral-dependent loans held for investment	$ -	$ -	$ 443	$ 443

	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

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2023:

	Fair Value December 31, 2023	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Collateral-dependent loans held for investment	$ 443	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	2.96-11.41% (5.24%)

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. For fixed-rate loans or deposits (including brokered 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. For accrued interest payable and receivable, the carrying amount approximates fair value. The carrying amount of accrued interest is determined using the interest rate, balance, and last payment date. The fair value of borrowings is estimated by discounting the future cash flows using rates of similar debt instruments with similar maturities. These rates were obtained from current rates offered by the FHLB. The fair value of off-balance-sheet items approximates cost and is not considered significant to this presentation.

Note 14 - Fair Value of Financial Instruments (Continued)

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

	2023		2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents (Level 1)	$ 12,645	$ 12,645	$ 10,922	$ 10,922
Time deposits with other financial institutions (Level 2)	6,167	6,167	8,144	8,144
Securities available for sale (Level 2)	202,135	202,135	222,381	222,381
Securities held to maturity (Level 2)	6,672	6,949	6,476	6,297
Other securities (Level 2)	2,634	2,634	2,206	2,206
Loan held for sale (Level 2)	1,019	1,019	-	-
Loans - Net (Level 3)	225,843	215,400	207,658	178,840
Accrued interest receivable (Level 1)	1,429	1,429	737	737
Financial Liabilities				
Deposits (Level 1)	151,680	151,680	173,737	173,737
Deposits (Level 3)	257,854	204,167	301,758	237,797
Brokered Deposits (Level 3)	5,000	4,996	-	-
Borrowings (Level 2)	57,000	57,047	-	-
Accrued Interest Payable (Level 1)	926	926	11	11

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, 2023 and 2022, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2023, 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, 2023 and 2022 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.

Note 15 - Regulatory Capital (Continued)

(000s omitted)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual	Ratio	Actual	Ratio	Actual	Ratio
As of December 31, 2023						
Common equity Tier 1 capital (to risk-weighted assets)	$ 34,580	13.23 %	$ 11,761	4.50 %	$ 16,989	6.50 %
Total risk-based capital (to risk-weighted assets)	38,068	14.57	20,909	8.00	26,135	10.00
Tier 1 capital (to risk-weighted assets)	34,580	13.23	15,682	6.00	20,909	8.00
Tier 1 capital (to average assets)	34,580	7.20	19,203	4.00	24,004	5.00
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

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 2023, the Bank is limited to paying dividends of the Company's results from operations from 2023 and the retained net income of the prior two calendar years.

Note 16 - Bank Term Funding Program

On March 12, 2023, the Federal Reserve Board developed the BTFP, which offers loans to banks with a term of up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying assets. These pledged securities will be valued at par for collateral purposes. The Company participated in the BTFP and had outstanding debt of $57,000,000 and pledged securities totaling a fair value of $99,885,000 at December 31, 2023. As of December 31, 2023 the balance was due at various dates in May 2024 and December 2024. Subsequent to year end, the Company refinanced $47,100,000 of the balance with a maturity date in January 2025.

Officers of CNB Corporation and Citizens National Bank

CNB Corporation Officers

Matthew E. Keene
President & CEO

David A. Woods
Vice President

Amy E. Essex
Treasurer

Joseph P. Garber
Secretary

Citizens National Bank Officers

Matthew E. Keene
President &
Chief Executive Officer

Amy E. Essex
Senior Vice President &
Chief Financial Officer

Joseph P. Garber
Senior Vice President,
Chief Credit Officer &
Cashier

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,
Compliance, & Risk
Officer

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
Assistant Vice President, Residential
Banking

Sheri L. Popp
Credit Officer

Ashley R. Waldie
Residential Officer

Sherry M. Wichlacz
Operations Officer

Staff of Citizens National Bank

Cheboygan

Angela M. Baker
Valiant Bondie III
Amber Cannon
Danette Cool
Shannon Cruse
Julie Douglas
Katherine H. Eldridge
Brandie M. Ford
Mary E. Greenwood
Allison Grosso
Alishia R. Howell
Renee Irwin
Aubrey Jarvis
Heather M. Keranen
Ronda A. Kinzey
Memory Massey
Todd Mattingly
Desiree McKenzie
Amy Rampinelli
Samantha Sampson
Adam Schulz
Hannah Seldon
Jessica Smith-Schley
Shirley Snyder
Stefani Stewart
Pamela M. Taylor
Carmen R. Tibbits
David Tomaski
Jordan C. Velandia
MaKayla Watson
Corinna M. Willis

South Branch Cheboygan

Jessica Schley
Makenzie Bowers-Massey
Faith Walters

Mackinaw City

Caelyn Dankert
Lora Frye
Mindy Rogala

Onaway

Jessica Carter
Misty D. Curtis
Olivia Skrine
Charee Stachon

Indian River

Betsy Carr
Kaysi Jakeway
Drew Rose
Tiffany Stevens

Alanson

Jessica Carlson
Amanda Ide
Megan Osier
Jenna M. Wood

Petoskey

Brittany Baker
Talenna Calhoun
Breanna Duffiney
Erica McDowell
Rebekah Olds
Jessica Reid
Miranda Swanson

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
Retired, President & COO, Stafford's Hospitality

VICTORIA J. HAND
Retired, Secretary, CNB Corporation
Retired, Executive Vice President, Chief Operating Officer, Cashier & Secretary, Citizenss National Bank

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 801 shareholders as of December 31, 2023.

SHAREHOLDER RELATIONS AND ANNUAL REPORT AVAILABLE

Shareholders may obtain, without charge, a copy of the 2023 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 21, 2024 at the Knights of Columbus Hall, 9840 N. Straits Highway, Cheboygan, Michigan, 49721 at 5:30 p.m.

INDEPENDENT AUDITOR

Forvis, LLP

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 2023:

	2023			2022		
	Market Price		Cash Dividends	Market Price		Cash Dividends
Quarter	High	Low	Declared	High	Low	Declared
1st	$21.50	$18.25	$0.50	$27.00	$15.00	$0.50
2nd	$25.00	$14.40	$ -	$25.00	$22.05	$ -
3rd	$30.00	$18.00	$0.40	$22.00	$21.00	$0.40
4th	$21.00	$16.50	$ -	$23.00	$20.00	$ -