

**CALHOUN BANKSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT**

**December 31, 2020**

## CONTENTS

|                                                                 | Page |
|-----------------------------------------------------------------|------|
| INDEPENDENT AUDITOR’S REPORT .....                              | 1    |
| FINANCIAL STATEMENTS                                            |      |
| Consolidated Balance Sheets .....                               | 3    |
| Consolidated Statements of Income.....                          | 4    |
| Consolidated Statements of Comprehensive Income.....            | 5    |
| Consolidated Statements of Changes in Shareholders’ Equity..... | 6    |
| Consolidated Statements of Cash Flows .....                     | 7    |
| Notes to Consolidated Financial Statements.....                 | 8    |



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Shareholders  
Calhoun Bankshares, Inc. and Subsidiary  
Grantsville, West Virginia

We have audited the accompanying consolidated financial statements of Calhoun Bankshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calhoun Bankshares, Inc. and Subsidiary as of December 31, 2020 and 2019, 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia  
April 5, 2021

# CALHOUN BANKSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019

|                                                                                                                                                                              | 2020           | 2019           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                                                                                                                                |                |                |
| Cash and amounts due from banks                                                                                                                                              | \$ 2,728,040   | \$ 2,573,556   |
| Interest bearing deposits in other banks                                                                                                                                     | 635,417        | 1,366,669      |
| Federal funds sold                                                                                                                                                           | 21,098,000     | 6,377,000      |
| Total cash and cash equivalents                                                                                                                                              | 24,461,457     | 10,317,225     |
| Time deposits in other banks                                                                                                                                                 | 1,246,706      | 2,241,000      |
| Investment securities                                                                                                                                                        |                |                |
| Available-for-sale securities                                                                                                                                                | 8,182,861      | 9,064,118      |
| Other equity investments                                                                                                                                                     | 202,500        | 316,600        |
| Total investment securities                                                                                                                                                  | 8,385,361      | 9,380,718      |
| Loans receivable                                                                                                                                                             | 127,065,645    | 124,422,856    |
| Less: allowance for loan losses                                                                                                                                              | (1,675,970)    | (1,549,413)    |
| Net loans receivable                                                                                                                                                         | 125,389,675    | 122,873,443    |
| Premises and equipment, net                                                                                                                                                  | 4,320,232      | 4,350,019      |
| Other real estate owned and repossessed assets, net                                                                                                                          | 16,000         | 175,000        |
| Interest receivable                                                                                                                                                          | 452,424        | 430,870        |
| Cash surrender value of life insurance                                                                                                                                       | 3,569,460      | 3,469,347      |
| Deferred tax assets                                                                                                                                                          | 658,372        | 660,131        |
| Other assets                                                                                                                                                                 | 96,060         | 139,714        |
| Total assets                                                                                                                                                                 | \$ 168,595,747 | \$ 154,037,467 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                  |                |                |
| <b>LIABILITIES</b>                                                                                                                                                           |                |                |
| Deposits                                                                                                                                                                     |                |                |
| Non-interest bearing                                                                                                                                                         | \$ 50,212,688  | \$ 42,181,088  |
| Interest bearing                                                                                                                                                             | 98,295,943     | 89,430,685     |
| Total deposits                                                                                                                                                               | 148,508,631    | 131,611,773    |
| Borrowings                                                                                                                                                                   | 1,500,000      | 4,500,000      |
| Other liabilities                                                                                                                                                            | 2,044,059      | 1,713,651      |
| Total liabilities                                                                                                                                                            | 152,052,690    | 137,825,424    |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                                  |                |                |
| Common stock, \$1 par value, 3,000,000 shares authorized,<br>306,850 shares issued; 284,375 and 293,584 shares outstanding as of<br>December 31, 2020 and 2019, respectively | 306,850        | 306,850        |
| Additional paid in capital                                                                                                                                                   | 566,740        | 566,110        |
| Retained earnings                                                                                                                                                            | 17,177,671     | 16,359,351     |
| Accumulated other comprehensive loss                                                                                                                                         | (660,973)      | (633,097)      |
| Treasury stock at cost; 22,475 and 13,266 shares as of<br>December 31, 2020 and 2019, respectively                                                                           | (847,231)      | (387,171)      |
| Total shareholders' equity                                                                                                                                                   | 16,543,057     | 16,212,043     |
| Total liabilities and shareholders' equity                                                                                                                                   | \$ 168,595,747 | \$ 154,037,467 |

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

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

**Years Ended December 31, 2020 and 2019**

|                                                              | <u>2020</u>         | <u>2019</u>       |
|--------------------------------------------------------------|---------------------|-------------------|
| INTEREST INCOME                                              |                     |                   |
| Interest and fees on loans                                   | \$ 6,692,797        | \$ 6,578,169      |
| Interest and dividends on investment securities              | 180,740             | 290,771           |
| Interest on deposits at other financial institutions         | 40,179              | 113,006           |
| Interest on federal funds sold                               | 1,420               | 17,330            |
| Total interest and dividend income                           | <u>6,915,136</u>    | <u>6,999,276</u>  |
| INTEREST EXPENSE                                             |                     |                   |
| Interest and deposits                                        | 923,247             | 961,950           |
| Interest on borrowings                                       | 85,630              | 113,671           |
|                                                              | <u>1,008,877</u>    | <u>1,075,621</u>  |
| NET INTEREST INCOME                                          | 5,906,259           | 5,923,655         |
| Provision for loan losses                                    | 240,000             | 240,000           |
| Net interest income after provision for loan losses          | <u>5,666,259</u>    | <u>5,683,655</u>  |
| NONINTEREST INCOME                                           |                     |                   |
| Service charges and fees on deposits                         | 217,065             | 300,867           |
| Other service charges, commission and fees                   | 435,294             | 427,427           |
| Increase in cash surrender value – bank owned life insurance | 100,113             | 96,772            |
| Other income                                                 | 17,900              | 18,048            |
| Total other income                                           | <u>770,372</u>      | <u>843,114</u>    |
| EXPENSES                                                     |                     |                   |
| Salaries and employee benefits                               | 2,596,842           | 2,536,630         |
| Occupancy and equipment expense                              | 439,544             | 434,224           |
| Equipment, software, and network maintenance                 | 151,563             | 174,967           |
| Legal and professional fees                                  | 128,117             | 110,017           |
| Marketing expense                                            | 53,533              | 68,022            |
| Regulatory fees                                              | 124,520             | 112,454           |
| Loss (gain) on foreclosed property                           | (9,525)             | 24,480            |
| Data processing expense                                      | 403,284             | 397,397           |
| Directors fees                                               | 122,070             | 109,119           |
| Office supplies and postage                                  | 68,064              | 76,173            |
| Other expenses                                               | 904,557             | 1,247,440         |
| Total other expenses                                         | <u>4,982,569</u>    | <u>5,290,923</u>  |
| Income before income tax expense                             | 1,454,062           | 1,235,846         |
| INCOME TAX EXPENSE                                           | 310,277             | 281,209           |
| Net income                                                   | <u>\$ 1,143,785</u> | <u>\$ 954,637</u> |
| EARNINGS PER SHARE                                           | <u>\$ 4.00</u>      | <u>\$ 3.26</u>    |

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

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2020 and 2019**

|                                                                                                                                                         | <u>2020</u>         | <u>2019</u>         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| NET INCOME                                                                                                                                              | \$ 1,143,785        | \$ 954,637          |
| OTHER COMPREHENSIVE INCOME, net of tax                                                                                                                  |                     |                     |
| Change in net pension liability, net of tax effect of<br>\$37,172 and \$19,011 for 2020 and 2019, respectively                                          | (117,711)           | (61,862)            |
| Change in unrealized gain (loss) on available-for-sale<br>securities, net of tax effect of \$(31,785) and \$(69,735)<br>for 2020 and 2019, respectively | <u>89,835</u>       | <u>197,092</u>      |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)                                                                                                                 | <u>(27,876)</u>     | <u>135,230</u>      |
| COMPREHENSIVE INCOME                                                                                                                                    | <u>\$ 1,115,909</u> | <u>\$ 1,089,867</u> |

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

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**Years Ended December 31, 2020 and 2019**

|                                                 | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid In<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Treasury<br/>Stock</b> | <b>Total<br/>Shareholders'<br/>Equity</b> |
|-------------------------------------------------|-------------------------|-------------------------------------------|------------------------------|---------------------------------------------------------|---------------------------|-------------------------------------------|
| BALANCE, December 31, 2018                      | \$ 306,850              | \$ 562,070                                | \$ 15,726,468                | \$ (768,327)                                            | \$ (328,567)              | \$ 15,498,494                             |
| Net income                                      | -                       | -                                         | 954,637                      | -                                                       | -                         | 954,637                                   |
| Comprehensive income                            | -                       | -                                         | -                            | 135,230                                                 | -                         | 135,230                                   |
| Sales of 3,565 shares Treasury stock            | -                       | 4,040                                     | -                            | -                                                       | 174,210                   | 178,250                                   |
| Acquisition of 4,839 shares Treasury stock      | -                       | -                                         | -                            | -                                                       | (232,814)                 | (232,814)                                 |
| Dividends on common stock<br>(\$1.10) per share | -                       | -                                         | (321,754)                    | -                                                       | -                         | (321,754)                                 |
| BALANCE, December 31, 2019                      | 306,850                 | 566,110                                   | 16,359,351                   | (633,097)                                               | (387,171)                 | 16,212,043                                |
| Net income                                      | -                       | -                                         | 1,143,785                    | -                                                       | -                         | 1,143,785                                 |
| Comprehensive income                            | -                       | -                                         | -                            | (27,876)                                                | -                         | (27,876)                                  |
| Sales of 2,430 shares Treasury stock            | -                       | 630                                       | -                            | -                                                       | 121,890                   | 122,520                                   |
| Acquisition of 11,639 shares Treasury stock     | -                       | -                                         | -                            | -                                                       | (581,950)                 | (581,950)                                 |
| Dividends on common stock<br>(\$1.15) per share | -                       | -                                         | (325,465)                    | -                                                       | -                         | (325,465)                                 |
| BALANCE, December 31, 2020                      | <u>\$ 306,850</u>       | <u>\$ 566,740</u>                         | <u>\$ 17,177,671</u>         | <u>\$ (660,973)</u>                                     | <u>\$ (847,231)</u>       | <u>\$ 16,543,057</u>                      |

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

# CALHOUN BANKSHARES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

|                                                                                   | <u>2020</u>                 | <u>2019</u>                 |
|-----------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>OPERATING ACTIVITIES</b>                                                       |                             |                             |
| Net income                                                                        | \$ 1,143,785                | \$ 954,637                  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                             |
| Provision for loan losses                                                         | 240,000                     | 240,000                     |
| Provision for deferred income taxes                                               | 6,590                       | 58,638                      |
| Losses (gains) on other real estate owned                                         | (9,525)                     | 23,590                      |
| Depreciation                                                                      | 249,818                     | 218,815                     |
| Loss on disposition of property and equipment                                     | 4,489                       | 12,902                      |
| Amortization and accretion of securities, net                                     | 22,063                      | 14,141                      |
| Decrease in interest receivable                                                   | (21,554)                    | (32,665)                    |
| Increase in cash surrender value life insurance                                   | (100,113)                   | (96,772)                    |
| Stock awards                                                                      | 26,520                      | 25,500                      |
| Donation of Bank building                                                         | -                           | 183,807                     |
| Decrease in other assets                                                          | 1,484                       | 9,691                       |
| Increase (decrease) in borrowings and other liabilities                           | 189,261                     | (465,257)                   |
| Net cash provided by operating activities                                         | <u>1,752,818</u>            | <u>1,147,027</u>            |
| <b>INVESTING ACTIVITIES</b>                                                       |                             |                             |
| Net decrease in time deposits in other banks                                      | 994,294                     | 996,000                     |
| Proceeds from maturities and calls of available-for-sale securities               | 794,767                     | 618,811                     |
| Proceeds from principal payments of available-for-sale securities                 | 8,186,047                   | 1,000,000                   |
| Purchases of available-for-sale securities                                        | (8,000,000)                 | (1,500,000)                 |
| (Purchases) proceeds from redemption of other securities                          | 114,100                     | (62,500)                    |
| Proceeds from sale of other real estate owned                                     | 186,995                     | 228,910                     |
| Net increase in loans                                                             | (2,772,232)                 | (10,932,697)                |
| Purchases of premises and equipment                                               | (224,520)                   | (285,830)                   |
| Net cash used in investing activities                                             | <u>(720,549)</u>            | <u>(9,937,306)</u>          |
| <b>FINANCING ACTIVITIES</b>                                                       |                             |                             |
| Net increase in deposits                                                          | 16,896,858                  | 9,136,398                   |
| Net increase in FHLB advances                                                     | (3,000,000)                 | 1,500,000                   |
| Dividends paid                                                                    | (325,465)                   | (321,754)                   |
| Acquisition of treasury stock                                                     | (581,950)                   | (232,814)                   |
| Proceeds from sale of treasury stock                                              | 122,520                     | 152,750                     |
| Net cash provided by financing activities                                         | <u>13,111,963</u>           | <u>10,234,580</u>           |
| Increase in cash and cash equivalents                                             | 14,144,232                  | 1,444,301                   |
| <b>CASH, beginning</b>                                                            | <u>10,317,225</u>           | <u>8,872,924</u>            |
| <b>CASH, ending</b>                                                               | <u><u>\$ 24,461,457</u></u> | <u><u>\$ 10,317,225</u></u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |                             |                             |
| Cash paid during the year for                                                     |                             |                             |
| Interest                                                                          | <u>\$ 1,046,548</u>         | <u>\$ 1,026,549</u>         |
| Income taxes                                                                      | <u>\$ 35,320</u>            | <u>\$ 40,600</u>            |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>    |                             |                             |
| Other real estate acquired in settlement of loans                                 | <u>\$ 16,000</u>            | <u>\$ 215,000</u>           |

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

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies**

Nature of operations

Calhoun Bankshares, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Calhoun County Bank, Inc. (the “Bank”). Calhoun County Bank is a community bank with operations in Grantsville, West Virginia. The Bank provides banking services to domestic markets with the primary market areas being Calhoun, Gilmer, and Wirt counties, and the secondary market area being all of the contiguous counties. To a large extent, the operations of the Company and its Subsidiary Bank, such as loan portfolio management and deposit growth, are directly affected by the market area economy.

Basis of presentation and consolidation

The consolidated financial statements of the company are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The consolidated financial statements include the accounts of Calhoun Bankshares and its wholly owned subsidiary, Calhoun County Bank, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition

The majority of the Company’s revenue is from interest income, including loans and securities that are outside the scope of the standard. The services that fall within the scope of the standard are presented within noninterest income on the consolidated statements of income and are recognized as revenue as the Company satisfies its obligations to the customer. The revenue that falls within the scope of ASC 606 is primarily related to service charges on deposit accounts, other service charges and fees, insurance commissions, and miscellaneous fees.

The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. The Company also earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, and wire transfer fees. In each case, these service charges and fees are recognized as income at the time or within the same period that the Company’s performance obligation is satisfied.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value estimates, periodic costs and balance sheet accruals for the defined benefit pension plan, the valuation of other real estate owned (OREO), and deferred tax assets. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The loans of the Bank are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Presentation of cash flows

For purposes of the consolidated statements of cash flows, cash and due from banks includes cash on hand, non-interest bearing funds at correspondent banks, and federal funds sold.

Investment securities

Debt securities available-for-sale are carried at fair value, with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The cost of securities sold is determined on the specific identification method. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the contractual terms of the securities.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Investment securities (Continued)

Other equity investments include the Company's investment in stock of CBB Financial Corporation and the Federal Home Loan Bank of Pittsburgh (FHLB), which are restricted equity securities carried at cost because no ready market exists since it is restricted as to their marketability.

Declines in the fair value of individual securities below their cost that are other than temporary results in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Gains and losses on sales of securities are determined on the specific identification method.

Loans receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income on the cash basis, according to management's judgment as to the collectability of principal. Interest accrual resumes when the loan is no longer past due and the borrower, in management's opinion, is able to meet future payments as they become due. A loan is considered past due if the required principal and interest payment has not been received as of the contractual due date.

Allowance for loan losses

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio, and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries, and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a quarterly basis by management.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Allowance for loan losses (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools, and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the prior 12 consecutive quarters.

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trends; and conditions such as unemployment rates, housing statistics, banking industry conditions, and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective, as it requires significant estimates including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change.

Loan charge-off policies

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans or 120 days past due for closed-end loans, unless the loan is well-secured and in the process of collection. All other loans are generally charged down to the net realizable value when the loan is 90 days past due and/or when current information confirms all or part of a specific loan to be uncollectible.

COVID-19

Beginning in early 2020, the COVID-19 pandemic has negatively impacted the global economy. In response to this crisis, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Some of the provisions applicable to the Company include, but are not limited to:

Accounting for Loan Modifications – Section 4013 of the CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

COVID-19 (Continued)

Paycheck Protection Program – The CARES Act established the Paycheck Protection Program (PPP), an expansion of the Small Business Administration’s (SBA) 7(a) loan program and the Economic Injury Disaster Loan Program (EIDL), administered directly by the SBA.

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB), in consultation with the state financial regulators (collectively, the “agencies”) issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

Accounting for Loan Modifications – Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR.

Past Due Reporting – With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan’s payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.

Nonaccrual Status and Charge-offs – During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. These modifications generally meet the criteria of both Section 4013 of the CARES Act and the joint interagency statement, and therefore, the Company does not account for these as TDRs. The modifications generally consisted of short term payment deferrals. The Company did not participate in the PPP loan program.

The COVID-19 pandemic and its broader implications to the economy continue to create uncertainty that could adversely affect the financial results of financial institutions, including the Bank, in 2021 both through compression of interest rate margins and potential for increased loan losses. Management has considered the effects of these uncertainties in estimating the appropriate allowance for loan losses at year end, but future results could be different than these estimates.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Bank premises, furniture, and equipment

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation expense is computed using the straight-line method for buildings ranging from 15 to 40 years, and land improvements over a 15-year life. Furniture and equipment is depreciated on the declining balance method based on estimated useful lives of 5 to 20 years depending on the nature of the asset. Maintenance and repairs are expensed as incurred, whereas major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Other real estate owned (OREO)

Foreclosed assets held for resale acquired in satisfaction of mortgage obligations and in foreclosure proceedings are recorded at the fair market value of the property less estimated costs to sell. Properties carried in foreclosed assets held for resale are assessed at least annually for decline in market value, and future cash flows and provisions for impairment losses are charged to income as identified. Holding costs, including repairs and maintenance expenditures, are charged to operating expense as incurred, with major improvements that increase the value of the property capitalized. Gains and losses on sales are recognized in the year the sale transaction is complete. The amounts reflected in the consolidated statements of financial position are net of general valuation allowances.

Advertising

It is the Company's policy to expense advertising cost as incurred. Advertising expense for the years ended December 31, 2020 and 2019 was \$53,533 and \$68,022, respectively.

Income taxes

The Company accounts for income taxes using the deferred method under which the tax effects of the transactions reported in the consolidated financial statements consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, the timing of recognition of deferred compensation and pension costs, valuation adjustments on foreclosed property, and accumulated depreciation. Deferred tax assets and liabilities represent the future tax return consequences of those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns with its wholly owned subsidiaries. Any interest or penalties assessed by income taxing authorities would be reflected as interest expense and other operating expenses, respectively, in the consolidated statements of income.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Net income per common share

Net income per common share amounts are computed based on the weighted average number of common shares outstanding during the period.

Comprehensive income

Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and the unrecognized actuarial loss of the pension plan, are reported as a separate component of the shareholders' equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

|                                                            | <u>2020</u>                | <u>2019</u>                |
|------------------------------------------------------------|----------------------------|----------------------------|
| Unrecognized actuarial loss of the pension plan            | \$ (959,059)               | \$ (812,787)               |
| Effect of income tax expense                               | <u>240,983</u>             | <u>212,422</u>             |
|                                                            | <u>(718,076)</u>           | <u>(600,365)</u>           |
| Unrealized (gains) losses on available-for-sale securities | 77,306                     | (44,313)                   |
| Effect of income tax expense                               | <u>(20,203)</u>            | <u>11,581</u>              |
|                                                            | <u>57,103</u>              | <u>(32,732)</u>            |
| Total accumulated other comprehensive income               | <u><u>\$ (660,973)</u></u> | <u><u>\$ (633,097)</u></u> |

Reclassifications

Certain amounts in the 2019 consolidated financial statements were reclassified to conform to the 2020 presentation. These reclassifications had no effect on shareholders' equity or results of operations as previously presented.

Subsequent events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 5, 2021, the date the consolidated financial statements were available to be issued.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 2. Cash Concentrations and Restrictions on Cash**

At December 31, 2020 and during the year, the Company had interest bearing and non-interest deposits due from other banks and Federal Funds sold to other banks in excess of the limits of depository insurance. The Bank is required to maintain average reserve balances with the Federal Reserve Bank. There was no reserve requirement at December 31, 2020. At December 31, 2019, the reserve requirement approximated \$780,000.

**Note 3. Investment Securities**

The carrying amounts of investment securities as shown in the consolidated statements of financial position and their approximate fair values as of December 31, 2020 and 2019 are as follows:

|                          | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|--------------------------|---------------------------|---------------------------------------|----------------------------------------|-------------------------------------|
| <b>December 31, 2020</b> |                           |                                       |                                        |                                     |
| Available-for-sale       |                           |                                       |                                        |                                     |
| U.S. government agencies | \$ 6,000,000              | \$ 145                                | \$ (3,945)                             | \$ 5,996,200                        |
| Mortgage-backed          | 2,105,554                 | 81,107                                | -                                      | 2,186,661                           |
|                          | <u>\$ 8,105,554</u>       | <u>\$ 81,252</u>                      | <u>\$ (3,945)</u>                      | <u>\$ 8,182,861</u>                 |
|                          | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
| <b>December 31, 2019</b> |                           |                                       |                                        |                                     |
| Available-for-sale       |                           |                                       |                                        |                                     |
| U.S. government agencies | \$ 6,183,723              | \$ 1,216                              | \$ (44,305)                            | \$ 6,140,634                        |
| Mortgage-backed          | 2,924,708                 | 8,390                                 | (9,614)                                | 2,923,484                           |
|                          | <u>\$ 9,108,431</u>       | <u>\$ 9,606</u>                       | <u>\$ (53,919)</u>                     | <u>\$ 9,064,118</u>                 |

Investment securities with a carrying amount of \$7,642,427 and \$3,631,131 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 3. Investment Securities (Continued)**

The amortized cost and estimated fair value of available for sale securities as of December 31, 2020, by contractual maturity, are as follows:

|                                   | <u>Amortized<br/>Cost</u> | <u>Fair<br/>Value</u> |
|-----------------------------------|---------------------------|-----------------------|
| Amounts maturing in:              |                           |                       |
| One year or less                  | \$                        | \$                    |
| After one year through five years | 3,571,674                 | 3,574,274             |
| After five years through 10 years | 2,692,137                 | 2,697,049             |
| After 10 years                    | <u>1,841,743</u>          | <u>1,911,538</u>      |
|                                   | <u>\$ 8,105,554</u>       | <u>\$ 8,182,861</u>   |

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The tables below show gross unrealized losses and fair value at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position

| <u>December 31, 2019</u> | <u>Less Than 12 Months</u> |                            | <u>12 Months or Longer</u> |                            | <u>Total</u>          |                            |
|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
|                          | <u>Fair<br/>Value</u>      | <u>Unrealized<br/>Loss</u> | <u>Fair<br/>Value</u>      | <u>Unrealized<br/>Loss</u> | <u>Fair<br/>Value</u> | <u>Unrealized<br/>Loss</u> |
| U.S. government agencies | \$ 3,996,056               | \$ (3,945)                 | \$ -                       | \$ -                       | \$ 3,996,056          | \$ (3,945)                 |
| Mortgage-backed          | <u>-</u>                   | <u>-</u>                   | <u>-</u>                   | <u>-</u>                   | <u>-</u>              | <u>-</u>                   |
|                          | <u>\$ 3,996,056</u>        | <u>\$ (3,945)</u>          | <u>\$ -</u>                | <u>\$ -</u>                | <u>\$ 3,996,056</u>   | <u>\$ (3,945)</u>          |

| <u>December 31, 2019</u> | <u>Less Than 12 Months</u> |                            | <u>12 Months or Longer</u> |                            | <u>Total</u>          |                            |
|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|-----------------------|----------------------------|
|                          | <u>Fair<br/>Value</u>      | <u>Unrealized<br/>Loss</u> | <u>Fair<br/>Value</u>      | <u>Unrealized<br/>Loss</u> | <u>Fair<br/>Value</u> | <u>Unrealized<br/>Loss</u> |
| U.S. government agencies | \$ 2,468,935               | \$ (30,263)                | \$ 3,485,829               | \$ (14,042)                | \$ 5,954,764          | \$ (44,305)                |
| Mortgage-backed          | <u>417,049</u>             | <u>(968)</u>               | <u>1,740,460</u>           | <u>(8,646)</u>             | <u>2,157,509</u>      | <u>(9,614)</u>             |
|                          | <u>\$ 2,885,984</u>        | <u>\$ (31,231)</u>         | <u>\$ 5,226,289</u>        | <u>\$ (22,688)</u>         | <u>\$ 8,112,273</u>   | <u>\$ (53,919)</u>         |

No sales of available-for-sale securities occurred during 2020 or 2019.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 3. Investment Securities (Continued)**

The Company's unrealized losses on investments were caused by interest rate fluctuations. The severity and duration of these unrealized losses will change with interest rates and the economy. Because the securities are governments and their agencies and the Company has the ability and intent to hold them for a period of time sufficient to allow for an anticipated recovery, they are not considered to be other than temporarily impaired. The Company had 5 and 20 securities at December 31, 2020 and 2019, respectively, that were in a loss position.

**Note 4. Loans Receivable and Related Allowance for Loan Losses**

The following table summarizes the primary segments of the loan portfolio as of December 31, 2020 and 2019:

|                                   | <u>2020</u>                  | <u>2019</u>                  |
|-----------------------------------|------------------------------|------------------------------|
| Construction and land development | \$ 1,003,702                 | \$ 1,123,749                 |
| Commercial                        | 5,140,322                    | 4,992,448                    |
| Commercial real estate            | 15,348,697                   | 15,578,966                   |
| Residential real estate           | 84,251,269                   | 79,803,414                   |
| Consumer                          | <u>21,321,655</u>            | <u>22,924,279</u>            |
| Less allowance for loan losses    | <u>(1,675,970)</u>           | <u>(1,549,413)</u>           |
| Total loans                       | <u><u>\$ 125,389,675</u></u> | <u><u>\$ 122,873,443</u></u> |

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (1) the residential real estate loan portfolio; (2) the consumer loan portfolio; (3) the commercial real estate loan portfolio; (4) the commercial loan portfolio; and (5) the construction and land development portfolio. The residential mortgage loan segment is made up of fixed rate and adjustable rate single-family amortizing term loans, which are primarily first liens, as well as home equity lines of credit. The consumer loan segment consists of loans secured by automobiles, consumer goods, savings accounts, overdraft loans, other types of secured consumer loans, and unsecured personal loans. Overdrafts on deposit accounts at December 31, 2020 and 2019 of \$57,503 and \$41,841, respectively, were reclassified into total consumer loans for purposes of these disclosures. The commercial real estate segment consists of loans made for the acquisition of commercial properties, both owner-occupied and those held for lease and for financing the activities of commercial customers but, in all cases, is secured by commercial real estate. The commercial segment consists of loans made for financing the activities of commercial customers but secured by assets other than real estate.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4.     Loans Receivable and Related Allowance for Loan Losses (Continued)**

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. The loan portfolio consists primarily of loans within the Bank's primary market area; therefore, monitoring the status of individual borrowers and consequently monitoring the risk in the loan portfolio is based upon real-time knowledge of the individual borrowers, local employment information, and commercial activities. Loans are reviewed on a regular basis with a focus on larger loans, along with loans which have experienced past payment or financial deficiencies. Certain loans, including loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative, and loans which are of heightened concern to management based upon their knowledge of local business environment are included on the Company's "watch list." Certain loans classified as "watch list," Special Mention, and Substandard, and loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include the expected future cash flow from the borrower, current payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily using the present value of expected future cash flows unless the loan is collateral dependent. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2020 and 2019:

| 2020                              |                                        |                   |                                           |                           |                             |                          |                            |
|-----------------------------------|----------------------------------------|-------------------|-------------------------------------------|---------------------------|-----------------------------|--------------------------|----------------------------|
|                                   | Impaired Loans with Specific Allowance |                   | Impaired Loans with No Specific Allowance | Total Impaired Loans      |                             |                          | Interest Income Recognized |
|                                   | Recorded Investment                    | Related Allowance | Recorded Investment                       | Total Recorded Investment | Average Recorded Investment | Unpaid Principal Balance |                            |
| Construction and land development | \$ -                                   | \$ -              | \$ -                                      | \$ -                      | \$ -                        | \$ -                     | \$ -                       |
| Commercial                        | 40,330                                 | 20,200            | 61,275                                    | 101,605                   | 88,987                      | 101,605                  | 4,595                      |
| Commercial real estate            | 77,158                                 | 3,600             | 1,175,430                                 | 1,252,588                 | 1,281,241                   | 1,252,588                | 76,661                     |
| Residential real estate           | 619,431                                | 169,013           | 273,086                                   | 892,517                   | 958,319                     | 892,517                  | 75,681                     |
| Consumer                          | -                                      | -                 | 26,862                                    | 26,862                    | 20,138                      | 26,862                   | 1,434                      |
|                                   | <u>\$ 736,919</u>                      | <u>\$ 192,813</u> | <u>\$ 1,536,653</u>                       | <u>\$ 2,273,572</u>       | <u>\$ 2,348,685</u>         | <u>\$ 2,273,572</u>      | <u>\$ 158,371</u>          |
| 2019                              |                                        |                   |                                           |                           |                             |                          |                            |
|                                   | Impaired Loans with Specific Allowance |                   | Impaired Loans with No Specific Allowance | Total Impaired Loans      |                             |                          | Interest Income Recognized |
|                                   | Recorded Investment                    | Related Allowance | Recorded Investment                       | Total Recorded Investment | Average Recorded Investment | Unpaid Principal Balance |                            |
| Construction and land development | \$ -                                   | \$ -              | \$ -                                      | \$ -                      | \$ -                        | \$ -                     | \$ -                       |
| Commercial                        | 70,031                                 | 57,455            | 13,468                                    | 83,499                    | 88,987                      | 83,499                   | 4,595                      |
| Commercial real estate            | 130,078                                | 48,500            | 928,124                                   | 1,058,202                 | 1,281,241                   | 1,058,202                | 76,661                     |
| Residential real estate           | 648,323                                | 172,199           | 288,805                                   | 937,128                   | 958,319                     | 937,128                  | 75,681                     |
| Consumer                          | 17,363                                 | 370               | -                                         | 17,363                    | 20,138                      | 17,363                   | 1,434                      |
|                                   | <u>\$ 865,795</u>                      | <u>\$ 278,524</u> | <u>\$ 1,230,397</u>                       | <u>\$ 2,096,192</u>       | <u>\$ 2,348,685</u>         | <u>\$ 2,096,192</u>      | <u>\$ 158,371</u>          |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4.     Loans Receivable and Related Allowance for Loan Losses (Continued)**

There are certain impaired loans whose payments are being applied to reduce the principal balance of the loan because the recovery of principal is not determinable. The unpaid principal balance reflects the balance as if the payments were applied in accordance with the terms of the original contractual agreement, whereas the recorded investment reflects the outstanding principal balance for financial reporting purposes. In addition, the recorded investment in a loan may be reduced by partial charge-offs which would not be reflected in the unpaid principal balance.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company's loan rating process includes both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination. Loans are graded on a 9-point scale with a grade of 5 or above classified as "Pass" rated credits. The following is a description of the general characteristics of risk grades 6 through 9:

6 – Special Mention: This is an early warning assessment reserved for loans currently adequately protected, but portraying potential weaknesses that may not be tolerable over the intermediate to long term. These loans may possess deteriorating financial characteristics, significant legal or documentation exceptions as measured by the loan policy, or any other items noted which are worthy of immediate attention and/or correction.

7 – Substandard: These loans have well-defined weaknesses that could lead to impairment of the loan. These loans have had serious deterioration of borrower or guarantor financial condition, which could result in the Bank not collecting all principal and interest in a timely manner as defined by the loan agreement.

8 – Doubtful: These loans have characteristics such that collection of principal is highly unlikely. While the possibility of loss is high, sufficient contingencies exist to warrant deferral of charge-off pending the outcome of the contingency. Possibilities still exist which may strengthen or enhance the collection process. Generally, these loans are on non-accrual status.

9 – Loss: These loans are judged to be uncollectible and of such value that carrying the loan as an asset is not warranted. Loans in this category may still have recoverability of some or all principal, however it is not practical or desirable to defer such a charge-off pending recovery.

The Company engages an external consultant to conduct loan reviews on a semi-annual basis. Generally, the external consultant reviews all commercial relationships that equal or exceed \$250,000 and adversely classified commercial credits. Detailed reviews, including plans for resolution, are completed on loans classified as Substandard on a quarterly basis.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

The Company's process requires the review and evaluation of an impaired loan to be updated at least quarterly. The following tables present the classes of the loan portfolio summarized by the Pass category, as well as the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2020 and 2019.

| <b>Credit Quality Indicators as of December 31, 2020</b> |                       |                            |                     |                  |                       |
|----------------------------------------------------------|-----------------------|----------------------------|---------------------|------------------|-----------------------|
|                                                          | <b>Pass</b>           | <b>Special<br/>Mention</b> | <b>Substandard</b>  | <b>Doubtful</b>  | <b>Total</b>          |
| Construction and land development                        | \$ 1,003,702          | \$ -                       | \$ -                | \$ -             | \$ 1,003,702          |
| Commercial real estate                                   | 11,999,595            | 2,108,955                  | 1,240,147           | -                | 15,348,697            |
| Residential real estate                                  | 83,594,622            | 228,020                    | 378,318             | 50,309           | 84,251,269            |
| Consumer                                                 | 21,269,049            | 37,373                     | 15,233              | -                | 21,321,655            |
| Commercial                                               | 5,038,717             | -                          | 61,275              | 40,330           | 5,140,322             |
|                                                          | <u>\$ 122,905,685</u> | <u>\$ 2,374,348</u>        | <u>\$ 1,694,973</u> | <u>\$ 90,639</u> | <u>\$ 127,065,645</u> |
| <b>Credit Quality Indicators as of December 31, 2019</b> |                       |                            |                     |                  |                       |
|                                                          | <b>Pass</b>           | <b>Special<br/>Mention</b> | <b>Substandard</b>  | <b>Doubtful</b>  | <b>Total</b>          |
| Construction and land development                        | \$ 1,123,749          | \$ -                       | \$ -                | \$ -             | \$ 1,123,749          |
| Commercial real estate                                   | 13,127,761            | 1,393,002                  | 1,058,203           | -                | 15,578,966            |
| Residential real estate                                  | 78,630,991            | 966,868                    | 177,174             | 28,381           | 79,803,414            |
| Consumer                                                 | 22,876,744            | 47,534                     | -                   | -                | 22,924,278            |
| Commercial                                               | 4,927,838             | 52,320                     | 12,290              | -                | 4,992,448             |
|                                                          | <u>\$ 120,687,083</u> | <u>\$ 2,459,724</u>        | <u>\$ 1,247,667</u> | <u>\$ 28,381</u> | <u>\$ 124,422,855</u> |

(Continued)

# CALHOUN BANKSHARES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

### Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2020 and 2019:

| Past Due Loans as of December 31, 2020 |                    |                          |                          |                     |                       |                                                    |                                   |
|----------------------------------------|--------------------|--------------------------|--------------------------|---------------------|-----------------------|----------------------------------------------------|-----------------------------------|
|                                        | Current            | 30 – 59 Days<br>Past Due | 60 – 89 Days<br>Past Due | 90 Days<br>Past Due | Total<br>Loans        | Recorded<br>Investment >90<br>Days and<br>Accruing | Total Loans<br>on Non-<br>Accrual |
| Construction and land<br>development   | \$ 805,189         | \$ 198,513               | \$ -                     | \$ -                | \$ 1,003,702          | \$ -                                               | \$ -                              |
| Commercial real estate                 | 15,331,815         | 16,882                   | -                        | -                   | 15,348,697            | -                                                  | -                                 |
| Commercial                             | 3,603,173          | 1,392,650                | 144,499                  | -                   | 5,140,322             | -                                                  | 30,165                            |
| Residential real estate                | 82,412,455         | 1,360,964                | 161,293                  | 316,557             | 84,251,269            | 29,644                                             | 335,957                           |
| Consumer                               | 20,918,798         | 272,289                  | 46,287                   | 84,281              | 21,321,655            | 5,127                                              | 100,794                           |
|                                        | <u>123,071,430</u> | <u>\$ 3,241,298</u>      | <u>\$ 352,079</u>        | <u>\$ 400,838</u>   | <u>\$ 127,065,645</u> | <u>\$ 34,771</u>                                   | <u>\$ 466,916</u>                 |

  

| Past Due Loans as of December 31, 2019 |                    |                          |                          |                     |                       |                                                    |                                   |
|----------------------------------------|--------------------|--------------------------|--------------------------|---------------------|-----------------------|----------------------------------------------------|-----------------------------------|
|                                        | Current            | 30 – 59 Days<br>Past Due | 60 – 89 Days<br>Past Due | 90 Days<br>Past Due | Total<br>Loans        | Recorded<br>Investment >90<br>Days and<br>Accruing | Total Loans<br>on Non-<br>Accrual |
| Construction and land<br>development   | \$ 1,123,749       | \$ -                     | \$ -                     | \$ -                | \$ 1,123,749          | \$ -                                               | \$ -                              |
| Commercial real estate                 | 14,832,732         | 745,610                  | 624                      | -                   | 15,578,966            | -                                                  | -                                 |
| Commercial                             | 4,859,384          | 105,488                  | -                        | 27,576              | 4,992,448             | -                                                  | 27,576                            |
| Residential real estate                | 77,785,471         | 1,245,123                | 278,341                  | 494,479             | 79,803,414            | 160,628                                            | 494,731                           |
| Consumer                               | 22,494,561         | 372,544                  | 35,651                   | 21,522              | 22,924,278            | 61,867                                             | -                                 |
|                                        | <u>121,095,897</u> | <u>\$ 2,468,765</u>      | <u>\$ 314,616</u>        | <u>\$ 543,577</u>   | <u>\$ 124,422,855</u> | <u>\$ 222,495</u>                                  | <u>\$ 522,307</u>                 |

The classes described above provide the starting point for the Allowance for Loan and Lease Losses (ALLL) analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Management has identified a number of qualitative factors that it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Company's qualitative factors consist of: levels and trends in delinquency; levels and trends in nonaccrual; trends in volumes and terms; changes in risk selection and underwriting; experience, ability and depth of loan staff; national and local trends; external factors; and changes in credit concentrations.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL. The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALLL that is representative of the risk found in the components of the portfolio at any given date.

The following tables summarize the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2020 and 2019. Activity in the allowance is presented for the 12 months ended December 31, 2020 and 2019:

|                                            | <u>Commercial</u>   | <u>Commercial<br/>Real Estate</u> | <u>Residential<br/>Real Estate</u> | <u>Consumer</u>      | <u>Unallocated</u> | <u>Total</u>          |
|--------------------------------------------|---------------------|-----------------------------------|------------------------------------|----------------------|--------------------|-----------------------|
| <b>ALLL balance at December 31, 2019</b>   | <b>\$ 369,879</b>   | <b>\$ 191,689</b>                 | <b>\$ 842,390</b>                  | <b>\$ 145,455</b>    | <b>\$ -</b>        | <b>\$ 1,549,413</b>   |
| Charge-offs                                | -                   | -                                 | (121,459)                          | (31,683)             | -                  | (153,142)             |
| Recoveries                                 | 18,000              | -                                 | -                                  | 21,699               | -                  | 39,699                |
| Provision                                  | 9,709               | 28,990                            | 161,029                            | 40,272               | -                  | 240,000               |
| <b>ALLL balance at December 31, 2020</b>   | <b>\$ 397,588</b>   | <b>\$ 220,679</b>                 | <b>\$ 881,960</b>                  | <b>\$ 175,743</b>    | <b>\$ -</b>        | <b>\$ 1,675,970</b>   |
| <b>Ending ALLL for all loans</b>           |                     |                                   |                                    |                      |                    |                       |
| Individually evaluated for impairment      | \$ 20,200           | \$ 3,600                          | \$ 169,013                         | \$ -                 | \$ -               | \$ 192,813            |
| Collectively evaluated for impairment      | 377,388             | 217,079                           | 712,947                            | 175,743              | -                  | 1,483,157             |
| <b>Total ALLL evaluated for impairment</b> | <b>\$ 397,588</b>   | <b>\$ 220,679</b>                 | <b>\$ 881,960</b>                  | <b>\$ 175,743</b>    | <b>\$ -</b>        | <b>\$ 1,675,970</b>   |
| <b>Loans</b>                               |                     |                                   |                                    |                      |                    |                       |
| Individually evaluated for impairment      | \$ 101,605          | \$ 1,252,588                      | \$ 892,517                         | \$ 26,862            | \$ -               | \$ 2,273,572          |
| Collectively evaluated for impairment      | 5,038,717           | 14,096,109                        | 84,362,454                         | 21,294,793           | -                  | 124,792,073           |
|                                            | <b>\$ 5,140,322</b> | <b>\$ 15,348,697</b>              | <b>\$ 85,254,971</b>               | <b>\$ 21,321,655</b> | <b>\$ -</b>        | <b>\$ 127,065,645</b> |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

|                                            | <u>Commercial</u>   | <u>Commercial<br/>Real Estate</u> | <u>Residential<br/>Real Estate</u> | <u>Consumer</u>      | <u>Unallocated</u> | <u>Total</u>          |
|--------------------------------------------|---------------------|-----------------------------------|------------------------------------|----------------------|--------------------|-----------------------|
| <b>ALLL balance at December 31, 2018</b>   | \$ 314,249          | \$ 161,639                        | \$ 750,975                         | \$ 135,225           | \$ -               | \$ 1,362,088          |
| Charge-offs                                | -                   | -                                 | (111,662)                          | (56,361)             | -                  | (168,023)             |
| Recoveries                                 | 46,000              | -                                 | 46,976                             | 22,372               | -                  | 115,348               |
| Provision                                  | 9,630               | 30,050                            | 156,101                            | 44,219               | -                  | 240,000               |
| <b>ALLL balance at December 31, 2019</b>   | <u>\$ 369,879</u>   | <u>\$ 191,689</u>                 | <u>\$ 842,390</u>                  | <u>\$ 145,455</u>    | <u>\$ -</u>        | <u>\$ 1,549,413</u>   |
| <b>Ending ALLL for all loans</b>           |                     |                                   |                                    |                      |                    |                       |
| Individually evaluated for impairment      | \$ 57,455           | \$ 48,500                         | \$ 172,199                         | \$ 370               | \$ -               | \$ 278,524            |
| Collectively evaluated for impairment      | 312,424             | 143,189                           | 670,191                            | 145,085              | -                  | 1,270,889             |
| <b>Total ALLL evaluated for impairment</b> | <u>\$ 369,879</u>   | <u>\$ 191,689</u>                 | <u>\$ 842,390</u>                  | <u>\$ 145,455</u>    | <u>\$ -</u>        | <u>\$ 1,549,413</u>   |
| <b>Loans</b>                               |                     |                                   |                                    |                      |                    |                       |
| Individually evaluated for impairment      | \$ 83,499           | \$ 1,058,202                      | \$ 937,128                         | \$ 17,363            | \$ -               | \$ 2,096,192          |
| Collectively evaluated for impairment      | 4,908,949           | 14,520,764                        | 79,990,035                         | 22,906,915           | -                  | 122,326,663           |
|                                            | <u>\$ 4,992,448</u> | <u>\$ 15,578,966</u>              | <u>\$ 80,927,163</u>               | <u>\$ 22,924,278</u> | <u>\$ -</u>        | <u>\$ 124,422,855</u> |

From time to time, the Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan and subsequently if the loan goes into default, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through a charge-off to the allowance. Segment and class status are determined by the loan's classification at origination.

There were no loan modifications that are considered TDRs completed during the years ending December 31, 2020 and 2019.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by adjusting the loan grades of such loans. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance calculation. Additionally, specific reserves may be established on restructured loans evaluated individually.

No consumer mortgage loans secured by residential real estate properties were in formal foreclosure procedures as of December 31, 2020.

The Company conducts its business through four offices located in Calhoun County, West Virginia, and surrounding counties. At December 31, 2020 and 2019, the majority of the Company's loan portfolio was secured by properties located in this region. The Company does not believe it has significant concentrations of credit risk to any one group of borrowers given its underwriting and collateral requirements

**Note 5. Premises and Equipment**

A summary of premises and equipment at December 31, 2020 and 2019 is as follows:

|                                    | <u>2020</u>         | <u>2019</u>         |
|------------------------------------|---------------------|---------------------|
| Bank premises                      | \$ 5,417,518        | \$ 5,334,042        |
| Equipment, furniture, and fixtures | 1,705,498           | 1,675,505           |
| Construction In Progress           | <u>22,246</u>       | <u>-</u>            |
|                                    | <u>7,145,262</u>    | <u>7,009,547</u>    |
| Less accumulated depreciation      | <u>(2,825,030)</u>  | <u>(2,659,528)</u>  |
| Bank premises and equipment, net   | <u>\$ 4,320,232</u> | <u>\$ 4,350,019</u> |

Depreciation expense related to premises and equipment was \$249,813 and \$218,815 for the years ended December 31, 2020 and 2019, respectively.

During 2019, the Company closed their main branch in Grantsville, after construction of their new main branch in Grantsville was completed. During 2020, the property was donated to the Town of Grantsville. The carrying value at the time was \$183,807.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 6. Deposits**

Deposit account balances at December 31, 2020 and 2019 are summarized as follows:

|                               | <u>2020</u>           | <u>2019</u>           |
|-------------------------------|-----------------------|-----------------------|
| Non-interest bearing checking | \$ 50,212,688         | \$ 42,181,088         |
| Interest bearing checking     | 9,261,530             | 8,172,015             |
| Savings deposits              | 45,017,433            | 33,049,727            |
| Passbook IRA                  | 8,695,109             | 7,962,253             |
| Certificates of deposit       | <u>35,321,871</u>     | <u>40,246,690</u>     |
| Total deposits                | <u>\$ 148,508,631</u> | <u>\$ 131,611,773</u> |

Scheduled maturities of certificates of deposit and individual retirement accounts at December 31, 2020 were as follows:

| <u>Maturities</u>   |                      |
|---------------------|----------------------|
| 2021                | \$ 26,049,887        |
| 2022                | 6,043,500            |
| 2023                | 1,112,759            |
| 2024                | 988,131              |
| 2025 and thereafter | <u>9,822,703</u>     |
|                     | <u>\$ 44,016,980</u> |

Included in time deposits are certificates of deposits of \$250,000 or more totaling \$11,927,676 and \$11,046,824 at December 31, 2020 and 2019, respectively.

Included in regular certificates of deposit are \$1,015,611 and \$5,024,633 as of December 31, 2020 and 2019, respectively, of certificates of deposit issued and obtained through the Certificate of Deposit Account Registry Service (CDARS) program.

**Note 7. Borrowings**

The Bank has obtained an unsecured, uncommitted, borrowing facility for the purpose of federal funds in the amount of \$3,000,000 from Community Bankers Bank (CBB). Any borrowings bear an interest rate which is determined at the time of each advance. Request for advances under the facility is subject to CBB's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2020 and 2019, respectively.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 7. Borrowings (Continued)**

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available short-term borrowings from collateralized advances. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and may be subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 – 4 family mortgages made by the Bank and other eligible collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately \$18,900,000 based on qualifying loan collateral. The borrowings outstanding are as follows:

|                                 | <u>Amount</u>       | <u>Interest<br/>Rate</u> | <u>Maturity Date</u> |
|---------------------------------|---------------------|--------------------------|----------------------|
| <b><u>December 31, 2020</u></b> |                     |                          |                      |
| Advance                         | \$ 1,500,000        | 2.481 %                  | May 24, 2021         |
| Ending balance                  | <u>\$ 1,500,000</u> |                          |                      |
| <b><u>December 31, 2019</u></b> |                     |                          |                      |
| Advance                         | \$ 2,000,000        | 2.598 %                  | April 30, 2020       |
| Advance                         | 1,500,000           | 2.481                    | May 24, 2021         |
| Advance                         | <u>1,000,000</u>    | 2.794                    | August 21, 2020      |
| Ending balance                  | <u>\$ 4,500,000</u> |                          |                      |

**Note 8. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated statements of financial position.

Financial instruments whose contract amount represents credit risk are as follows:

|                              | <u>2020</u>         | <u>2019</u>         |
|------------------------------|---------------------|---------------------|
| Commitments to extend credit | \$ 4,157,056        | \$ 5,273,294        |
| Standby letters of credit    | <u>580,000</u>      | <u>530,000</u>      |
|                              | <u>\$ 4,737,056</u> | <u>\$ 5,803,294</u> |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 8. Financial Instruments with Off-Balance-Sheet Risk (Continued)**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. 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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate, accounts receivable, inventory, property and equipment, and income-producing commercial properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Generally all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

**Note 9. Income Taxes**

The Company records income taxes using an asset and liability approach that requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

The amount reflected as income taxes represents federal and state income taxes on consolidated financial statement income. Certain items of income and expense, primarily the provision for loan losses, timing of the recognition of deferred compensation and pension costs, and valuation adjustments of foreclosed property and depreciation are reported in different accounting periods for income tax purposes. The provision for income taxes was comprised the following:

|                      | <u>2020</u>       | <u>2019</u>       |
|----------------------|-------------------|-------------------|
| Current tax expense  | \$ 303,687        | \$ 261,996        |
| Deferred tax expense | <u>6,590</u>      | <u>19,213</u>     |
| Income tax expense   | <u>\$ 310,277</u> | <u>\$ 281,209</u> |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 9. Income Taxes (Continued)**

Deferred income tax assets and liabilities are the result of timing differences in recognition of revenue and expense for income tax and financial statement purposes. Deferred income tax assets and liabilities comprised the following at December 31:

|                                                                  | <u>2020</u>       | <u>2019</u>       |
|------------------------------------------------------------------|-------------------|-------------------|
| Deferred tax assets                                              |                   |                   |
| Deferred compensation plans                                      | \$ 224,136        | \$ 178,549        |
| Allowance for loan losses                                        | 350,879           | 317,803           |
| Supplemental executives and directors benefit plan               | 156,405           | 167,905           |
| Interest on non-accrual loans                                    | 4,293             | 5,124             |
| Unrealized losses on investment securities<br>available-for-sale | -                 | 11,581            |
| Other items                                                      | -                 | 29,148            |
|                                                                  | <u>735,713</u>    | <u>710,110</u>    |
| Deferred tax liabilities                                         |                   |                   |
| Accumulated depreciation                                         | (57,137)          | (48,602)          |
| Unrealized gains on investment securities                        | (20,204)          | -                 |
| Other items                                                      | -                 | (1,377)           |
|                                                                  | <u>-</u>          | <u>(1,377)</u>    |
| Net deferred tax asset                                           | <u>\$ 658,372</u> | <u>\$ 660,131</u> |

The Company recognizes interest and penalties related to tax as part of the tax provision. With respect to the realization of deferred tax assets, management believes that a valuation allowance is not necessary.

**Note 10. Related Party Transactions**

The Bank has granted loans to its officers and directors and to their associated interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability.

A summary of the activity with respect to related party loans for the years ended December 31, 2020 and 2019 is as follows:

|                      | <u>2020</u>       | <u>2019</u>         |
|----------------------|-------------------|---------------------|
| Balance, January 1   | \$ 1,168,306      | \$ 1,257,812        |
| Borrowings           | 38,631            | 110,379             |
| Repayments           | (259,269)         | (199,885)           |
| Balance, December 31 | <u>\$ 947,668</u> | <u>\$ 1,168,306</u> |

The Bank held related party deposits of \$1,780,753 and \$710,249 at December 31, 2020 and 2019, respectively.

(Continued)

# CALHOUN BANKSHARES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

### Note 11. Limitations on Dividends

The primary source of funds of the dividends paid by Calhoun Bankshares, Inc. are dividends received from Calhoun County Bank, Inc. The approval of its regulatory agencies would be required if the total of all dividends declared by the subsidiary in any calendar year was greater than its net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years.

### Note 12. Defined Benefit Pension Plan

The Company has a defined benefit plan covering full-time employees hired before March 14, 2013. Benefits are based on final average earnings and years of service. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and that is tax deductible under the *Internal Revenue Code*. Plan assets are held by a trust and are mostly invested in a variety of equity-based and fixed income-based mutual funds.

GAAP require an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Total recorded pension liability included in other liabilities as of December 31, 2020 and 2019 was \$632,179 and \$683,179, respectively.

The following table sets forth the benefit obligation, the fair value of plan assets, the funded status of the pension plan, the amounts recognized in the Company's consolidated financial statements, and the assumptions used.

|                                         | <u>2020</u>         | <u>2019</u>         |
|-----------------------------------------|---------------------|---------------------|
| Accumulated benefit obligation          | \$ 2,341,320        | \$ 2,071,255        |
| Change in benefit obligation            |                     |                     |
| Benefit obligation at beginning of year | \$ 2,566,319        | \$ 2,287,800        |
| Service cost                            | 107,531             | 101,592             |
| Interest cost                           | 89,488              | 96,826              |
| Actuarial loss                          | 387,594             | 260,557             |
| Benefit payments                        | (18,347)            | (180,456)           |
| Settlement payments                     | (276,249)           | -                   |
| Benefit obligation at end of year       | <u>\$ 2,856,336</u> | <u>\$ 2,566,319</u> |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 12. Defined Benefit Pension Plan (Continued)**

|                                                                                      | <u>2020</u>         | <u>2019</u>         |
|--------------------------------------------------------------------------------------|---------------------|---------------------|
| Change in fair value of plan assets                                                  |                     |                     |
| Fair value of plan assets at beginning of year                                       | \$ 1,883,140        | \$ 1,626,658        |
| Actual return on plan assets                                                         | 240,236             | 272,237             |
| Contributions                                                                        | 180,000             | 180,000             |
| Benefits paid                                                                        | (18,347)            | (180,456)           |
| Settlement payments                                                                  | (270,255)           | -                   |
| Administrative expenses                                                              | (16,046)            | (15,299)            |
|                                                                                      | <u>\$ 1,998,728</u> | <u>\$ 1,883,140</u> |
| Fair value of plan assets at end of year                                             |                     |                     |
|                                                                                      | <u>\$ (857,608)</u> | <u>\$ (683,179)</u> |
| Funded status                                                                        |                     |                     |
|                                                                                      | <u>\$ (857,608)</u> | <u>\$ (683,179)</u> |
| Amounts recognized in the balance sheets consist of<br>funded status of pension plan | <u>\$ (857,608)</u> | <u>\$ (683,179)</u> |
| Amounts recognized in accumulated other comprehensive<br>loss                        |                     |                     |
| Transition obligation, net of tax                                                    | \$ -                | \$ -                |
| Prior service cost                                                                   | -                   | -                   |
| Net actuarial loss                                                                   | (959,059)           | (812,787)           |
|                                                                                      | <u>\$ (959,059)</u> | <u>\$ (812,787)</u> |

The Company expects approximately \$47,192, before tax, of accumulated other comprehensive loss will be recognized as a portion of net periodic benefit costs in 2021. The Company expects approximately \$240,000 to be contributed to the plan in 2021.

The following table details the actuarial assumptions used in determining the projected benefit obligations and net benefit cost of the pension plan for 2020 and 2019:

|                                                  | <u>2020</u> | <u>2019</u> |
|--------------------------------------------------|-------------|-------------|
| Discount rate                                    | 2.75 %      | 3.50 %      |
| Expected long-term rate of return on plan assets | 6.00        | 6.00        |
| Expected rate of return of compensation increase | 3.50        | 3.50        |

To develop the expected long-term rate of return on assets assumption, the Company, with input from the plan's actuaries and investment advisors, considered the historical returns and the future long-term expectations for returns for each asset class, as well as the target asset allocation of the plan's portfolio. This resulted in the selection of the corresponding long-term rate of return assumptions used for the plan's assets.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 12. Defined Benefit Pension Plan (Continued)**

Components of net periodic pension costs are as follows:

|                                | <u>2020</u>              | <u>2019</u>              |
|--------------------------------|--------------------------|--------------------------|
| Service cost                   | \$ 107,531               | \$ 101,592               |
| Interest cost                  | 89,488                   | 96,826                   |
| Expected return on plan assets | (117,395)                | (102,001)                |
| Recognized loss                | <u>37,834</u>            | <u>32,879</u>            |
| Net periodic cost              | 117,458                  | 129,296                  |
| Settlement loss recognized     | <u>90,699</u>            | <u>-</u>                 |
| Total pension costs            | <u><u>\$ 208,157</u></u> | <u><u>\$ 129,296</u></u> |

The components of net periodic benefit cost other than the service cost component are included in the line item “other expenses” on the consolidated statements of income.

The primary objectives of the plan’s investment policy are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans’ actuarial assumptions, achieve asset returns that are competitive with like institutions employing similar investment strategies, and meet expected future benefits in both the short-term and long-term. The investment policy provides for a range of investment allocations to allow for flexibility in responding to market conditions. The investment policy is periodically reviewed by the plan and a third-party fiduciary for investment matters.

The Company’s asset allocations in the pension plan as of December 31, 2020 and 2019 were:

|                           | <u>2020</u>           | <u>2019</u>           |
|---------------------------|-----------------------|-----------------------|
| Asset category            |                       |                       |
| Cash and cash equivalents | 1.9 %                 | 12.4 %                |
| Preferred stocks          | 0.4                   | 0.5                   |
| Mutual funds              | <u>97.7</u>           | <u>87.1</u>           |
|                           | <u><u>100.0 %</u></u> | <u><u>100.0 %</u></u> |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 12. Defined Benefit Pension Plan (Continued)**

The assets of the plan are managed by one plan trustee. The investments of the plan are priced to market by the trustee using fair values for securities based on quoted market prices, where available. If quoted market prices are not available, the trustee uses proprietary fair value models and measurements from other pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and as to bonds, the terms and conditions including calls and prepayment options, among other things.

The following table reflects expected future benefit payments:

| <u><b>Year Ending December 31,</b></u> |                          |
|----------------------------------------|--------------------------|
| 2021                                   | \$ 21,906                |
| 2022                                   | 27,051                   |
| 2023                                   | 25,661                   |
| 2024                                   | 24,183                   |
| 2025                                   | 31,526                   |
| 2026 – 2030                            | <u>489,416</u>           |
|                                        | <u><u>\$ 619,743</u></u> |

**Note 13. Other Employee Benefit Plans**

The Company has a non-qualified executive and director supplemental retirement and life insurance plan with certain executive officers and directors that provides an income benefit payable at projected normal retirement age or death. Provisions charged to the consolidated statements of income and the cumulative liability under the plans is computed using a 6% present value discount. The liability accrued under these plans at December 31, 2020 and 2019 was \$598,451 and \$642,451, respectively, which is included in other liabilities in the accompanying consolidated statements of financial position. The cost of these plans included in the consolidated statements of income was \$38,783 and \$36,311 for the years ended December 31, 2020 and 2019, respectively.

The Company also maintains life insurance for certain directors and officers. At December 31, 2020 and 2019, the cash surrender value of these insurance contracts was \$3,569,460 and \$3,469,347, respectively.

In addition to the above pension plan, the Company has adopted a contributory 401(k) retirement plan, whereby eligible participants may make contributions, up to 15% of compensation, and the Company will match up to 6% of this limit during the plan year for eligible employees hired after March 13, 2013, and will match \$0.35 on the dollar up to 6% of compensation for eligible employees who were hired prior to March 13, 2013. The Company may make additional discretionary contributions to eligible participants unrelated to participant contributions. During 2020 and 2019, the Company made approximately \$50,541 and \$44,375, respectively, of matching contributions in each year to eligible participants.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 13. Other Employee Benefit Plans (Continued)**

During 2013, the Company adopted a Stock Award Incentive Plan, the purpose of which is to assist in recruiting and retaining individuals who provide services to the Company and to enable such individuals to participate in the future success of the Company. Any employee of the Company or members of the Board of Directors are eligible to participate in the plan. Stock awards under the plan are made as determined solely by an Administrator appointed by the Board of Directors. Stock awards under the plan are without cost to the recipient and are considered taxable compensations at the date of the award based on the fair value of the stock at the date of the award and recorded as expense by the Company. At the option of the Administrator, benefits of any stock issues under the plan may include vesting provisions and restrictions on transfer of the stock during the vesting period. In 2020, stock awards of 510 shares were approved and issued. In 2019, stock awards of 510 shares were approved and issued.

**Note 14. Regulatory Capital Requirements**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized; although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. Prompt corrective action provisions are not applicable to holding companies.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 14. Regulatory Capital Requirements (Continued)**

The Bank's actual and required capital amounts (in thousands) and ratios at December 31, 2020 and 2019 were as follows (in thousands):

|                                                    | <b>Actual</b> |              | <b>For Capital Adequacy Purposes</b> |              | <b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b> |              |
|----------------------------------------------------|---------------|--------------|--------------------------------------|--------------|-------------------------------------------------------------------------|--------------|
|                                                    | <b>Amount</b> | <b>Ratio</b> | <b>Amount</b>                        | <b>Ratio</b> | <b>Amount</b>                                                           | <b>Ratio</b> |
| <b>As of December 31, 2020</b>                     |               |              |                                      |              |                                                                         |              |
| Total risk-based capital (to risk weighted assets) | \$ 17,468     | 17.95%       | \$ 7,784                             | 8.00%        | \$ 9,730                                                                | 10.00%       |
| Tier I capital (to risk weighted assets)           | 16,246        | 16.70        | 5,838                                | 6.00         | 7,784                                                                   | 8.00         |
| Tier I leverage (to adjusted total assets)         | 16,246        | 9.73         | 6,676                                | 4.00         | 8,345                                                                   | 5.00         |
| CETI (to risk weighted assets)                     | 16,246        | 16.70        | 4,378                                | 4.50         | 6,324                                                                   | 6.50         |
|                                                    | <b>Actual</b> |              | <b>For Capital Adequacy Purposes</b> |              | <b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b> |              |
|                                                    | <b>Amount</b> | <b>Ratio</b> | <b>Amount</b>                        | <b>Ratio</b> | <b>Amount</b>                                                           | <b>Ratio</b> |
| <b>As of December 31, 2019</b>                     |               |              |                                      |              |                                                                         |              |
| Total risk-based capital (to risk weighted assets) | \$ 16,793     | 17.12%       | \$ 7,848                             | 8.00%        | \$ 9,809                                                                | 10.00%       |
| Tier I capital (to risk weighted assets)           | 15,563        | 15.87        | 5,886                                | 6.00         | 7,848                                                                   | 8.00         |
| Tier I leverage (to adjusted total assets)         | 15,563        | 10.03        | 6,206                                | 4.00         | 7,757                                                                   | 5.00         |
| CETI (to risk weighted assets)                     | 15,563        | 15.87        | 4,414                                | 4.50         | 6,376                                                                   | 6.50         |

**Note 15. Fair Value Measurements**

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

**Level 1** Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 15. Fair Value Measurements (Continued)**

**Level 2** Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets, or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, such as interest rates, volatilities, prepayment speeds; and credit risks, or inputs that are derived principally from or corroborated by market data by correlation or other means.

**Level 3** Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Recurring – investment securities

Fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions among other things.

Non-recurring – loans

The Company does not record loans at fair value on a recurring basis. However, from time to time a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, recent appraisal value and /or tax assessed value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3. Disclosed in the tables below is the recorded investment in impaired loans that require a specific allowance.

Non-recurring – foreclosed assets/reposessions

Foreclosed assets and reposessions are adjusted to fair value upon transfer of the loans to foreclosed assets and reposessions. Subsequently, foreclosed assets and reposessions are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices or appraised values of the collateral which the Company considers as nonrecurring Level 3.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 15. Fair Value Measurements (Continued)**

The following tables summarize the valuation of the Company's assets and liabilities that were measured at fair value as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy. The amount reflected as fair value of impaired loans is net of specific reserves.

| <b>Fair Value Measurement of Reporting Date Using</b>     |                     |                                                                                           |                                                                      |                                                              |
|-----------------------------------------------------------|---------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
|                                                           |                     | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|                                                           | <b>Fair Value</b>   |                                                                                           |                                                                      |                                                              |
| <b>December 31, 2020:</b>                                 |                     |                                                                                           |                                                                      |                                                              |
| Assets and liabilities measured on a recurring basis:     |                     |                                                                                           |                                                                      |                                                              |
| Available-for-sale securities                             |                     |                                                                                           |                                                                      |                                                              |
| U.S. government agencies                                  | \$ 5,996,200        | \$ -                                                                                      | \$ 5,996,200                                                         | \$ -                                                         |
| Mortgage backed                                           | 2,186,661           | -                                                                                         | 2,186,661                                                            | -                                                            |
|                                                           | <u>\$ 8,182,861</u> | <u>\$ -</u>                                                                               | <u>\$ 8,182,861</u>                                                  | <u>\$ -</u>                                                  |
| Assets and liabilities measured on a non-recurring basis: |                     |                                                                                           |                                                                      |                                                              |
| Impaired loans                                            | \$ 2,080,759        | \$ -                                                                                      | \$ -                                                                 | \$ 2,080,759                                                 |
| Foreclosed real estate owned and repossessed assets       | 16,000              | -                                                                                         | -                                                                    | 16,000                                                       |
|                                                           | <u>\$ 2,096,759</u> | <u>\$ -</u>                                                                               | <u>\$ -</u>                                                          | <u>\$ 2,096,759</u>                                          |
| <b>December 31, 2019:</b>                                 |                     |                                                                                           |                                                                      |                                                              |
| Assets and liabilities measured on a recurring basis:     |                     |                                                                                           |                                                                      |                                                              |
| Available-for-sale securities                             |                     |                                                                                           |                                                                      |                                                              |
| U.S. government agencies                                  | \$ 6,140,634        | \$ -                                                                                      | \$ 6,140,634                                                         | \$ -                                                         |
| Mortgage backed                                           | 2,923,484           | -                                                                                         | 2,923,484                                                            | -                                                            |
|                                                           | <u>\$ 9,064,118</u> | <u>\$ -</u>                                                                               | <u>\$ 9,064,118</u>                                                  | <u>\$ -</u>                                                  |
| Assets and liabilities measured on a non-recurring basis: |                     |                                                                                           |                                                                      |                                                              |
| Impaired loans                                            | \$ 1,817,668        | \$ -                                                                                      | \$ -                                                                 | \$ 1,817,668                                                 |
| Foreclosed real estate owned and repossessed assets       | 175,000             | -                                                                                         | -                                                                    | 175,000                                                      |
|                                                           | <u>\$ 1,992,668</u> | <u>\$ -</u>                                                                               | <u>\$ -</u>                                                          | <u>\$ 1,992,668</u>                                          |

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**Note 15. Fair Value Measurements (Continued)**

For Level 3 assets and liabilities measured at fair value as of December 31, the significant unobservable inputs used in the fair value measurements were as follows:

|                         | <u>Fair Value<br/>December 31, 2020</u> | <u>Valuation<br/>Technique</u>                            | <u>Significant<br/>Unobservable<br/>Inputs</u>              | <u>Range</u> |
|-------------------------|-----------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|--------------|
| Other real estate owned | \$ 16,000                               | Discounted<br>appraised value                             | Discounted<br>for selling costs<br>and age of<br>appraisals | Up to 3%     |
| Impaired loans          | \$ 2,080,759                            | Discounted<br>appraised value<br>and net present<br>value | Discounted for<br>selling costs and<br>age of appraisals    | 7% – 65%     |
|                         | <u>Fair Value<br/>December 31, 2019</u> | <u>Valuation<br/>Technique</u>                            | <u>Significant<br/>Unobservable<br/>Inputs</u>              | <u>Range</u> |
| Other real estate owned | \$ 175,000                              | Discounted<br>appraised value                             | Discounted<br>for selling costs<br>and age of<br>appraisals | Up to 3%     |
| Impaired loans          | \$ 1,817,668                            | Discounted<br>appraised value<br>and net present<br>value | Discounted for<br>selling costs and<br>age of appraisals    | 7% – 65%     |

**Note 16. Restricted Investments**

Restricted investments consist of investments in the Federal Home Loan Bank of Pittsburgh (FHLB) and West Virginia Bankers' Title Insurance Company. Investments are carried at face value and the level of investment is dictated by the level of participation with each institution. Amounts are restricted as to transferability.

(Continued)

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**Note 17. Revenue Recognition**

The Company's revenue from contracts with customers in the scope of ASC *Topic 606* is recognized within noninterest income excluding OREO gains and losses. A description of the Company's noninterest income is as follows:

***Deposit Accounts***

The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month representing the period over which the Company satisfies the performance obligation. The Company also earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, and wire transfer fees. In each case, these service charges and fees are recognized as income at the time or within the same period that the Company's performance obligation is satisfied.

***Noninterest Income***

The following table illustrates the Company's total noninterest income segregated by revenues within the scope of *Topic 606* and those which are within the scope of other ASC topics:

|                                                     | <u>2020</u>              | <u>2019</u>              |
|-----------------------------------------------------|--------------------------|--------------------------|
| Service charges                                     | \$ 217,065               | \$ 300,867               |
| ATM exchange fees                                   | 373,781                  | 347,736                  |
| Safe deposit box rental                             | 11,352                   | 12,021                   |
| Wire transfer fee                                   | <u>3,900</u>             | <u>4,003</u>             |
| Revenues from contracts with customers              | 606,098                  | 664,627                  |
| Noninterest income within scope of other ASC topics | <u>164,274</u>           | <u>178,487</u>           |
| Total noninterest income                            | <u><u>\$ 770,372</u></u> | <u><u>\$ 843,114</u></u> |

**Note 18. Recent Accounting Pronouncements and Changes**

In June 2016, ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326) was issued by the FASB. This standard is commonly referred to as “CECL” – because it employs the Current Expected Credit Loss model. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for the Company in the fiscal year ending December 31, 2023. The Company is currently evaluating the potential impact on the consolidated financial statements.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's consolidated financial statements.