

**CALHOUN BANKSHARES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL REPORT

December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Calhoun Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for credit losses effective July 1, 2022 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

Responsibilities of Management for the Consolidated Financial Statements (Continued)

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

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

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Calhoun Bankshares, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Calhoun Bankshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Christiansburg, Virginia
March 24, 2023

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and amounts due from banks	\$ 3,544,729	\$ 2,478,018
Interest bearing deposits in other banks	662,452	677,183
Federal funds sold	4,494,000	14,475,000
Total cash and cash equivalents	8,701,181	17,630,201
Time deposits in other banks	5,226,659	1,988,321
Investment securities		
Available-for-sale securities	30,287,701	25,484,456
Other equity investments	163,000	145,200
Total investment securities	30,450,701	25,629,656
Loans receivable	133,374,492	127,687,935
Less: allowance for credit loss	(2,152,514)	(2,149,031)
Net loans receivable	131,221,978	125,538,904
Premises and equipment, net	4,156,617	4,352,171
Interest receivable	516,468	429,747
Cash surrender value of life insurance	3,772,492	3,669,954
Deferred tax assets	1,129,643	554,037
Other assets	600,648	122,154
	10,175,868	9,128,063
Total assets	<u>\$ 185,776,387</u>	<u>\$ 179,915,145</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Non-interest bearing	\$ 60,197,942	\$ 54,683,736
Interest bearing	107,013,808	106,189,918
Total deposits	167,211,750	160,873,654
Other liabilities	1,249,685	1,487,572
Total liabilities	168,461,435	162,361,226
SHAREHOLDERS' EQUITY		
Common stock, \$1 par value, 3,000,000 shares authorized, 306,850 shares issued; 282,170 and 281,102 shares outstanding as of December 31, 2022 and 2021, respectively	306,850	306,850
Additional paid in capital	566,740	566,740
Retained earnings	19,684,134	18,285,472
Accumulated other comprehensive loss	(2,279,387)	(584,086)
Treasury stock at cost; 24,680 and 25,748 shares as of December 31, 2022 and 2021, respectively	(963,385)	(1,021,057)
Total shareholders' equity	17,314,952	17,553,919
Total liabilities and shareholders' equity	<u>\$ 185,776,387</u>	<u>\$ 179,915,145</u>

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, 2022 and 2021

	2022	2021
INTEREST INCOME		
Interest and fees on loans	\$ 7,006,369	\$ 6,650,490
Interest and dividends on investment securities	405,209	212,942
Interest on deposits at other financial institutions	226,711	18,354
Interest on federal funds sold	3,909	71
Total interest and dividend income	7,642,198	6,881,857
INTEREST EXPENSE		
Interest and deposits	461,008	635,999
Interest on borrowings	-	18,817
	461,008	654,816
NET INTEREST INCOME	7,181,190	6,227,041
Provision for credit losses	-	-
Net interest income after provision for loan losses	7,181,190	6,227,041
NONINTEREST INCOME		
Service charges and fees on deposits	233,387	214,360
Other service charges, commission, and fees	553,103	487,750
Bank owned life insurance income	102,538	100,494
Other income	20,069	18,829
Total other income	909,097	821,433
EXPENSES		
Salaries and employee benefits	3,004,056	2,808,224
Occupancy and equipment expense	473,960	439,295
Equipment, software, and network maintenance	224,810	187,209
Legal and professional fees	132,032	137,409
Marketing expense	67,662	64,566
Regulatory fees	153,147	145,950
Gain on foreclosed property	-	(887)
Data processing expense	469,688	425,968
Directors fees	155,193	144,300
Office supplies and postage	84,173	73,839
Other expenses	933,879	749,045
Total other expenses	5,698,600	5,174,918
Income before income tax expense	2,391,687	1,873,556
INCOME TAX EXPENSE	514,376	399,568
Net income	\$ 1,877,311	\$ 1,473,988
EARNINGS PER SHARE	\$ 6.67	\$ 5.20

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NET INCOME	\$ 1,877,311	\$ 1,473,988
OTHER COMPREHENSIVE INCOME, net of tax		
Change in net pension liability, net of tax effect of \$(129,757) and \$(110,975) for 2022 and 2021, respectively	366,731	313,648
Change in unrealized loss on available-for-sale securities, net of tax effect of \$729,591 and \$83,771 for 2022 and 2021, respectively	<u>(2,062,032)</u>	<u>(236,761)</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	<u>(1,695,301)</u>	<u>76,887</u>
COMPREHENSIVE INCOME	<u>\$ 182,010</u>	<u>\$ 1,550,875</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, 2022 and 2021

	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
BALANCE, December 31, 2020	\$ 306,850	\$ 566,740	\$ 17,177,671	\$ (660,973)	\$ (847,231)	\$ 16,543,057
Net income	-	-	1,473,988	-	-	1,473,988
Other comprehensive income	-	-	-	76,887	-	76,887
Issuance of 3,845 shares Treasury stock	-	-	-	-	194,910	194,910
Acquisition of 7,118 shares Treasury stock	-	-	-	-	(368,736)	(368,736)
Dividends on common stock (\$1.15) per share	-	-	(366,187)	-	-	(366,187)
BALANCE, December 31, 2021	306,850	566,740	18,285,472	(584,086)	(1,021,057)	17,553,919
Net income	-	-	1,877,311	-	-	1,877,311
Other comprehensive loss	-	-	-	(1,695,301)	-	(1,695,301)
Issuance of 1,245 shares Treasury stock	-	-	-	-	67,230	67,230
Acquisition of 177 shares Treasury stock	-	-	-	-	(9,558)	(9,558)
Dividends on common stock (\$1.70) per share	-	-	(478,649)	-	-	(478,649)
BALANCE, December 31, 2022	<u>\$ 306,850</u>	<u>\$ 566,740</u>	<u>\$ 19,684,134</u>	<u>\$ (2,279,387)</u>	<u>\$ (963,385)</u>	<u>\$ 17,314,952</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Net income	\$ 1,877,311	\$ 1,473,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	-	-
Provision for deferred income taxes	(24,850)	77,131
Losses (gains) on other real estate owned	-	(887)
Depreciation	252,659	254,594
Amortization and accretion of securities, net	65,211	63,962
Decrease (increase) in interest receivable	(86,721)	22,677
Increase in cash surrender value life insurance	(102,538)	(100,494)
Stock awards	37,260	32,400
Decrease in other assets	(429,416)	(26,093)
Increase (decrease) in borrowings and other liabilities	<u>258,601</u>	<u>(131,864)</u>
Net cash provided by operating activities	<u>1,847,517</u>	<u>1,665,414</u>
INVESTING ACTIVITIES		
Net increase in time deposits in other banks	(3,238,338)	(741,615)
Proceeds from maturities and calls of available-for-sale securities	-	3,000,000
Proceeds from principal payments of available-for-sale securities	1,651,800	1,462,328
Purchases of available-for-sale securities	(9,311,879)	(22,148,418)
Proceeds from redemption of other securities	(17,800)	57,300
Proceeds from sale of other real estate owned	-	16,887
Net increase in loans	(5,683,074)	(149,229)
Purchases of premises and equipment	<u>(57,105)</u>	<u>(286,533)</u>
Net cash used in investing activities	<u>(16,656,396)</u>	<u>(18,789,280)</u>
FINANCING ACTIVITIES		
Net increase in deposits	6,338,096	12,365,023
Net repayments in FHLB advances	-	(1,500,000)
Dividends paid	(478,649)	(366,187)
Acquisition of treasury stock	(9,558)	(368,736)
Proceeds from sale of treasury stock	<u>29,970</u>	<u>162,510</u>
Net cash provided by financing activities	<u>5,879,859</u>	<u>10,292,610</u>
Decrease in cash and cash equivalents	(8,929,020)	(6,831,256)
CASH, beginning	<u>17,630,201</u>	<u>24,461,457</u>
CASH, ending	<u><u>\$ 8,701,181</u></u>	<u><u>\$ 17,630,201</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	<u>\$ 467,616</u>	<u>\$ 684,865</u>
Income taxes	<u>\$ 473,110</u>	<u>\$ 390,000</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Other real estate acquired in settlement of loans	<u>\$ -</u>	<u>\$ -</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, 2022 and 2021

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.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates (Continued)

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.

Adoption of new accounting standards

On July 1, 2022 the Company adopted Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. This ASU replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments), and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off balance sheet credit exposures. Results for reporting period beginning after January 1, 2022 are presented under ASC 326 while prior period result amounts continue to be reported in accordance with previously applicable GAAP. No adjustments were reported as of the adoption date.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Adoption of new accounting standards (Continued)

As allowed by ASC 326, the Company elected to maintain pools of loans accounted for under ASC 310-20. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings in ASC Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Additionally, ASU 2022-02 requires entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*. ASU 2022-02 will be effective for the Company on January 1, 2023 though early adoption is permitted. The Company early adopted ASU 2022-02, which did not have a significant impact on the financial statements.

Investment securities

Debt securities available-for-sale are carried at fair value, with unrealized gains and losses reported in other comprehensive income, net of tax. 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.

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.

Allowance for credit losses – available for sale securities

For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, through earnings, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for credit losses – available for sale securities (Continued)

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the un-collectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale debt securities totaled \$104,554 as December 31, 2022 and is excluded from the estimate of credit losses.

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 credit losses. Accrued interest receivable is reported under Interest receivable on the consolidated balance sheet and is excluded from the estimate of credit 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 credit losses – loans

The allowance for credit losses is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors, such as oil and gas prices.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for credit losses – loans (Continued)

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified at the reporting date are not unconditionally cancellable by the Company.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified portfolio segments and measures the allowance for credit losses using Call Report codes. The Company utilizes the Weighted Average Remaining Maturity (WARM) approach to calculate the expected loss for each pool. The WARM is based on every individual loan in the pool. Each loan's remaining life is determined based on contracted loan payments, expected prepayments, and maturity dates. Lifetime losses for each pool are calculated by multiplying the average historical loss rate for peer banks by the WARM of the pool. Qualitative adjustments are a combination of forward looking projections for each pool based on objective economic data (Federal Reserve Economic Data) and custom qualitative factors as determined by the Company, such as economic trends, and conditions and underwriting standards. The total loss rate is the lifetime loss rate plus the total qualitative factor adjustments.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for credit losses on unfunded credit commitments

The Company estimated expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Loss rates applied are based off historical loss rates of the Company, while the likely of funding is based off historical Company data.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2022 and 2021 was \$67,662 and \$64,566, 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 credit 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. The tax years of 2018 to 2021 remain subject to examination by the taxing authorities. Interest and penalties, if any, related to unrecognized tax benefits are reflected in income tax expense.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Comprehensive income (Continued)

	<u>2022</u>	<u>2021</u>
Unrecognized actuarial loss of the pension plan	\$ (37,948)	\$ (534,436)
Effect of income tax benefit	<u>9,918</u>	<u>139,676</u>
	<u>(28,030)</u>	<u>(394,760)</u>
Unrealized (gains) losses on available-for-sale securities	(3,034,848)	(243,226)
Effect of income tax benefit	<u>783,491</u>	<u>53,900</u>
	<u>(2,251,357)</u>	<u>(189,326)</u>
Total accumulated other comprehensive loss	<u>\$ (2,279,387)</u>	<u>\$ (584,086)</u>

Reclassifications

Certain amounts in the 2021 consolidated financial statements were reclassified to conform to the 2022 presentation. These reclassifications had no effect on shareholders' equity or results of operations as previously presented.

Subsequent events

Subsequent to December 31, 2022, the banking industry has seen certain banks taken over by regulators; in some cases outflows of deposits have created liquidity shortfalls which caused the bank to liquidate investments and realize losses that had previously been unrealized, and had not been considered to be other than temporary impairments. On March 12, 2023, the United States Department of Treasury, the Federal Reserve, and the FDIC released a statement announcing actions to ensure confidence in the US banking system, including the establishment of a Bank Term Funding Program which provides eligible depository institutions with access to additional liquidity, using high quality securities as collateral, with the intent of eliminating an institution's need to quickly sell those securities in times of stress.

Continued uncertainties exist in the banking industry, including but not limited to uncertainties as to the future of interest rate increases or decreases by the Federal Reserve, and the impact of those changes on long term interest rates and the valuation of securities. Interest rate changes and other factors could also impact the demands on liquidity of institutions. The impact of these uncertainties could also extend to the fair value of investments issued by institutions who are affected by these factors.

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 24, 2023, the date the consolidated financial statements were available to be issued.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 2. Cash Concentrations and Restrictions on Cash

At December 31, 2022 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, 2022 and 2021.

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, 2022 and 2021 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2022				
Available-for-sale				
U.S. government agencies	\$ 21,232,912	\$ 2,810	\$ (1,706,270)	\$ 19,529,452
U.S. Treasuries	1,011,754	-	(94,801)	916,953
Mortgage-backed	11,077,883	-	(1,236,587)	9,841,296
	<u>\$ 33,322,549</u>	<u>\$ 2,810</u>	<u>\$ (3,037,658)</u>	<u>\$ 30,287,701</u>

No available-for-sale investment securities in a loss position as of December 31, 2022 were due to credit quality. As such, no allowance for credit loss was recorded in the consolidated statements of income.

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2021				
Available-for-sale				
U.S. government agencies	\$ 12,916,545	\$ -	\$ (196,178)	\$ 12,720,367
U.S. Treasuries	1,014,344	-	(15,535)	998,809
Mortgage-backed	11,796,792	49,631	(81,143)	11,765,280
	<u>\$ 25,727,681</u>	<u>\$ 49,631</u>	<u>\$ (292,856)</u>	<u>\$ 25,484,456</u>

Investment securities with a carrying amount of \$18,575,971 and \$14,542,476 at December 31, 2022 and 2021, 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, 2022 and 2021

Note 3. Investment Securities (Continued)

The amortized cost and estimated fair value of available for sale securities as of December 31, 2022, by contractual maturity, are as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing in:		
One year or less	\$ 3,003,703	\$ 2,908,741
After one year through five years	16,330,406	15,047,185
After five years through 10 years	7,060,098	6,330,871
After 10 years	<u>6,928,342</u>	<u>6,000,904</u>
	<u>\$ 33,322,549</u>	<u>\$ 30,287,701</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 for which an allowance for credit losses has not been recorded at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
<u>December 31, 2022</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government agencies	\$ 4,809,962	\$ (190,037)	\$ 12,403,979	\$ (1,516,233)	\$ 17,213,941	\$ (1,706,270)
U.S. Treasuries	-	-	916,953	(94,801)	916,953	(94,801)
Mortgage-backed	<u>1,926,661</u>	<u>(76,714)</u>	<u>7,914,636</u>	<u>(1,159,873)</u>	<u>9,841,297</u>	<u>(1,236,587)</u>
	<u>\$ 6,736,623</u>	<u>\$ (266,751)</u>	<u>\$ 21,235,568</u>	<u>\$ (2,770,907)</u>	<u>\$ 27,972,191</u>	<u>\$ (3,037,658)</u>

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
<u>December 31, 2021</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government agencies	\$ 9,304,568	\$ (111,977)	\$ 3,415,799	\$ (84,201)	\$ 12,720,367	\$ (196,178)
U.S. Treasuries	998,809	(15,535)	-	-	998,809	(15,535)
Mortgage-backed	<u>10,329,778</u>	<u>(81,143)</u>	<u>-</u>	<u>-</u>	<u>10,329,778</u>	<u>(81,143)</u>
	<u>\$ 20,633,155</u>	<u>\$ (208,655)</u>	<u>\$ 3,415,799</u>	<u>\$ (84,201)</u>	<u>\$ 24,048,954</u>	<u>\$ (292,856)</u>

No sales of available-for-sale securities occurred during 2022 or 2021.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 3. Investment Securities (Continued)

Unrealized losses on available for sale debt securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continues to make timely principal and interest payments. The fair value is expected to recover as the security approaches maturity. The Company had 36 and 23 securities at December 31, 2022 and 2021, respectively, that were in a loss position. The majority of these losses are related to the Company's U.S. government agencies and mortgage-backed securities. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be impaired.

Note 4. Loans Receivable and Related Allowance for Credit Losses

The following table summarizes the primary segments of the loan portfolio as of December 31, 2022 and 2021:

	2022	2021
Construction and land development	\$ 559,740	\$ 2,901,723
Commercial real estate	16,035,822	14,746,218
Residential real estate	91,143,172	85,591,311
Consumer	21,318,169	19,039,602
Commercial	4,317,589	5,409,081
	133,374,492	127,687,935
Less allowance for credit losses	(2,152,514)	(2,149,031)
Loans, net	<u>\$ 131,221,978</u>	<u>\$ 125,538,904</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 credit 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, 2022 and 2021 of \$145,924 and \$41,740, 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, 2022 and 2021

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

Management establishes the allowance for credit 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 collateral dependent and experiencing financial difficulties, 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 these loans include the 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 does not share similar risk characteristics, 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 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.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$250,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following for risk ratings: (1 through 5 are considered Pass credits).

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

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.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Credit Quality Indicators as of December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	\$ 559,740	\$ -	\$ -	\$ -	\$ 559,740
Commercial real estate	13,477,753	1,191,235	1,366,834	-	16,035,822
Residential real estate	90,306,543	356,291	421,705	58,633	91,143,172
Consumer	21,142,821	112,454	62,894	-	21,318,169
Commercial	4,317,589	-	-	-	4,317,589
	<u>\$ 129,804,446</u>	<u>\$ 1,659,980</u>	<u>\$ 1,851,433</u>	<u>\$ 58,633</u>	<u>\$ 133,374,492</u>

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For residential and consumer loans classes the Company also evaluates credit quality based on the aging status of the loan, which will be presented, and by payment activity. The following table presents the amortized cost in residential and consumer loans based on payment activity for the year ended December 31, 2022:

	Performing	Nonperforming
Residential real estate	\$ 89,443,947	\$ 1,699,225
Consumer	20,756,001	562,168
	<u>\$ 110,199,948</u>	<u>\$ 2,261,393</u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2022:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	\$ 397,588	\$ 703,679	\$ 848,440	\$ 199,324	\$ 2,149,031
Impact of adoption ASC 326	(310,699)	(531,943)	671,904	172,918	2,180
Credit loss expense	-	-	-	-	-
Loans charged off	-	-	-	(14,007)	(14,007)
Recoveries collected	14,500	-	-	810	15,310
Total ending allowance balance	<u>\$ 101,389</u>	<u>\$ 171,736</u>	<u>\$ 1,520,344</u>	<u>\$ 359,045</u>	<u>\$ 2,152,514</u>

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2022:

	<u>Nonaccrual With No Allowance for Credit Losses</u>	<u>Nonaccrual</u>	<u>Loans Past Due 30-89 Days</u>	<u>Loans Past Due Over 89 Days Still Accruing</u>
Construction and land development	\$ -	\$ -	\$ -	\$ -
Commercial	-	-	164,012	-
Commercial real estate	-	-	38,188	31,848
Residential real estate	381,928	381,928	1,477,883	221,342
Consumer	-	-	520,431	41,737
	<u>\$ 381,928</u>	<u>\$ 381,928</u>	<u>\$ 2,200,514</u>	<u>\$ 294,927</u>

The Company recognized \$3,555 of interest income on nonaccrual loans during the year ended December 31, 2022.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2022:

	<u>Real Estate Secured Loans</u>	<u>Non- Real Estate Secured Loans</u>	<u>Total Loans</u>	<u>Allowance for Credit Losses</u>
Construction and land development	\$ -	\$ -	\$ -	\$ -
Commercial	-	-	-	-
Commercial real estate	1,334,986	-	1,334,986	50,000
Residential real estate	-	-	-	-
Consumer	-	-	-	-
	<u>\$ 1,334,986</u>	<u>\$ -</u>	<u>\$ 1,334,986</u>	<u>\$ 50,000</u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than insignificant payment delay, or interest rate reductions. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

No loans were modified to borrowers in financial distress during the year ended December 31, 2022.

No consumer mortgage loans secured by residential real estate properties were in formal foreclosure procedures as of December 31, 2022.

Note 4A. Loans Receivable and Related Allowance for Loan Losses (prior to the adoption of ASC 326)

The following table presents 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, 2021:

	2021						
	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	-	-	-	-	-	-	-
Commercial real estate	1,837,988	111,000	144,984	1,982,972	2,012,440	1,982,972	100,952
Residential real estate	614,425	161,500	352,539	966,964	985,398	966,964	34,032
Consumer	72,823	28,000	47,614	120,437	130,814	120,437	8,933
	<u>\$ 2,525,236</u>	<u>\$ 300,500</u>	<u>\$ 545,137</u>	<u>\$ 3,070,373</u>	<u>\$ 3,128,652</u>	<u>\$ 3,070,373</u>	<u>\$ 143,917</u>

Under the prior guidance, 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, 2021:

	Credit Quality Indicators as of December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	\$ 2,901,723	\$ -	\$ -	\$ -	\$ 2,901,723
Commercial real estate	11,950,651	1,414,625	1,380,942	-	14,746,218
Residential real estate	84,466,036	787,470	240,822	96,983	85,591,311
Consumer	18,735,072	210,957	54,137	39,436	19,039,602
Commercial	5,409,081	-	-	-	5,409,081
	<u>\$ 123,462,563</u>	<u>\$ 2,413,052</u>	<u>\$ 1,675,901</u>	<u>\$ 136,419</u>	<u>\$ 127,687,935</u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 4A. Loans Receivable and Related Allowance for Loan Losses (prior to the adoption of ASC 326) (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, 2021:

Past Due Loans as of December 31, 2021							
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing	Total Loans on Non- Accrual
Construction and land development	\$ 2,898,424	\$ 3,299	\$ -	\$ -	\$ 2,901,723	\$ -	\$ -
Commercial real estate	14,696,539	-	49,679	-	14,746,218	-	-
Commercial	5,374,953	25,130	8,998	-	5,409,081	-	-
Residential real estate	84,053,545	803,083	338,193	396,490	85,591,311	19,425	493,284
Consumer	18,645,042	176,759	135,908	81,893	19,039,602	81,983	-
	<u>\$ 125,668,503</u>	<u>\$ 1,008,271</u>	<u>\$ 532,778</u>	<u>\$ 478,383</u>	<u>\$ 127,687,935</u>	<u>\$ 101,408</u>	<u>\$ 493,284</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. The Company has also adjusted their quantitative factors to account for the COVID-19 pandemic, oil and gas prices, recent legislature change, inflation, and supply change issues.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

**Note 4A. Loans Receivable and Related Allowance for Loan Losses (prior to the adoption of ASC 326)
(Continued)**

The following table summarizes 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, 2021. Activity in the allowance is presented for the 12 months ended December 31, 2021:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
ALLL balance at December 31, 2020	\$ 397,588	\$ 220,679	\$ 881,960	\$ 175,743	\$ 1,675,970
Charge-offs	-	-	(33,520)	(10,656)	(44,176)
Recoveries	-	483,000	-	34,237	517,237
Provision	-	-	-	-	-
ALLL balance at December 31, 2021	<u>\$ 397,588</u>	<u>\$ 703,679</u>	<u>\$ 848,440</u>	<u>\$ 199,324</u>	<u>\$ 2,149,031</u>
Ending ALLL for all loans					
Individually evaluated for impairment	\$ -	\$ 111,000	\$ 161,500	\$ 28,000	\$ 300,500
Collectively evaluated for impairment	<u>397,588</u>	<u>592,679</u>	<u>686,940</u>	<u>171,324</u>	<u>1,848,531</u>
Total ALLL evaluated for impairment	<u>\$ 397,588</u>	<u>\$ 703,679</u>	<u>\$ 848,440</u>	<u>\$ 199,324</u>	<u>\$ 2,149,031</u>
Loans					
Individually evaluated for impairment	\$ -	\$ 1,982,972	\$ 966,964	\$ 120,437	\$ 3,070,373
Collectively evaluated for impairment	<u>5,409,081</u>	<u>12,763,246</u>	<u>87,526,070</u>	<u>18,919,165</u>	<u>124,617,562</u>
	<u>\$ 5,409,081</u>	<u>\$ 14,746,218</u>	<u>\$ 88,493,034</u>	<u>\$ 19,039,602</u>	<u>\$ 127,687,935</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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

**Note 4A. Loans Receivable and Related Allowance for Loan Losses (prior to the adoption of ASC 326)
(Continued)**

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 was one loan modification that was considered a TDR completed during the year ending December 31, 2021:

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Real estate residential	<u>1</u>	<u>\$ 176,866</u>	<u>\$ 176,866</u>
	<u>1</u>	<u>\$ 176,866</u>	<u>\$ 176,866</u>

The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the year ending December 31, 2021:

	Number of Loans	Recorded Investment
Real estate residential	<u>1</u>	<u>\$ 176,866</u>
	<u>1</u>	<u>\$ 176,866</u>

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 4A. Loans Receivable and Related Allowance for Loan Losses (prior to the adoption of ASC 326) (Continued)

One consumer mortgage loan secured by residential real estate properties was in formal foreclosure procedures as of December 31, 2021.

The Company conducts its business through four offices located in Calhoun County, West Virginia, and surrounding counties. At December 31, 2021, 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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Bank premises	\$ 5,697,122	\$ 5,682,865
Equipment, furniture, and fixtures	<u>1,610,098</u>	<u>1,594,760</u>
	<u>7,307,220</u>	<u>7,277,625</u>
Less accumulated depreciation	<u>(3,150,603)</u>	<u>(2,925,454)</u>
Bank premises and equipment, net	<u><u>\$ 4,156,617</u></u>	<u><u>\$ 4,352,171</u></u>

Depreciation expense related to premises and equipment was \$252,659 and \$254,594 for the years ended December 31, 2022 and 2021, respectively.

Note 6. Deposits

Deposit account balances at December 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Non-interest bearing checking	\$ 60,197,942	\$ 54,683,736
Interest bearing checking	14,597,516	12,309,994
Savings deposits	57,333,063	54,732,438
Passbook IRA	8,160,272	9,020,146
Certificates of deposit	<u>26,922,957</u>	<u>30,127,340</u>
Total deposits	<u><u>\$ 167,211,750</u></u>	<u><u>\$ 160,873,654</u></u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 6. Deposits (Continued)

Scheduled maturities of certificates of deposit and individual retirement accounts at December 31, 2022 were as follows:

<u>Maturities</u>	
2023	\$ 16,037,074
2024	5,782,437
2025	1,877,223
2026	2,699,786
2027 and thereafter	<u>8,686,709</u>
	<u>\$ 35,083,229</u>

Included in time deposits are certificates of deposits of \$250,000 or more totaling \$12,160,700 and \$12,717,617 at December 31, 2022 and 2021, respectively.

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, 2022.

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 \$27,032,300 based on qualifying loan collateral. There were no borrowings outstanding as of December 31, 2022.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Commitments to extend credit	\$ 5,965,397	\$ 6,209,363
Standby letters of credit	<u>835,000</u>	<u>580,000</u>
	<u>\$ 6,800,397</u>	<u>\$ 6,789,363</u>

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>2022</u>	<u>2021</u>
Current tax expense	\$ 539,226	\$ 322,437
Deferred tax expense (benefit)	<u>(24,850)</u>	<u>77,131</u>
Income tax expense	<u>\$ 514,376</u>	<u>\$ 399,568</u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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>2022</u>	<u>2021</u>
Deferred tax assets		
Deferred compensation plans	\$ -	\$ 81,417
Allowance for credit losses	350,879	350,879
Supplemental executives and directors benefit plan	166,336	160,587
Interest on non-accrual loans	10,046	4,728
Unrealized losses on investment securities available-for-sale	793,159	63,567
	<u>1,320,420</u>	<u>661,178</u>
Deferred tax liabilities		
Accumulated depreciation	(91,676)	(107,141)
Accumulated accretion	(1,682)	-
Deferred compensation plans	(97,419)	-
	<u>(190,777)</u>	<u>(107,141)</u>
Net deferred tax asset	<u>\$ 1,129,643</u>	<u>\$ 554,037</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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, January 1	\$ 1,117,727	\$ 947,668
Borrowings	171,436	356,615
Repayments	(226,726)	(186,556)
Reclassification	369,534	-
Balance, December 31	<u>\$ 1,431,971</u>	<u>\$ 1,117,727</u>

The Bank held related party deposits of \$1,758,260 and \$1,954,805 at December 31, 2022 and 2021, respectively.

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CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 requires 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 asset included in other assets as of December 31, 2022 was \$372,753. Total recorded pension liability included in other liabilities as of December 31, 2021 was \$311,524.

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>2022</u>	<u>2021</u>
Accumulated benefit obligation	\$ 1,831,730	\$ 2,446,442
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 2,778,428	\$ 2,856,336
Service cost	103,268	118,967
Interest cost	82,992	78,223
Actuarial gain	(909,945)	(241,386)
Benefit payments	(52,065)	(33,712)
Benefit obligation at end of year	\$ 2,002,678	\$ 2,778,428

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 12. Defined Benefit Pension Plan (Continued)

	<u>2022</u>	<u>2021</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 2,466,904	\$ 1,998,728
Actual return on plan assets	(270,503)	282,874
Contributions	240,000	240,000
Benefits paid	(52,065)	(33,712)
Administrative expenses	<u>(8,905)</u>	<u>(20,986)</u>
Fair value of plan assets at end of year	<u>\$ 2,375,431</u>	<u>\$ 2,466,904</u>
Funded status	<u>\$ 372,753</u>	<u>\$ (311,524)</u>
Amounts recognized in the balance sheets consist of funded status of pension plan	<u>\$ 372,753</u>	<u>\$ (311,524)</u>
Amounts recognized in accumulated other comprehensive loss		
Transition obligation, net of tax	\$ -	\$ -
Prior service cost	-	-
Net actuarial loss	<u>(37,948)</u>	<u>(534,436)</u>
	<u>\$ (37,948)</u>	<u>\$ (534,436)</u>

The Company expects no accumulated other comprehensive loss will be recognized as a portion of new periodic benefit costs in 2023. The Company expects approximately \$78,000 to be contributed to the plan in 2023.

The following table details the actuarial assumptions used in determining the projected benefit obligations and net benefit cost of the pension plan for 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount rate	5.25 %	3.00 %
Expected long-term rate of return on plan assets	4.00	6.00
Compensation increase	3.00	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, 2022 and 2021

Note 12. Defined Benefit Pension Plan (Continued)

Components of net periodic pension costs are as follows:

	<u>2022</u>	<u>2021</u>
Service cost	\$ 103,268	\$ 118,967
Interest cost	82,992	78,223
Expected return on plan assets	(153,925)	(125,843)
Recognized loss	<u>19,876</u>	<u>47,192</u>
Net periodic cost	52,211	118,539
Settlement loss recognized	<u>-</u>	<u>-</u>
Total pension costs	<u>\$ 52,211</u>	<u>\$ 118,539</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, 2022 and 2021 were:

	<u>2022</u>	<u>2021</u>
Asset category		
Cash and cash equivalents	57.7%	4.4%
Preferred stocks	-	-
Certificates of deposit	42.3	-
Mutual funds	<u>-</u>	<u>95.6</u>
	<u>100.0%</u>	<u>100.0%</u>

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 12. Defined Benefit Pension Plan (Continued)

The following table reflects expected future benefit payments:

<u>Year Ending December 31,</u>	
2023	\$ 22,915
2024	22,381
2025	30,696
2026	75,131
2028	85,602
2028 – 2032	<u>680,092</u>
	<u><u>\$ 916,817</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, 2022 and 2021 was \$636,451 and \$614,451, 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 \$110,575 and \$86,283 for the years ended December 31, 2022 and 2021, respectively.

The Company also maintains life insurance for certain directors and officers. At December 31, 2022 and 2021, the cash surrender value of these insurance contracts was \$3,772,492 and \$3,669,954 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 2021 and 2020, the Company made approximately \$57,043 and \$54,352, respectively, of matching contributions in each year to eligible participants.

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CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 2022, stock awards of 690 shares were approved and issued. In 2021, stock awards of 600 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, 2022, 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 2022 and 2021, 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, 2022 and 2021

Note 14. Regulatory Capital Requirements (Continued)

The Bank's actual and required capital amounts (in thousands) and ratios at December 31, 2022 and 2020 were as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total risk-based capital (to risk weighted assets)	\$ 19,858	18.51%	\$ 8,583	8.00%	\$ 10,729	10.00%
Tier I capital (to risk weighted assets)	18,507	17.25	6,438	6.00	8,583	8.00
Tier I leverage (to adjusted total assets)	18,507	9.89	7,489	4.00	9,361	5.00
CETI (to risk weighted assets)	18,507	17.25	4,828	4.50	6,974	6.50
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total risk-based capital (to risk weighted assets)	\$ 18,514	18.57%	\$ 7,975	8.00%	\$ 9,968	10.00%
Tier I capital (to risk weighted assets)	17,257	17.31	5,981	6.00	7,975	8.00
Tier I leverage (to adjusted total assets)	17,257	9.68	7,131	4.00	8,914	5.00
CETI (to risk weighted assets)	17,257	17.31	4,486	4.50	6,479	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.

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CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 to have risk characteristics that are not similar to the homogenous pools and an allowance for credit 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 to have risk characteristics that are not similar to the homogenous pools. Once a loan is identified individually, management measures the estimated expected loss using one of several methods, including collateral value, recent appraisal value and /or tax assessed value, liquidation value, and discounted cash flows. Those 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 individual 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, 2022 and 2021

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, 2022 and 2021, 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.

Fair Value Measurement of Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value				
December 31, 2022:				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities				
U.S. government agencies	\$ 19,529,452	\$ -	\$ 19,529,452	\$ -
U.S. Treasuries	916,953	-	916,953	-
Mortgage backed	9,841,296	-	9,841,296	-
	<u>\$ 30,287,701</u>	<u>\$ -</u>	<u>\$ 30,287,701</u>	<u>\$ -</u>
Assets and liabilities measured on a non-recurring basis:				
Individually evaluated loans	\$ 1,284,986	\$ -	\$ -	\$ 1,284,986
	<u>\$ 1,284,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,284,986</u>
Fair Value Measurement of Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value				
December 31, 2021:				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities				
U.S. government agencies	\$ 12,720,367	\$ -	\$ 12,720,367	\$ -
U.S. Treasuries	998,809	-	998,809	-
Mortgage backed	11,765,280	-	11,765,280	-
	<u>\$ 25,484,456</u>	<u>\$ -</u>	<u>\$ 25,484,456</u>	<u>\$ -</u>
Assets and liabilities measured on a non-recurring basis:				
Individually evaluated loans	\$ 2,769,873	\$ -	\$ -	\$ 2,769,873
	<u>\$ 2,769,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,769,873</u>

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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:

	Fair Value December 31, 2022	Valuation Technique	Significant Unobservable Inputs	Range
Individually Evaluated Loans	\$ 1,284,986	Discounted appraised value and net present value	Discounted for selling costs and age of appraisals	7% – 45%
	Fair Value December 31, 2021	Valuation Technique	Significant Unobservable Inputs	Range
Individually Evaluated Loans	\$ 2,769,873	Discounted appraised value and net present value	Discounted for selling costs and age of appraisals	7% – 45%

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.

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.

(Continued)

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 17. Revenue Recognition (Continued)

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>2022</u>	<u>2021</u>
Service charges	\$ 233,387	\$ 214,360
ATM exchange fees	421,039	412,044
Safe deposit box rental	11,444	11,307
Wire transfer fee	<u>5,743</u>	<u>5,745</u>
Revenues from contracts with customers	671,613	643,456
Noninterest income within scope of other ASC topics	<u>237,484</u>	<u>177,977</u>
Total noninterest income	<u>\$ 909,097</u>	<u>\$ 821,433</u>

Note 18. Recent Accounting Pronouncements and Changes

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. This amendment clarifies the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security. It also introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments are effective for fiscal years beginning after December 15, 2023 and interim periods within those fiscal years. Early adoption is permitted. The amendments will be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. The Company is currently evaluating the effect that ASU 2022-03 may have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.