

**MAIN STREET FINANCIAL SERVICES CORP.  
AND SUBSIDIARY**

**WHEELING, WEST VIRGINIA**



**AUDIT REPORT**

**DECEMBER 31, 2021**

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
DECEMBER 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Main Street Financial Services Corp. and Subsidiary

### Opinion

We have audited the consolidated financial statements of Main Street Financial Services Corp. (the "Company") and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for 12 months beyond the date of the consolidated financial statements.

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 the Company'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

*Zeno Pochel, Lilly and Cypher, A.C.*

Wheeling, West Virginia  
March 21, 2022

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and amounts due from banks	\$ 5,238,992	\$ 4,813,001
Interest-bearing deposits with banks	63,905,524	33,350,880
Total cash and cash equivalents	69,144,516	38,163,881
Investment securities:		
Securities available-for-sale, at fair value	66,290,366	27,359,089
Securities held-to-maturity, at amortized cost	52,969,478	39,498,018
Total investment securities	119,259,844	66,857,107
Loans	403,625,240	394,346,620
Allowance for loan losses	(6,232,789)	(6,008,626)
Net loans	397,392,451	388,337,994
Premises and equipment, net	2,604,647	2,381,296
Accrued interest receivable	2,241,348	2,132,590
Bank-owned life insurance	10,043,664	7,300,996
Other real estate owned	-	95,500
Deferred tax asset	2,745,208	2,287,048
Federal Home Loan Bank stock	1,123,200	995,900
Other assets	2,872,394	2,506,721
<b>TOTAL ASSETS</b>	<b>\$ 607,427,272</b>	<b>\$ 511,059,033</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$ 132,302,405	\$ 94,216,277
Interest-bearing	387,186,606	334,904,928
Total deposits	519,489,011	429,121,205
Repurchase agreements	9,962,000	9,920,000
Borrowings	22,193,000	19,693,000
Advances by borrowers for taxes and insurance	1,896,638	1,757,981
Accrued interest payable	324,224	426,480
Other liabilities	4,610,853	4,456,432
<b>TOTAL LIABILITIES</b>	<b>558,475,726</b>	<b>465,375,098</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock at \$1 par value; 5,000,000 shares authorized, 3,476,000 shares issued	1,738,000	1,738,000
Additional paid-in capital	8,758,010	8,738,292
Retained earnings	39,916,459	35,885,744
Accumulated other comprehensive income	(878,247)	(95,425)
Treasury stock – 63,269 and 63,269 shares, respectively	(582,676)	(582,676)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>48,951,546</b>	<b>45,683,935</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 607,427,272</b>	<b>\$ 511,059,033</b>

The accompanying notes are an integral part of the consolidated financial statements.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, including fees	\$ 19,825,527	\$ 20,037,788
Debt securities:		
Taxable	1,157,592	1,088,878
Dividends and other	43,798	83,212
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>21,026,917</b>	<b>21,209,878</b>
<b>INTEREST EXPENSE</b>		
Deposits and repurchase agreements	2,685,612	3,807,565
Other borrowings	440,858	648,137
<b>TOTAL INTEREST EXPENSE</b>	<b>3,126,470</b>	<b>4,455,702</b>
<b>NET INTEREST INCOME</b>	<b>17,900,447</b>	<b>16,754,176</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>600,000</b>	<b>600,000</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>17,300,447</b>	<b>16,154,176</b>
<b>NON-INTEREST INCOME</b>		
Service charges	135,724	114,824
Bank-owned life insurance earnings	242,668	175,859
Other income	162,236	107,353
<b>TOTAL NON-INTEREST INCOME</b>	<b>540,628</b>	<b>398,036</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	6,500,004	6,770,283
Net occupancy expense	1,070,280	1,061,929
Data processing	1,053,773	1,009,697
FDIC insurance	224,418	251,896
Other operating expenses	1,864,737	1,669,702
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>10,713,212</b>	<b>10,763,507</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>7,127,863</b>	<b>5,788,705</b>
<b>INCOME TAX EXPENSE</b>	<b>1,706,748</b>	<b>1,372,973</b>
<b>NET INCOME</b>	<b>\$ 5,421,115</b>	<b>\$ 4,415,732</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>3,412,731</b>	<b>3,412,731</b>
<b>EARNINGS PER SHARE – BASIC</b>	<b>\$ 1.59</b>	<b>\$ 1.29</b>
<b>DIVIDENDS PER SHARE</b>	<b>\$ 0.40</b>	<b>\$ 0.38</b>

The accompanying notes are an integral part of the consolidated financial statements.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>NET INCOME</b>	\$ 5,421,115	\$ 4,415,732
<b>OTHER COMPREHENSIVE GAIN (LOSS), NET OF TAX</b>		
Unrealized loss on securities available-for-sale	(990,914)	(125,023)
Deferred tax effect	208,092	26,255
 <b>COMPREHENSIVE INCOME</b>	 \$ 4,638,293	 \$ 4,316,964

The accompanying notes are an integral part of the consolidated financial statements.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<b>BALANCES AT DECEMBER 31, 2019</b>	\$ 1,738,000	\$ 8,712,808	\$ 32,790,892	\$ 3,343	\$ (558,683)	\$ 42,686,360
Dividends declared at \$0.38 per share	-	-	(1,320,880)	-	-	(1,320,880)
Purchase of 1,347 shares of treasury stock	-	-	-	-	(23,993)	(23,993)
Stock-based compensation expense	-	25,484	-	-	-	25,484
Net income 2020	-	-	4,415,732	-	-	4,415,732
Other comprehensive loss, net	-	-	-	(98,768)	-	(98,768)
<b>BALANCES AT DECEMBER 31, 2020</b>	1,738,000	8,738,292	35,885,744	(95,425)	(582,676)	45,683,935
Dividends declared at \$0.40 per share	-	-	(1,390,400)	-	-	(1,390,400)
Stock-based compensation expense	-	19,718	-	-	-	19,718
Net income 2021	-	-	5,421,115	-	-	5,421,115
Other comprehensive loss, net	-	-	-	(782,822)	-	(782,822)
<b>BALANCES AT DECEMBER 31, 2021</b>	<u>\$ 1,738,000</u>	<u>\$ 8,758,010</u>	<u>\$ 39,916,459</u>	<u>\$ (878,247)</u>	<u>\$ (582,676)</u>	<u>\$ 48,951,546</u>

The accompanying notes are an integral part of the consolidated financial statements.



**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,421,115	\$ 4,415,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600,000	600,000
Depreciation	281,161	273,714
Stock-based compensation expense	19,718	25,484
Investment securities (accretion) amortization, net	-	(165)
(Gain) loss on sale of other real estate owned	53,126	(32,906)
Earnings on life insurance	(242,668)	(175,859)
Net change in:		
Accrued interest receivable	(108,758)	(643,546)
Accrued interest payable	(102,256)	(126,849)
Deferred tax asset	(250,068)	(107,392)
Other assets/liabilities, net	(211,252)	(628,483)
<b>Net cash provided by operating activities</b>	<b>5,460,118</b>	<b>3,599,730</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Activity in available-for-sale securities:		
Purchases	(50,000,000)	(29,026,332)
Maturities and calls	8,000,000	-
Principal collected on mortgage-backed securities	2,269,753	660,488
Activity in held-to-maturity securities:		
Purchases	(23,823,159)	(62,320,000)
Maturities and calls	10,159,755	58,460,308
Purchases of Federal Home Loan Bank stock	(127,300)	535,600
Purchase of life insurance	(2,500,000)	-
Net increase in loans, net of charge-offs	(9,654,457)	(13,970,593)
Proceeds from sale of other real estate owned	42,374	496,465
Purchases of premises and equipment	(504,512)	(227,504)
<b>Net cash used in investing activities</b>	<b>(66,137,546)</b>	<b>(45,391,568)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(1,390,400)	(1,320,880)
Purchase of treasury stock	-	(23,993)
Proceeds from FHLB borrowings	2,500,000	-
Principal paid on FHLB borrowings	-	(13,400,000)
Net change in deposits	90,367,806	46,684,632
Net change in repurchase agreements	42,000	1,024,000
Net change in advances by borrowers for taxes and insurance	138,657	212,697
<b>Net cash provided by financing activities</b>	<b>91,658,063</b>	<b>33,176,456</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>30,980,635</b>	<b>(8,615,382)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>38,163,881</b>	<b>46,779,263</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 69,144,516</b>	<b>\$ 38,163,881</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for interest	\$ 3,161,547	\$ 4,765,919
Cash paid during the year for income taxes	\$ 1,400,000	\$ 1,425,000

The accompanying notes are an integral part of the consolidated financial statements.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

Main Street Financial Services Corp. (the “Company”) is a West Virginia corporation. The Company is a financial services holding company whose principal activities are the ownership and management of its wholly owned subsidiary, Main Street Bank Corp. (the “Bank”). The Bank operates as a community-oriented bank with its Main office in Wheeling, West Virginia, and Branch offices in the Elm Grove section of Wheeling, Wellsburg, and Moundsville, West Virginia. In November 2021, the Bank also opened up a Branch in Toronto, Ohio. Products include consumer, residential, and installment loans and deposit services, along with small business commercial banking for customers who are located primarily in the West Virginia Northern Panhandle and surrounding areas. The Bank operates as a West Virginia state chartered commercial bank and provides full banking services.

Basis of Consolidation

The consolidated financial statements include the accounts of Main Street Financial Services Corp., its wholly owned subsidiary, Main Street Bank Corp., and the Bank’s wholly owned subsidiaries, Main Street Tax Credit #1, LLC and Main Street Tax Credit #2, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of financial instruments.

Investment Securities

The Company classifies investment securities at purchase as either held-to-maturity or available-for-sale. Debt securities that are acquired with the positive intent and ability to hold to maturity are carried at amortized cost. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of shareholders’ equity, net of tax, until realized. Equity securities are carried at fair value. Effective January 1, 2019, changes in the fair value of equity securities are reported in net income. Realized security gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when they are earned.

All investment securities, regardless of classification, are monitored and tested for impairment. An investment security is considered to be impaired when the unrealized loss is considered to be other than temporary. When this occurs, the investment is written down to the current fair market value, with the write-down being reflected as a realized loss.

Premiums and discounts on securities are recognized in interest income, utilizing the level yield method over the period to maturity.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investment securities' fair values are based on observed market prices. Certain investment securities do not have observed bid prices, and their fair value is based on instruments with similar risk elements.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock, based on the level of borrowings and other factors, and may invest in additional amounts. Stock in the FHLB of Pittsburgh is carried at cost and is periodically evaluated for impairment based upon the ultimate recovery of the par value. Dividends are reported as income.

Loans

Loans receivable are stated at their unpaid principal balance, net of the allowance for loan losses. Interest on loans is credited to income as it is earned and is accrued only if it is considered collectible. An allowance for uncollected interest on mortgage loans is provided for all accrued interest on loans which are delinquent 90 days or more, resulting in the interest previously accrued on these loans being reversed from income, and, thereafter, interest is recognized only to the extent of the payments that are received. Loans are returned to accrual status when they are less than 90 days delinquent and when, in management's judgment, collection is probable.

Loans are considered past due based on contractual terms. Charge-offs consist of the amounts that are determined to be uncollectible on unsecured loans that are 90 days past due and on secured loans that are 120 days past due.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for the probable losses that are inherent in its loan portfolio as of the consolidated balance sheets date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses, which is charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served.

The allowance is calculated by applying loss factors to outstanding loans, by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in the mix and volume of the loan portfolio, historical loan loss experience, and general economic conditions. In addition, management considers industry standards and trends, with respect to non-performing loans, and its knowledge and experience with specific lending segments.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Although management believes that it uses the best information available to make such determinations, and that the allowance for loan losses is adequate as of December 31, 2021, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions that are used in making the initial determinations. A downturn in the local economy, rising unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increased levels of non-performing assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of the periodic regulatory examination process is the review of the adequacy of the Bank's loan loss allowance. The regulatory agencies could require the Bank, based on their evaluation of the information that is available at the time of their examination, to provide additional loan loss provisions in order to further supplement the allowance.

Impaired loans are commercial and commercial real estate loans for which it is probable that the Bank will not be able to collect all amounts due, according to the contractual terms of the loan agreement. The Bank individually evaluates these loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "non-accrual loans," although the two categories overlap. The Bank may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired, if the loan is not a commercial or commercial real estate loan. Factors that are considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate and its recorded value, or, as a practical expedient in the case of collaterally dependent loans, is determined by the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one- to four-family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest that are owed.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early on and works with them to modify to more affordable terms before their loan reaches non-accrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions that are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Concentration of Credit Risk

Most of the Company's business activity is with customers who are located in Ohio, Brooke, and Marshall Counties in West Virginia, and in Belmont County, Ohio. Accordingly, the Company's exposure to credit risk is significantly affected by changes in the economy in this four-county region.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount in which such assets exceed Federal Deposit Insurance Company ("FDIC") limits. Management monitors the financial stability of correspondent banks and considers the amounts that are advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Loan Origination Fees

Loan origination fees and certain direct loan origination costs are deferred, and the net amounts are amortized, as an adjustment of the related loan's yield. Deferral and amortization of these amounts are over the estimated contractual lives of the related loans.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged against income as they are incurred. Costs of major additions and improvements are capitalized.

Bank-owned Life Insurance

The Company has purchased life insurance policies on certain key employees. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be realized.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other Real Estate Owned

Real estate properties that are acquired through, or in lieu of, loan foreclosure are initially recorded at fair value, less estimated selling cost, at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value, less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs that is related to the development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value, less cost to sell.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Marketing and Advertising Costs

Non-direct response marketing and advertising costs are expensed as they are incurred. Such costs amounted to \$617,230 and \$457,322 for the years ended December 31, 2021 and 2020, respectively.

Income Taxes

The Company's income tax expense consists of a current and a deferred component. Current income tax expense reflects the taxes that are to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or the excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and the tax bases of assets and liabilities, and the enacted changes in tax rates and laws are recognized during the period in which they occur.

The deferred income tax expense results from the changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination.

The term "more likely than not" means a likelihood of more than 50 percent; the terms "examined" and "upon examination" also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially, and subsequently, measured as the largest amount of the tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The Company follows the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 – *Accounting for Income Taxes*, related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information that are available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. During the years ended December 31, 2021 and 2020, the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2021 and 2020. The Company files income tax returns in the U.S. federal jurisdiction and in the State of West Virginia. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by the relevant taxing authorities for tax years 2019 and forward.

Consolidated Statements of Cash Flows

The Company considers all cash, demand accounts due from depository institutions, interest-bearing deposits with other banks with an initial maturity of less than 90 days, and federal funds sold to be cash equivalents for purposes of the consolidated statements of cash flows.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Endorsement Split-Dollar Life Insurance Arrangements

The Company accounts for certain endorsement split-dollar life insurance arrangements by recognizing both the cash surrender value of the insurance asset, as well as the liability for the death benefit provided that is to the employee.

Earnings per Share

Basic earnings per common share are determined by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are not presented since the Company has no common stock equivalents.

Treasury Stock

The Company accounts for treasury stock on the cost basis.

Reclassifications

Certain items in prior consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications did not affect the net income or the shareholders' equity.

**NOTE 2 – INVESTMENT SECURITIES**

The amortized cost of securities and their approximate fair values are as follows:

	December 31, 2021			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available-for-sale:				
U.S. agency securities	\$ 57,500,000	\$ -	\$ 1,137,530	\$ 56,362,470
Mortgage-backed securities	1,693,963	25,841	14	1,719,790
Federated Gov't Fund	8,200,000	8,106	-	8,208,106
Total available-for-sale	<u>67,393,963</u>	<u>33,947</u>	<u>1,137,544</u>	<u>66,290,366</u>
Securities held-to-maturity:				
U.S. agency securities	45,184,317	-	1,105,350	44,078,967
Mortgage-backed securities	17,161	1,526	-	18,687
Municipal security	7,675,000	-	-	7,675,000
Corporate note	93,000	-	-	93,000
Total held-to-maturity	<u>52,969,478</u>	<u>1,526</u>	<u>1,105,350</u>	<u>51,865,654</u>
Total	<u>\$ 120,363,441</u>	<u>\$ 35,473</u>	<u>\$ 2,242,894</u>	<u>\$ 118,156,020</u>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 2 – INVESTMENT SECURITIES (CONTINUED)**

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. agency securities	\$ 15,500,000	\$ 525	\$ 218,970	\$ 15,281,555
Mortgage-backed securities	3,963,715	97,688	32	4,061,371
Federated Gov't. Fund	8,000,000	16,163	-	8,016,163
Total available-for-sale	<u>27,463,715</u>	<u>114,376</u>	<u>219,002</u>	<u>27,359,089</u>
Securities held-to-maturity:				
U.S. agency securities	39,381,435	44,936	181,630	39,244,741
Mortgage-backed securities	23,583	2,612	-	26,195
Corporate note	93,000	-	-	93,000
Total held-to-maturity	<u>39,498,018</u>	<u>47,548</u>	<u>181,630</u>	<u>39,363,936</u>
Total	<u>\$ 66,961,733</u>	<u>\$ 161,924</u>	<u>\$ 400,632</u>	<u>\$ 66,723,025</u>

The amortized cost and estimated fair values of securities, by contractual maturity, are as follows:

	December 31, 2021			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ 8,200,000	\$ 8,216,163	\$ -	\$ -
After 1 year through 5 years	39,003,346	38,450,272	10,000,000	9,995,710
After 5 years through 10 years	18,500,000	17,915,870	17,701,478	17,287,224
After 10 years	1,690,617	1,708,061	25,268,000	24,582,720
Total	<u>\$ 67,393,963</u>	<u>\$ 66,290,366</u>	<u>\$ 52,969,478</u>	<u>\$ 51,865,654</u>

	December 31, 2020			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ 8,000,000	\$ 8,016,163	\$ -	\$ -
After 1 year through 5 years	6,471	7,231	-	-
After 5 years through 10 years	15,500,000	15,281,555	19,843,583	19,823,071
After 10 years	3,957,244	4,054,140	19,654,435	19,540,865
Total	<u>\$ 27,463,715</u>	<u>\$ 27,359,089</u>	<u>\$ 39,498,018</u>	<u>\$ 39,363,936</u>



**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 2 – INVESTMENT SECURITIES (CONTINUED)**

Expected maturities will differ from contractual maturities since borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Investment securities with a carrying value of \$38,300,000 and \$9,800,000 were pledged as of December 31, 2021 and 2020, respectively, to secure repurchase agreements and public funds.

The following tables show the gross unrealized losses and fair values, aggregated by the investment category and length of time that the individual securities have been in a continuous unrealized loss position:

	2021					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	\$ 74,852,942	\$ (1,313,725)	\$ 21,573,845	\$ (929,155)	\$ 96,426,787	\$ (2,242,880)
Mortgage-backed securities	4,575	(14)	-	-	4,575	(14)
Totals	<u>\$ 74,857,517</u>	<u>\$ (1,313,739)</u>	<u>\$ 21,573,845</u>	<u>\$ (929,155)</u>	<u>\$ 96,431,362</u>	<u>\$ (2,242,894)</u>

	2020					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	<u>\$ 24,105,714</u>	<u>\$ 400,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,105,714</u>	<u>\$ 400,632</u>

As of December 31, 2021, the investment securities portfolio contains unrealized losses on 31 securities that are issued by government sponsored enterprises. The Company has concluded that the unrealized losses on debt securities in the tables above result from changes in market rates of interest and are not credit related.

The Company does not believe that any of the securities presented above are impaired. All debt securities are of investment grade quality, are backed by the full faith and credit of the U.S. government, and are paying principal and interest according to the contractual terms. The Company has no intention of selling any of the securities, and it is not likely that it will be required to sell loss position securities prior to the recovery of their cost.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 3 – LOANS RECEIVABLE**

Loans as of December 31, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Construction, land development, and other land loans	\$ 1,575,000	\$ 1,822,000
Secured by 1-4 family residential properties	212,717,000	201,336,000
Secured by multi-family residential properties	18,538,000	16,097,000
Secured by non-farm non-residential properties	97,552,000	92,650,000
Commercial and industrial loans	53,210,000	65,615,000
Other loans	19,492,422	16,293,189
Total	<u>403,084,422</u>	<u>393,813,189</u>
Allowance for loan losses	(6,232,789)	(6,008,626)
Prepaid loan fees	<u>540,818</u>	<u>533,431</u>
Net loans	<u>\$ 397,392,451</u>	<u>\$ 388,337,994</u>

The Company's primary business activity is with customers who are located within its local trade area. Residential, commercial, and personal loans are granted. The Company also selectively funds loans that have been originated outside of its trade area, provided that such loans meet its credit policy guidelines. Although the Company has a diversified loan portfolio as of December 31, 2021 and 2020, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential real estate loan segment is further disaggregated into two classes: amortizing term loans, which are primarily first liens, and home equity lines of credit, which are generally second liens. The commercial real estate ("CRE") loan segment is further disaggregated into two classes. Non-owner occupied CRE loans, which include loans that are secured by non-owner occupied non-farm non-residential properties, generally have a greater risk profile than all other CRE loans, which include loans that are secured by multi-family structures and owner-occupied commercial structures. The commercial and other loans segment consists of loans that are made for the purpose of financing the activities of commercial customers. The consumer loan segment consists primarily of installment loans.

The Bank has provided various forms of assistance to customers and clients impacted by the COVID-19 pandemic, including payment deferrals and payment modifications. The majority of the Bank's COVID-19-related loan modifications were not considered TDRs, due to the following:

- They represent short-term or other insignificant modifications and, therefore, are not considered a concession under FASB ASC 310-40-15-17, or
- The Bank has elected to apply the option to suspend the application of accounting guidance for TDRs, as provided under Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 3 – LOANS RECEIVABLE (CONTINUED)**

To the extent that certain modifications do not meet any of the aforementioned criteria, the Bank accounts for them as TDRs.

The effectiveness of the Bank's actions in helping borrowers recover, and in mitigating the Bank's credit losses, remains uncertain in light of the unpredictable nature and duration of COVID-19. Assistance that is provided in response to COVID-19 could delay the recognition of delinquencies, non-accrual status, and net charge-offs for those customers and clients who would have otherwise moved into past due or non-accrual status.

During March 2020, the Bank began providing assistance to customers in response to COVID-19, primarily in the form of payment deferrals. Predominantly, all payment deferrals and modifications that were granted in 2020 have expired and have returned to full contractual payment terms, and all borrowers that have exited payment deferral programs are current. As of December 31, 2021, the Bank had no loans under active payment deferral programs. The Bank continues to monitor the credit risk that is associated with loans that are subject to payment deferrals throughout the deferral period, and on an ongoing basis once the borrowers are required to resume making regularly scheduled payments, and also considers the expected losses of principal and accrued interest on these loans in its allowance for credit losses.

Management evaluates individual loans in all of the commercial segments for possible impairment if the aggregate loan relationship is greater than \$500,000. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when they become due, according to the contractual terms of the loan agreement. Factors that are considered by management in evaluating impairment include the payment status, the collateral value, and the probability of collecting scheduled principal and interest payments when they become 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 that are owed. The Bank does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR agreement, or if the loan is in non-accrual status.

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

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 3 – LOANS RECEIVABLE (CONTINUED)**

The following tables present impaired loans, by class, segregated by loans for which a specific allowance was required and those for which a specific allowance was not necessary, as of December 31, 2021 and 2020:

(Expressed in Thousands)	December 31,	
	2021	2020
Impaired loans without a valuation allowance	\$ 7,375	\$ 9,107
Impaired loans with a valuation allowance	6,680	9,785
<b>Total impaired loans</b>	<b>\$ 14,055</b>	<b>\$ 18,892</b>

(Expressed in Thousands)	December 31,	
	2021	2020
Valuation allowance related to impaired loans	\$ 2,251	\$ 2,844
Average investment in impaired loans	16,049	15,863
Interest recognized on impaired loans	695	848

	(Expressed in Thousands)				
	December 31, 2021				
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial	\$ 11,069	\$ 5,189	\$ 5,880	\$ 11,069	\$ 2,098
Residential	2,447	2,008	439	2,447	76
Home Equity	47	-	47	47	14
Installment	492	178	314	492	63
<b>Total</b>	<b>\$ 14,055</b>	<b>\$ 7,375</b>	<b>\$ 6,680</b>	<b>\$ 14,055</b>	<b>\$ 2,251</b>

	(Expressed in Thousands)				
	December 31, 2020				
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial	\$ 15,013	\$ 5,744	\$ 9,269	\$ 15,013	\$ 2,715
Residential	3,440	3,136	304	3,440	22
Home Equity	79	31	48	79	48
Installment	360	196	164	360	59
<b>Total</b>	<b>\$ 18,892</b>	<b>\$ 9,107</b>	<b>\$ 9,785</b>	<b>\$ 18,892</b>	<b>\$ 2,844</b>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 3 – LOANS RECEIVABLE (CONTINUED)**

One TDR occurred during 2021. In 2021, no commercial loans that had been recognized as a TDR defaulted.

Management uses a nine-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories that are utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected, but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Any portion of a loan that has been charged off is placed in the Loss category.

The following tables present the classes of the loan portfolio, summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful, and Loss within the internal risk rating system, as of December 31, 2021 and 2020. Included in the Pass category are loans that have not been individually reviewed and graded on an annual basis.

(Expressed in Thousands)  
December 31, 2021

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	\$ 212,752	\$ 7,209	\$ 11,449	\$ -	\$ -	\$ 231,410
Residential	133,802	364	2,549	105	-	136,820
Home Equity	14,902	293	113	1	-	15,309
Installment	18,754	-	791	-	-	19,545
<b>Total</b>	<b>\$ 380,210</b>	<b>\$ 7,866</b>	<b>\$ 14,902</b>	<b>\$ 106</b>	<b>\$ -</b>	<b>\$ 403,084</b>

(Expressed in Thousands)  
December 31, 2020

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	\$ 212,401	\$ 10,098	\$ 14,808	\$ -	\$ -	\$ 237,307
Residential	120,743	-	2,571	115	-	123,429
Home Equity	14,880	1,250	110	2	-	16,242
Installment	16,230	-	605	-	-	16,835
<b>Total</b>	<b>\$ 364,254</b>	<b>\$ 11,348</b>	<b>\$ 18,094</b>	<b>\$ 117</b>	<b>\$ -</b>	<b>\$ 393,813</b>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 3 – LOANS RECEIVABLE (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 non-accrual loans, as of December 31, 2021 and 2020:

(Expressed in Thousands)  
December 31, 2021

	Current	30-89 Days Past Due	Non- Accrual	Total Past Due	Total Loans	90 or More Past Due and Accruing
Commercial	\$ 214,612	\$ 9,682	\$ 7,116	\$ 16,798	\$ 231,410	\$ -
Residential	133,175	1,507	2,138	3,645	136,820	-
Home Equity	15,070	149	90	239	15,309	-
Installment	18,613	418	514	932	19,545	-
<b>Total</b>	<b>\$ 381,470</b>	<b>\$ 11,756</b>	<b>\$ 9,858</b>	<b>\$ 21,614</b>	<b>\$ 403,084</b>	<b>\$ -</b>

(Expressed in Thousands)  
December 31, 2020

	Current	30-89 Days Past Due	Non- Accrual	Total Past Due	Total Loans	90 or More Past Due and Accruing
Commercial	\$ 223,856	\$ 8,364	\$ 5,087	\$ 13,451	\$ 237,307	\$ -
Residential	119,377	1,361	2,691	4,052	123,429	-
Home Equity	16,145	-	97	97	16,242	-
Installment	15,526	605	704	1,309	16,835	-
<b>Total</b>	<b>\$ 374,904</b>	<b>\$ 10,330</b>	<b>\$ 8,579</b>	<b>\$ 18,909</b>	<b>\$ 393,813</b>	<b>\$ -</b>

The following is an analysis of the loan activity to directors, executive officers, significant shareholders, and their affiliates:

	December 31,	
	2021	2020
Balance, beginning of period	\$ 15,908,650	\$ 10,207,584
New loans during the period	577,908	5,947,644
Repayments during the period	(2,328,269)	(246,578)
<b>Balance, end of period</b>	<b>\$ 14,158,289</b>	<b>\$ 15,908,650</b>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 4 – ALLOWANCE FOR LOAN LOSSES**

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, the assessment of current economic conditions, the diversification and size of the portfolio, the adequacy of collateral, the past and anticipated loss experience, and the amount of non-performing loans.

The Bank’s methodology for determining the ALL is based on the requirements of FASB ASC Topic 310-10-35, for loans individually evaluated for impairment (as discussed above), and FASB ASC Subtopic 450-20, for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank’s ALL.

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. These historical loss amounts are modified by other qualitative factors.

The classes that are described above provide the starting point for the ALL analysis. Management tracks the historical net charge-off activity for each class. A historical charge-off factor is calculated for each class using a 3-year average.

“Pass” rated credits are segregated from “Criticized” credits for the application of qualitative factors. Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factor since these factors are likely to cause the estimated credit losses that are associated with the existing loan pools to differ from the historical loss experience. The factors that are evaluated quarterly and are updated using information obtained from internal, regulatory, and governmental sources are as follows: national and local economic trends and conditions; levels of, and trends in, delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry, and/or geographic standpoint.

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 ALL. When information confirms all, or part, of the specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans that are individually evaluated for impairment and the amount required for loans that are collectively evaluated for impairment, as of December 31, 2021 and 2020. Activity in the allowance is presented for the 12 months ended December 31, 2021 and 2020, as follows:

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 4 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

(Expressed in Thousands)	December 31, 2021				
	Commercial	Residential	Home Equity	Installment	Total
Balance, beginning of year	\$ 4,677	\$ 889	\$ 165	\$ 278	\$ 6,009
Additions charged to operating expenses	(48)	418	(7)	237	600
Recoveries	107	8	-	10	125
Total	4,736	1,315	158	525	6,734
Less loans charged off	327	-	-	174	501
Balance, end of year	<u>\$ 4,409</u>	<u>\$ 1,315</u>	<u>\$ 158</u>	<u>\$ 351</u>	<u>\$ 6,233</u>
Allowance:					
Individually evaluated for impairment	<u>\$ 2,098</u>	<u>\$ 76</u>	<u>\$ 14</u>	<u>\$ 63</u>	<u>\$ 2,251</u>
Collectively evaluated for impairment	<u>\$ 2,311</u>	<u>\$ 1,239</u>	<u>\$ 144</u>	<u>\$ 288</u>	<u>\$ 3,982</u>
Loans:					
Individually evaluated for impairment	<u>\$ 11,069</u>	<u>\$ 2,447</u>	<u>\$ 47</u>	<u>\$ 492</u>	<u>\$ 14,055</u>
Collectively evaluated for impairment	<u>\$ 220,341</u>	<u>\$ 134,373</u>	<u>\$ 15,262</u>	<u>\$ 19,053</u>	<u>\$ 389,029</u>

  

(Expressed in Thousands)	December 31, 2020				
	Commercial	Residential	Home Equity	Installment	Total
Balance, beginning of year	\$ 3,772	\$ 980	\$ 117	\$ 332	\$ 5,201
Additions charged to operating expenses	643	(85)	48	(6)	600
Recoveries	287	-	-	10	297
Total	4,702	895	165	336	6,098
Less loans charged off	25	6	-	58	89
Balance, end of year	<u>\$ 4,677</u>	<u>\$ 889</u>	<u>\$ 165</u>	<u>\$ 278</u>	<u>\$ 6,009</u>
Allowance:					
Individually evaluated for impairment	<u>\$ 2,715</u>	<u>\$ 22</u>	<u>\$ 48</u>	<u>\$ 59</u>	<u>\$ 2,844</u>
Collectively evaluated for impairment	<u>\$ 1,962</u>	<u>\$ 867</u>	<u>\$ 117</u>	<u>\$ 219</u>	<u>\$ 3,165</u>
Loans:					
Individually evaluated for impairment	<u>\$ 15,013</u>	<u>\$ 3,440</u>	<u>\$ 79</u>	<u>\$ 360</u>	<u>\$ 18,892</u>
Collectively evaluated for impairment	<u>\$ 222,294</u>	<u>\$ 119,989</u>	<u>\$ 16,163</u>	<u>\$ 16,475</u>	<u>\$ 374,921</u>



**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 5 – PREMISES AND EQUIPMENT**

A summary of premises and equipment as of December 31, follows:

	2021	2020
Land	\$ 284,716	\$ 284,716
Building	1,971,240	1,971,240
Leasehold improvements	1,767,868	1,453,451
Furniture and equipment	2,794,926	2,604,832
Total	6,818,750	6,314,239
Accumulated depreciation	(4,214,103)	(3,932,943)
Premises and equipment, net	\$ 2,604,647	\$ 2,381,296

Depreciation expense related to premises and equipment was \$281,161 and \$273,714 for the years ended December 31, 2021 and 2020, respectively.

**NOTE 6 – DEPOSITS**

Deposit account balances as of December 31, were comprised of the following:

	2021	2020
Non-interest-bearing	\$ 132,302,405	\$ 94,216,277
Interest-bearing demand	17,960,199	12,372,491
Money market	48,552,547	31,946,538
Savings accounts	154,166,782	129,466,497
Certificates of deposit	166,507,078	161,119,402
Total	\$ 519,489,011	\$ 429,121,205

The aggregate amounts of jumbo certificates of deposit, with a minimum denomination of \$100,000, were approximately \$110,007,000 and \$94,609,000 as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the scheduled maturity of certificates of deposit is as follows:

2022	\$ 97,555,378
2023	36,288,055
2024	24,285,217
2025	3,699,322
2026	4,679,106
Total	\$ 166,507,078

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 7 – BORROWINGS**

The Bank has credit facilities through the FHLB of Pittsburgh and the First Horizon National Corporation (the “FHN”). The FHN borrowings are to be secured in full by collateral acceptable to, and in safekeeping of, the FHN. The FHLB borrowings are secured by a blanket lien by the FHLB on certain residential mortgage loans or securities with a fair value that is at least equal to the outstanding loan balances.

The Bank had advances outstanding from the FHLB in the amount of \$19,100,000 and \$16,600,000 as of December 31, 2021 and 2020, respectively.

The following is a schedule of outstanding borrowings from the FHLB as of December 31:

<u>Date Issued</u>	<u>2021</u>	<u>2020</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>Type</u>
05/07/19	-	2,500,000	05/07/21	2.53%	Mid-term
07/11/19	1,600,000	1,600,000	07/12/22	1.92%	Mid-term
06/07/19	5,000,000	5,000,000	06/07/23	2.12%	Fixed
01/29/19	5,000,000	5,000,000	01/29/24	2.93%	Fixed
05/07/19	2,500,000	2,500,000	05/07/24	2.56%	Fixed
12/30/21	5,000,000	-	01/04/22	0.29%	Fixed
Total	<u>\$ 19,100,000</u>	<u>\$ 16,600,000</u>			

In April 2005, the Company established a subsidiary trust, Main Street (WV) Statutory Trust I (the “Trust”), in which the Company owns 100 percent of the common equity. The Trust issued preferred securities to outside investors and used the proceeds from the issuance to purchase from the Company junior subordinated debentures in the amount of \$3,093,000. The Company’s junior subordinated debentures are the sole asset of the Trust. The \$3,093,000 of mandatorily redeemable preferred securities that are issued by the Trust are includible for regulatory purposes as a component of the Company’s Tier 1 capital. These Trust-preferred securities must be redeemed upon the maturity of the debentures.

The Company’s junior subordinated debentures are due June 15, 2035, with interest payments due March 15, June 15, September 15, and December 15 of each year. Interest is payable at a rate based on the 3-month LIBOR, plus 2.05 percent. As of December 31, 2021, the rate was 2.17 percent. The Company has the right to redeem the debentures at par, in whole or in part, but in all cases, in a principal amount with integral multiples of \$1 million, on any interest payment date. The original balance of \$3,093,000 remained outstanding as of December 31, 2021 and 2020. Interest expense in the amount of \$67,179 and \$86,631 was recorded on these borrowings for the years ended December 31, 2021 and 2020, respectively.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
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**NOTE 7 – BORROWINGS (CONTINUED)**

Contractual repayments of borrowed funds for the next 5 years as of December 31, 2021, are \$6,600,000 in 2022, \$5,000,000 in 2023, \$7,500,000 in 2024, and \$3,093,000 beyond 5 years.

Borrowings are comprised of the following as of December 31:

	2021	2020
FHLB borrowings	\$ 19,100,000	\$ 16,600,000
Junior subordinated debt	3,093,000	3,093,000
Total	\$ 22,193,000	\$ 19,693,000

Repurchase agreements are secured short-term borrowings from Bank customers. The Company pledges investment securities to secure these borrowings. Obligations under repurchase agreements were \$9,962,000 and \$9,920,000 as of December 31, 2021 and 2020, respectively.

**NOTE 8 – INCOME TAXES**

The following temporary differences gave rise to the deferred tax asset as of December 31:

	2021	2020
Deferred tax assets:		
Deferred loan fees	\$ 48,560	\$ 93,371
Allowance for loan losses	1,225,627	1,099,627
Unearned interest recognition	22,299	19,391
Deferred compensation	726,087	674,228
Stock-based compensation	43,465	39,324
Tax credits	163,401	160,864
Deferred state income tax	385,126	327,723
Unrealized gain on available-for-sale securities	144,227	19,291
Total deferred tax assets	2,758,792	2,433,819
Deferred tax liabilities:		
Depreciation	13,584	146,771
Total deferred tax liabilities	13,584	146,771
Net deferred tax assets	\$ 2,745,208	\$ 2,287,048

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 8 – INCOME TAXES (CONTINUED)**

Income tax expense for the years ended December 31, 2021 and 2020, is comprised of the following components:

	<u>2021</u>	<u>2020</u>
Current	\$ 2,039,972	\$ 1,487,329
Deferred	<u>(333,224)</u>	<u>(114,356)</u>
Total income tax expense	<u>\$ 1,706,748</u>	<u>\$ 1,372,973</u>

A reconciliation between the reported income tax expense and the amounts that are computed by applying the federal statutory rate of 21 percent to income before income taxes follows:

	<u>2021</u>	<u>2020</u>
Tax at federal statutory rate	\$ 1,496,851	\$ 1,215,628
State income tax, net of federal benefit	<u>300,875</u>	<u>185,747</u>
	1,797,726	1,401,375
Increase (decrease) in taxes:		
Bank-owned life insurance	(50,960)	(36,930)
Other	<u>(40,018)</u>	<u>8,528</u>
Total income tax expense	<u>\$ 1,706,748</u>	<u>\$ 1,372,973</u>

**NOTE 9 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

In the ordinary course of business, the Company has outstanding commitments, 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 balance sheets.

Financial instruments whose contractual amount represents credit risk as of December 31, are as follows:

	<u>2021</u>	<u>2020</u>
Home equity lines of credit and residential construction loans	\$ 20,569,000	\$ 15,586,000
Commercial real estate, lines of credit, and construction loans	41,034,000	30,899,000
Letters of credit	907,000	1,654,000
Other unused commitments	<u>310,000</u>	<u>219,000</u>
Total	<u>\$ 62,820,000</u>	<u>\$ 48,358,000</u>

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 9 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)**

Commitments to extend credit are agreements to lend to a customer, provided that 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 creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, are based on management's credit evaluation. The collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

**NOTE 10 – EMPLOYEE BENEFIT PLANS**

The Company sponsors a 401(k) Profit Sharing Plan (the "Plan"). Employees over the age of 21 are eligible for the Plan upon completing 12 months of service. Participants may make contributions of up to 20 percent of their compensation. The Company makes discretionary matching contributions which are equal to a percentage of the participant's contribution. The matching contributions are determined annually by the Company. Expenses related to the Company match were \$280,102 and \$273,007 for the years ended December 31, 2021 and 2020, respectively.

The Bank has supplemental retirement agreements with its executive officers and directors under which the Bank has agreed to provide additional retirement benefits. During 2014, the Company adopted a retention plan to provide additional deferred benefits for the Bank's President. The Bank has recognized expense in the amount of \$139,349 and \$142,359 for the years ended December 31, 2021 and 2020, respectively, for the accrual of benefits that are payable under these agreements. Coincident with the adoption of the supplemental retirement agreements, the Bank purchased life insurance policies on the executive officers, as well as some directors, and other employees. The Bank is the beneficiary of the policies. The Bank recognized income of \$242,668 and \$175,859 during 2021 and 2020, respectively, based on the growth in the value of the policies.

As of December 31, 2021 and 2020, \$1,273,358 and \$1,399,305, respectively, were recorded as a liability under these contracts, and \$267,405 and \$293,854, respectively, were recognized as a related deferred tax asset. The life insurance policies had an aggregate cash surrender value of \$10,043,664 and \$7,300,996 as of December 31, 2021 and 2020, respectively.

The Bank established a Directors' Deferred Plan to allow eligible directors to defer all, or a portion, of their fees. Deferrals may be invested in Company stock twice each year, on June 30 and December 31. The individual is immediately 100 percent vested in their deferral and Bank contributions. Deferred compensation is to be paid to the individual or beneficiary upon the end of the individual's term of office. As of December 31, 2021 and 2020, directors' deferred compensation payable was \$1,921,218 and \$2,013,674, respectively, and \$317,618 and \$327,999 were recognized as a related deferred tax asset.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 10 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

In connection with the establishment of the Directors' Deferral Plan, the Bank entered into a Trust Agreement with a corporate trustee in order to establish a trust fund (the "Rabbi Trust"). Each director's account within the Rabbi Trust will be credited with their deferred fees and earnings or losses that are attributable to the account. The Trust established under the agreement is a grantor trust. Part of the Trust assets are invested in shares of the Company. These shares are treated as treasury stock, in accordance with FASB ASC 810-10-45-5.

**NOTE 11 – STOCK-BASED COMPENSATION**

The Board of Directors approved a stock option plan during 2014 and designated 70,000 shares available for options, as adjusted for the two-for-one stock split occurring during 2016. All of the options were granted in 2015. No options were granted, exercised, or forfeited during 2021 or 2020. The options vest at 10,000 per year in years 2020 through 2026. The expiration date for the exercise of all of the options is January 1, 2026. The exercise price for all options is \$8. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model. Compensation cost charged against income was \$19,718 in 2021, and \$25,484 in 2020.

**NOTE 12 – REGULATORY MATTERS**

Banks and bank holding companies are subject to regulatory capital requirements that are 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 that are 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 included in computing the regulatory capital. As of December 31, 2021, management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide the following 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 in order to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of year ends 2021 and 2020, 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, subsequent to this notification, that management believes have changed the institution's category.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 12 – REGULATORY MATTERS (CONTINUED)**

During 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (“CBLR framework”), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective January 1, 2020, and was elected by the Bank as of December 31, 2020. During April 2020, the federal banking agencies issued an interim final rule that made temporary changes to the CBLR framework, pursuant to Section 4012 of the CARES Act, and also issued a second interim final rule that provided a graduated increase in the community bank leverage ratio requirement, after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital, but instead only requires a Tier 1 Capital to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework, and that maintain a leverage ratio greater than the required minimums, will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies’ capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 8 percent as of December 31, 2020, 8.5 percent for calendar year 2021, and 9 percent for calendar year 2022, and thereafter. The interim rule allows for a two-quarter grace period in order to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7 percent as of December 31, 2020, 7.5 percent for calendar year 2021, and 8 percent for calendar year 2022, and thereafter.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and can revert back to the risk-weighting framework without restriction. As of December 31, 2021, both the Company and the Bank were qualifying community banking organizations, as defined by the federal banking agencies, and they elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios are presented below at year end:

As of December 31, 2021 (Expressed in Thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations ("CBLR Framework")	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Risk-Weighted Assets)	\$ 53,277	9.1%	\$ 46,709	8.0%

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
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**NOTE 12 – REGULATORY MATTERS (CONTINUED)**

As of December 31, 2020 (Expressed in Thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations ("CBLR Framework")	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Risk-Weighted Assets)	\$ 49,160	9.6%	\$ 40,871	8.0%

The Company is also subject to regulation by the Federal Reserve Bank of Cleveland. Capital ratios of the Company do not differ significantly from those of the Bank.

**NOTE 13 – OPERATING LEASES**

The Company leases four of its office locations under operating leases expiring in 2023 through 2026. Rent expense recognized for the years ended December 31, 2021 and 2020, totaled \$309,407 and \$278,240, respectively.

Minimum future rental payments under these operating leases as of December 31, 2021, for each of the next 5 years and in the aggregate, are as follows:

December 31,	
2022	\$ 333,840
2023	313,428
2024	298,848
2025	298,848
2026	300,248

**NOTE 14 – LIMITATIONS ON DIVIDENDS**

West Virginia State Law precludes the Bank from paying dividends without the prior approval of the Commissioner of Banking, if such dividends exceed the total of the Bank's retained net profits, as defined for the year, combined with its retained net profits of the previous 2 years. Under this formula, the Bank can declare dividends in 2022 without the approval of the Commissioner of Banking of approximately \$8.1 million, plus an additional amount equal to the Bank's net profit for 2021, up to the date of any such dividend declaration, subject to minimum regulatory capital requirements. The Bank is the primary source of funds to pay dividends to the shareholders of Main Street Financial Services Corp.



**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
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**NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company is required to disclose estimated fair values for its financial instruments. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale, at one time, the Company's entire holdings of a particular financial instrument. Also, it is the Company's general practice and intention to hold most of its financial instruments to maturity and not to engage in trading or sales activities. Since no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions can significantly affect these estimates.

Estimated fair values have been determined by the Company, using historical data and an estimation methodology suitable for each category of financial instruments. The estimated fair value of the Company's investment securities is described in Note 1. The Company's fair value estimates, methods, and assumptions are set forth below for the Company's other financial instruments.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments, but have value, this estimated fair value of financial instruments would not represent the full market value of the Company.

The following methods and assumptions were used in estimating the fair values of financial instruments, as disclosed herein:

Cash and Cash Equivalents, Accrued Interest Receivable, Accrued Interest Payable, Advances by Borrowers for Taxes and Insurance

The fair value is equal to the carrying value.

Interest-Bearing Time Deposits

The fair value is estimated by using the rates that are currently offered for deposits of similar remaining maturities.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as commercial, commercial real estate, residential real estate, construction real estate, and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms, and by performing and non-performing categories.

The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity, using estimated market discount rates that reflect the credit and interest rate risk that is inherent in the loan. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Fair value for significant non-performing loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk that is associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discounted rates are judgmentally determined by using available market information and specific borrower information.

Deposit Liabilities and Repurchase Agreements

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand as of December 31, 2021 and 2020. The fair value of certificates of deposit is based on the discounted value of contractual cash flows.

The fair value estimates above do not include the benefit that results from the low-cost funding that is provided by the deposit liabilities, compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

Cash Surrender Value of Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Borrowings

The fair value is estimated by using a discounted cash flow and applying contractual costs that are currently being offered in the existing advances to the current market rates that are offered for notes of similar remaining maturities.

The estimated fair values of the Company's financial instruments are as follows:

(Expressed in Thousands)	December 31, 2021				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 69,145	\$ 69,145	\$ 69,145	\$ -	\$ -
Securities available-for-sale	66,290	66,290	-	66,290	-
Securities held-to-maturity	52,969	51,866	-	51,866	-
Loans, net	397,392	402,968	-	-	402,968
Accrued interest receivable	2,241	2,241	2,241	-	-
Cash surrender value of life insurance	10,044	10,044	10,044	-	-
Federal Home Loan Bank stock	1,123	1,123	1,123	-	-
<b>Financial Liabilities:</b>					
Deposits	519,489	519,733	352,982	-	166,751
Repurchase agreements	9,962	9,962	-	-	-
Advances by borrowers for taxes and insurance	1,897	1,897	1,897	-	-
Accrued interest payable	324	324	324	-	-
Borrowings	22,193	22,572	-	-	22,572

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
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**NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

(Expressed in Thousands)	December 31, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 38,164	\$ 38,164	\$ 38,164	\$ -	\$ -
Securities available-for-sale	27,359	27,359	-	27,359	-
Securities held-to-maturity	39,498	39,364	-	39,364	-
Loans, net	388,338	396,574	-	-	396,574
Accrued interest receivable	2,133	2,133	2,133	-	-
Cash surrender value of life insurance	7,301	7,301	7,301	-	-
Federal Home Loan Bank stock	996	996	996	-	-
<b>Financial Liabilities:</b>					
Deposits	429,121	427,170	262,238	-	164,932
Repurchase agreements	9,920	9,920	-	-	-
Advances by borrowers for taxes and insurance	1,758	1,758	1,758	-	-
Accrued interest payable	426	426	426	-	-
Borrowings	19,693	20,480	-	-	20,480

**NOTE 16 – FAIR VALUE MEASUREMENTS**

Accounting standards require that the Bank adopts fair value measurements for financial assets and liabilities. This enhanced guidance for using fair value to measure assets and liabilities applies whenever other standards require or permit assets or liabilities to be measured at fair value. This guidance does not expand the use of fair value in any new circumstances.

Accounting standards establish a hierarchal disclosure framework that is associated with the level of pricing observability that is utilized in measuring assets and liabilities at fair value. The three broad levels defined by these standards are as follows:

*Level 1:* Quoted prices that are available in active markets for identical assets or liabilities, as of the reported date.

*Level 2:* Pricing inputs other than quoted prices available in active markets, which are either directly or indirectly observable, as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available, but are traded less frequently, and items that are fair valued by using other financial instruments, the parameters of which can be directly observed.

*Level 3:* Assets or liabilities that have little or no pricing observability, as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
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**NOTE 16 – FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present the assets that are reported on the consolidated financial statements at their fair values as of December 31, 2021 and 2020, by level, within the fair value hierarchy. As required by accounting standards, financial assets are classified, in their entirety, based on the lowest level of input that is significant to the fair value measurement. The Bank classified investments in securities available-for-sale as Level 2 instruments and valued them using a combination of available market color for similar securities and prepayment/default projections, based on historical statistics.

(Expressed in Thousands)	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets measured on a recurring basis:				
Securities available-for-sale	\$ -	\$ 66,290	\$ -	\$ 66,290
Assets measured on a non-recurring basis:				
Impaired loans	-	-	14,055	14,055
Real estate owned	-	-	-	-

(Expressed in Thousands)	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets measured on a recurring basis:				
Securities available-for-sale	\$ -	\$ 27,359	\$ -	\$ 27,359
Assets measured on a non-recurring basis:				
Impaired loans	-	-	18,892	18,892
Real estate owned	-	-	96	96

For Level 3 assets that are measured at fair value on a recurring or non-recurring basis as of December 31, 2021 and 2020, the significant observable inputs that are used in the fair value measurements are as follows (dollars in thousands):

	Fair Value at December 31, 2021	Fair Value at December 31, 2020	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	\$ 14,055	\$ 18,892	(1)	N/A	N/A
Real estate owned	-	96	(2)	N/A	N/A

(1) Fair value is determined either by the discounted present value of future estimated cash flows or the appraised value of the loan collateral, if the loan is determined to be collaterally dependent.

(2) Fair value is generally determined through appraisals of the underlying collateral by qualified independent appraisers. The appraisals generally include various Level 3 inputs, which are not identifiable.

**MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 17 – SUBSEQUENT EVENTS**

The Company has assessed events occurring subsequent to December 31, 2021, through March 21, 2022, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to, or disclosure in, the consolidated financial statements, which were available to be issued on March 21, 2022.

During March 2020, the World Health Organization declared the spread of COVID-19 as a worldwide pandemic. COVID-19 is still having significant effects on global markets, supply chains, businesses, and communities. The operations and business results of the Company have subsequently been affected, and could be adversely affected in the future, depending upon the duration and scope of COVID-19. The extent to which COVID-19 may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain it, or treat its impact, among others. As a result of the economic shutdown engineered to slow the spread of COVID-19, the ability of the Company's customers to make payments on loans could be adversely impacted, which may result in elevated loan losses and an increase in the Company's allowance for loan losses. Management also believes that the Company is taking the appropriate actions to mitigate any additional negative impact. However, the full impact of COVID-19 is unknown, and its impact on the year ending December 31, 2022, as well as future fiscal periods, cannot be reasonably estimated as of March 21, 2022.