MAIN STREET FINANCIAL SERVICES CORP.
AND SUBSIDIARY

WHEELING, WEST VIRGINIA

AUDIT REPORT

DECEMBER 31, 2022

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
DECEMBER 31, 2022

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our 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.

Prior Period Financial Statements

The financial statements as of December 31, 2021, were audited by Zeno, Pockl, Lilly and Copeland, A.C., who merged with S.R. Snodgrass, P.C. as of January 1, 2023, and whose report dated March 21, 2022, expressed an unmodified opinion on those statements.

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.

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 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 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 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.

S. R. Snodgrass, P.C. d/b/a S. R. Snodgrass, A.C. in West Virginia

Wheeling, West Virginia
April 13, 2023

MAIN STREET FINANCIAL SERVICES CORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents:		
Cash and amounts due from banks	$ 3,040,454	$ 5,238,992
Interest-bearing deposits with banks	30,081,520	63,905,524
Total cash and cash equivalents	33,121,974	69,144,516
Investment securities:		
Securities available-for-sale, at fair value	52,196,476	66,290,366
Securities held-to-maturity, at amortized cost		
(fair value of $78,272,356 and $51,865,654)	89,507,776	52,969,478
Total investment securities	141,704,252	119,259,844
Loans	408,506,664	403,625,240
Allowance for loan losses	(6,489,621)	(6,232,789)
Net loans	402,017,043	397,392,451
Premises and equipment, net	5,963,003	2,604,647
Accrued interest receivable	2,244,217	2,241,348
Bank-owned life insurance	9,931,762	10,043,664
Other real estate owned	85,422	-
Deferred tax asset	3,689,081	2,745,208
Federal Home Loan Bank stock	995,400	1,123,200
Other assets	4,032,903	2,872,394
TOTAL ASSETS	$ 603,785,057	$ 607,427,272
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 133,987,837	$ 132,302,405
Interest-bearing	384,208,572	387,186,606
Total deposits	518,196,409	519,489,011
Repurchase agreements	9,838,946	9,962,000
Borrowings	19,593,000	22,193,000
Advances by borrowers for taxes and insurance	1,619,795	1,896,638
Accrued interest payable	305,784	324,224
Other liabilities	6,126,962	4,610,853
TOTAL LIABILITIES	555,680,896	558,475,726
SHAREHOLDERS' EQUITY		
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	8,772,785	8,758,010
Retained earnings	43,742,770	39,916,459
Accumulated other comprehensive loss	(5,566,718)	(878,247)
Treasury stock – 63,269 and 63,269 shares, respectively	(582,676)	(582,676)
TOTAL SHAREHOLDERS' EQUITY	48,104,161	48,951,546
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 603,785,057	$ 607,427,272

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, 2022 AND 2021

	2022	2021
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 19,458,211	$ 19,825,527
Debt securities:		
Taxable	2,396,704	1,157,592
Dividends and other	40,598	43,798
TOTAL INTEREST AND DIVIDEND INCOME	21,895,513	21,026,917
INTEREST EXPENSE		
Deposits and repurchase agreements	2,259,765	2,685,612
Borrowings	451,615	440,858
TOTAL INTEREST EXPENSE	2,711,380	3,126,470
NET INTEREST INCOME	19,184,133	17,900,447
PROVISION FOR LOAN LOSSES	1,000,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,184,133	17,300,447
NONINTEREST INCOME		
Service charges	160,937	135,724
Bank-owned life insurance earnings	565,387	242,668
Other income	162,256	162,236
TOTAL NONINTEREST INCOME	888,580	540,628
NONINTEREST EXPENSE		
Salaries and employee benefits	7,243,338	6,500,004
Net occupancy expense	1,299,178	1,070,280
Data processing	1,100,318	1,053,773
Federal Deposit Insurance Corporation insurance	312,103	224,418
Other operating expenses	2,003,210	1,864,737
TOTAL NONINTEREST EXPENSE	11,958,147	10,713,212
INCOME BEFORE INCOME TAX EXPENSE	7,114,566	7,127,863
INCOME TAX EXPENSE	1,550,255	1,706,748
NET INCOME	$ 5,564,311	$ 5,421,115
EARNINGS PER SHARE – BASIC	$ 1.63	$ 1.59
EARNINGS PER SHARE – DILUTED	$ 1.61	$ 1.56

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, 2022 AND 2021

	2022	2021
NET INCOME	$ 5,564,311	$ 5,421,115
OTHER COMPREHENSIVE GAIN (LOSS), NET OF TAX		
Unrealized loss on securities available-for-sale	(5,942,885)	(990,914)
Deferred tax effect	1,254,414	208,092
Net other comprehensive loss	(4,688,471)	(782,822)
TOTAL COMPREHENSIVE INCOME	$ 875,840	$ 4,638,293

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, 2022 AND 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
BALANCES AT DECEMBER 31, 2020	$ 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)
BALANCES AT DECEMBER 31, 2021	1,738,000	8,758,010	39,916,459	(878,247)	(582,676)	48,951,546
Dividends declared at $0.50 per share	-	-	(1,738,000)	-	-	(1,738,000)
Stock-based compensation expense	-	14,775	-	-	-	14,775
Net income 2022	-	-	5,564,311	-	-	5,564,311
Other comprehensive loss, net	-	-	-	(4,688,471)	-	(4,688,471)
BALANCES AT DECEMBER 31, 2022	$ 1,738,000	$ 8,772,785	$ 43,742,770	$ (5,566,718)	$ (582,676)	$ 48,104,161

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,564,311	$ 5,421,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000,000	600,000
Depreciation	388,668	281,161
Stock-based compensation expense	14,775	19,718
Loss on sale of other real estate owned	14,481	53,126
Bank-owned life insurance earnings	(565,387)	(242,668)
Net change in:		
Accrued interest receivable	(2,869)	(108,758)
Accrued interest payable	(18,440)	(102,256)
Deferred tax asset	302,429	(250,068)
Other assets/liabilities, net	(2,067,274)	(211,252)
Net cash provided by operating activities	4,630,694	5,460,118
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Purchases	-	(50,000,000)
Maturities and calls	7,800,000	8,000,000
Principal collected on mortgage-backed securities	351,009	2,269,753
Activity in held-to-maturity securities:		
Purchases	(38,573,435)	(23,823,159)
Maturities and calls	-	10,159,755
Principal collected on mortgage-backed securities	2,043,245	-
Purchases of Federal Home Loan Bank stock	127,800	(127,300)
Purchase of life insurance	-	(2,500,000)
Proceeds from life insurance policy pay out	677,289	-
Net increase in loans, net of charge-offs	(5,624,592)	(9,654,457)
Purchase of other real estate owned	(99,903)	-
Proceeds from sale of other real estate owned	-	42,374
Purchases of premises and equipment	(1,324,150)	(504,512)
Net cash used in investing activities	(34,622,737)	(66,137,546)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,738,000)	(1,390,400)
Proceeds from Federal Home Loan Bank borrowings	-	2,500,000
Principal paid on Federal Home Loan Bank borrowings	(2,600,000)	-
Net change in deposits	(1,292,602)	90,367,806
Net change in repurchase agreements	(123,054)	42,000
Net change in advances by borrowers for taxes and insurance	(276,843)	138,657
Net cash (used in) provided by financing activities	(6,030,499)	91,658,063
CHANGE IN CASH AND CASH EQUIVALENTS	(36,022,542)	30,980,635
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	69,144,516	38,163,881
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 33,121,974	$ 69,144,516
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	$ 2,729,820	$ 3,161,547
Cash paid during the year for income taxes	$ 1,400,000	$ 1,400,000

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

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (ALL). Interest on loans is credited to income as it is earned and is accrued only if it is considered to be 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 ALL 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.

Although management believes that it uses the best information available to make such determinations, and that the ALL is adequate as of December 31, 2022, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that are due, according to the contractual terms of the loan agreement. Impaired loans also include loans that have been modified in a troubled debt restructuring. 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 "nonaccrual loans," although the two categories overlap. The Bank may choose to place a loan on nonaccrual 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 collateral 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 nonaccrual 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.

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 Corporation (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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 that are based on the asset's fair value at the date of acquisition are charged to the ALL. 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.

Marketing and Advertising Costs

Non-direct response marketing and advertising costs are expensed as they are incurred. Such costs amounted to $579,271 and $617,230 for the years ended December 31, 2022 and 2021, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022 and 2021, 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, 2022 and 2021. 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.

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 that is provided to the employee. As of December 31, 2022 and 2021, $276,140 and $262,980, respectively, were recorded as a liability under the split-dollar life insurance arrangement, and $13,160 and $13,574, respectively, were charged to expense.

Earnings per Share
The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and the average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options are adjusted in the denominator.

Basic weighted-average common shares outstanding totaled 3,412,731 for the years ended December 31, 2022 and 2021, respectively. Diluted weighted-average common shares outstanding totaled 3,464,991 and 3,464,077 for the years ended December 31, 2022 and 2021, respectively. The diluted weighted-average common shares outstanding are solely the result of stock options.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Recently Issued Accounting Pronouncements
On December 31, 2022, the Company adopted FASB Accounting Standards Update (ASU) No. 2016-02 – *Leases* (Topic 842) and the subsequent amendments thereto, which requires the Company to recognize most leases on the consolidated balance sheets.

Adoption of the lease standard resulted in the recognition of operating right-of-use assets of $2,422,874 and operating lease liabilities of $2,422,874. These amounts were determined based on the present value of the remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's consolidated statements of income. Prior periods were not restated and continue to be presented under legacy generally accepted auditing standards (GAAP).

NOTE 2 – INVESTMENT SECURITIES

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

	December 31, 2022			
(Expressed in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. agency securities	$ 57,500	$ -	$ (6,889)	$ 50,611
Mortgage-backed securities	1,343	-	(158)	1,185
Other available-for-sale securities	400	-	-	400
Total available-for-sale	59,243	-	(7,047)	52,196
Securities held-to-maturity:				
U.S. agency securities	60,166	-	(9,627)	50,539
Mortgage-backed securities	17,934	-	(1,149)	16,785
Municipal securities	11,315	-	(460)	10,855
Corporate note	93	-	-	93
Total held-to-maturity	89,508	-	(11,236)	78,272
Total	$ 148,751	$ -	$ (18,283)	$ 130,468

NOTE 2 – INVESTMENT SECURITIES (Continued)

(Expressed in Thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. agency securities	$ 57,500	$ -	$ (1,138)	$ 56,362
Mortgage-backed securities	1,694	26	-	1,720
Federated Gov't. Fund	8,200	8	-	8,208
Total available-for-sale	67,394	34	(1,138)	66,290
Securities held-to-maturity:				
U.S. agency securities	45,184	-	(1,105)	44,079
Mortgage-backed securities	17	2	-	19
Municipal securities	7,675	-	-	7,675
Corporate note	93	-	-	93
Total held-to-maturity	52,969	2	(1,105)	51,866
Total	$ 120,363	$ 36	$ (2,243)	$ 118,156

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

	December 31, 2022			
	Available-for-Sale		Held-to-Maturity	
(Expressed in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	$ 400	$ 400	$ 10,091	$ 9,927
After 1 year through 5 years	42,001	38,157	15,173	14,317
After 5 years through 10 years	15,514	12,469	27,160	23,170
After 10 years	1,328	1,170	37,084	30,858
Total	$ 59,243	$ 52,196	$ 89,508	$ 78,272

NOTE 2 – INVESTMENT SECURITIES (Continued)

	December 31, 2021			
	Available-for-Sale		Held-to-Maturity	
(Expressed in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	$ 8,200	$ 8,216	$ -	$ -
After 1 year through 5 years	39,003	38,450	10,000	9,996
After 5 years through 10 years	18,500	17,916	17,701	17,287
After 10 years	1,691	1,708	25,268	24,583
Total	$ 67,394	$ 66,290	$ 52,969	$ 51,866

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 $42,150,000 and $38,300,000 were pledged as of December 31, 2022 and 2021, 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:

	2022					
	Less than 12 Months		12 Months or Greater		Total	
(Expressed in Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	$ 18,447	$ (554)	$ 82,704	$ (15,962)	$ 101,151	$ (16,516)
Mortgage-backed securities	17,944	(1,307)	-	-	17,944	(1,307)
Municipal securities	3,180	(460)	-	-	3,180	(460)
Totals	$ 39,571	$ (2,321)	$ 82,704	$ (15,962)	$ 122,275	$ (18,283)

NOTE 2 – INVESTMENT SECURITIES (Continued)

	2021					
	Less than 12 Months		12 Months or Greater		Total	
(Expressed in Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. agency securities	$ 74,852	$ (1,314)	$ 21,574	$ (929)	$ 96,426	$ (2,243)
Mortgage-backed securities	5	-	-	-	5	-
Totals	$ 74,857	$ (1,314)	$ 21,574	$ (929)	$ 96,431	$ (2,243)

As of December 31, 2022, the investment securities portfolio contains unrealized losses on 54 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 the 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.

NOTE 3 – LOANS RECEIVABLE

Loans as of December 31, are summarized as presented in the year-end regulatory filing:

(Expressed in Thousands)	2022	2021
Construction, land development, and other land loans	$ 5,473	$ 1,575
Secured by 1-4 family residential properties	221,768	212,717
Secured by multi-family residential properties	18,346	18,538
Secured by non-farm non-residential properties	92,898	97,552
Commercial and industrial loans	51,555	53,210
Other loans	17,923	19,492
Total	407,963	403,084
Allowance for loan losses	(6,490)	(6,233)
Prepaid loan fees	544	541
Net loans	$ 402,017	$ 397,392

NOTE 3 – LOANS RECEIVABLE (Continued)

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, 2022 and 2021, 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 to be 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).

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, nonaccrual status, and net charge-offs for those customers and clients who would have otherwise moved into past due or nonaccrual 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, 2022, 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.

NOTE 3 – LOANS RECEIVABLE (Continued)

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 nonaccrual 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 by using 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.

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, 2022 and 2021:

	December 31,	
(Expressed in Thousands)	2022	2021
Average investment in impaired loans:		
Commercial	$ 14,460	$ 12,812
Residential	3,542	2,748
Home Equity	96	63
Installment	559	425
Interest recognized on impaired loans:		
Commercial	$ 1,031	$ 552
Residential	227	112
Home Equity	1	1
Installment	26	30

NOTE 3 – LOANS RECEIVABLE (Continued)

(Expressed in Thousands)	December 31, 2022 Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
Commercial	$ 15,180	$ 6,313	$ 8,867	$ 15,180	$ 2,528
Residential	3,953	3,705	248	3,953	112
Home Equity	22	22	-	22	-
Installment	459	270	189	459	47
Total	$ 19,614	$ 10,310	$ 9,304	$ 19,614	$ 2,687

(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
Total	$ 14,055	$ 7,375	$ 6,680	$ 14,055	$ 2,251

Three TDRs occurred during 2022. In 2022, 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 that are 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.

NOTE 3 – LOANS RECEIVABLE (Continued)

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, 2022 and 2021. Included in the Pass category are loans that have not been individually reviewed and graded on an annual basis.

(Expressed in Thousands)
December 31, 2022

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	$ 203,587	$ 12,660	$ 15,165	$ 574	$ -	$ 231,986
Residential	136,566	-	3,956	131	-	140,653
Home Equity	16,155	55	179	-	-	16,389
Installment	17,963	-	972	-	-	18,935
Total	$ 374,271	$ 12,715	$ 20,272	$ 705	$ -	$ 407,963

(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
Total	$ 380,210	$ 7,866	$ 14,902	$ 106	$ -	$ 403,084

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 nonaccrual loans, as of December 31, 2022 and 2021:

(Expressed in Thousands)
December 31, 2022

	Current	30-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans	90 or More Past Due and Accruing
Commercial	$ 223,365	$ 2,916	$ 5,705	$ 8,621	$ 231,986	$ -
Residential	137,166	483	3,004	3,487	140,653	-
Home Equity	15,988	263	138	401	16,389	-
Installment	18,073	253	609	862	18,935	-
Total	$ 394,592	$ 3,915	$ 9,456	$ 13,371	$ 407,963	$ -

(Expressed in Thousands)
December 31, 2021

	Current	30-89 Days Past Due	Nonaccrual	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	-
Total	$ 381,470	$ 11,756	$ 9,858	$ 21,614	$ 403,084	$ -

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

(Expressed in Thousands)	December 31, 2022	December 31, 2021
Balance, beginning of period	$ 14,158	$ 15,909
New loans during the period	522	578
Repayments during the period	(1,503)	(2,329)
Balance, end of period	$ 13,177	$ 14,158

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

An allowance for loan losses 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, 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 4-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 nonaccrual 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.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize the primary segments of the ALL, segregated into the amount that is required for loans that are individually evaluated for impairment and the amount that is required for loans that are collectively evaluated for impairment, as of December 31, 2022 and 2021. Activity in the allowance is presented for the 12 months ended December 31, 2022 and 2021, as follows:

	December 31, 2022				
(Expressed in Thousands)	Commercial	Residential	Home Equity	Installment	Total
Balance, beginning of year	$ 4,409	$ 1,315	$ 158	$ 351	$ 6,233
Additions charged to operating expenses	812	(69)	38	219	1,000
Recoveries	100	25	-	40	165
Total	5,321	1,271	196	610	7,398
Loans charged off	(595)	-	(47)	(266)	(908)
Balance, end of year	$ 4,726	$ 1,271	$ 149	$ 344	$ 6,490
Allowance:					
Individually evaluated for impairment	$ 2,528	$ 112	$ -	$ 47	$ 2,687
Collectively evaluated for impairment	$ 2,198	$ 1,159	$ 149	$ 297	$ 3,803
Loans:					
Individually evaluated for impairment	$ 15,180	$ 3,953	$ 22	$ 459	$ 19,614
Collectively evaluated for impairment	$ 216,806	$ 136,700	$ 16,367	$ 18,476	$ 388,349

NOTE 4 – ALLOWANCE FOR LOAN LOSSES (Continued)

	December 31, 2021				
(Expressed in Thousands)	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
Loans charged off	(327)	-	-	(174)	(501)
Balance, end of year	$ 4,409	$ 1,315	$ 158	$ 351	$ 6,233
Allowance:					
Individually evaluated for impairment	$ 2,098	$ 76	$ 14	$ 63	$ 2,251
Collectively evaluated for impairment	$ 2,311	$ 1,239	$ 144	$ 288	$ 3,982
Loans:					
Individually evaluated for impairment	$ 11,069	$ 2,447	$ 47	$ 492	$ 14,055
Collectively evaluated for impairment	$ 220,341	$ 134,373	$ 15,262	$ 19,053	$ 389,029

NOTE 5 – PREMISES AND EQUIPMENT

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

(Expressed in Thousands)	2022	2021
Land	$ 285	$ 285
Building	1,971	1,971
Leasehold improvements	2,785	1,768
Furniture and equipment	3,100	2,795
Total	8,141	6,819
Accumulated depreciation	(4,601)	(4,214)
Right-of-use lease asset	2,423	-
Premises and equipment, net	$ 5,963	$ 2,605

Depreciation expense related to premises and equipment was $388,668 and $281,161 for the years ended December 31, 2022 and 2021, respectively.

NOTE 6 – DEPOSITS

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

(Expressed in Thousands)	2022	2021
Noninterest-bearing	$ 133,988	$ 132,302
Interest-bearing demand	19,262	17,960
Money market	46,978	48,553
Savings accounts	167,862	154,167
Certificates of deposit	150,106	166,507
Total	$ 518,196	$ 519,489

The aggregate amounts of jumbo certificates of deposit with a minimum denomination of $250,000 were approximately $47,825,000 and $46,248,000 as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the scheduled maturity of certificates of deposit is as follows:

(Expressed in Thousands)	
2023	$ 94,985
2024	37,121
2025	12,479
2026	2,381
2027	3,140
Total	$ 150,106

NOTE 7 – BORROWINGS

The Bank has credit facilities through the FHLB of Pittsburgh and the First Horizon National Corporation (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 $16,500,000 and $19,100,000 as of December 31, 2022 and 2021, respectively.

NOTE 7 – BORROWINGS (Continued)

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

Date Issued	2022	2021	Maturity Date	Rate	Type
(Dollars Expressed in Thousands)					
12/30/22	4,000	-	01/03/23	4.45%	Fixed
07/11/19	-	1,600	07/12/22	1.92%	Mid-term
06/07/19	5,000	5,000	06/07/23	2.12%	Fixed
01/29/19	5,000	5,000	01/29/24	2.93%	Fixed
05/07/19	2,500	2,500	05/07/24	2.56%	Fixed
12/30/21	-	5,000	01/04/22	0.29%	Fixed
Total	$ 16,500	$ 19,100			

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, 2022, the rate was 5.34 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, 2022 and 2021. Interest expense in the amount of $109,197 and $67,179 was recorded on these borrowings for the years ended December 31, 2022 and 2021, respectively.

Contractual repayments of borrowed funds for the next 5 years as of December 31, 2022, are $9,000,000 in 2023, $7,500,000 in 2024, and $3,093,000 beyond 5 years.

Borrowings are comprised of the following as of December 31:

(Expressed in Thousands)	2022	2021
FHLB borrowings	$ 16,500	$ 19,100
Junior subordinated debt	3,093	3,093
Total	$ 19,593	$ 22,193

NOTE 7 – BORROWINGS (Continued)

Repurchase agreements are secured short-term borrowings from Bank customers. The Company pledges investment securities to secure these borrowings. Obligations under repurchase agreements were $9,838,946 and $9,962,000 as of December 31, 2022 and 2021, respectively.

NOTE 8 – INCOME TAXES

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

(Expressed in Thousands)	2022	2021
Deferred tax assets:		
Deferred loan fees	$ -	$ 49
Allowance for loan losses	1,363	1,226
Unearned interest recognition	26	22
Deferred compensation	756	726
Stock-based compensation	47	44
Tax credits	247	163
Deferred state income tax	-	385
Unrealized loss on available-for-sale securities	1,372	144
Total deferred tax assets	3,811	2,759
Deferred tax liabilities:		
Depreciation	122	14
Total deferred tax liabilities	122	14
Net deferred tax assets	$ 3,689	$ 2,745

Income tax expense for the years ended December 31, 2022 and 2021, is comprised of the following components:

(Expressed in Thousands)	2022	2021
Current	$ 1,266	$ 2,040
Deferred	284	(333)
Total income tax expense	$ 1,550	$ 1,707

NOTE 8 – INCOME TAXES (Continued)

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:

(Expressed in Thousands)	2022	2021
Tax at federal statutory rate	$ 1,494	$ 1,497
State income tax, net of federal benefit	276	301
	1,770	1,798
Increase (decrease) in taxes:		
Bank-owned life insurance	(119)	(51)
Other	(101)	(40)
Total income tax expense	$ 1,550	$ 1,707

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:

(Expressed in Thousands)	2022	2021
Home equity lines of credit and residential construction loans	$ 21,938	$ 20,569
Commercial real estate, lines of credit, and construction loans	46,356	41,034
Letters of credit	907	907
Other unused commitments	240	310
Total	$ 69,441	$ 62,820

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 that is held varies, but may include accounts receivable, inventory, premises 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 to participate in 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 $286,293 and $280,102 for the years ended December 31, 2022 and 2021, 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 $103,325 and $139,349 for the years ended December 31, 2022 and 2021, 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 $565,387 and $242,668 during 2022 and 2021, respectively, based on the growth in the value of the policies and death benefit payouts.

As of December 31, 2022 and 2021, $1,080,256 and $1,273,358, respectively, were recorded as a liability under these contracts, and $226,959 and $267,405, respectively, were recognized as a related deferred tax asset. The life insurance policies had an aggregate cash surrender value of $9,931,762 and $10,043,664 as of December 31, 2022 and 2021, 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, 2022 and 2021, directors' deferred compensation payable was $2,241,756 and $1,921,218, respectively, and $359,953 and $317,618 were recognized as a related deferred tax asset.

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. The remaining trust assets are invested in certificates of deposits held at Main Street Bank.

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 2022 or 2021. 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. As of December 31, 2022 and 2021, options exercisable are 30,000 and 20,000, respectively. Compensation cost charged against income was $14,775 in 2022, and $19,718 in 2021.

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, 2022, 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 the years ended December 31, 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 subsequent to this notification that management believes have changed the institution’s category.

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.

NOTE 12 – REGULATORY MATTERS (Continued)

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, 2022, 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 as of year-end:

As of December 31, 2022	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
(Expressed in Thousands)	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Risk-Weighted Assets)	$ 57,104	9.6%	$ 47,497	8.0%

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

The Company enters into leases in the normal course of business, primarily for branch operations. The Company's leases have terms that are greater than 12 months, which may include renewal or termination options. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain that the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original terms of 12 months or less on the Company's consolidated balance sheets.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date, based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate that is implicit in the lease is not known. The Bank's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

A right-of-use asset in the amount of $2,422,874 is recorded on the consolidated balance sheets, as well as a lease obligation for the same amount. Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2022, are as follows:

(Expressed in Thousands)

Less than 1 year	$	337
1 to 3 years		682
3 to 5 years		708
Greater than 5 years		1,417
Total		3,144
Less imputed interest		(721)
Net lease liabilities	$	2,423

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of December 31, 2022:

Weighted-average remaining lease term – operating leases (years)	9.0
Weighted-average discount rate – operating leases	5.5%

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 2023 without the approval of the Commissioner of Banking of approximately $8.5 million, plus an additional amount equal to the Bank's net profit for 2022, 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.

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 that is 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.

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	December 31, 2022				
(Expressed in Thousands)	Carrying Amount	Estimated Fair Value	Level I	Level II	Level III
Financial Assets:					
Cash and cash equivalents	$ 33,122	$ 33,122	$ 33,122	$ -	$ -
Securities available-for-sale	52,196	52,196	-	52,196	-
Securities held-to-maturity	89,508	78,272	-	78,272	-
Loans, net	402,017	397,354	-	-	397,354
Accrued interest receivable	2,244	2,244	2,244	-	-
Cash surrender value of life insurance	9,932	9,932	9,932	-	-
Federal Home Loan Bank stock	995	995	995	-	-
Financial Liabilities:					
Deposits	518,196	513,896	368,091	-	145,805
Repurchase agreements	9,839	9,839	9,839	-	-
Advances by borrowers for taxes and insurance	1,620	1,620	1,620	-	-
Accrued interest payable	306	306	306	-	-
Borrowings	19,593	19,222	-	-	19,222

	December 31, 2021				
(Expressed in Thousands)	Carrying Amount	Estimated Fair Value	Level I	Level II	Level III
Financial Assets:					
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	-	-
Financial Liabilities:					
Deposits	519,489	519,733	352,982	-	166,751
Repurchase agreements	9,962	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

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 that are defined by these standards are as follows:

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

Level II: 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 III: 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.

The following tables present the assets that are reported on the consolidated financial statements at their fair values as of December 31, 2022 and 2021, 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 II instruments and valued them using a combination of available market color for similar securities and prepayment/default projections, based on historical statistics.

	As of December 31, 2022			
(Expressed in Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Securities available-for-sale	$ -	$ 52,196	$ -	$ 52,196
Assets measured on a non-recurring basis:				
Impaired loans	-	-	19,614	19,614
Other real estate owned	-	-	85	85

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

	As of December 31, 2021			
(Expressed in Thousands)	Level I	Level II	Level III	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
Other real estate owned	-	-	-	-

For Level III assets that are measured at fair value on a recurring or non-recurring basis as of December 31, 2022 and 2021, the significant observable inputs that are used in the fair value measurements are as follows (dollars in thousands):

	Fair Value at December 31, 2022	Fair Value at December 31, 2021	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired loans	$ 19,614	$ 14,055	(1)	Appraisal adjustments	0% to 20%
Other real estate owned	85	-	(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 collateral dependent.

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

NOTE 17 – SUBSEQUENT EVENTS

The Company has assessed events occurring subsequent to December 31, 2022, through April 13, 2023, 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 April 13, 2023.