2023 ANNUAL REPORT

ABI
Allegheny Bancshares Inc

PCB
Pendleton Community Bank

Allegheny Bancshares Inc

Pendleton Community Bank

Report Contents

Locations

Virginia Market

Bridgewater
317 North Main Street | (540) 828-6630

Harrisonburg West
41 Monte Vista Drive | (540) 434-4722

Harrisonburg Downtown
57 South Main Street | (540) 214-2070

Harrisonburg South Main
2169 South Main Street | (540) 432-0474

Staunton
478 Frontier Drive | (540) 885-1108

Staunton Loan Production Office
2201 North Augusta Street | (540) 294-1831

Southern West Virginia Market

Beckley
204 Pinewood Drive | (304) 252-2265

Marlinton
19180 Seneca Trail | (304) 799-6700

Mount Hope
602 Main Street | (304) 877-5551

Oak Hill
835 East Main Street | (304) 469-8046

Northern West Virginia Market

Franklin
128 North Main Street | (304) 358-2311

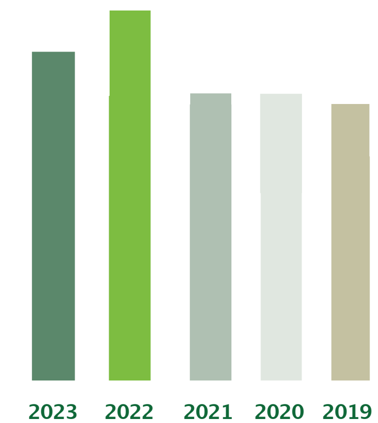
Moorefield
402 South Main Street | (304) 538-7900

Petersburg
102 Virginia Avenue | (304) 257-4000

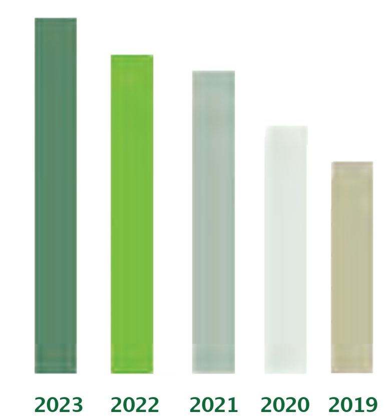
Wardensville
25 West Main Street | (304) 897-2265

Financial Highlights

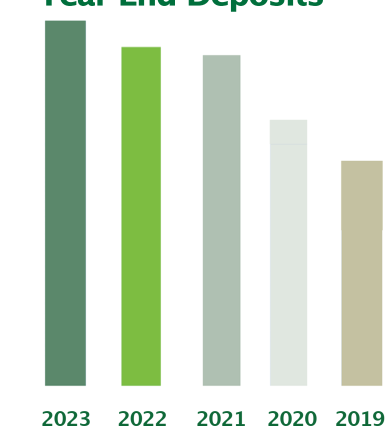
Net Income



Year End Assets



Year End Deposits



Results of Operations

Years ended December 31,
(Dollars in thousands except per share data)

	2023	2022	2021	2020	2019
Interest income	$ 35,268	$ 24,471	$ 19,974	$ 19,972	$ 16,452
Interest expense	(11,369)	(2,037)	(1,837)	(2,554)	(2,540)
Net Interest Income	23,899	22,434	18,137	17,418	13,912
Provision for credit losses	(1,421)	(810)	(625)	(860)	(540)
Noninterest income	4,147	4,001	3,932	3,440	2,961
Noninterest expenses	(20,386)	(18,052)	(15,750)	(14,366)	(12,079)
Income taxes	(847)	(1,531)	(989)	(1,060)	(841)
Net Income	$ 5,392	$ 6,042	$ 4,705	$ 4,572	$ 3,413
PROFITABILITY RATIOS					
Return on Average Assets	0.75%	0.94%	0.80%	0.94%	1.08%
Return on Average Equity	13.05%	14.75%	10.31%	10.63%	8.55%
PER COMMON SHARE					
Net Income	$6.53	$7.32	$5.70	$5.49	$4.07
Cash Dividends Declared	2.43	2.38	2.28	2.20	2.12
Book Value	52.69	46.88	55.37	53.35	48.10
Last Reported Market Price	78.00	75.00	72.00	72.00	70.00
AT YEAR END					
Assets	$734,263	$658,251	$627,833	$515,138	$442,126
Deposits	619,349	580,745	565,461	457,657	389,730
Loans, Net	585,527	504,540	369,308	370,548	325,233
Borrowings	62,418	28,870	11,050	7,734	7,944
Stockholders' Equity	43,189	38,425	45,385	43,732	39,984
Equity to Assets Ratio	5.88%	5.84%	7.23%	8.49%	9.04%
Total Capital Risk Weighted Assets Ratio - Bank	10.67%	10.62%	13.33%	13.51%	13.50%
Tier 1 Common Equity Ratio - Bank	9.87%	9.92%	12.51%	12.56%	12.55%

> "Our growth in 2023 and second highest earnings in the company's history was a direct result of our continued focus on strategic balance sheet management and being ***All In***."
>
> *– William A. Loving, Jr.*
> *President & CEO*

Dear Shareholder

As you review this year's Annual Report, you will notice a theme – **All In**. In today's hyper competitive environment, we have seen increased competition from traditional banks, non-traditional banks, and various internet offerings. As such, we determined in late 2022 we needed a more laser focus on all constituents of our Mission Statement and being **All In** in all we do…every time. I am confident that the contents of this year's report are an accurate depiction of our efforts and success.

However, before I share my thoughts on the many ways we were **All In,** I will turn my attention to a few financial highlights and results for 2023. In my communication to you in late November, I stated 2023's net income was not expected to surpass that of 2022. While 2023's reported net income of $5.4 Million was below 2022's level, it was the second highest reported net income in the company's history. Many elements played into 2023, but the most significant parts, from my perspective, were the rapid increase in the interest rate environment in late 2022 and 2023 and the notable change in the industry's liquidity position. Both elements placed downward pressure on our net interest margin and slowed net interest income growth relative to balance sheet growth. I am pleased to report; however, despite this competitive rate environment, we were able to increase deposits from $581 Million to $619 Million and total assets ended the year at $734 Million – a growth of 11.55%. The year-end net loan portfolio totaled $586 Million, an increase of $81 Million (16.05%) over the prior year. To support this growth, although credit quality remains strong, the provision for credit losses increased approximately $600,000 over the prior year. This increased expense was another element that placed downward pressure on net income.

As I reflect on 2023, I am confident that where we stand today positions us well for future success as we see normalization of the inverted yield curve. Our growth in 2023 and second highest earnings in the company's history was a direct result of our continued focus on strategic balance sheet management and being **All In**.

One change we made early in 2023 was our team member recognition program and the process of nominating candidates more closely tied to our Core Values. This allowed us to focus on and reward living out ALL our Core Values. Additionally, we upgraded the delivery channels for our customers by offering a more robust digital banking platform, new niche-based product offerings, mobile ATMs that allow us to go into the community, and a courier service to provide off-site deposit pick up – all initiatives designed to improve our level of service.

We continued to support our communities in 2023. The pictures included in this report are a small example of our community involvement, as we contributed over $210,000 to local organizations and participated in approximately 200 community events throughout the year. This is truly an example of being engaged in the communities we call home, and in doing so, we were rewarded with additional accolades for being the "Best" in 2023.

Finally, I am confident you will agree that our **All In** focus also included you, our valued shareholders. Despite pressure on earnings, I am pleased to report another increase in our annual dividend, a $3.00 per share year over year increase in year-end common stock price and a 12.39% improvement in book value per share.

In closing, it has been a privilege to serve as your President and CEO in 2023. I look forward to the future, and as we collectively work together to be **All In**, I know more success will follow.

Respectfully,

William A. Loving, Jr.
President & CEO

Our Mission

PCB, an Independent Community Bank,
is dedicated to facilitating financial success for our customers,
encouraging professional success for our team members,
and stimulating economic growth in our communities,
thereby enhancing the value of Your Bank.

Our Vision

To be a company that focuses on our family –
team members, customers, and communities –
while maximizing shareholder value.

Our Core Values

Utmost Integrity
Customer Driven
Team Member Focused
Community Centered

Board of Directors

Board Members pictured left to right:

> "I thank each of our team members and the Board of Directors for another year of dedication and support."
>
> *– William A. Loving, Jr. President & CEO*

Roger Champ | Secretary / Retired Contractor

Dennis Wenger | President, Skyline Roofing

William Beard, Jr. | Farmer

Chad Branson | Chair / Associate Broker, Old Dominion Realty

Ryan Boggs | Partner, Beachy Arehart, PLLC

William Bosley, OD | Doctor of Optometry

Laura Simpson Evick | Vice Chair / Partner, Hoover Penrod, PLC

William A. Loving, Jr., CLBB | President / CEO

Mike Lively | Retired Commercial Insurance Agent

Advisory Boards

We are honored to have many respected community and business leaders within our market areas who serve on our Advisory Boards and bring their knowledge and experience to the table to help guide us.

Staunton-Augusta County, VA

Charlie Bishop | Real Estate Agent, Premier Properties
Dean Caldwell | Agent & Marketing Representative, Valley Trust Insurance*
Allen Dahl | Business Partner, Triangle Real Estate Group
Andrea Oakes | Former Mayor, City of Staunton*
Jeff Ramsey | 92 Proof, Inc., President
Scott Simons | Managing Partner & President, Valley CMA Dealerships
Butch Smiley | CEO, Frontier Culture Museum
Andrew Wiley | Owner, Consumers Auto Warehouse
Clay Wisely | CPA; Owner, Blue Ridge Mountain Mortgage

**Term expired December 31, 2023*

Harrisonburg-Rockingham County, VA

Bernard Hamann | Owner, Chief Marketing Officer, Rocktown Realty
Lewis Horst | President & CEO, Shen-Valley Custom
Hahns Kanode | Agronomy Consultant-Houff Corporation, Business Owner
Frank Oncken | CFO & Director of Administration, Partners Excavating Company
Chris Rooker | Co-Owner & Associate Broker, Harrisonburg Homes Team
Dr. Catherine Slusher | OB/GYN Provider, Sentara Obstetrics, Gynecology & Midwifery Specialists
Troy Suter | President & CEO, LD&B Insurance and Financial Services

Raleigh-Fayette Counties, WV

Cindy Bower | CPA, Cynthia R Bower
Mike Kessinger | Mayor, City of Mount Hope
Marla Sinko | Realtor and Broker, Glade Springs Real Estate
Jimmy Songer | Commercial Insurance Agent, Blue Ridge Risk Partners
Matt Stanley | President, CEO, and Chairman of the Board, Beckley Water Company
Dr. T. Ramon Stuart | Campus President, WVU Tech
Scott Underwood | Owner, American Campers
Paige Ward | Owner, United Cycle
Kevin Wills | Owner, DTE Repair & Towing, The Frozen Barn

*"We again were recognized across our footprint with many accolades of being the 'Best', recognitions by which I am humbled. These awards and the financial performance do not just happen. It takes a dedicated team striving for a common mission of being **All In**."*

– William A. Loving, Jr. | President & CEO

Team Members
Years of Service

William "Bill" Loving, Jr. President / CEO (23 Years)
Neil Hayslett Senior EVP / Chief Operating Officer (3 Years)
Sheldon Arbaugh EVP WV Area Executive (28 Years)
Josh Byers EVP Chief Credit Officer (20 Years)
Aaron Green EVP Chief Lending Officer (3 Years)
Tammy Kesner EVP Chief Financial Officer (3 Years)
Jonah Pence EVP VA Area Executive and Chief Banking Officer (5 Years)
JT Bishop SVP Market Leader (3 Years)
Monika Eckard SVP Human Resources Director (12 Years)
Amanda Smith SVP Products and Service Director (20 Years)
Kendall Beverage VP Market Leader (9 Years)
Tim Cash VP Business Development Officer (5 Years)
Tammy Clutter VP Information Security Officer (22 Years)
Gary Davenport VP Business Development Officer (2 Years)
Jordan Dean VP Market Leader (2 Years)
Kelsey Dean VP Marketing Director (3 Years)
Karen Ewing VP Market Leader (3 Years)
Sarah Hale VP Business Banking Officer (3 Years)
Stephanie Kile VP Operations Manager (7 Years)
Ryan May VP Director of Dealer Finance (2 Years)
Kathy Parker VP Executive Assistant/Investor Relations (21 Years)
Erin Sites VP Assistant Chief Financial Officer (21 Years)
Rhonda Tredway VP Business Development Officer (24 Years)
Joey Vetter VP Market Leader (12 Years)
Mark Williams VP Director of Compliance (17 Years)

Team Members | Years of Service

35 Years
Tony Calhoun

25-30 Years
Joy Hersey
Tammy Smith
Diana Williams

20-25 Years
Donna Idleman
Nancy Mallow
Lori Nelson-Roberson
Debbie Propst
Leigh Richardson
Margaret Shriver
Misty Taylor
Trina Whitt

15-20 Years
Holly Beachler
Marc Craun
Tammy Davis
Trish Flynn
Kim Fox
Teresa Heavner
Darla Jones
Selina King
Brittany Mitters
Susie Mullins
Julie Pence
Evelyn Simmons
Sharon Stickley

10-15 Years
Jessica Basagic
Michelle Bickford
Yvette Britt-Boggess
Sarah Burns
Linda Comer
Dayne Davis
Angel Dove
Samantha Farley
Luke Kesner
Susan Payne
Duwan Romage
Katie Sinnett
Judy Snyder
Linda Walker
Nick Yoder

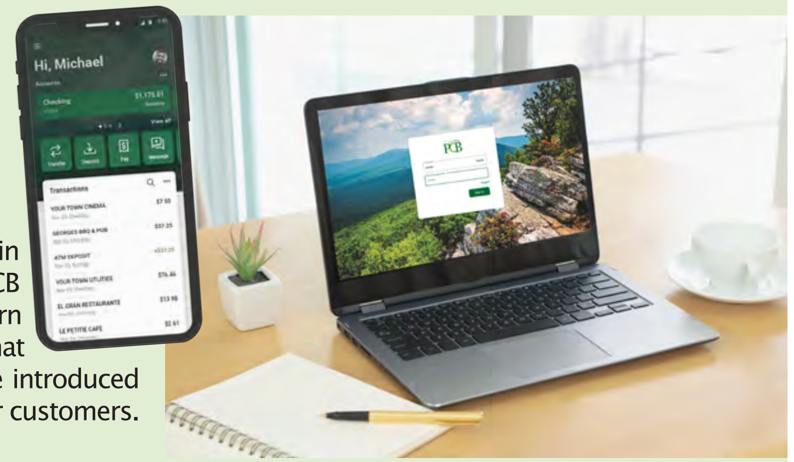
5-10 Years
Christina Branham
Rebekah Byers
Teri Dion
Missy Elliott
Casey Goldizen
Steven Gravely
Brionna Hartman
Diana Hernandez
Katie Jackson
Carly Knicely
Christopher Mabes
Nicole Marsh
Donna Miller
Doug Moran
Sam Puchany
Kimberly Reyes
Clay Richardson
Laura Roadcap
Natasha Simmons
Lisa Sponaugle

0-5 Years
Jennifer Acord
Faith Anderson Harper
Pam Atkins
Holly Bailey
Kiki Beckford
Jason Blosser
Haleigh Bulman
Shelia Burnett
Cassie Carter
Kristin Catterton
Carly Cooper
Katrina Copley
Abbie Cox
Larissa Cramer
Zoe Crook
Melinda Cutlip
Doreen D'Alberti
Emma Deel
Mike Deel
Josh Edmonds
Emily Elliott
Caleb Elswick
Miranda Foreman
Michelle Galindo
Barbie Gowl
Karina Guzman
Vince Harlow
Constance Heavenrich
Karlee Hinkle
Chloe Horst
Clayton Justice
Chelsey Lam
Stephanie Leach
Jared Lively
Kaelynn Loften
Sydney Maldonado
Dawn Mallow
Sean Manning
Dave Martin
Courtney Martiny
Sage Massie
Joan Mathias
Jen McClure
Jaime McDonald
Hillary McLaughlin
Crystal Merrick
Billy Miller
Ashleigh Moon
Amy Nazelrodt
Jessica Orellana
Katie Ours
Michael Parker
Heather Porcella
Darla Ruddle
Allie Sharp
Destiney Shifflett
Chelsey Simmons
James Sneed Jr
Amanda Teter
Caitlin Thomas
Serenity Thorn
Taylor Townsend
Michele Vass
Kerry Watkins
Cassidy Whetzel
Kelcy Young

All In for Customers

PCB continued to serve our mission of facilitating customer financial success and launched a variety of new products and services to best serve the evolving needs of our clients.

Banno Digital Banking



Online and mobile banking is an essential service in today's digital landscape. In November 2023, PCB upgraded our platform to Banno, a more modern and user-friendly solution. New features like chat and a personal financial management tool were introduced along with additional self-service options for our customers.

As of February 1, 2024, the bank has 9,630 enrolled users and has managed 2,803 digital conversations. We continue to see an increase in mobile deposit and bill pay users, highlighting the importance of our high-tech, high touch model of banking.

Impact Checking

An interest-bearing checking account for nonprofit customers was also launched in 2023. Our dedication to community betterment inspired the creation of this product. Impact Checking is not just an account; it's a commitment from PCB to empower local nonprofits. To help launch the new account, PCB invited local nonprofits to our offices on National Nonprofit Day to celebrate their work with refreshments, giveaways, and a raffle for a cash donation.

National Nonprofit Day Celebrations

Courier

Finding time to visit the bank can be challenging when running a business. That's why we introduced our courier program in the Virginia Region in 2023. Our courier will pick up deposits, bring change orders, and return receipts on a schedule that is convenient for the client. We look forward to expanding this service into our West Virginia markets.

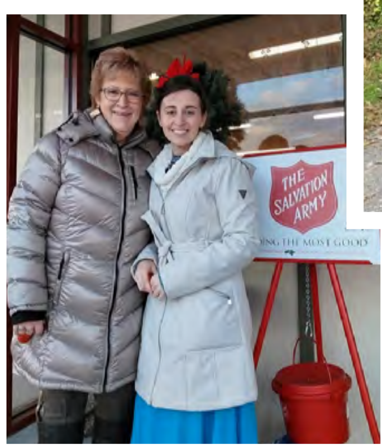
Mobile ATM

Community is not just in our name; it is the heart of who we are. We support events through financial contributions, volunteerism, and employee attendance. Now, we also offer Mobile ATM services for community activities where cash is needed. Three mobile units are available, one per geographic region.

All In for Customers

All In for Community

Stimulating economic growth through community service is a passion of our team members. Throughout 2023, PCB contributed over $210,000 back through contributions and sponsorships, and across the company, team members participated in approximately 200 community events. By investing in our community, PCB is ensuring a better future for generations to come.



All In for Community

In addition, PCB was honored to formally enter a partnership with West Virginia University Institute of Technology. Both organizations have an interest in providing improved access to products and services through technology. Through this collaboration, PCB is promoted as the Premier Communiversity Partner for a variety of on-campus and community events.

All In for Team Members

The All In program came to life in 2023 to honor team members who have gone the extra mile by living out PCB's values in the community and leading by example within the organization. A winner is awarded each month with various incentives, one of which being a financial contribution to their nonprofit of choice.

2023 All-In Team Members & Their Nonprofit of Choice

1ST QUARTER

Sarah Burns | January Winner
Donated to PAWS, Inc.

Kendall Beverage | February Winner
Donated to 8 Rivers Shrine Club

Debbie Propst | March Winner
Donated to Pendleton County Tactical Skills Team

2ND QUARTER

Nicole Marsh | April Winner
Donated to Franklin Lions Club

Katie Jackson | May Winner
Donated to Stone Haven

Amanda Smith | June Winner
Donated to Pendleton County Little League

3RD QUARTER

Monika Eckard | July Winner
Donated to Pendleton County Library

Clay Richardson | August Winner
Donated to Franklin Lions Club

Kelsey Dean | September Winner
Donated to Big Brothers Big Sisters of Harrisonburg-Rockingham County

4TH QUARTER

Taylor Townsend | October Winner
Donated to Pendleton County Varsity Girls Softball

Michelle Galindo | November Winner
Donated to Capon Valley Neighbor to Neighbor

Holly Beachler | December Winner
Donated to Pendleton County High School Baseball

All In Team Member of the Year

Nicole Marsh

2023 FINANCIALS

ABI
Allegheny Bancshares Inc

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Allegheny Bancshares Inc

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YHBcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Allegheny Bancshares, Inc.
Franklin, West Virginia

Opinion

We have audited the accompanying consolidated financial statements of Allegheny Bancshares, Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, including all related amendments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 financial statements.
- Conclude whether, in our judgement, 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the shareholder letter and selected financial data but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Yount, Hyde & Barbour, P.C.

Owings Mills, Maryland
March 21, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Cash and due from banks	$ 9,891,811	$ 9,967,981
Fed funds sold and interest-bearing deposits in banks	163,574	92,321
Cash and cash equivalents	10,055,385	10,060,302
Certificates of deposit in other banks	1,716,227	2,093,402
Investment securities available for sale, at fair value	94,097,944	102,462,976
Restricted equity securities, at cost	2,533,295	1,009,895
Loans held for investment	589,856,060	508,185,257
Less: allowance for credit losses	(4,329,118)	(3,645,326)
Net loans held for investment	585,526,942	504,539,930
Bank premises and equipment, net	10,017,317	9,444,720
Interest receivable	2,881,537	2,284,607
Goodwill	5,117,001	5,117,001
Core deposit intangible, net	1,003,612	1,165,612
Bank owned life insurance	12,404,615	12,122,528
Other assets	8,909,338	7,949,783
Total Assets	$ 734,263,213	$ 658,250,757
LIABILITIES		
Deposits		
Noninterest bearing	$ 157,521,453	$ 170,692,898
Interest bearing:		
Demand	79,874,996	87,467,170
Savings	219,283,647	204,600,516
Time deposits over $250,000	33,830,722	12,839,243
Other time deposits	128,837,729	105,145,227
Total Deposits	619,348,547	580,745,054
Securities sold under agreements to repurchase	148,993	1,677,209
Subordinated debt	9,900,000	9,500,000
Federal Home Loan Bank advances	52,518,127	19,370,039
Accrued expenses and other liabilities	9,158,196	8,533,380
Total Liabilities	691,073,863	619,825,682
STOCKHOLDERS' EQUITY		
Common stock; $1 par value, 2,000,000 shares authorized, 784,554 shares issued in 2023 and 2022	784,554	784,554
Class A Common stock; $1 par value, 2,000,000 shares authorized, 108,872 shares issued in 2023 and 2022	108,872	108,872
Class B Common stock, $1 par value, 2,000,000 shares authorized, 6,574 shares issued in 2023 and 2022	6,574	6,574
Additional paid in capital	900,000	900,000
Retained earnings	54,555,957	51,296,678
Accumulated other comprehensive (loss)	(8,484,860)	(9,989,856)
Common Treasury stock (at cost, 76,487 shares)	(4,453,627)	(4,453,627)
Class A Treasury stock (at cost, 3,785 shares)	(227,100)	(227,100)
Class B Treasury stock (at cost, 17 shares)	(1,020)	(1,020)
Total Stockholders' Equity	43,189,350	38,425,075
Total Liabilities and Stockholders' Equity	$ 734,263,213	$ 658,250,757

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest Income:		
Loans and fees	$ 32,209,305	$ 21,391,559
Interest bearing deposits in banks	242,559	495,981
Investment securities – taxable	2,385,019	1,974,020
Investment securities – nontaxable	430,824	609,659
Total Interest Income	35,267,707	24,471,219
Interest Expense:		
Interest on deposits	8,485,458	1,390,950
Interest on borrowings	2,883,803	646,476
Total Interest Expense	11,369,261	2,037,426
Net Interest Income	23,898,446	22,433,793
Provision for credit losses	1,420,791	810,000
Net Interest Income After Provision for Credit Losses	22,477,655	21,623,793
Noninterest Income:		
Service charges, fees and commissions	1,660,969	1,726,114
Increase in cash value of bank owned life insurance	282,087	264,024
Gain on sale of Visa Stock	102,502	--
Loss on sale of available for sale securities, net	(14,663)	(7,536)
Other income	2,116,237	2,018,056
Total Noninterest Income	4,147,132	4,000,658
Noninterest Expense:		
Salaries and benefits	11,478,190	10,191,712
Occupancy expenses	1,195,367	1,125,367
Equipment expenses	2,132,902	2,115,063
Director fees	475,371	453,768
Core deposit intangible amortization	162,000	162,000
(Gains) losses on sale and write-downs of other real estate owned, net	(11,618)	(170,117)
Merger related expenses	--	12,924
Other expenses	4,953,329	4,161,091
Total Noninterest Expenses	20,385,541	18,051,808
Income before Income Taxes	6,239,246	7,572,643
Income Tax Expense	847,235	1,530,943
Net Income	$ 5,392,011	$ 6,041,700
Net Income per share of Common, basic and diluted	$ 6.53	$ 7.32
Net Income per share of Common Class A, basic and diluted	$ 6.86	$ 7.68
Net Income per share of Common Class B, basic and diluted	$ 7.18	$ 8.05
Cash dividends paid per share of Common	$ 2.43	$ 2.38
Cash dividends paid per share of Common Class A	$ 2.55	$ 2.50
Cash dividends paid per share of Common Class B	$ 2.67	$ 2.62
Weighted Average Shares Outstanding, Common	708,067	708,067
Weighted Average Shares Outstanding, Common Class A	110,341	110,341
Weighted Average Shares Outstanding, Common Class B	7,213	7,213

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net Income	$ 5,392,011	$ 6,041,700
Other comprehensive income (loss)		
Unrealized gains (losses) arising during the period on available for sale securities	1,993,030	(13,977,405)
Adjustment for income tax (benefit) expense	(418,536)	2,935,255
	1,574,494	(11,042,150)
Reclassification adjustment for net (gains) losses included in net income	(87,839)	7,536
Adjustment for income tax expense (benefit)	18,341	(1,688)
	(69,498)	5,848
Total other comprehensive income (loss)	1,504,996	(11,036,302)
Total comprehensive income (loss)	$ 6,897,007	$ (4,994,602)

See accompanying notes to consolidated financial statements.

ALLEGHENY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities:		
Net Income	$ 5,392,011	$ 6,041,700
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,420,791	810,000
Depreciation and amortization	731,182	695,425
Core deposit intangible amortization	162,000	162,000
Net amortization of securities	341,005	418,619
Right of use amortization	163,699	--
(Gain) on sale of Visa Stock	(102,502)	--
Loss on sale of available for sale securities, net	14,663	7,536
Loss on sale of bank premises and equipment	918	2,255
Deferred income tax expense	(249,576)	(126,150)
Increase in bank owned life insurance	(282,087)	(264,024)
(Gain) on sale and write-downs of other real estate owned, net	(11,618)	(109,907)
Net change in interest receivable	(596,930)	(176,605)
Net change in other assets	(1,171,239)	(1.808.243)
Net change in accrued expense and other liabilities	498,166	3,254,011
Net Cash Provided by Operating Activities	6,310,483	8,760,590
Cash Flows from Investing Activities:		
Proceeds from sales, calls and maturities of available for sale securities	9,914,422	10,330,881
Purchase of available for sale securities	--	(9,931,462)
Purchase of restricted equity securities	(1,523,400)	(749,500)
Proceeds from sale of bank premises and equipment	--	153,022
Proceeds from sale of other real estate owned	11,618	744,783
Purchase of bank premises and equipment	(1,304,696)	(2,160,211)
Net changes in loans	(82,407,802)	(135,012,762)
Maturities of certificates of deposits in other banks	377,175	---
Net Cash (Used in) Investing Activities	(74,932,683)	(134,895,568)
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	(6,080,488)	35,744,032
Net change in time deposits	44,683,981	(20,460,204)
Net change in securities sold under agreements to repurchase	(1,528,216)	1,019,802
Proceeds from issuance of subordinated debt	400,000	---
Proceeds from borrowings, net	33,148,088	17,819,692
Cash dividends paid	(2,006,082)	(1,965,097)
Net Cash Provided by Financing Activities	68,617,283	32,158,225
Cash and Cash Equivalents		
Net (decrease) in cash and cash equivalents	(4,917)	(93,976,753)
Cash and cash equivalents, January 1	10,060,302	104,037,055
Cash and cash equivalents, December 31	$ 10,055,385	$ 10,060,302
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 10,871,601	$ 1,932,645
Income taxes	$ 1,312,681	$ 1,542,063
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized gains (losses) on securities available for sale	$ 1,905,057	$ (13,970,136)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Total	Common Stock	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Treasury Stock	Class A Treasury Stock	Class B Treasury Stock
Balance December 31, 2021	$ 45,384,774	$ 784,554	$ 108,872	$ 6,574	$ 900,000	$ 47,220,075	$ 1,046,446	$ (4,453,627)	$ (227,100)	$ (1,020)
Net Income	6,041,700	---	---	---	---	6,041,700	---	---	---	---
Other Comprehensive Loss	(11,036,302)	---	---	---	---	---	(11,036,302)	---	---	---
Dividends Paid	(1,965,097)	---	---	---	---	(1,965,097)	---	---	---	---
Balance December 31, 2022	$ 38,425,075	$ 784,554	$ 108,872	$ 6,574	$ 900,000	$ 51,296,678	$ (9,989,856)	$ (4,453,627)	$ (227,100)	$ (1,020)
Net Income	5,392,011	---	---	---	---	5,392,011	---	---	---	---
Other Comprehensive Income	1,504,996	---	---	---	---	---	1,504,996	---	---	---
Adoption of ASU 2016-13	(126,650)					(126,650)				
Dividends Paid	(2,006,082)	---	---	---	---	(2,006,082)	---	---	---	---
Balance December 31, 2023	$ 43,189,350	$ 784,554	$ 108,872	$ 6,574	$ 900,000	$ 54,555,957	$ (8,484,860)	$ (4,453,627)	$ (227,100)	$ (1,020)

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Allegheny Bancshares ("Company") is a bank holding company and operates under a charter issued by the state of West Virginia. The Company owns all of the outstanding stock of Pendleton Community Bank ("Bank"), which operates under a charter issued by the State of West Virginia. The Bank provides commercial banking services to customers and is headquartered in Pendleton County, West Virginia. As a state-chartered bank, the Bank is subject to regulation by the Department of Banking for the State of West Virginia and the Federal Deposit Insurance Corporation. The Bank is engaged in the general commercial banking business offering a full range of banking services focused primarily towards serving individuals, small businesses, the agricultural industry, local government entities, and the professional community.

The Bank's primary trade area includes the West Virginia localities of Pendleton, Grant, Hardy, Pocahontas, Greenbrier, Fayette, and Raleigh counties, with full service financial centers in the towns of Franklin, Marlinton, Moorefield, Petersburg, Wardensville, Mount Hope, Beckley, and Oak Hill. The institution currently operates five financial centers in the Virginia communities of Harrisonburg, Bridgewater and Staunton, and loan production offices in Harrisonburg and Staunton.

The accounting and reporting policies of the Company and its subsidiary conform to the U.S. generally accepted accounting principles and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Classes of Common Stock –The Company has three classes of common stock as follows: Common Stock, Class A Common Stock and Class B Common Stock. Common Stock has full voting rights on any and all matters that come before a vote of the Company's shareholders.

Class A Common Stock shareholders receive a 5% premium over the dividend paid on Common Stock, and Class A shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class A Common Stock will have a liquidation preference over Common Stock and Class B Common Stock.

Class B Common Stock shareholders receive a 10% premium over the dividend paid on Common Stock, and Class B shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class B Common Stock will have a liquidation preference over Common Stock, but after Class A Common Stock.

Consolidation Policy – The consolidated financial statements include Allegheny Bancshares, Inc. and Pendleton Community Bank. All significant intercompany balances and transactions have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the valuation of real estate in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for credit losses and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize loan losses, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company's allowance for credit losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowance for credit losses may change materially in the near term.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Cash Equivalents – Cash and cash equivalents as used in the consolidated statement of financial condition and consolidated cash flow statements is defined as cash on hand and noninterest bearing and interest-bearing funds at correspondent institutions.

Investment Securities – Investment securities which the Company intends to hold for indefinite periods of time, including investment securities used as part of the Company's asset/liability management strategy, are classified as available for sale. These investment securities are carried at fair value.

Interest and dividends on securities and amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains and losses on the sale of investment securities are determined using the specific identification method.

Investment securities available for sale are required to be individually evaluated for impairment. A security is considered impaired if the fair value of the security is less than its amortized cost basis. If management concludes that it does not intend to sell an impaired security, and it is not more likely than not management will be required to sell an impaired security before recovery of its amortized cost basis, the Company would only be required to record the portion of the impairment related to credit losses (if any) in an allowance for credit losses with an offsetting entry to net income. Any portion of the impairment not related to credit losses is recorded through other comprehensive income.

Loans Held for Investment – Loans are intended to be held until maturity and are shown on the consolidated statement of financial condition net of the allowance for credit losses. Interest is computed by using an effective interest method which generally results in level rates of return on principal. Interest income is generally not recognized on loans classified as nonaccrual loans. Payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other individually evaluated loans is recognized only to the extent of interest payments received. Loans will remain in nonaccrual status until the borrower's financial condition has improved to a point that the likelihood of further loss is remote.

The accrual of interest on all loans is discontinued when in management's opinion the borrower may be unable to meet payments as they become due. These loans are considered nonaccrual loans, and all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

Loan origination fees and costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

In the normal course of business, to meet the credit needs of its customers, the Company has made commitments to extend credit. These commitments represent a credit risk, which is not recognized in the Company's consolidated statement of financial condition. The Company uses the same credit policies in making commitments as it does for other loans. Commitments to extend credit are generally made for a period of one year or less. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements. See Note 4 for lending commitments as of December 31, 2023 and 2022.

With the passage of the Paycheck Protection Program ("PPP"), administered by the Small Business Administration ("SBA"), the Company actively participated in assisting its customers through the program. As of December 31, 2023, the Bank holds $77,794 in PPP loans representing 4 loans. As of December 31, 2022, the Bank held $442,144 in PPP loans representing 6 loans. All the remaining PPP loans have a term of five or ten years based upon SBA guidelines. PPP loans are held on the Bank's statement of financial condition in the other commercial loan segment.

Allowance for Credit Losses – On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by the lessor in

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that is more likely than not they will be required to sell.

The Company adopted ASC 326 and all subsequent amendments effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior periods amounts continue to be reported in accordance with previously applicable GAAP. The company recorded a net decrease to retained earnings of $126,650 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $168,816 increase in the reserve for unfunded commitments. The adjustment to retained earnings was net of $42,166 of deferred income tax. Subsequent to adoption, the Company will record adjustments to its allowances for credit losses and reserves for unfunded commitments through the provision for credit losses in the Consolidated Statements of Income.

The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a vintage methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics which include call report codes. The Company primarily utilizes a Basel II approach with the addition of probability of default and of probability of attrition to facilitate lifetime loss forecasting. To further adjust the allowance for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: lending policy, portfolio mix, staff experience, volume of problem loans, loan review changes, and concentrations. The Company's CECL implementation process was overseen by the CECL Committee consisting of upper-level management and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience.

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Loan losses are charged against the allowance when management believes the non-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of loans, primarily with balances over $100,000, or commitments that are either demonstrating signs of becoming problematic or currently considered problem loans. Changes to the report are determined by the Chief Credit Officer.

Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.

- Loans classified as substandard, doubtful or loss by Company management, bank examiners, external auditors or loan review based upon financial trends.
- Loans on nonaccrual status.
- Loans more than 90 days delinquent.
- Loans judgmentally selected by executive management or the Board of Directors, due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

The following guidance has been given as an aid to loan officers in detecting problem loans.

- Financial Statement Analysis – As customer financial statements are received, they should be immediately analyzed to see if there are any significant changes in financial position or operating results.
- Delayed Financial Statements – If we are having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. We carefully review each loan as soon as it becomes past due.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.

- Other Red Flags – The following are additional red flags which could mean a problem situation is developing: more than two extension payments within the past 12 months; illness or death of a principal or key employee; overdrafts; unexpected renewals or unanticipated new borrowing; deteriorating financial ratios; irresponsible behavior on the part of a borrower or cancellation of insurance.

The allowance consists of specific and general components. The specific component relates to nonhomogeneous loans that are classified as either doubtful or substandard or loans exceeding 90 days past due or on non-accrual that exceed $250,000. For such loans, that are also classified as individually evaluated, an allowance is established when the collateral value less estimated costs to sell, or observable market price (or discounted cash flows) of the individually evaluated loan is lower than that carrying value of that loan. The general component covers pools of loans that share common risk characteristics.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. Credits are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

<u>Risk Grades 1 through 4 (Pass):</u> There are five different risk grades considered to be "Pass" grades. The first four grades are considered those performing credits that presently are considered lesser risk to the Bank. Credits in the Risk Grade 1 category exhibit a combination of superior credit, low debt to income and reduced loan to value (if secured) or are secured by deposit accounts held by the bank. As such these loans are of very low risk. The repayment program is well-defined and achievable and repayment sources are numerous. Risk Grade 2 is reserved for loans secured by readily marketable collateral, or loans that are better than average credit risks due to the financial strength of the borrower and or the abundance of collateral. A Risk Grade of 3 is reserved for the Bank's loans that are considered average credit risk, with no apparent weakness. These loans have no significant identifiable risk of collection. Generally, loans assigned this grade have documented historical cash flow that meets or exceeds required minimum Bank guidelines or that can be supplemented with verifiable cash flow from other sources as well as adequate secondary sources to liquidate debt.

Finally, debts with a Risk Grade of 4 are loans considered to be slightly more than average credit risk. They meet the credit guidelines; however, they have certain characteristics which call into question the borrower's financial well-being. It may be elevated debt to income ratio, high loan to value ratio, balance sheet weakness or a cash flow weakness that is deemed to be temporary in nature. These are credits that may require more frequent monitoring.

<u>Risk Grade 5 – Special Mention:</u> The fifth and lowest pass grade is given to this level of risk. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. These loans are not adversely classified and do not expose the Bank to a sufficient risk to warrant adverse classification. Failure to properly monitor such loans or to correct deficiencies could result in greater credit risk in the future.

<u>Risk Grade 6 – Substandard:</u> A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the possibility that the institution may sustain some loss if the deficiencies are not corrected. Loans in this category are characterized by deterioration in the quality exhibited by any number of well-defined weaknesses requiring corrective action.

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. The possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and renewals.

<u>Risk Grade 7 – Doubtful:</u> Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

basis of current existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as a loss because certain events may occur which would salvage the debt.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Risk Grade 8 – Loss: Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets are not warranted.

All classes of loans are considered individually evaluated 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 due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Specific allowances on individually evaluated loans are measured on a loan-by-loan basis for commercial real estate, residential real estate, and construction loans by either the fair value of the collateral less estimated costs to sell, or present value of expected future cash flows discounted at the loan's effective interest rate.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not generally separately identify individually evaluated loans for impairment disclosures, unless such loans are in excess of $250,000.

Charge-off consideration shall be given to loans evaluated in connection with the Bank's loan review policy and procedures and loans identified for repossession or foreclosure. In any event, it shall be the policy of the Bank to charge-off amounts deemed uncollectible in the periods when identified. All charge-off amounts are approved by the Board of Directors.

The Company adopted ASU 2022-02 effective January 1, 2023. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty.

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 (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned – Asset acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any required write down at the time of foreclosure is charged to the allowance for credit losses. Physical possession of residential real estate collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of a foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar loan agreement. Subsequent to foreclosure, management periodically performs valuations, and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in valuation allowance are included in noninterest expenses. The Company did not hold any Other Real Estate Owned as of December 31, 2023 and December 31, 2022.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Bank Premises and Equipment – Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets principally on a straight-line method.

For buildings and improvements, the estimated useful lives are between 10 and 50 years, the estimated lives for furniture and equipment are 5 to 10 years.

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the statement of financial condition date, which is the cash surrender value adjusted for other amounts due that are probable at settlement. Increases in the cash surrender value are recognized as noninterest income.

Goodwill – The Company follows FASB ASC 350-20*, Intangibles-Goodwill and Other* which gives the Company the option to qualitatively determine whether they can bypass the two-step goodwill impairment test. The Company continues to perform the two-step process under ASC 350-20. Provisions within this statement require at least an annual impairment review or more often if certain impairment conditions exist. The Goodwill resulted from a financial center acquisition in 2009, the acquisition of Mount Hope Bankshares in 2019, and a 3 financial center acquisition in 2021.

Income Taxes – Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax positions in the accompanying consolidated statement of financial condition along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with the uncertain tax positions are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2023 and 2022, the Company has not identified and recorded any uncertain tax positions.

Net Income per Share – Basic earnings per common share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Company had no dilutive potential common shares during the calendar years 2023 and 2022. Earnings per common share is computed using the two-class method. The Class A Common shares carry a 5% dividend preference over common shares, and Class B shares carry a 10% dividend preference over Common shares.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumption or in market conditions significantly affect the estimates.

Advertising – The Bank follows the policy of charging the costs of advertising to expenses as incurred. Total advertising expenses incurred for 2023 and 2022 were $612,289 and $522,577, respectively.

Mergers and Acquisitions – Business combinations are accounted for under ASC 805, "Business Combinations", using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

determine the fair values, the Company relies on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Under the acquisition method of accounting, the Company identifies the acquirer and the closing date and applies applicable recognition principles and conditions. Acquisition –related costs are expenses the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants, and advertising costs. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. These acquisition-related costs have been and will be included within the Consolidated Statements of Income classified within the noninterest expense caption.

Comprehensive Income (Loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated statement of financial condition, such items, along with net income, are components of comprehensive income (loss).

Lease Accounting – The Company adopted the new leases standard as of January 1, 2022. As such, the consolidated statement of financial condition includes both a lease liability and a right-of-use asset. The lease liability is the Company's obligation to make lease payments arising from a lease, measured on a discounted basis. The right-of-use asset is an asset that represents the Company's right to use, or control the use of, a specified asset for the lease term.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Additionally, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-06 to have a material impact on its consolidated financial statements.

In August 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-05, "Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement." This ASU applies to the formation of entities that meet the definition of a joint venture (or a corporate joint venture) as defined in the FASB Accounting Standards Codification Master Glossary. While joint ventures are defined in the Master Glossary, there has been no specific guidance in the Codification that applies to the formation accounting by a joint venture in its separate financial statements. The amendments in the ASU require that a joint venture apply a new basis of accounting upon formation. As a result, a newly formed joint venture, upon formation, would initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). This ASU is effective on a prospective basis for all joint ventures with a formation date on or after January 1, 2025. Early adoption of ASU No. 2023-05 is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance). A joint venture that elects to early adopt may apply ASU No. 2023-05 either prospectively or retrospectively. The Company does not expect the adoption of ASU 2023-05 to have a material impact on its consolidated financial statements.

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted in any interim period. The Company does not expect the adoption of ASU 2023-02 to have a material impact on its consolidated financial statements.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-01, "Leases (Topic 842): Common Control Arrangements." The amendments in this ASU provide a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. In addition, the ASU requires all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. Transition can be done either retrospectively or prospectively. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

Subsequent Events:

The Company evaluated subsequent events that have occurred after the statement of financial condition date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date.

Subsequent events have been considered through March 21, 2024; the date financial statements were available to be issued. Based on the evaluation, the Company identified no subsequent events.

NOTE 2 INVESTMENT SECURITIES:

The amortized cost and fair values of securities are as follows (in thousands):

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 16,161	$ ---	$ 910	$ 15,251
Mortgage-backed obligations of federal agencies	19,663	---	1,634	18,029
Corporate securities	12,395	---	2,016	10,380
Government sponsored enterprises	13,692	---	1,734	11,958
SBA guaranteed loan pool certificates	814	1	3	812
Obligations of states and political subdivisions	42,111	---	4,443	37,668
Total	$ 104,836	$ 1	$ 10,740	$ 94,098

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 16,178	$ ---	$ 1,226	$ 14,952
Mortgage-backed obligations of federal agencies	24,699	---	1,883	22,816
Corporate securities	12,645	---	1,727	10,918
Government sponsored enterprises	13,678	---	2,030	11,648
SBA guaranteed loan pool certificates	1,519	7	2	1,524
Obligations of states and political subdivisions	46,386	12	5,793	40,605
Total	$ 115,105	$ 19	$ 12,661	$ 102,463

NOTE 2 INVESTMENT SECURITIES (CONTINUED):

For the years ended December 31, 2023 and 2022, proceeds from sales of securities available for sale totaled $6,257,583 and $3,012,972, respectively. Gross gains on sale of investment securities totaled $24,778 in 2023 and $3,491 in 2022. Gross losses on sale of securities totaled $39,441 in 2023 and $11,027 in 2022. For the years ended December 31, 2023 and 2022, the Company had no redemptions of equity securities. Purchases of restricted investments totaled $1,523,400 for the year ended December 31, 2023.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position as of December 31. The Company has not recorded an allowance for credit losses on its investment securities available for sale. Management does not intend to sell, and it is unlikely management will be required to sell, the securities prior to their anticipated recovery. The unrealized losses on the Company's investment securities were caused primarily by an increase in interest rates, but the Company feels that no material impairment of value is due to the deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company has 143 investments that have unrealized losses as of December 31, 2023 and considers them to be temporarily impaired.

	Less than 12 Months		12 Months or Greater	
December 31, 2023	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:				
U.S. Treasury securities	$ ---	$ ---	$ 15,251	$ 910
Mortgage-backed obligations of federal agencies	---	---	18,029	1,634
Corporate securities	---	---	9,879	2,016
Government sponsored enterprises	---	---	11,958	1,734
SBA guaranteed loan pool certificates	71	1	640	2
Obligations of states and political subdivisions	1,695	11	34,852	4,431
Total	$ 1,766	$ 12	$ 90,609	$ 10,727

	Less than 12 Months		12 Months or Greater	
December 31, 2022	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:				
U.S. Treasury securities	$ 8,604	$ 362	$ 6,348	$ 864
Mortgage-backed obligations of federal agencies	10,804	721	12,012	1,162
Corporate securities	---	---	10,418	1,727
Government sponsored enterprises	917	83	10,731	1,947
SBA guaranteed loan pool certificates	---	---	517	2
Obligations of states and political subdivisions	20,320	1,524	18,103	4,269
Total	$ 40,645	$ 2,690	$ 58,129	$ 9,971

NOTE 2 INVESTMENT SECURITIES (CONTINUED):

A maturity schedule of securities in thousands as of December 31, 2023, by contractual maturity, is shown below. Actual maturities may differ because borrowers may have the right to call or prepay obligations.

Securities Available for Sale:	**Amortized Cost**	**Fair Value**
In one year or less	$ 5,383	$ 5,346
After one year through five years	27,131	24,943
After five years through ten years	46,412	40,472
Over ten years	25,910	23,337
Total available for sale	$ 104,836	$ 94,098

The carrying value of securities pledged by the Company to secure deposits, repurchase agreements and for other purposes amounted to $65,768,272 and $51,533,946 as of December 31, 2023 and 2022, respectively.

NOTE 3 RESTRICTED EQUITY SECURITIES:

Restricted equity securities are considered restricted due to lack of marketability. They consist of stock in the Federal Home Loan Bank (FHLB), stock in Federal Agricultural Mortgage Corporation (Farmer Mac) and stock in ICBA Reinsurance Company, LTD. Investment in the FHLB stock is determined by the level of the Bank's participation with FHLB's various products and is collateral against outstanding borrowings from that institution. The FHLB stock is carried at cost of $2,516,800 and $993,400 as of December 31, 2023 and 2022, respectively. The Farmer Mac stock and the ICBA Reinsurance Company stock is the level of stock required to participate in their programs. The Farmer Mac stock carrying value is $14,000 and the ICBA Reinsurance Company stock is carried at its cost of $2,495 as of December 31, 2023 and 2022. Management evaluates these restricted securities for impairment on an annual basis, and more often when conditions warrant.

NOTE 4 LOANS HELD FOR INVESTMENT:

Loans receivable outstanding as of December 31, 2023 and 2022 are summarized in the table below (in thousands):

	2023	**2022**
Commercial Real Estate:		
Construction and land development	$ 41,803	$ 31,117
Agriculture	25,667	26,183
Other commercial	107,775	101,035
Residential Real Estate:		
Construction	15,145	12,529
Consumer residential	222,787	193,466
Non-Real Estate:		
Commercial and industrial	42,003	47,429
Consumer	114,170	80,364
Nonprofit and tax-exempt	20,506	16,062
Total Loans	589,856	508,185
Less: Allowance for credit losses	4,329	3,645
Loans Held for Investment	$ 585,527	$ 504,540

Demand deposit accounts that are overdrawn have been reclassified as a loan since they represent an amount owed to the Bank. Overdrawn deposit accounts included in the non-real estate consumer loan balance above are $245,325 and $196,573 as of December 31, 2023 and 2022, respectively.

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

Substantially all of our 1-4 family mortgages, as well as our multi-family residential mortgages, are pledged under a blanket lien with the Federal Home Loan Bank for borrowings.

Loans on a nonaccrual basis were $367,035 and $234,546 as of December 31, 2023 and 2022 (0.06% and 0.05% of total loans), respectively. Accruing loans which are contractually past due 90 days or more as to principal or interest totaled $2,184,702 and $224,605 as of December 31, 2023 and 2022 (0.37% and 0.03% of total loans, respectively). Past due status is determined based on the contractual terms of the loan agreement.

The past due status of loans as of December 31, 2023 were as follows (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded investment 90+ Days and Accruing
Commercial Real Estate:							
Construction and land development	$ 59	$ ---	$ 1,093	$ 1,152	$ 40,651	$ 41,803	$ 1,093
Agriculture	8	---	---	8	25,659	25,667	---
Other commercial	160	---	710	870	106,905	107,775	623
Residential Real Estate:							
Construction	---	170	---	170	14,975	15,145	---
Consumer residential	1,415	432	288	2,135	220,652	222,787	288
Non-Real Estate:							
Commercial and industrial	118	96	78	292	41,711	42,003	---
Consumer	1,969	686	202	2,857	111,313	114,170	181
Nonprofit and tax-exempt	---	---	---	---	20,506	20,506	---
Total	$ 3,729	$ 1,384	$ 2,371	$ 7,484	$ 582,372	$ 589,856	$ 2,185

The past due status of loans as of December 31, 2022 were as follows (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded investment 90+ Days and Accruing
Commercial Real Estate:							
Construction and land development	$ 116	$ ---	$ ---	$ 116	$ 31,001	$ 31,117	$ ---
Agriculture	---	---	---	---	26,183	26,183	---
Other commercial	305	---	204	509	100,526	101,035	23
Residential Real Estate:							
Construction	---	---	---	---	12,529	12,529	---
Consumer residential	761	299	135	1,195	192,271	193,466	135
Non-Real Estate:							
Commercial and industrial	122	614	---	736	46,693	47,429	---
Consumer	709	250	110	1,069	79,295	80,364	67
Nonprofit and tax-exempt	75	---	---	75	15,987	16,062	---
Total	$ 2,088	$ 1,163	$ 449	$ 3,700	$ 504,485	$ 508,185	$ 225

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

Loans by credit quality indicators as of December 31, 2023 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 38,275	$ 2,909	$ 619	$ ---	$ 41,803
Agriculture	25,350	317	---	---	25,667
Other commercial	104,318	2,105	1,352	---	107,775
Residential Real Estate:					
Construction	15,026	119	---	---	15,145
Consumer residential	218,918	2,831	1,038	---	222,787
Non-Real Estate:					
Commercial and industrial	41,237	639	127	---	42,003
Consumer	113,004	830	336	---	114,170
Non-Profit and tax-exempt	20,506	---	---	---	20,506
Total	$ 576,634	$ 9,750	$ 3,472	$ ---	$ 589,856

Loans by credit quality indicators as of December 31, 2022 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 30,112	$ 369	$ 636	$ ---	$ 31,117
Agriculture	25,766	417	---	---	26,183
Other commercial	96,752	2,273	2,010	---	101,035
Residential Real Estate:					
Construction	12,098	431	---	---	12,529
Consumer residential	190,523	2,443	500	---	193,466
Non-Real Estate:					
Commercial and industrial	46,338	934	157	---	47,429
Consumer	79,659	611	94	---	80,364
Non-Profit and tax-exempt	16,062	---	---	---	16,062
Total	$ 497,310	$ 7,478	$ 3,397	$ ---	$ 508,185

The following table presents nonaccrual loans as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023		December 31, 2022	
	Total Non-Accrual	With a Specific Allowance	Total Non-Accrual	With a Specific Allowance
Commercial Real Estate:				
Construction and land development	$ ---	$ ---	$ ---	$ ---
Agriculture	---	---	---	---
Other commercial	87	87	182	91
Residential Real Estate:				
Construction	---	---	---	---
Consumer residential	---	---	---	---
Non-Real Estate:				
Commercial and industrial	78	---	---	---
Consumer	202	---	53	---
Non-Profit and tax-exempt Entities	---	---	---	---
Total	$ 367	$ 87	$ 235	$ 91

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

From time to time, we may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers who experience financial difficulty may be in the form of a principal forgiveness, an interest rate reduction or other-than-insignificant payment delay, a term extension, or a combination thereof, among other situations. The Company modified 5 loans to borrowers experiencing financial distress during the year ended December 31, 2023 and 4 loans for the year ended December 31, 2022. There were no commitments to lend additional funds to these borrowers at December 31, 2023. The period-end balance of loan modifications, segregated by type of modification, to borrowers experiencing financial difficulty during 2023 and 2022, regardless of whether such modifications resulted in a new loan, are set forth in the table below (in thousands).

December 31, 2023	Payment Delay	Percent of Total Class of Loans	Payment Delay & Term Extension	Percent of Total Class of Loans	Interest Rate Reduction & Term Extension	Percent of Total Class of Loans
Commercial Real Estate:						
Construction and land development	$ ---	0.00%	$ ---	0.00%	$ ---	0.00%
Agriculture	---	0.00%	---	0.00%	---	0.00%
Other commercial	---	0.00%	---	0.00%	212	0.20%
Residential Real Estate:						
Construction	---	0.00%	---	0.00%	---	0.00%
Consumer residential	648	0.29%	577	0.26%	---	0.00%
Non-Real Estate:						
Commercial and industrial	---	0.00%	---	0.00%	93	0.22%
Consumer	---	0.00%	---	0.00%	---	0.00%
Non-Profit and tax-exempt	---	0.00%	---	0.00%	---	0.00%
Total	$ 648	0.11%	$ 577	0.10%	$ 305	0.05%

December 31, 2022	Payment Delay	Percent of Total Class of Loans	Payment Delay & Term Extension	Percent of Total Class of Loans	Interest Rate Reduction & Term Extension	Percent of Total Class of Loans
Commercial Real Estate:						
Construction and land development	$ ---	0.00%	$ ---	0.00%	$ ---	0.00%
Agriculture	---	0.00%	---	0.00%	---	0.00%
Other commercial	---	0.00%	---	0.00%	1,676	1.66%
Residential Real Estate:						
Construction	---	0.00%	---	0.00%	---	0.00%
Consumer residential	---	0.00%	212	0.11%	---	0.00%
Non-Real Estate:						
Commercial and industrial	---	0.00%	---	0.00%	---	0.00%
Consumer	---	0.00%	---	0.00%	---	0.00%
Non-Profit and tax-exempt	---	0.00%	---	0.00%	---	0.00%
Total	$ ---	0.00%	$ 212	0.04%	$ 1,676	0.33%

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

The following table details the collateral dependent loans that were evaluated for expected credit losses on an individual basis and the related specific allocations by loan portfolio segment as of December 31, 2023 (in thousands):

	December 31, 2023	Specific Allowance
Commercial Real Estate:		
Construction and Land Development	$ 1,607	$ ---
Agriculture	---	---
Other commercial	1,861	81
Residential Real Estate:		
Construction	---	---
Consumer residential	855	---
Non-Real Estate:		
Commercial and industrial	---	---
Consumer	---	---
Non-profit and tax-exempt loans	---	---
Total	$ 4,323	$ 81

Prior to the adoption of ASU *2016-13,* loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans could include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The tables below include all loans that were individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to the principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following table presents loans individually evaluated for impairment by class of loans, as of December 31, 2022 with no related allowance (in thousands):

	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance	Interest Income Recognized
***With no related allowance*:**					
Commercial:					
Construction and land development	$ 519	$ 519	$ ---	$ 522	$ 22
Agriculture	---	---	---	---	---
Other commercial	2,852	2,852	---	3,459	236
Residential:					
Construction	---	---	---	---	---
Consumer residential	519	519	---	630	28
Non-Real Estate:					
Commercial and industrial	---	---	---	---	---
Consumer	---	---	---	---	---
Non-profit and tax-exempt loans	---	---	---	---	---
Total	$ 3,890	$ 3,890	$ ---	$ 4,611	$ 286

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

The recorded investment is defined as the principal balance, less principal payments on nonaccrual loans and charge-offs. The following table presents loans individually evaluated for impairment by class of loans, as of December 31, 2022 with an allowance recorded (in thousands):

	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance	Interest Income Recognized
With an allowance recorded:					
Commercial:					
Construction and land development	$ ---	$ ---	$ ---	$ ---	$ ---
Agriculture	---	---	---	---	---
Other commercial	182	182	91	175	16
Residential:					
Construction	---	---	---	---	---
Consumer residential	---	---	---	---	---
Non-Real Estate:					
Commercial and industrial	---	---	---	---	---
Consumer	---	---	---	---	---
Non-profit and tax-exempt loans	---	---	---	---	---
Total	$ 182	$ 182	$ 91	$ 175	$ 16

Included in certain loan categories in the impaired loans table above are troubled debt restructurings ("TDRs") that were classified as impaired. TDRs as of December 31, 2022 were comprised of 4 loans totaling $1,887,703; three of which are commercial real estate loans and one consumer real estate loan. A restructured loan is considered in default when it becomes 90 days past due. All TDRs were performing in accordance with their restructured terms, are not in default, and are not on nonaccrual status. The amount of the valuation allowance related to total TDRs was $0 as of December 31, 2022. There were no charge-offs of restructured loans during 2022 and no previously restructured loans went into default.

Allowance For Credit Losses - Loans. The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless (i) management has a reasonable expectation that a loan to an individual borrower that is experiencing financial difficulty will be modified or (ii) such extension or renewal options are not unconditionally cancellable by us and, in such cases, the borrower is likely to meet applicable conditions and likely to request extension or renewal. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty, but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Credit loss expense related to loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management

utilizes its best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, geographical similarity and historical/expected credit loss patterns. In developing these loan pools for the purposes of modeling expected credit losses, we also analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

The Company is utilizing the Vintage Model for the calculation. The model estimates lifetime gross credit losses for all outstanding loans aggregated by origination vintage and segment. Vintage is a multi-horizon, age-period-cohort model that considers both probability of default (PD) and probability of attrition (PA) in a competing risks approach necessary to determine the life of the loan. Vintage refers to the time of the loan originations for each loan product. Due to changing underwriting standards over time, loans originated in similar time periods may experience similar loss expectations throughout a product's lifecycle. The lifecycle for each loan product sets the base expectations of loss in the vintage model. The actual performance of each vintage up through the current month is then used to adjust future loss expectations either up or down throughout the remaining portion of the lifecycle. Loss rates are correlated to changes in economic conditions. The relationship between economic indexes and losses are applied to the forecasted time horizon. Lags and windows are applied as changes in economic index rates do not immediately impact loan losses. The Company utilizes a third party to perform the calculation as well as calculating qualitative factors and individually evaluating impaired loans internally. The total of the 3 individual components comprises the contra account shown on the balance sheet.

The Company maintains an allowance for credit losses on off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e. commitment cannot be canceled at any time). The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on funded loans. The allowance for credit losses for off-balance sheet credit exposure of $169,446 at December 31, 2023 is classified on the balance sheet within Accrued Expenses and Other Liabilities.

The following table presents the balance and activity in the allowance for credit losses for off-balance sheet credit exposure for the year ended December 31, 2023:

Balance, December 31, 2022	$ ---
Adjustment to allowance for off-balance sheet credit losses upon adoption of ASU 2016-13	168,816
Provision for off-balance sheet credit losses, net	630
Balance, December 31, 2023	$ 169,446

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

ASU 326 was adopted by the Company on January 1, 2023. The following tables summarize the activity in the allowance for credit losses on loans by loan class for the year ended December 31, 2023 (in thousands).

	Real Estate Secured					Non-Real Estate				
	Commercial			Residential						
	Construction & Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non-Profit & Tax Exempt	Unallocated	Total
Beginning Balance	$ 423	$ 131	$ 851	$ 71	$ 959	$ 269	$ 771	$ 67	$ 103	$ 3,645
Charge-offs	---	---	---	---	---	(53)	(889)	---	---	(942)
Recoveries	---	---	---	---	---	---	205	---	---	205
Provision	(151)	(78)	(82)	(64)	113	(65)	1,845	6	(103)	1,421
Ending Balance	$ 272	$ 53	$ 769	$ 7	$ 1,072	$ 151	$ 1,932	$ 73	$ ---	$ 4,329
Ending Balance individually evaluated	---	---	81	---	---	---	---	---	---	81
Ending balance collectively evaluated	272	53	688	7	1,072	151	1,932	73	---	4,248
Loans:										
Ending Balance individually evaluated	1,607	---	1,861	---	855	---	---	---	---	4,323
Ending balance collectively evaluated	40,196	25,667	105,914	15,145	221,932	42,003	114,170	20,506	---	585,533
Total Loans	$ 41,803	$ 25,667	$ 107,775	$ 15,145	$ 222,787	$ 42,003	$114,170	$ 20,506	$ ---	$ 589,856

NOTE 4 LOANS HELD FOR INVESTMENT (CONTINUED):

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses for the year ended December 31, 2022 (in thousands).

	Real Estate Secured					Non-Real Estate				
	Commercial			Residential						
	Construction & Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non-Profit & Tax Exempt	Unallocated	Total
Beginning Balance	$ 376	$ 157	$ 553	$ 68	$ 977	$ 467	$ 345	$ 86	$ 51	$ 3,080
Charge-offs	---	---	---	---	---	(1)	(428)	---	---	(429)
Recoveries	---	---	---	---	---	---	184	---	---	184
Provision	47	(26)	298	3	(18)	(197)	670	(19)	52	810
Ending Balance	$ 423	$ 131	$ 851	$ 71	$ 959	$ 269	$ 771	$ 67	$ 103	$ 3,645
Ending Balance individually valued for impairment	---	---	91	---	---	---	---	---	---	91
Ending balance collectively evaluated for impairment	423	131	760	71	959	269	771	67	103	3,554
Loans:										
Ending Balance individually evaluated for impairment	519	---	3,034	---	519	---	---	---	---	4,072
Ending balance collectively evaluated for impairment	30,598	26,183	98,001	12,529	192,947	47,429	80,364	16,062	---	504,113
Total Loans	$ 31,117	$ 26,183	$ 101,035	$ 12,529	$ 193,466	$ 47,429	$ 80,364	$ 16,062	$ ---	$ 508,185

NOTE 5 OTHER REAL ESTATE OWNED:

At year end 2023, the Company did not own other real estate owned. During the year ended December 31, 2023, the Company sold other real estate owned that was recorded at no value on the consolidated statement of financial condition. The Company received proceeds and recorded a gain on the sale of $11,618.

Changes in other real estate owned for 2022 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 635	$ ---	$ 635
Additions	---	---	---
Loss on sales and write-downs, net	110	---	110
Sale proceeds	(745)	---	(745)
Balance at the end of the year	$ ---	$ ---	$ ---

NOTE 6 BANK PREMISES AND EQUIPMENT:

Bank premises and equipment as of December 31, 2023 and December 31, 2022 are summarized as follows (in thousands):

	2023	2022
Bank buildings and improvements	$ 12,507	$ 11,594
Furniture and equipment	5,943	5,660
Total Cost	18,450	17,254
Less accumulated depreciation	8,433	7,809
Bank premises and equipment	$ 10,017	$ 9,445

Depreciation expense on these premises and equipment totaled $731,182 and $695,425 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 LEASES:

The Company follows ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASU's that modified Topic 842. The Company elected the optional transition method provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use asset and lease liability are included in other assets and accrued expenses and other liabilities, respectively, in the consolidated statement of financial condition.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease if the rate implicit in the lease is unattainable. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

	December 31, 2023	December 31, 2022
Lease Liabilities	$ 1,301,946	$ 1,368,745
Right-of-use Assets	1,316,647	1,383,470
Weighted average remaining lease term	7.28 years	7.28 years
Weighted average discount rate	2.31%	2.09%

NOTE 7 LEASES (CONTINUED):

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Lease Payments Due	As of December 31, 2023
Twelve months ending December 31, 2024	$ 201,000
Twelve months ending December 31, 2025	202,100
Twelve months ending December 31, 2026	184,500
Twelve months ending December 31, 2027	184,500
Twelve months ending December 31, 2028	154,625
Thereafter	513,750
Total undiscounted cash flows	$ 1,440,475
Discount	(138,529)
Lease Liabilities	$ 1,301,946

The aggregate rental and lease expense was $196,167 and $180,815 for the years ending December 31, 2023 and 2022, respectively.

NOTE 8 GOODWILL AND OTHER INTANGIBLES:

The Company follows FASB ASC 350-20 *Goodwill and Other Intangible Assets,* which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within ASC 350-20 require the Company to discontinue any amortization of goodwill and intangible assets with indefinite lives and require at least annual impairment review or more often if certain impairment conditions exist. With the purchase in 2009 of two Citizens National Bank branches there was $1,086,732 of goodwill recorded. The acquisition of Bank of Mount Hope in 2019 resulted in an additional $3,393,091 of goodwill. The acquisition of three branches from Carter Bank & Trust resulted in additional goodwill in the amount of $637,178. Goodwill was evaluated for impairment as of December 31, 2023, and it was determined that no impairment existed.

Core deposit intangibles of $293,000 were recorded as a result of the purchase of branches from Citizens National Bank and are fully amortized. Core deposit intangibles of $1,180,000 resulting from the Bank of Mount Hope acquisition in October of 2019 are being amortized over 10 years. Additional core deposit intangibles were recorded in the amount of $440,000 with the acquisition of the three Carter Bank & Trust branches and are being amortized over 10 years.

The changes in the carrying amount of goodwill and intangibles for the twelve months ended December 31, 2023, are as follows (dollars in thousands):

	Goodwill	Intangibles
Balance December 31, 2022	$ 5,117	$ 1,166
Additions	---	---
Amortization	---	(162)
Impairment	---	---
Balance, December 31, 2023	$ 5,117	$ 1,004

NOTE 8 GOODWILL AND OTHER INTANGIBLES (CONTINUED):

Goodwill and intangible assets as of December 31, 2023 and December 31, 2022 are as follows (in thousands):

December 31, 2023	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit intangibles	$ 1,913	$ (909)	$ 1,004
Goodwill	5,117	---	5,117
December 31, 2022			
Core deposit intangibles	$ 1,913	$ (747)	$ 1,166
Goodwill	5,117	---	5,117

Amortization expense of core deposit intangibles for the years ended December 31, 2023 and 2022 was $162,000 for both years. As of December 31, 2023, the estimated future amortization expense of core deposit intangibles is as follows (in thousands):

Year	Amount
2024	$ 162
2025	162
2026	162
2027	162
2028	162
Thereafter	194
Total	$ 1,004

NOTE 9 BANK OWNED LIFE INSURANCE:

The Bank purchased split-dollar life insurance on select employees. The cash surrender value of these life insurance policies was $12,404,615 and $12,122,528 at December 31, 2023 and 2022, respectively, and has been recorded as an asset on the consolidated statement of financial condition. The Bank is the owner of all policies. The employee can name a beneficiary; however, upon realization of the death benefit, the Bank recoups its investment (cash surrender value), with a set amount of the death benefit paid to the employee's beneficiary. Earnings recorded on the investment during the years ended December 31, 2023 and 2022 were $282,087 and $264,024, respectively.

NOTE 10 TIME DEPOSITS:

As of December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

Year	Amount
2024	$ 142,284
2025	10,587
2026	4,211
2027	2,502
2028	2,596
Thereafter	488
Total	$ 162,668

NOTE 11 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

Securities sold under agreements to repurchase generally mature within one day from the transaction date, unless classified as a term repurchase agreement. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company has a total of $270,535 and $1,729,226 as of December 31, 2023 and 2022, respectively, in fair value of securities pledged to secure these agreements. The weighted average interest rate on these agreements was 1.88% during 2023 and 0.12% during 2022. The highest month end balance during 2023 was $314,458. For 2022, the highest month end balance was $1,963,726.

NOTE 12 LINES OF CREDIT:

The Bank has lines of credit with correspondent banks totaling $29,000,000. As of December 31, 2023, and 2022, the Bank had no outstanding balances on these lines. These lines of credit are unsecured. The lenders may withdraw these lines at their discretion and without notice.

NOTE 13 BORROWINGS:

The Company has borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB). As of December 31, 2023 and 2022, respectively, $38,483,627 and $19,370,039 of the FHLB advances were considered long-term notes payable. The interest rates on all of the term notes payable as of December 31, 2023 and December 31, 2022 were fixed at the time of the advance and ranged from 3.94 % to 5.61%. At December 31, 2023, $14,034,500 of the FHLB advances were considered a short-term note. At December 31, 2023, the rate of the short-term note was 5.68% and has the option to reprice daily. The FHLB notes are secured by FHLB Stock, as well as investment securities and mortgage loans. The weighted average interest rate is 4.76% as of December 31, 2023. The Company has additional available borrowing capacity from the FHLB of $174,040,737.

The Company borrowed $6,000,000 during 2019 to facilitate the acquisition of the Bank of Mount Hope. This subordinated debt is payable to two different banks, interest rate is fixed at 5.75% and will be paid back with quarterly payments of interest. During 2022, the Company extended the maturity of the $6,000,000 principal balance from September 2026 to September 2029. The principal of $6,000,000 is due September 2029. The Company borrowed an additional $3,500,000 during 2021 to facilitate the acquisition of the three branches of Carter Bank & Trust. The 10-year note with quarterly interest payments is at the rate of 5.00% until May 19, 2026, and thereafter is the 90-day term Secured Overnight Financing rate plus 4.9875% until paid in full. The principal of $3,500,000 is due on or before May 19, 2031. During 2023, the company raised $400,000 of subordinated debt through a private offering. The 5-year notes have an interest rate of 8.0%. This debt is subordinated to all "Senior Indebtedness" which means obligations to its general creditors or other indebtedness of the Company for money borrowed arising from off-balance sheet guarantees and obligations associated with derivative products such as interest rate contracts.

Some repayments of debt are due monthly, and some are due at maturity. Interest expense of $2,843,044 and $624,675 was incurred on these debts in 2023 and 2022, respectively. The maturities of debt as of December 31, 2023 are as follows:

Year	FHLB	Subordinated Debt	Total
2024	$ 14,947,451	$ ---	$ 14,947,451
2025	3,381,790	---	3,381,790
2026	13,333,960	---	13,333,960
2027	14,093,757	---	14,093,757
2028	6,467,113	400,000	6,867,113
Thereafter	294,056	9,500,000	9,794,056
Total	$ 52,518,127	$ 9,900,000	$ 62,418,127

NOTE 14 DIVIDEND LIMITATIONS:

The principal source of funds for Allegheny Bancshares, Inc., is dividends paid by its subsidiary bank. The Code of West Virginia imposes certain restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits of the current year and the combined retained profits of the previous two years. As of January 1, 2024, the Bank could pay dividends of up to $10,522,963 without permission of the authorities. Dividends paid by the Bank to the Company totaled $2,081,082 in 2023 and $2,515,096 in 2022.

NOTE 15 INCOME TAXES:

The current and deferred components of income tax expense as of December 21, 2023 and December 31, 2022 are as follows (in thousands):

	2023	2022
Current component of income tax expense	$ 1,097	$ 1,657
Deferred income tax (benefit) expense	(250)	(126)
Income tax expense	$ 847	$ 1,531

A reconciliation between the provision for income taxes and the amount computed by multiplying income by the statutory federal income tax rate is as follows (in thousands):

	2023	2022
Income taxes computed at the applicable		
Federal income tax rate	$ 1,224	$ 1,590
Increase (decrease) resulting from:		
Tax exempt interest income	(304)	(287)
Non-deductible interest expense	23	4
State tax expense, net of federal taxes	13	282
Other	(109)	(58)
Income tax expense	$ 847	$ 1,531

The net deferred tax asset arising from temporary differences as of December 31 is summarized as follows (in thousands):

	2023	2022
Deferred Tax Asset:		
Provision for credit losses	$ 1,081	$ 761
Accrued expenses on long term benefits	791	699
Net unamortized CD premium	5	13
Interest on nonaccrual loans	121	132
Deferred loan fees	1	37
ACL on Unfunded Commitments	42	---
Solar project	3	---
Unrealized loss on securities available for sale	2,255	2,656
Other	13	18
Total Assets	$ 4,312	$ 4,316
Deferred Tax Liabilities:		
Depreciation	796	634
Right-of-use Asset	4	4
Intangible amortization	454	458
Other	37	48
Total Liabilities	1,291	1,144
Net Deferred Tax Asset	$ 3,021	$ 3,172

NOTE 16 EMPLOYEE BENEFITS:

Defined Contribution Plan: The Bank has a defined contribution plan with 401(k) provisions that is funded with discretionary contributions by the Bank that covers substantially all full-time employees at the Bank. There is a one year waiting period prior to admission to the plan. Contributions to the plan are based on a percentage of each employee's salary plus matching contributions. Investment of employee balances is done through the direction of each employee. Plan contributions by the employer will be vested based upon years of service shown in the vesting schedule. Contributions by the Company into employees' accounts in the plan were $561,213 and $503,427 for the years ending December 31, 2023 and 2022, respectively.

Supplemental Retirement Agreement: The Bank entered into supplemental employee retirement plan agreements with select executive officers. The plan is a non-qualified defined benefit plan where participants are 100% vested at either age 70 (CEO) or age 65 (all other participants). The agreements specify fixed payments for 15 years after retirement or certain other events that meet separation of service criteria. At December 31, 2023 and 2022, a liability has been established for the present value of future payments of $1,505,956 and $1,329,621, respectively, using discount rates of 6.25% (CEO) and 4.00% (all other participants). The Company has incurred an employee benefit expense of $176,335 and $168,864 during 2023 and 2022, respectively for this plan. The plan is unfunded; however, life insurance has been acquired on the life of the participants in amounts sufficient to discharge the obligations of this agreement.

Director Deferred Fee Plan: The Bank adopted a Deferred Fee Plan (DFP) for its directors beginning February 13, 2013. This plan allows the directors to defer any or all of their director fees into this DFP where it will earn interest at a rate as set forth in the plan document. Currently this rate is 6%. In addition to the amounts contributed by the directors, the Bank can also contribute each year on behalf of the directors. The total expense for the Bank including discretionary contributions and accrued interest on the deferred account balances totaled $126,556 and $85,917 for 2023 and 2022, respectively. Liability recorded under this plan totaled $1,431,384 and $1,185,828 at December 31, 2023 and 2022, respectively and is included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

Survivor Income Plan: The Bank adopted a Survivor Income Agreement with certain key management employees. The Bank will provide death benefits to the employee's beneficiary in amounts ranging from $150,000 to $550,000 for pre-separation of duty death benefit and an amount half of that for post separation of duty death benefit. There is a vesting schedule based upon employees reaching normal retirement age (age 62 or 65, depending upon when the employee entered the plan) combined with ten 10 years of service. Expense to the Bank totaled $15,886 and $1,779 for 2023 and 2022, respectively. Liability recorded under this plan totaled $224,426 and $208,540 at December 31, 2023 and 2022, respectively and is included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

NOTE 17 RELATED PARTY TRANSACTIONS:

During the year, officers, directors, principal stockholders, and their affiliates (related parties) were customers of and had transactions with the Company in the ordinary course of business. In management's opinion, these transactions were made on substantially the same terms as those prevailing for other customers for comparable transactions and did not involve more than normal risks.

Deposits of related parties including directors, executive officers, and their related interests of the Company totaled $6,312,374 and $5,148,825 as of December 31, 2023 and 2022, respectively.

Changes to balances of loans and unused commitments to related parties during the years ended December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Beginning of Year	$ 7,476	$ 8,729
Additional borrowings	3,197	1,027
Repayments	(550)	(2,280)
End of Year	$ 10,123	$ 7,476

NOTE 18 FAIR VALUE:

FASB ASC 820-10, *Fair Value Measurements,* provides a definition of fair value for accounting purposes, establishes a framework for measuring fair value and expands related financial disclosures. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This statement establishes a hierarchy that prioritizes the use of fair value inputs used in valuation methodologies into the following three levels.

Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 – Valuation is based upon significant inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

As of December 31, 2023, and 2022, the Company had no liabilities subject to fair value. The following is a description of valuation methodologies used for assets recorded at fair values.

Investment securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, when available. If quoted prices are not available, fair values are measured using independent pricing models. Level 1 securities include those traded by dealers or brokers in an active market.

The Company has no Level 1 securities as of December 31, 2023 or 2022. For the Company, our Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities issued by government sponsored entities, municipal bonds, and corporate debt securities. Securities classified as Level 3 include other equities that do not have an active market.

Collateral dependent loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered collateral dependent, and a specific allowance for credit loss is established. Loans for which it is probable that payment of interest and principal will not be made when due in accordance with the contractual terms of the loan agreement are considered impaired. If a loan is considered collateral dependent, an allowance for credit loss is established, by utilizing market price (if available), or at the fair value of the loans' collateral less selling costs. The fair value is determined by the measurement of the fair value of the underlying collateral less estimated costs to sell.

Typically, the collateral value is determined by applying a discount to an appraisal that was performed at or about the date of the loan. Due to the age of appraisals, the age of the related comparative property sales used for appraisals and the changing market conditions of real estate, the Company considers its collateral dependent loans to be Level 3 assets which are measured on a nonrecurring basis.

NOTE 18 FAIR VALUE (CONTINUED):

The following table presents the recorded amount of assets measured at fair value at December 31 (in thousands):

	Level 1	Level 2	Level 3	Balance 2023
Assets recorded at fair value on a recurring basis:				
U.S. Treasury securities	$ ---	$ 15,251	$ ---	$ 15,251
Mortgage-backed obligations of federal agencies	---	18,029	---	18,029
Corporate securities	---	10,380	---	10,380
Government sponsored enterprises	---	11,958	---	11,958
SBA guaranteed loan pool certificates	---	812	---	812
Obligations of states and political subdivisions	---	37,668	---	37,668
Total	$ ---	$ 94,098	$ ---	$ 94,098
Assets recorded at fair value on a nonrecurring basis:				
Collateral dependent loans	$ ---	$ ---	$ 6	$ 6
Other real estate owned	---	---	---	---
Total	$ ---	$ ---	$ 6	$ 6

	Level 1	Level 2	Level 3	Balance 2022
Assets recorded at fair value on a recurring basis:				
U.S. Treasury Securities	$ ---	$ 14,952	$ ---	$ 14,952
Mortgage-backed obligations of federal agencies	---	22,816	---	22,816
Corporate securities	---	10,918	---	10,918
Government sponsored enterprises	---	11,648	---	11,648
SBA guaranteed loan pool certificates	---	1,524	---	1,524
Obligations of states and political subdivisions	---	40,605	---	40,605
Total	$ ---	$ 102,463	$ ---	$ 102,463
Assets recorded at fair value on a nonrecurring basis:				
Collateral dependent loans	$ ---	$ ---	$ 615	$ 615
Other real estate owned	---	---	---	---
Total	$ ---	$ ---	$ 615	$ 615

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2023
(in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Collateral dependent loans	$ 6	Discounted appraised value	Selling Cost	5%-10%
			Discount for lack of marketability and age of appraisal	10%-40%

NOTE 18 FAIR VALUE (CONTINUED):

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2022 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Collateral dependent loans	$ 615	Discounted appraised value	Selling Cost	5%-10%

NOTE 19 REGULATORY MATTERS:

In August 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement ("the Statement"), in compliance with The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA"). The Statement, among other things, exempts bank holding companies that fall below a certain asset threshold from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. The interim final rule expands the exemption to bank holding companies with consolidated total assets of less than $3 billion. As a result, the Company qualifies as a small bank holding company and is not subject to regulatory capital requirements on a consolidated basis.

The Bank continues to be subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective on January 1, 2015 (subject to a phase-in period continuing through January 1, 2019 for certain provisions). Basel III Capital Rules established quantitative measures to ensure capital adequacy. The rules set forth minimum amounts and ratios for Common Equity Tier 1 capital ("CET1"), Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined). Management believes as of December 31, 2023, the Bank meets all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from prior requirement). The Basel III Final Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7.0%. The Basel III Final Rules also establish risk weightings that apply to many classes of assets held by community banks applying higher risk weighting to certain commercial real estate loans.

NOTE 19 REGULATORY MATTERS (CONTINUED):

The actual and required capital amounts and ratios of the Bank as of December 31, 2023 and 2022 are shown in the table below (in thousands):

	Actual		Minimum for Capital Adequacy Purposes Including Capital Conservation Buffer		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2023						
Total Capital Risk Weighted Assets	$ 59,966	10.67%	$ 59,027	10.50%	$ 56,216	10.00%
Tier I Capital Risk Weighted Assets	55,468	9.87%	47,769	8.50%	44,959	8.00%
Tier I Common Equity	55,468	9.87%	39,339	7.00%	36,529	6.50%
Tier I Capital Average Assets	55,468	7.42%	29,902	4.00%	37,377	5.00%

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022						
Total Capital Risk Weighted Assets	$ 54,904	10.62%	$ 54,284	10.50%	$ 51,699	10.00%
Tier I Capital Risk Weighted Assets	51,259	9.92%	43,922	8.50%	41,338	8.00%
Tier I Common Equity	51,259	9.92%	36,171	7.00%	33,587	6.50%
Tier I Capital Average Assets	51,259	7.87%	26,053	4.00%	32,566	5.00%

NOTE 20 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:

The Company makes commitments to extend credit in the normal course of business and issues standby letters of credit to meet the financing needs of their customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the consolidated statement of financial condition. The Company also utilizes Federal Home Loan Bank's (FHLB) Letter of Credit program to collateralize public funds. As of December 31, 2023 and 2022, the Company had FHLB letters of credit totaling $4,000,000 and $0, respectively.

The Company uses the same credit policies in making commitments and issuing letters of credit as used for the loans reflected on the consolidated statement of financial condition. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

NOTE 20 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED):

The following commitments were outstanding as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Home equity lines of credit	$ 30,113	$ 24,490
Commitments to fund commercial real estate and construction	21,302	25,473
Other unused commitments	51,503	64,021
Performance standby letters of credit	1,786	2,179
Total	$ 104,704	$ 116,163

NOTE 21 CONCENTRATIONS:

The Bank operates as a community bank in the areas that it serves. As such, the loan portfolio consists of commercial, residential real estate and consumer loans to individuals and businesses located primarily in the areas surrounding our financial centers. The collateral for our loans is secured primarily by real estate and personal property located in our area.

NOTE 23 TAX CREDIT PROJECTS:

As of December 31, 2023, the Bank had investments in three low-income housing and historic equity partnerships with a carrying basis totaling $3,303,641. The interests have limited transferability. The market values of these investments are estimated to approximate their carrying values. At December 31, 2023, the Company was committed to invest an additional $2,027,227 in these projects. These funds will be paid as requested by the general partner to complete the projects. This additional investment has been reflected in the above carrying basis and in accrued expenses and other liabilities on the consolidated statement of financial condition.

NOTE 24 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

ALLEGHENY BANCSHARES, INC.
STATEMENT OF FINANCIAL CONDITION

	December 31,	
	2023	2022
ASSETS		
Cash	$ 58,316	$ 479,324
Investment in subsidiary	53,104,521	47,552,200
Other assets	26,401	---
Total Assets	$ 53,189,238	$ 48,031,524
LIABILITIES		
Other liabilities	$ 99,888	$ 106,449
Subordinated debt	9,900,000	9,500,000
Total Liabilities	$ 9,999,888	$ 9,606,449
STOCKHOLDERS' EQUITY	43,189,350	38,425,075
Total Liabilities and Stockholders' Equity	$ 53,189,238	$ 48,031,524

NOTE 24 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ALLEGHENY BANCSHARES, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
INCOME		
Dividends from subsidiary	$ 2,081,082	$ 2,515,096
Total Income	2,081,082	2,515,096
EXPENSES		
Professional fees	69,518	42,596
Annual shareholder meeting	16,064	15,226
Interest expense	520,000	520,000
Other expenses	628	7,612
Total Expenses	606,210	585,434
INCOME BEFORE INCOME TAX BENEFIT AND UNDISTRIBUTED INCOME OF SUBSIDIARY	1,474,872	1,929,662
Income tax benefit	143,165	139,581
UNDISTRIBUTED INCOME OF SUBSIDIARY	3,773,974	3,972,457
NET INCOME	$ 5,392,011	$ 6,041,700
COMPREHENSIVE INCOME (LOSS)	$ 6,897,007	$ (4,994,602)

NOTE 24 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ALLEGHENY BANCSHARES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES		
Net income	$ 5,392,011	$ 6,041,700
Adjustments:		
Undistributed subsidiary income	(3,773,974)	(3,972,457)
(Decrease) increase in other liabilities	(6,561)	56,973
(Increase) decrease in other assets	(26,402)	227,549
Net Cash Provided by Operating Activities	1,585,074	2,353,765
INVESTING ACTIVITIES		
Capital invested in subsidiary bank	(400,000)	---
Net (Used in) Investing Activities	(400,000)	---
FINANCING ACTIVITIES		
Proceeds of issuance of subordinated debt	400,000	---
Cash dividends paid	(2,006,082)	(1,965,097)
Net Cash (Used in) Financing Activities	(1,606,082)	(1,965,097)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(421,008)	388,668
Cash and equivalents, January 1	479,324	90,656
Cash and equivalents, December 31	$ 58,316	$ 479,324

ALLEGHENY BANCSHARES, INC.
ANNUAL DISCLOSURE STATEMENT

December 31, 2023

This ANNUAL DISCLOSURE STATEMENT is being provided by the management of the bank. The information is the representation of management and is correct in all material respects to the best of management's knowledge.

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Sincerely,

William A. "Bill" Loving, Jr., CLBB
President / CEO

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Fax: 304-358-7997

PCB
Pendleton Community Bank

ABI
Allegheny Bancshares Inc

Allegheny Bancshares, Inc. is headquartered in Franklin, West Virginia. Pendleton Community Bank, Inc. is an independent community bank serving the West Virginia communities of Franklin, Moorefield, Marlinton, Petersburg, Wardensville, Mount Hope, Oak Hill, and Beckley with eight full–service financial centers. The institution operates five financial centers in the Virginia communities of Harrisonburg, Bridgewater, and Staunton, as well as a loan production office in Harrisonburg and Staunton.

Since 1925, PCB provides products and services that facilitate customer financial success, encourages professional success for team members, and stimulates economic growth in the communities it serves. PCB is your bank for generations.

www.yourbank.bank