2022

Annual Report

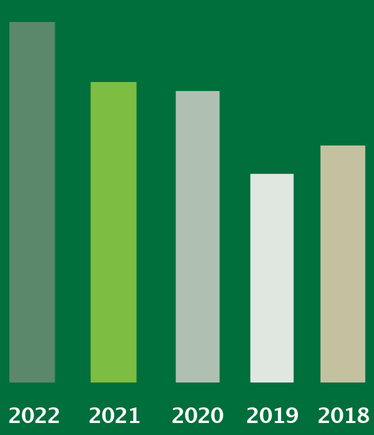
Allegheny Bancshares Inc

Report Contents

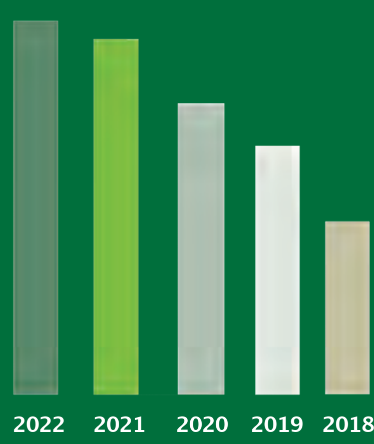
Financial Highlights

	2022	2021	2020	2019	2018
	Years ended December 31, (Dollars in thousands except per share data)				
RESULTS OF OPERATIONS					
Interest income	$ 24,471	$ 19,974	$ 19,972	$ 16,452	$ 13,896
Interest expense	(2,037)	(1,837)	(2,554)	(2,540)	(1,672)
Net Interest Income	22,434	18,137	17,418	13,912	12,224
Provision for loan losses	(810)	(625)	(860)	(540)	(370)
Noninterest income	4,001	3,932	3,440	2,961	2,441
Noninterest expenses	(18,052)	(15,750)	(14,366)	(12,079)	(9,608)
Income taxes	(1,531)	(989)	(1,060)	(841)	(862)
Net Income	$ 6,042	$ 4,705	$ 4,572	$ 3,413	$ 3,825
PROFITABILITY RATIOS					
Return on Average Assets	0.94%	0.80%	0.94%	1.08%	1.27%
Return on Average Equity	14.75%	10.31%	10.63%	8.55%	10.10%
PER COMMON SHARE					
Net Income	$7.32	$5.70	$5.49	$4.07	$4.54
Cash Dividends Declared	2.38	2.28	2.20	2.12	2.00
Book Value	46.88	55.37	53.35	48.10	45.51
Last Reported Market Price	75.00	72.00	72.00	70.00	70.00
AT YEAR END					
Assets	$658,251	$627,833	$515,138	$442,126	$307,530
Deposits	580,745	565,461	457,657	389,730	263,655
Loans, Net	504,540	369,308	370,548	325,233	241,353
Long-term Debt	28,870	11,050	7,734	7,944	2,144
Stockholders' Equity	38,425	45,385	43,732	39,984	38,008
Equity to Assets Ratio	5.84%	7.23%	8.49%	9.04%	12.36%
Total Capital Risk Weighted Assets Ratio	10.62%	13.33%	13.51%	13.50%	16.73%
Tier 1 Common Equity Ratio	9.92%	12.51%	12.56%	12.55%	15.60%

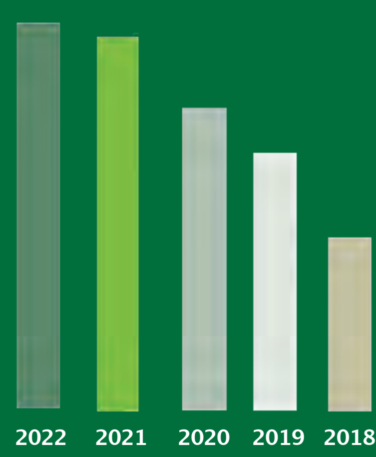
Net Income



Year End Assets



Year End Deposits



Letter to our **Shareholders**

Dear Shareholder,

It has been my honor to serve as your President and CEO over this past year and to have the privilege to pen the "Shareholder Letter" for this year's Annual Report. 2022 was a year of hard work from our dedicated team with many accomplishments and accolades to celebrate. However, times of sorrow were experienced as well.

Allegheny Bancshares, Inc., the PCB family, and the community lost a great leader in early 2022. While I mentioned the passing of former Chair and Board Member Carole Hartman during our Annual Meeting last year, the timing of her death prohibited the proper recognition of her years of service and dedication to the company in the Annual Report. While no words will be able to describe the level of commitment and service Carole provided, it is my desire, and that of the Board of Directors, that the tribute will adequately reflect our appreciation in the space allowed. Truly, Carole will be missed. However, knowing Carole as I did, I'm confident she would prefer the focus turn away from her and to the company and its success.

I have reflected from time to time on the strategy we set forth to grow the company back in 2019. While the implementation of the plan was delayed during the pandemic, we were able to move forward and work towards the anticipated results. The team put all the pieces together in 2022 and produced another year of record earnings and a substantial increase over our 2021 performance. Net income was $6.04 million, a $1.34 million (28.4%) increase over 2021. This equates to a per share increase of $1.63 and was a result of changing the mix of our balance sheet. While we saw deposit growth of $15.28 million in 2022, we had great success in growing our loan portfolio across our footprint. Total loan growth, net of PPP loans, was $146.18 million. This represents the success of our newly created Dealer Finance Division ($56.07 million), building new and expanding existing commercial relationships ($66.16 million), and an increase in our residential real estate portfolio ($21.47 million). As you look at the Financial Highlights page, you will see additional metrics and results all comparing very favorably to 2021 and the past. If you have any questions after reviewing, please do not hesitate to contact me.

This banner year and our record-breaking results would not have been possible without the hard work of our team and their dedication to living out PCB's Community Banking Model and Mission. This effort was also acknowledged by our customers and our communities. During 2022, we were honored by being named "Best" – Bank, Ag Lender, Mortgage Company, and Company to Work For – in various local and statewide contests. This recognition will be highlighted in further detail throughout this report. I cannot adequately express the honor these accolades mean, but being recognized as the "Best Company to Work For" was both humbling and rewarding. Collectively these awards reflected our success of touching our entire PCB Family – Customers, Team Members, and Communities.

“The team put all the pieces together in 2022 and produced another year of record earnings and a substantial increase over our 2021 performance.”

As I look to 2023 and beyond, I’m confident that the success of 2022 and how we are positioned today will provide for success in the years to come as we continue growing our organization. Recently, the Board appointed Ryan Boggs to fill Carole’s unexpired term. I am confident that Ryan will provide great insight and direction for our Company.

As always, I cannot finalize this writing without thanking everyone – Board of Directors, Team Members, Customers, Communities, and you, the Shareholder – for your continued support. Much has happened and changed this past year, including the financial markets. We would not have been able to accomplish these great results without your help, and we certainly will not be able to continue this road of success without your future support. May I thank you for selecting PCB as “Your Bank” and in advance for your continued support. If I, or any of our team members can be of assistance, please do not hesitate to let us know.

Best Regards,

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

PCB Your Bank for Generations ABI Allegheny Bancshares Inc

Community Recognition
A Banner Year

*"PCB has been the recipient of various awards throughout 2022, and it would not have been possible without our family of bankers and customers," said **William A. Loving, Jr., President and CEO**. "I am extremely proud of our team members who deliver superior customer service while showing a commitment to community service."*

Throughout 2022, PCB received both local and statewide recognition in reader's choice competitions. In Virginia's Shenandoah Valley, PCB was voted "Best Bank", "Best Ag Lender", and "Best Home Mortgage" in Harrisonburg Radio Group's annual Shenandoah Valley Best competition as well as "Best Company to Work For", "Best Bank", and "Best Mortgage Company" in the Daily News Record's annual Best of the Valley awards.

In West Virginia, PCB was voted "Best Bank" in Fayette County in the Fayette Tribune's annual Reader's Choice Awards. Most recently, the bank was named the "Best Bank in West Virginia" in the annual West Virginia Living Magazine's Best of West Virginia contest.

Additionally, PCB was proud to be named the "Cornerstone Award Winner" at the Pendleton County Chamber of Commerce annual dinner. This award is presented to a business who serves as a pillar of the community.

Shenandoah Valley Best
Harrisonburg Radio Group
- Best Ag Lender
- Best Bank
- Best Home Mortgage

Best of the Valley
Daily News Record
- Best Bank
- Best Company to Work For
- Best Mortgage Company

People's Choice Award
Fayette Tribune
- Best Bank

Best of West Virginia
West Virginia Living Magazine
- Best Bank

PCB Locations in Virginia and West Virginia

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

Lewisburg Loan Production Office
787 South Court Street
(304) 661-1293

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

Community Involvement

Community is part of our mission, vision, and corporate values – it is a major piece of who we are as an organization. PCB encourages team members to seek involvement through volunteering and event attendance. 2022 provided a full year of normal community involvement following the pandemic, and our team members were excited to be fully engaged once again.

Whether it's reading to school children, sponsoring high school sports programs, financing playground equipment, or participating in nonprofit fundraising efforts, PCB is proud to partner with our neighbors to help improve the quality of life for all. By investing in our community, PCB is ensuring a better future for generations to come. Throughout 2022, PCB contributed over $180,000 back through contributions and sponsorships, and across the company, team members participated in approximately 160 community events.

Our team was also excited to welcome back customers for our annual appreciation days in June and December. These events are heavily anticipated and attended, and we enjoy the opportunity to thank our customers for their continued support of our mission.

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

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

Chad Branson
Chair / Associate Broker, Old Dominion Realty

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

Roger Champ
Secretary / Retired Contractor

William Beard, Jr.
Farmer

Ryan Boggs
Partner, Beachy Arehart, PLLC

William Bosley, OD
Doctor of Optometry

Mike Lively
Retired Commercial Insurance Agent

Dennis Wenger
President, Skyline Roofing

Advisory Board
Harrisonburg–Rockingham

Bernard Hamann
Owner, Chief Marketing Officer, Rocktown Realty

Dr. Catherine Slusher
OB/GYN Provider, Harrisonburg OBGYN Association P.C.

Chris Rooker
Co-Owner & Associate Broker, Harrisonburg Homes Team

Frank Oncken
CFO & Director of Administration, Partners Excavating Company

Hahns Kanode
Agronomy Consultant-Houff Corporation, Business Owner

Lewis Horst
President & CEO
Shen-Valley Custom

Troy Suter
President & CEO, LD&B Insurance and Financial Services

Advisory Board
Augusta County

Allen Dahl
Business Partner, Triangle Real Estate Group

Andrea Oakes
Former Mayor, City of Staunton

Andrew Wiley
Owner, Consumers Auto Warehouse

Butch Smiley
CEO, Frontier Culture Museum

Clay Wisely
CPA; Owner, Blue Ridge Mountain Mortgage

Charlie Bishop
Real Estate Agent, Premier Properties

Dean Caldwell
Agent & Marketing Representative, Valley Trust Insurance

Scott Simons
Managing Partner & President,Valley CMA Dealerships

Team Members Years of Service

William A. Loving, Jr., CLBB, President/CEO (22 yrs)
Neil Hayslett, CPA, EVP Chief Banking Officer (2 yrs)
Tammy Kesner, EVP Chief Financial Officer (2 yrs)
Sheldon Arbaugh, SVP West Virginia Area Executive (27 yrs)
JT Bishop, SVP Commercial Relationship Manager (2 yrs)
Josh Byers, SVP Chief Credit Officer (18 yrs)
Aaron Green, SVP Senior Lending Officer (2 yrs)
Jonah Pence, SVP Virginia Area Executive (4 yrs)
Kendall Beverage, VP Business Development Officer (8 yrs)
Tim Cash, VP Business Development Officer (4 yrs)
Tammy Clutter, VP Information Security Officer (21 yrs)
Gary Davenport, VP Business Development Officer (1 yr)
Jordan Dean, VP Agribusiness & Commercial Banking Officer (1 yr)
Monika Eckard, CPA, VP Human Resources/Affirmative Action Officer (11 yrs)
Kathy Parker, VP Executive Assistant/Investor Relations/Ethics Officer (20 yrs)
Sarah Prusak, VP Business Banking Officer (2 yrs)
Cindy Rader, VP Mortgage (7 yrs)
Erin Sites, CPA, VP Assistant Chief Financial Officer (20 yrs)
Amanda Smith, VP Retail Administrator (19 yrs)
Rhonda Tredway, VP Business Development Officer (23 yrs)
Joseph Vetter, VP Business Development Officer (11 yrs)
Bradley Wartella, VP Business Development Officer (24 yrs)
Mark Williams, VP Director of Compliance (16 yrs)

"This banner year and our record-breaking results would not have been possible without the hard work of our team and their dedication to living out PCB's Community Banking Model and Mission."

- William A. Loving, Jr., CLBB | President & CEO

35 Years

Tony Calhoun

25-30 Years

Joy Hersey
Tammy Smith
Diana Williams

20-25 Years

Donna Idleman
Lori Nelson-Roberson
Deborah Propst
Leigh Richardson
Margaret Shriver
Misty Taylor
Trina Whitt

15-20 Years

Holly Beachler
Melinda Bennett
Marc Craun
Tammy Davis
Lutricia Flynn
Teresa Heavner
Darla Jones
Selina King
Nancy Mallow
Brittany Mitters
Evelyn Simmons

10-15 Years

Jessica Basagic
Michelle Bickford
Yvette Britt-Boggess
Sarah Burns
Linda Comer
Dayne Davis
Angel Dove
Samantha Farley
Kimberly Fox
Lukas Kesner
Susan Mullins
Susan Payne
Julie Pence
Duwan Romage
Catherine Sinnett
Judy Snyder
Sharon Stickley
Linda Walker
Nicholas Yoder

5-10 Years

Christina Branham
Rebekah Byers
Melissa Elliott
Casey Goldizen
Steven Gravely
Emily Hull
Katie Jackson
Teri Janes
Stephanie Kile
Carly Knicely
Christopher Mabes
Nicole Marsh
Donna Miller
Lawrence Moran
Samantha Puchany
David Richardson
Laura Roadcap
Natasha Simmons
Lisa Sponaugle

0-5 Years

Corri Anderson Harper
Pamela Atkins
Holly Bailey
Jason Blosser
Cassandra Carter
Carly Cooper
Katrina Copley
Larissa Cramer
Melinda Cutlip
Doreen D'Alberti
Kelsey Dean
Emma Deel
Michael Deel
Teresa Dion
Ashleigh Donaldson
Chelsea Edwards
Emily Elliott
Caleb Elswick
Victoria Emmanuel
Karen Ewing
Miranda Foreman
Michelle Galindo
Barbara Gowl
Karina Guzman
Brionna Hartman
Constance Heavenrich
Jessica Hedrick
Diana Hernandez
Karlee Hinkle
Stephanie Holbrook
Rita Lawhorne
Stephanie Leach
Keliegh Lewis
David Martin
Courtney Martiny
Joan Mathias
Ryan May
Jennifer McClure
Jaime McDonald
Hillary Mclaughlin
Crystal Merrick
Charles Miller
Amy Nazelrodt
Kathrine Ours
Michael Parker
Heather Porcella
Cecilia Rafael-Castelan
Kimberly Reyes
Darla Ruddle
Haley Sager
Alexandra Sharp
Destiney Shifflett
Amy Silvious
Chelsey Simmons
James Sneed Jr.
Lauren Walker
Michele Wardlow
Kerry Watkins
Meghan Wright
Kelcy Young

A Tribute to Carole Hartman

The Board of Directors would like to extend their deepest appreciation for the dedication and service of Carole Hartman, who passed away last year on April 4, 2022. Our PCB family would like to take this moment to honor the life and legacy of our director, who faithfully served on our bank board since 1990. Our deepest sympathies to her family and all those who knew and loved her. Carole's impact on our bank and PCB family will live on, and she will be greatly missed by everyone.

OBITUARY: Carole Hedrick Hartman, 75, of Franklin, WV passed away April 4, 2022 after a long and meaningful life of hard work and community involvement. Carole was born October 18, 1946, to the late Guy & Twila McDonald Hedrick of Seneca Rocks. She graduated Salutatorian of Circleville High School Class of 1964, after which she received honorary recognition from the University of Hard Knocks.

She began her career as an independent insurance agent in 1965 and later became the owner of Pendleton County Insurance Agency in Franklin in 1989. She retired in 2014 but continued her lifelong vocation as a farmer on her beloved Harper Gap and Allegheny Mountain farms.

Carole served as Chairperson of the Board of Directors of Allegheny Bancshares, as well as having served on the Board of Directors for Pendleton Community Bank since 1990. She was Secretary and Treasurer of the Board of Directors of Mutual Protective Association of WV. She was treasurer of the Thorn Spring Park Association and was elected Pendleton County Commissioner in 2018. As Commissioner representative she also served on the Eastern WV Community Action Board as secretary and treasurer, WV Workforce Investment Board and the Regional Broadband Council, among others. She served on the Board of the Pendleton County Convention and Visitors Bureau, was President of the Pendleton Manor Auxiliary and participated in the local Salvation Army Chapter and Franklin Beautification Fund.

She had previously served on the Board of Directors for the Eastern WV Community & Technical College and the Pendleton County Democratic Executive Committee, as well as having participated in various service organizations, including Pendleton County Committee for the Arts, Potomac Highlands Wounded Warrior Outreach, Pendleton County Chamber of Commerce and the Potomac Highlands Recreation Center. She also previously served as Recorder for Franklin Town Council.

A member of the Pendleton County Farm Bureau, Carole was awarded the Farm Bureau Service Award in 2019. She was a member of both High Rock UMC and Walnut Street UMC, where she served as financial secretary.

Carole is survived by her daughter, Heidi Hartman & husband Jonathan Diaz, along with grand-dog Yogi, of Charlotte, NC, a sister, Ann Bennett (Jack) of Seneca Rocks, other nieces, nephews and cousins and a host of friends.In addition to her parents, she was preceded in death by a sister, Carrie Hedrick Bennett of Columbia, MD, two brothers, Harman Hedrick and Harlan Hedrick, both of Seneca Rocks, and the father of her daughter, William "Bill" Hartman of Franklin.

Carole was an active and integral part of her community. She never failed to help a friend or stranger and will be missed by many. In her memory, she requests that each of us practice acts of kindness and generosity toward one another. Carole's final act of service was her donation to the Human Gift Registry at the WV School of Osteopathic Medicine in Lewisburg, WV.

CHAIRPERSON
of the Board of Directors
of Allegheny Bancshares,
as well as having served
on the Board of Directors
for Pendleton Community Bank
since 1990

ABI
Allegheny Bancshares Inc

2022 FINANCIALS

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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.

Roanoke, Virginia
March 9, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and due from banks	$ 9,967,981	$ 12,838,925
Fed funds sold and interest bearing deposits in banks	92,321	91,198,130
Cash and cash equivalents	10,060,302	104,037,055
Certificates of deposit in other banks	2,093,402	3,823,083
Investment securities available for sale, at fair value	102,462,976	117,258,688
Restricted equity securities, at cost	1,009,895	260,395
Loans held for investment	508,185,257	372,388,007
Less: allowance for loan losses	(3,645,326)	(3,079,683)
Net loans held for investment	504,539,930	369,308,324
Bank premises and equipment, net	9,444,720	9,664,708
Interest receivable	2,284,607	2,108,002
Goodwill	5,117,001	5,117,001
Core deposit intangible, net	1,165,612	1,327,611
Bank owned life insurance	12,122,528	11,858,505
Other real estate owned	---	634,875
Other assets	7,949,783	2,434,876
Total Assets	$ 658,250,757	$ 627,833,123
LIABILITIES		
Deposits		
Noninterest bearing	$ 170,692,898	$ 160,461,376
Interest bearing:		
Demand	87,467,170	84,133,040
Savings	204,600,516	182,422,136
Time deposits over $250,000	12,839,243	17,842,969
Other time deposits	105,145,227	120,601,705
Total Deposits	580,745,054	565,461,226
Securities sold under agreements to repurchase	1,677,209	657,407
Subordinated debt	9,500,000	9,500,000
Long-term debt	19,370,039	1,550,347
Accrued expenses and other liabilities	8,533,380	5,279,369
Total Liabilities	619,825,682	582,448,349
STOCKHOLDERS' EQUITY		
Common stock; $1 par value, 2,000,000 shares authorized, 784,554 shares issued in 2022 and 2021	784,554	784,554
Class A Common stock; $1 par value, 2,000,000 shares authorized, 108,872 shares issued in 2022 and 2021	108,872	108,872
Class B Common stock, $1 par value, 2,000,000 shares authorized, 6,574 shares issued in 2022 and 2021	6,574	6,574
Additional paid in capital	900,000	900,000
Retained earnings	51,296,678	47,220,075
Accumulated other comprehensive income (loss)	(9,989,856)	1,046,446
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	38,425,075	45,384,774
Total Liabilities and Stockholders' Equity	$ 658,250,757	$ 627,833,123

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Interest Income:		
Loans and fees	$ 21,391,559	$ 18,003,011
Interest bearing deposits in banks	495,981	208,124
Investment securities – taxable	1,974,020	1,119,006
Investment securities – nontaxable	609,659	644,197
Total Interest Income	24,471,219	19,974,338
Interest Expense:		
Interest on deposits	1,390,950	1,301,831
Interest on borrowings	646,476	535,699
Total Interest Expense	2,037,426	1,837,530
Net Interest Income	22,433,793	18,136,808
Provision for loan losses	810,000	625,000
Net Interest Income After Provision for Loan Losses	21,623,793	17,511,808
Noninterest Income:		
Service charges, fees and commissions	1,726,114	1,443,921
Increase in cash value of bank owned life insurance	264,024	228,964
Gain (Loss) on sale of available for sale securities, net	(7,536)	18,390
Other income	2,018,056	2,240,352
Total Noninterest Income	4,000,658	3,931,627
Noninterest Expense:		
Salaries and benefits	10,191,712	8,529,106
Occupancy expenses	1,125,367	1,046,021
Equipment expenses	2,115,063	1,838,567
Director fees	453,768	390,283
Core deposit intangible amortization	162,000	144,889
(Gains) losses on sale and write-downs of other real estate owned, net	(170,117)	(18,746)
Merger related expenses	12,924	302,059
Other expenses	4,161,091	3,517,708
Total Noninterest Expenses	18,051,808	15,749,887
Income before Income Taxes	7,572,643	5,693,548
Income Tax Expense	1,530,943	988,813
Net Income	$ 6,041,700	$ 4,704,735
Net Income per share of Common, basic and diluted	$ 7.32	$ 5.70
Net Income per share of Common Class A, basic and diluted	$ 7.68	$ 5.98
Net Income per share of Common Class B, basic and diluted	$ 8.05	$ 6.27
Cash dividends paid per share of Common	$ 2.38	$ 2.28
Cash dividends paid per share of Common Class A	$ 2.50	$ 2.39
Cash dividends paid per share of Common Class B	$ 2.62	$ 2.51
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
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Net Income	$ 6,041,700	$ 4,704,735
Other comprehensive income (loss)		
Unrealized gains (losses) arising during the period on available for sale securities	(13,977,405)	(1,493,971)
Adjustment for income tax expense	2,935,255	313,734
	(11,042,150)	(1,180,237)
Reclassification adjustment for net (gains) losses included in net income	7,536	(18,390)
Adjustment for income tax expense (benefit)	(1,688)	3,757
	5,848	(14,633)
Total other comprehensive income (loss)	(11,036,302)	(1,194,870)
Total comprehensive income (loss)	$ (4,994,602)	$ 3,509,865

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Net Income	$ 6,041,700	$ 4,704,735
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	810,000	625,000
Depreciation and amortization	695,425	666,441
Core deposit intangible amortization	162,000	144,889
Net amortization of securities	418,619	438,400
(Gain) Loss on sale of available for sale securities, net	7,536	(18,390)
Loss on sale of bank premises and equipment	2,255	257
Deferred income tax expense	(126,150)	(94,612)
Increase in bank owned life insurance	(264,024)	(228,964)
(Gain) Loss on sale and write-downs of other real estate owned, net	(109,907)	(18,746)
Net change in interest receivable	(176,605)	47,164
Net change in other assets	(1.808.243)	(1,536,283)
Net change in accrued expense and other liabilities	3,254,011	898,842
Net Cash Provided by Operating Activities	8,760,590	5,628,733
Cash Flows from Investing Activities:		
Net change in certificates of deposit in other banks	1,729,681	1,460,000
Proceeds from sales, calls and maturities of available for sale securities	10,330,881	12,013,769
Purchase of available for sale securities	(9,931,462)	(66,707,787)
Purchase of restricted investments	(749,500)	---
Purchase of bank owned life insurance	---	(2,500,000)
Proceeds from redemption of restricted investments	---	10,900
Proceeds from sale of bank property	153,022	---
Proceeds from sale of other real estate owned	744,783	692,046
Purchase of bank premises and equipment	(2,160,211)	(869,236)
Net changes in loans	(135,012,762)	(26,266,980)
Net changes in loans held for sale	---	29,065,446
Cash acquired in bank acquisition, net of consideration paid	---	60,181,031
Net Cash Provided by (Used in) Investing Activities	(134,895,568)	7,079,189
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	35,744,032	58,976,725
Net change in time deposits	(20,460,204)	(16,805,449)
Net change in securities sold under agreements to repurchase	1,019,802	(1,020,077)
Proceeds of issuance of subordinated debt	---	3,500,000
Proceeds (Curtailments) of long-term borrowings, net	17,819,692	(183,759)
Cash dividends paid	(1,965,097)	(1,857,417)
Net Cash Provided by Financing Activities	32,158,225	42,610,023
Cash and Cash Equivalents		
Net increase in cash and cash equivalents	(93,976,753)	55,317,945
Cash and cash equivalents, January 1	104,037,055	48,719,110
Cash and cash equivalents, December 31	$ 10,060,302	$ 104,037,055
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 1,932,645	$ 1,797,417
Income taxes	$ 1,542,063	$ 583,962
Supplemental Schedule of Noncash Investing and Financing Activities:		
Other real estate acquired in settlement of loans	$ ---	$ 127,000
Unrealized gains (losses) on securities available for sale	$ (12,645,387)	$ (1,512,361)
Branch purchase:		
Tangible assets acquired (net of cash received)	$ ---	$ 4,643,459
Identifiable intangible assets acquired	$ ---	$ 440,000
Liabilities assumed	$ ---	$ 65,676,728

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Total	Common Stock	Class A Common Stock	Class B Common Stock
Balance December 31, 2020	$ 43,732,326	$ 784,554	$ 108,872	$ 6,574
Net Income	4,704,735	---	---	---
Other Comprehensive Income	(1,194,870)	---	---	---
Dividends Paid	(1,857,417)		---	---
Balance December 31, 2021	$ 45,384,774	$ 784,554	$ 108,872	$ 6,574
Net Income	6,041,700	---	---	---
Other Comprehensive Loss	(11,036,302)	---	---	---
Dividends Paid	(1,965,097)	---	---	---
Balance December 31, 2022	$ 38,425,075	$ 784,554	$ 108,872	$ 6,574

Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Treasury Stock	Class A Treasury Stock	Class B Treasury Stock
$ 900,000	$ 44,372,757	$ 2,241,316	$ (4,453,627)	$ (227,100)	$ (1,020)
---	4,704,735	---	---	---	---
---	---	(1,194,870)	---	---	---
---	(1,857,417)	---	---	---	---
$ 900,000	$ 47,220,075	$ 1,046,446	$ (4,453,627)	$ (227,100)	$ (1,020)
---	6,041,700	---	---	---	---
---	---	(11,036,302)	---	---	---
---	(1,965,097)	---	---	---	---
$ 900,000	$ 51,296,678	$ (9,989,856)	$ (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, and a loan production office in Lewisburg. The institution currently operates three financial centers in the Virginia communities of Harrisonburg, Bridgewater and Staunton, and a loan production office in Staunton.

On May 21, 2021, the Company completed the acquisition of three (3) financial centers formerly owned by Carter Bank and Trust pursuant to the terms and conditions of the Agreement dated January 13, 2021, between the Company and Carter Bank and Trust. The three financial centers acquired are located in the Virginia communities of Harrisonburg, Bridgewater, 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 loan 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 loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 loan 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 loan losses may change materially in the near term.

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. The Company may be required by the Federal Reserve to maintain a reserve balance based upon a percentage of deposits. The Company can meet this requirement through cash on hand, balances held with its correspondent bank, and cash held on reserve with the Federal Reserve Bank. As of December 31, 2022 and 2021, no balance was required to be on reserve with the Federal Reserve Bank.

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.

Declines in the fair value of available-for-sale securities below their cost that are determined to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent of the Company to sell the security, (2) whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, and (3) whether the Company expects to recover the security's entire amortized cost basis regardless of the Company's intent to sell the security.

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 loan 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 impaired loans is recognized only to the extent of interest payments received. Loans will remain in nonaccrual status unless the loans are brought current per the loan contract and financial conditions have 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 and interest rates are determined when funds are disbursed. 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 22 for lending commitments as of December 31, 2022 and 2021.

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. Most of the PPP loans the Company made have a two-year term and earn interest at 1%. Guidance issued by the SBA during the second wave

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

of funding provided terms of up to five years. If borrowers request a change from 2 years to 5 years, the Company likely granted the request. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2022, the Bank holds $442,144 in PPP loans representing 6 loans. As of December 31, 2021, the Bank held $12,453,215 in PPP loans representing 284 loans. PPP loans are held on the Bank's statement of financial condition in the other commercial loan segment. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish an additional allowance for loan loss through provision for loan loss charged to earnings.

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan 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 allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans, historical experience of the portfolio, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

During these evaluations, particular characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial loans not secured by real estate, carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs, and the valuation is less precise.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor is unable to finish the project as planned due to financial pressures unrelated to the project.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Nonprofit and tax-exempt loans are predominately loans made either to municipalities, or to emergency service organizations such as rescue squads or fire departments. These organizations rely on tax collections in the case of municipalities and often contributions for the rescue organizations. These loans are typically secured by equipment and sometimes real estate. The inherent risk is economic downturn that can hurt contributions or tax receipts.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are either demonstrating signs of becoming problematic or currently considered problem loans. Changes to the report must have the concurrence of the Chief Credit Officer and the Chief Executive 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 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

When a loan is added to the watch list report, the Chief Credit Officer and the Chief Executive Officer will assess the need for updated valuations. Upon receipt of current value updates, if necessary, these individuals along with the Chief Financial Officer will estimate the need for a specific loss to be allocated in the Bank's allowance for loan losses.

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.
- Marital Difficulties – Marital difficulties often cause businesses financial stress and are a major cause of problem loans.
- 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 that exceed $150,000. For such loans, that are also classified as impaired, an allowance is established when the collateral value less estimated costs to sell, or observable market price (or discounted cash flows) of the impaired loan is lower than that carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors including current economic conditions and volume and mix of the existing loan portfolio.

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:

Risk Grades 1 through 4 (Pass): 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 are virtually risk-free and are well-collateralized by deposit accounts held by the Bank. 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 within guidelines to borrowers with liquid financial statements with excellent sources of repayment, no significant identifiable risk of collection, and conformity in all respects to Bank policy guidelines, underwriting standards, and Federal and State regulations. A Risk Grade of 3 is reserved for the Bank's loans that are considered average credit risk, meet all the loan policy guidelines, and 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Risk Grade 5 – Special Mention: 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.

Risk Grade 6 – Substandard: 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. A 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.

Risk Grade 7 – Doubtful: 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 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 impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when 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 impaired. 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. Impairment is 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 separately identify individual consumer loans for impairment disclosures, unless such loans are in excess of $100,000.

In connection with the evaluation of the collectability of all classes of loans which are greater than 90 days past due as to principal or interest for nonaccrual status, any amounts not deemed well secured or otherwise collectible shall be recommended for charge-off at that time. Additionally, 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

In accordance with regulatory guidance and provisions in the CARES Act which provided relief during the COVID-19 pandemic and was extended by the Consolidated Appropriations Act, the Company provided short-term concessions to borrowers who requested assistance. As of December 31, 2022, no loans remain deferred under the CARES Act provisions.

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 loan 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.

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 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.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2022 and 2021, 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 potential common shares during the calendar years 2022 and 2021. 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 20. 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 expense as incurred. Total advertising expense incurred for 2022 and 2021 was $522,577 and $445,758, 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 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 lessee’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 lessee’s right to use, or control the use of, a specified asset for the lease term.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for loan losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for loan losses on loans, as well as an adjustment to the Company's reserve for unfunded loan commitments. Subsequent to adoption, the Company will record adjustments to its allowances for loan losses and reserves for unfunded commitments through the provision for loan 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 it loan portfolio based on similar risk characteristics which included call report codes. The Company primarily utilizes a Basel II approach with the addition of probability of attrition to facilitate lifetime loss forecasting. To further adjust the allowance for loan losses for expected losses not already included withing the quantitative component of the calculation the Company may consider the following qualitative adjustment factors: lending policy, economic conditions, portfolio mix, staff experience, volume of problem loans, loan review changes, collateral values, concentrations, and external factors. The Company's CECL implementation process was overseen by the CECL Implementation 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.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. 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. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company is currently assessing the impact that ASU 2022-02 will have on its (consolidated) financial statements.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial ***Note*** Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. In December 2022, the FASB issued ASU 2022-06 "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848". ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. In 2021, the UK Financial Conduct Authority (FCA) delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023.

To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2023, after which entities will no longer be permitted to apply the relief in Topic 848. The ASU is effective for all entities upon issuance. The Company is assessing ASU 2022-06 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". The ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Entities should apply the amendments prospectively and early adoption is permitted. The Company does not expect the adoption of ASU 2021-08 to have a material impact on its consolidated financial statements.

In November 2021, the FASB issued ASU 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities." The ASU allows lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also requires that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee uses that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. An entity that has not yet adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 to all new and existing leases when the entity first applies Topic 842. An entity that has adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted as of the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2021-09 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 9, 2023; the date financial statements were available to be issued. Based on the evaluation, the Company identified no subsequent events.

NOTE 2 BUSINESS COMBINATION – CARTER BANK & TRUST ACQUISITION:

On May 21, 2021, the Bank purchased three financial centers from Carter Bank & Trust (CBT) located in Harrisonburg, Bridgewater, and Staunton, Virginia. Pursuant to the transaction, the Bank acquired $2.3 million, at fair value, in loans and $65.6 million in deposits, at fair value, as well as the financial center premises and equipment. In connection with its purchase of the financial centers from Carter, the Bank received a cash payment from Carter of $60.2 Million which was net of a premium paid on deposits of $224,940. This acquisition provides the Bank with the opportunity to enhance its footprint in Virginia by extending its branch network across the Shenandoah Valley.

The Company has accounted for the branch purchases under the acquisition method of accounting in accordance with FASB ASC topic 805. "Business Combinations" whereby the acquired assets and liabilities were recorded by the Bank at their estimated fair values as of their acquisition date.

The acquired assets and assumed liabilities of the Carter financial centers were measured at fair value. Management made significant estimates and exercised significant judgement in accounting for the acquisition of the financial centers. Management evaluated expected cash flows, prepayment speeds and estimated loss factors to measure fair values for loans. Deposits were valued based upon interest rates, original and remaining terms and maturities, as well as current rates for similar funds in the same markets. Premises were based on recent appraised values, whereas equipment was acquired based on the remaining book value from Carter, which approximated fair value.

The statement of the net assets acquired and the resulting goodwill recorded is presented in the following tables. As explained in the notes that accompany the following table, the purchased assets, assumed liabilities and identifiable assets were recorded at the acquisition date fair value.

STATEMENT OF NET ASSETS ACQUIRED
THREE BRANCH ACQUISITION FROM CARTER BANK & TRUST

	Acquired Balances as Recorded by Carter Bank & Trust	Fair Value Adjustments	Acquired Balances as Recorded by Pendleton Community Bank
Cash and due from Banks	$ 60,181,031	$ ---	$ 60,181,031
Loans	2,239,873	70,522	2,310,395
Less: Allowance for loan losses	---	---	---
Loan, net	2,239,873	70,522	2,310,395
Premises and Equipment, net	2,327,541	(2,050)	2,325,491
Core deposit intangible	---	440,000	440,000
Other Assets	7,573	---	7,573
Total Assets	$ 64,756,018	$ 508,472	$ 65,264,490
Deposits:			
Noninterest bearing	$ 7,119,051	$ ---	$ 7,119,051
Interest-bearing	57,592,911	920,710	58,513,621
Total Deposits	64,711,962	920,710	65,632,672
Other liabilities	44,056	---	44,056
Total Liabilities	$ 64,756,018	$ 920,710	$ 65,676,728
Net assets acquired	$ ---	$ 412,238	$ 412,238

NOTE 2 BUSINESS COMBINATION – CARTER BANK & TRUST ACQUISITION (CONTINUED):

The following table summarizes the acquired assets and assumed liabilities in the purchase as of the acquisition date, and the resulting goodwill of $637,178 resulting from the transaction:

STATEMENT OF GOODWILL RECORDED
AS A RESULT OF THE THREE BRANCH ACQUISITION

Assets acquired at fair value:		
Cash and cash equivalents	$	60,181,031
Loans		2,310,395
Premises and equipment, net		2,325,491
Core deposit intangible		440,000
Other Assets		7,573
Total fair value of assets acquired	$	65,264,490
Liabilities assumed at fair value:		
Deposits	$	65,632,672
Other liabilities		44,056
Total fair value of liabilities assumed	$	65,676,728
Net assets acquired at fair value:	$	412,238
Transaction consideration paid to Carter Bank & Trust	$	224,940
Amount of goodwill resulting from the acquisition	$	637,178

The total amount of goodwill arising from this transaction of $637,178 is expected to be deductible for tax purposes pursuant to section 197 of the Internal Revenue Code.

NOTE 3 INVESTMENT SECURITIES:

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

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

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 7,251	$ ---	$ 41	$ 7,210
Mortgage-backed obligations of federal agencies	27,925	485	183	28,227
Corporate Securities	12,645	---	203	12,442
Government sponsored enterprises	14,415	18	168	14,265
SBA guaranteed loan pool certificates	2,490	21	3	2,508
Obligations of states and political subdivisions	51,205	1,671	269	52,607
Total	$ 115,931	$ 2,195	$ 867	$ 117,259

For the years ended December 31, 2022 and 2021, proceeds from sales, calls and maturities of securities available for sale totaled $10,330,881 and $12,013,769, respectively. Gross gains on sale of investment securities totaled $3,491 in 2022 and $33,523 in 2021. Gross losses on sale of securities totaled $11,027 in 2022 and $15,133 in 2021. For the years ended December 31, 2022 and 2021, the Company had redemptions of equity securities of $0 and $10,900, respectively. Purchases of restricted investments totaled $749,500 for the year ended December 31, 2022.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired (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 unrealized losses on the Company's investment securities were caused primarily by increase in interest rates, but the Company feels that no material impairment of value is due to 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. Because the Company has the ability and believes it is more likely than not that it will hold those investments until a recovery of fair value, which may be maturity, the Company feels that unrealized losses are temporary. The Company has 154 investments that have unrealized losses as of December 31, 2022 and it considers them to be temporarily impaired.

NOTE 3 INVESTMENT SECURITIES (CONTINUED):

December 31, 2022	Less than 12 Months		12 Months or Greater	
	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

December 31, 2021	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:				
U.S. Treasury securities	$ 7,209	$ 41	$ --	$ --
Mortgage-backed obligations of federal agencies	13,355	183	--	--
Corporate securities	11,622	203	--	--
Government sponsored enterprises	12,497	168	--	--
SBA guaranteed loan pool certificates	--	--	753	3
Obligations of states and political subdivisions	11,640	262	598	7
Total	$ 56,323	$ 857	$ 1,351	$ 10

A maturity schedule of securities in thousands as of December 31, 2022, 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	$ 99	$ 99
After one year through five years	19,561	18,258
After five years through ten years	60,102	52,620
Over ten years	35,343	31,486
Total available for sale	$ 115,105	$ 102,463

The carrying value of securities pledged by the Company to secure deposits, repurchase agreements and for other purposes amounted to $51,533,946 and $49,782,927 as of December 31, 2022 and 2021, respectively.

NOTE 4 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 $993,400 as of December 31, 2022. 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, 2022. Management evaluates these restricted securities for other-than-temporary impairment on an annual basis, and more often when conditions warrant.

NOTE 5 LOANS RECEIVABLE:

Loans receivable outstanding as of December 31, 2022 and 2021 are summarized in the table below (in thousands):

	2022	2021
Real Estate:		
Commercial:		
Construction and land development	$ 31,117	$ 25,011
Agriculture	26,183	26,136
Other commercial	101,035	69,002
Residential:		
Construction	12,529	10,929
Consumer residential	193,466	146,406
Non-Real Estate:		
Commercial and industrial	47,429	55,302
Consumer	80,364	24,747
Nonprofit and tax-exempt loans	16,062	14,855
Total Loans	508,185	372,388
Less Allowance for Loan Losses	3,645	3,080
Loans Receivable	$ 504,540	$ 369,308

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 loan balance are $196,573 and $280,638 as of December 31, 2022 and 2021, respectively, and are included in the non-real estate consumer loan balance above.

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

Loans on a nonaccrual basis were $234,546 and $0 as of December 31, 2022 and 2021 (0.05% and 0.00% of total loans), respectively. Accruing loans which are contractually past due 90 days or more as to principal or interest totaled $224,605 and $41,644 as of December 31, 2022 and 2021 (0.03% and 0.01% of total loans, respectively). Past due status is determined based on the contractual terms of the loan agreement.

NOTE 5 LOANS RECEIVABLE (CONTINUED):

The past due and nonaccrual status of loans as of year-end were as follows (in thousands):

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded investment 90+ Days and Accruing
Real Estate:								
Commercial:								
Construction and land development	$ 116	$ ---	$ ---	$ 116	$ 31,001	$ 31,117	$ ---	$ ---
Agriculture	---	---	---	---	26,183	26,183	---	---
Other commercial	305	---	204	509	100,526	101,035	182	23
Residential:								
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	53	67
Nonprofit and tax-exempt loans	75	---	---	75	15,987	16,062	---	---
Total	$ 2,088	$ 1,163	$ 449	$ 3,700	$ 504,485	$ 508,185	$ 235	$ 225

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded investment 90+ Days and Accruing
Real Estate:								
Commercial:								
Construction and land development	$ ---	$ ---	$ ---	$ ---	$ 25,011	$ 25,011	$ ---	$ ---
Agriculture	308	7	---	315	25,821	26,136	---	---
Other commercial	68	15	---	83	68,919	69,002	---	---
Residential:								
Construction	---	---	---	---	10,929	10,929	---	---
Consumer residential	568	67	13	647	145,759	146,406	---	13
Non-Real Estate:								
Commercial and industrial	697	249	29	975	54,627	55,302	---	29
Consumer	24	2	---	26	24,721	24,747	---	---
Nonprofit and tax-exempt loans	---	---	---	---	14,855	14,855	---	---
Total	$ 1,664	$ 339	$ 42	$ 2,045	$ 370,343	$372,388	$ ---	$ 42

NOTE 5 LOANS RECEIVABLE (CONTINUED):

Impaired loans, which include TDRs of $1,887,703 and $2,306,882 as of December 31, 2022 and 2021 respectively, were as follows (in thousands):

December 31, 2022	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	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

December 31, 2021	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
With no related allowance:					
Commercial:					
Construction and land development	$ 62	$ 62	$ ---	$ 51	$ 1
Agriculture	---	---	---	---	---
Other commercial	1,519	1,519	---	1,532	85
Residential:					
Construction	---	---	---	---	---
Consumer residential	581	581	---	601	34
Non-Real Estate:					
Commercial and industrial	298	298	---	323	16
Consumer	---	---	---	---	---
Non-profit and tax-exempt loans	---	---	---	---	---
Total	$ 2,460	$ 2,460	$ ---	$ 2,507	$ 136

NOTE 5 LOANS RECEIVABLE (CONTINUED):

December 31, 2022	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	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

December 31, 2021	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
With an allowance recorded:					
Commercial:					
Construction and land development	$ ---	$ ---	$ ---	$ ---	$ ---
Agriculture	---	---	---	---	---
Other commercial	---	---	---	---	---
Residential:					
Construction	---	---	---	---	---
Consumer residential	425	425	62	429	21
Non-Real Estate:					
Commercial and industrial	491	491	169	503	29
Consumer	70	70	70	72	6
Non-profit and tax-exempt loans	---	---	---	---	---
Total	$ 986	$ 986	$ 301	$ 1,004	$ 56

The recorded investment is defined as the principal balance, less principal payments on nonaccrual loans and charge-offs.

Troubled Debt Restructurings

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 are comprised of 4 loans totaling $1,887,703. 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. This compares with 9 loans totaling $2,306,882 in restructured loans as of December 31, 2021. The amount of the valuation allowance related to total TDRs was $0 and $92,973 as of December 31, 2022 and December 31, 2021, respectively. There were no charge-offs of restructured loans during 2022 or 2021.

NOTE 5 LOANS RECEIVABLE (CONTINUED):

The four loans totaling $1,887,703 in TDRs as of December 31, 2022, are represented by three commercial real estate loans and one consumer real estate loans.

During the years 2022 and 2021, no previously restructured loans went into default.

During 2022 the bank restructured one loan that was considered to be troubled debt restructurings compared to two loans in 2021. These loans totaled $320,500 and $166,389 as of December 31, 2022 and 2021, respectively. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following tables presents by class of loan, information related to loans modified in a TDR in thousands:

		For the Year Ended December 31, 2022	
Class of Loan	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial Real Estate:			
Construction and land development	---	$ ---	$ ---
Agriculture	---	---	---
Other commercial	1	321	321
Residential Real Estate:			
Construction	---	---	---
Consumer residential	---	---	---
Non-Real Estate:			
Commercial and industrial	---	---	----
Consumer	---	---	---
Nonprofit and tax-exempt entities	---	---	---
Total	1	$ 321	$ 321

		For the Year Ended December 31, 2021	
Class of Loan	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial Real Estate:			
Construction and land development	---	$ ---	$ ---
Agriculture	---	---	---
Other commercial	1	50	50
Residential Real Estate:			
Construction	---	---	---
Consumer residential	---	---	---
Non-Real Estate:			
Commercial and industrial	1	122	122
Consumer	---	---	---
Nonprofit and tax-exempt entities	---	---	---
Total	2	$ 172	$ 172

NOTE 5 LOANS RECEIVABLE (CONTINUED):

Management considers troubled debt restructurings and subsequent defaults in restructured loans in the determination of the adequacy of the Company's allowance for loan losses. When identified as a TDR, a loan is evaluated for potential loss based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs if the loan is collateral dependent. Loans identified as TDRs frequently are on non-accrual status at the time of the restructuring and, in some cases, partial charge-offs may have already been taken against the loan and a specific allowance may have already been established for the loan. As a result of any modification as a TDR, the specific reserve associated with the loan may be increased. Additionally, loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future defaults. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. As a result, any specific allowance may be increased, adjustments may be made in the allocation of the total allowance balance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Management exercises significant judgment in developing estimates for potential losses associated with TDRs.

NOTE 6 ALLOWANCE FOR LOAN LOSSES:

The following table presents, as of December 31, 2022 and 2021, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) in thousands:

December 31, 2022

	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 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

December 31, 2021

	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	$ 390	$ 144	$ 605	$ 38	$ 1,063	$ 530	$ 180	$ 68	$ 156	$ 3,174
Charge-offs	---	---	(327)	---	(24)	(239)	(222)	---	---	(812)
Recoveries	---	---	---	---	1	---	92	---	---	93
Provision	(14)	13	275	30	(63)	176	295	18	(105)	625
Ending Balance	$ 376	$ 157	$ 553	$ 68	$ 977	$ 467	$ 345	$ 86	$ 51	$ 3,080
Ending Balance individually valued for impairment	---	---	---	---	62	169	70	---	---	301
Ending balance collectively evaluated for impairment	376	157	553	68	915	298	275	86	51	2,779
Loans:										
Ending Balance individually evaluated for impairment	62	---	1,519	---	1,006	789	70	---	---	3,446
Ending balance collectively evaluated for impairment	24,949	26,136	67,483	10,929	145,400	54,513	24,677	14,855	---	368,942
Total Loans	$ 25,011	$ 26,136	$ 69,002	$ 10,929	$146,406	$ 55,302	$ 24,747	$ 14,855	$ ---	$ 372,388

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

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	25,765	417	---	---	26,182
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	79,660	611	94	---	80,365
Non-Profit and tax-exempt entities	16,062	---	---	---	16,062
Total	$ 497,310	$ 7,478	$ 3,397	$ ---	$ 508,185

Loans by credit quality indicators as of December 31, 2021 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 23,917	$ 1,032	$ 62	$ ---	$ 25,011
Agriculture	25,547	589	---	---	26,136
Other commercial	63,168	4,083	1,751	---	69,002
Residential Real Estate:					
Construction	10,633	296	---	---	10,929
Consumer residential	141,907	3,833	666	---	146,406
Non-Real Estate:					
Commercial and industrial	54,151	362	788	1	55,302
Consumer	24,285	391	71	---	24,747
Non-Profit and tax-exempt entities	14,855	---	---	---	14,855
Total	$ 358,463	$ 10,586	$ 3,338	$ 1	$ 372,388

NOTE 7 OTHER REAL ESTATE OWNED:

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	---	---	---
Gains (Losses) on sales and write-downs, net	110	---	110
Sale proceeds	(745)	---	(745)
Balance at the end of the year	$ ---	$ ---	$ ---

Changes in other real estate owned for 2021 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 1,181	$ ---	$ 1,181
Additions	127	---	127
Loss on sales and write-downs, net	---	---	---
Sale proceeds	(673)	---	(673)
Balance at the end of the year	$ 635	$ ---	$ 635

The major classifications of other real estate owned in the consolidated statement of financial condition s as of December 31, 2022 and December 31, 2021 were as follows (in thousands):

	2022	2021
Commercial Real Estate:		
Construction and land development	$ ---	$ 508
Other commercial	---	---
Residential Real Estate:		
Residential	---	127
	$ ---	$ 635

At December 31, 2022, there were no residential loans in the process of foreclosure.

NOTE 8 BANK PREMISES AND EQUIPMENT:

Bank premises and equipment as of December 31, 2022 and December 31, 2021 are summarized as follows (in thousands):

	2022	2021
Bank buildings and improvements	$ 11,594	$ 11,457
Furniture and equipment	5,660	5,591
Total Cost	17,254	17,048
Less accumulated depreciation	7,809	7,383
Bank premises and equipment	$ 9,445	$ 9,665

Depreciation expense on these premises and equipment totaled $695,425 and $666,441 for the years ended December 31, 2022 and 2021, respectively.

NOTE 9 LEASES:

On January 1, 2022, the Company adopted 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 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, 2022	
Lease Liabilities	$	1,368,745
Right-of-use Assets	$	1,383,470
Weighted average remaining lease term		7.28
Weighted average discount rate		2.09%

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, 2022	
Twelve months ending December 31, 2023	$	188,575
Twelve months ending December 31, 2024		190,800
Twelve months ending December 31, 2025		191,900
Twelve months ending December 31, 2026		174,300
Twelve months ending December 31, 2027		174,300
Therafter		580,825
Total undiscounted cash flows	$	1,500,700
Discount		(131,955)
Lease Liabilities	$	1,368,745

The aggregate rental and lease expense was $180,815 and $188,970 for the years ending December 31, 2022 and 2021, respectively.

NOTE 10 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. As shown in Note 2, 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, 2022, 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 $1,180,00 resulting from the Bank of Mount Hope acquisition in October of 2019 is 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 is being amortized over 10 years.

The changes in the carrying amount of goodwill and intangibles for the twelve months ended December 31, 2022, are as follows (dollars in thousands):

	Goodwill	Intangibles
Balance December 31, 2021	$ 5,117	$ 1,328
Additions	---	---
Amortization	---	(162)
Impairment	---	---
Balance, December 31, 2022	$ 5,117	$ 1,166

Goodwill and intangible assets as of December 31, 2022 and December 31, 2021 are as follows (in thousands):

December 31, 2022	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit intangibles	$ 1,913	$ (747)	$ 1,166
Goodwill	5,117	---	5,117
December 31, 2021			
Core deposit intangibles	$ 1,913	$ (585)	$ 1,328
Goodwill	5,117	---	5,117

Amortization expense of core deposit intangibles for the years ended December 31, 2022 and 2021 were $162,000 and $144,889, respectively. As of December 31, 2022, the estimated future amortization expense of core deposit intangibles is as follows (in thousands):

Year	Amount
2023	$ 162
2024	162
2025	162
2026	162
2027	162
Thereafter	356
Total	$ 1,166

NOTE 11 BANK OWNED LIFE INSURANCE:

The Bank purchased split-dollar life insurance on select employees. The cash surrender value of these life insurance policies was $12,122,528 and $11,858,505 at December 31, 2022 and 2021, respectively, and has been recorded as an asset on the consolidated statement of financial condition. The Bank purchased an additional $2,500,000 during 2021 and 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, 2022 and 2021 were $264,024 and $228,964, respectively.

NOTE 12 TIME DEPOSITS:

As of December 31, 2022, the scheduled maturities of time deposits are as follows (in thousands):

Year	Amount
2023	$ 67,983
2024	29,382
2025	9,541
2026	6,812
2027	3,658
Thereafter	608
Total	$ 117,984

NOTE 13 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 $1,729,226 and $2,269,489, as of December 31, 2022 and 2021, respectively, in fair value of securities pledged to secure these agreements. The weighted average interest rate on these agreements was 0.12% during 2022 and 0.10% during 2021. The highest month end balance during 2022 was $1,963,726. For 2021, the highest month end balance was $2,067,614.

NOTE 14 LINES OF CREDIT:

The Bank has lines of credit with correspondent banks totaling $29,000,000. As of December 31, 2022, and 2021, 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 15 LONG-TERM DEBT:

The Company has borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB). The interest rates on all of the notes payable as of December 31, 2022 and December 31, 2021 were fixed at the time of the advance and ranged from 4.31% to 5.61%. The FHLB notes are secured by FHLB Stock, as well as investment securities and mortgage loans. The weighted average interest rate is 5.02% as of December 31, 2022. The Company has additional available borrowing capacity from the FHLB of $198,648,000.

The Company borrowed $6,000,000 during 2019 to facilitate the acquisition of the Bank of Mount Hope. This 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. 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.

NOTE 15 LONG-TERM DEBT (CONTINUED):

Some repayments of long-term debt are due monthly and some are due at maturity. Interest expense of $624,675 and $534,060 was incurred on these debts in 2022 and 2021, respectively. The maturities of long-term debt as of December 31, 2022 are as follows:

Year	FHLB	Subordinated Debt	Total
2023	$ 8,189,360	$ ---	$ 8,189,360
2024	198,870	---	198,870
2025	137,652	---	137,652
2026	58,500	---	58,500
2027	10,785,657	---	10,785,657
Thereafter	---	9,500,000	9,500,000
Total	$ 19,370,039	$ 9,500,000	$ 28,870,039

NOTE 16 DIVIDEND LIMITATIONS:

The principal source of funds of 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, 2023, the Bank could pay dividends of up to $9,134,767 without permission of the authorities. Dividends paid by the Bank to the Company totaled $2,515,096 in 2022 and $1,957,417 in 2021.

NOTE 17 INCOME TAXES:

The current and deferred components of income tax expense as of December 21, 2022 and December 31, 2021 are as follows (in thousands):

	2022	**2021**
Current component of income tax expense	$ 1,657	$ 1,084
Deferred income tax (benefit) expense	(126)	(95)
Income tax expense	$ 1,531	$ 989

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):

	2022	**2021**
Income taxes computed at the applicable		
Federal income tax rate	$ 1,590	$ 1,196
Increase (decrease) resulting from:		
Tax exempt interest income	(287)	(303)
Non-deductible interest expense	4	4
State tax expense, net of federal taxes	282	175
Non-deductible expenses associated with merger	---	17
Other	(58)	(100)
Income tax expense	$ 1,531	$ 989

NOTE 17 INCOME TAXES (CONTINUED):

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

	2022	2021
Deferred Tax Asset:		
Provision for loan losses	$ 761	$ 508
Accrued expenses on long term benefits	699	641
Net unamortized CD premium	13	20
Interest on nonaccrual loans	132	132
Deferred loan fees	37	186
Unrealized gain on securities available for sale	2,656	(278)
Other	18	19
Total Assets	$ 4,316	$ 1,228
Deferred Tax Liabilities:		
Depreciation	634	623
Right-of-use Asset	4	---
Intangible amortization	458	463
Other	48	30
Total Liabilities	1,144	1,116
Net Deferred Tax Asset	$ 3,172	$ 112

NOTE 18 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 for 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 are fully invested in the year of contribution. Contributions by the Company into employees' accounts in the plan were $503,427 and $427,788 for the years ending December 31, 2022 and 2021, 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, 2022 and 2021, a liability has been established for the present value of future payments of $1,329,621 and $1,160,757, respectively, using discount rates of 6.25% (CEO) and 4.00% (all other participants). The Company has incurred an employee benefit expense of $168,864 and $134,443 during 2022 and 2021, 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 $111,659 and $85,917 for 2022 and 2021, respectively. Liability recorded under this plan totaled $1,185,828 and $1,114,341 at December 31, 2022 and 2021, respectively and is included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

NOTE 18 EMPLOYEE BENEFITS (CONTINUED):

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 the amount 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 employee 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 $1,779 and $13,020 for 2022 and 2021, respectively. Liability recorded under this plan totaled $208,540 and $205,683 at December 31, 2022 and 2021, respectively.

NOTE 19 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 $5,148,825 and $6,583,034 for year end 2022 and 2021, respectively.

Changes to balances of loans and to unused commitments to related parties during the years ended December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Beginning of Year	$ 8,729	$ 10,894
Additional borrowings	1,027	1,548
Repayments	(2,280)	(3,713)
End of Year	$ 7,476	$ 8,729

NOTE 20 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, 2022, and 2021, the Company had no liabilities subject to fair value. The following is a description of valuation methodologies used for assets recorded at fair values.

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, 2022 or 2021. 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.

NOTE 20 FAIR VALUE (CONTINUED):

Impaired Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan 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 impaired, an allowance for loan loss is established in accordance with FASB ASC 310-10 *Accounting by Creditors for Impairment of a Loan,* by utilizing market price (if available), or at the fair value of the loans' collateral less selling costs (if the loan is collateral dependent). 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 impaired loans to be Level 3 assets which are measured on a nonrecurring basis.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at the lower of carrying value or fair value less estimated holding costs and cost to sell. We believe that the fair value component in its valuation follows the provisions of FASB ASC 820-10. Due to age of some appraisals, the age of the related comparative property sales used for appraisals and changing real estate market conditions, the Company considers its OREO to be Level 3 assets and is measured on a nonrecurring basis.

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 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:				
Impaired loans	$ ---	$ ---	$ 615	$ 615
Other real estate owned	---	---	---	---
Total	$ ---	$ ---	$ 615	$ 615

	Level 1	Level 2	Level 3	Balance 2021
Assets recorded at fair value on a recurring basis:				
U.S. Treasury Securities	$ ---	$ 7,210	$ ---	$ 7,210
Mortgage-backed obligations of federal agencies	---	28,227	---	28,227
Corporate securities	---	12,442	---	12,442
Government sponsored enterprises	---	14,265	---	14,265
SBA guaranteed loan pool certificates	---	2,508	---	2,508
Obligations of states and political subdivisions	---	52,607	---	52,607
Total	$ ---	$ 117,259	$ ---	$ 117,259
Assets recorded at fair value on a nonrecurring basis:				
Impaired loans	$ ---	$ ---	$ 685	$ 685
Other real estate owned	---	---	635	635
Total	$ ---	$ ---	$ 1,320	$ 1,320

NOTE 20 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				
Impaired Loans	$ 615	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ --	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-60% (39%)

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2021 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired Loans	$ 685	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ 635	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-46% (24%)

NOTE 21 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. Prior to August 2018, the statement exempted bank holding companies with consolidated total assets of less than $1 billion. As a result of the interim final rule, the Company qualifies as of August 2018 as a small bank holding company and is not subject to regulatory capital requirements on a consolidated basis.

The subsidiary 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.

NOTE 21 REGULATORY MATTERS (CONTINUED):

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, 2022, 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 applied to many classes of assets held by community banks applying higher risk weighting to certain commercial real estate loans.

The actual and required capital amounts and ratios of the Company as of December 31, 2022 and 2021 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, 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%

	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, 2021						
Total Capital Risk Weighted Assets	$ 50,205	13.33%	$ 39,546	10.50%	$ 37,663	10.00%
Tier I Capital Risk Weighted Assets	47,125	12.51%	32,019	8.50%	30,136	8.00%
Tier I Common Equity	47,125	12.51%	26,369	7.00%	24,485	6.50%
Tier I Capital Average Assets	47,125	7.55%	24,967	4.00%	31,209	5.00%

NOTE 22 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:

The Company makes commitments to extend credit in the normal course of business and issue 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 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.

The following commitments were outstanding as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Home equity lines of credit	$ 24,490	$ 20,693
Commitments to fund commercial real estate and construction	25,473	12,617
Other unused commitments	64,021	44,116
Performance standby letters of credit	2,179	2,350
Total	$ 116,163	$ 79,776

NOTE 23 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 ten offices. The collateral for our loans is secured primarily by real estate and personal property located in our area.

NOTE 24 QUALIFIED AFFORDABLE HOUSING PROJECT:

The Bank invested in a qualified affordable housing project during the year ended December 31, 2021. At December 31, 2022, the balance of the investments in the qualified affordable housing projects was $1,453,125. This balance is reflected in the other assets line on the consolidated statement of financial condition. The total unfunded commitment related to the investment in the qualified affordable housing project totaled $1,326,902 at December 31, 2022. The bank expects to fulfill the majority of this commitment during 2023 and 2024. The investment is accounted for utilizing the equity method with amortization expense reflected in noninterest expense on the statement of income.

NOTE 25 HISTORIC TAX CREDIT PROJECT:

The Bank invested in a property and the purchase of West Virginia Historic Tax Credits during the year ended December 31, 2022, the balance of the investments in the project was $1,260,000. This balance is reflected in the other assets line on the consolidated statement of financial condition. The total unfunded commitment related to the investment in the project totaled $955,115 at December 31, 2022. The bank anticipates funding $906,237 during 2023 and the remainder over the following 3 years.

NOTE 26 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

ABI PARENT COMPANY
STATEMENT OF FINANCIAL CONDITION

	December 31, 2022	December 31, 2021
ASSETS		
Cash	$ 479,324	$ 90,656
Investment in subsidiary	47,552,200	54,616,046
Other assets	---	227,549
Total Assets	$ 48,031,524	$ 54,934,251
LIABILITIES		
Other Liabilities	$ 106,449	$ 49,477
Subordinated Debt	9,500,000	9,500,000
Total Liabilities	$ 9,606,449	$ 9,549,477
STOCKHOLDERS' EQUITY	38,425,075	45,384,774
Total Liabilities and Stockholders' Equity	$ 48,031,524	$ 54,934,251

NOTE 26 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ABI PARENT COMPANY
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME		
Dividends from subsidiary	$ 2,515,096	$ 1,957,417
Total Income	2,515,096	1,957,417
EXPENSES		
Merger expenses	---	93,167
Professional fees	42,596	43,558
Annual shareholder meeting	15,226	12,086
Interest expense	520,000	447,083
Other expenses	7,612	549
Total Expenses	585,434	596,443
INCOME BEFORE INCOME TAX BENEFIT AND UNDISTRIBUTED INCOME OF SUBSIDIARY	1,929,662	1,360,974
Income tax benefit	139,581	122,376
UNDISTRIBUTED INCOME OF SUBSIDIARY	3,972,457	3,221,385
NET INCOME	$ 6,041,700	$ 4,704,735
COMPREHENSIVE INCOME (LOSS)	$ (4,994,602)	$ 3,509,865

NOTE 26 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ABI PARENT COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES		
Net income	$ 6,041,700	$ 4,704,735
Adjustments:		
Undistributed subsidiary income	(3,972,456)	(3,221,385)
Increase (decrease) in other liabilities	56,972	22,145
Decrease (increase) in other assets	227,549	(122,377)
Net Cash Provided by Operating Activities	2,353,765	1,383,118
INVESTING ACTIVITIES		
Capital invested in subsidiary bank	---	(3,000,000)
Net (Used in) Investing Activities	---	(3,000,000)
FINANCING ACTIVITIES		
Proceeds of issuance of subordinated debt	---	3,500,000
Cash dividends paid	(1,965,097)	(1,857,417)
Net Cash Provided by (Used in) Financing Activities	(1,965,097)	1,642,583
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	388,668	25,701
Cash and equivalents, January 1	90,656	64,955
Cash and equivalents, December 31	$ 479,324	$ 90,656

ABI
Allegheny Bancshares Inc

ALLEGHENY BANCSHARES, INC.
ANNUAL DISCLOSURE STATEMENT

December 31, 2022

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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