



*2022 Annual
Financial Report*

PIONEER BANKSHARES, INC. AND SUBSIDIARY

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PIONEER BANKSHARES, INC. AND SUBSIDIARY

Market Data

The Common Stock of the Company trades on the OTC Bulletin Board under the symbol “PNBI” and transactions generally involve a small number of shares. The Company’s transfer agent is Computershare, Inc. located at 480 Washington Boulevard, 29th Floor, in Jersey City, New Jersey, 07013. The following table shows actual trade prices during the year. Other transactions may have occurred which were not included in the table.

COMMON STOCK TRADE PRICES

<u>2021</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 27.75	\$ 23.00
Second Quarter	29.99	24.76
Third Quarter	29.65	28.00
Fourth Quarter	29.65	28.86
<u>2022</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 30.00	\$ 28.98
Second Quarter	30.00	27.35
Third Quarter	27.35	26.10
Fourth Quarter	26.25	26.00

The Company has declared dividends on its Common Stock as follows:

<u>Declared Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Per Share Amount</u>
2/18/21	3/18/21	3/31/21	\$.24
5/20/21	6/17/21	6/30/21	.24
8/19/21	9/16/21	9/30/21	.24
11/18/21	12/16/21	12/31/21	.24
Total for 2021			<u>\$.96</u>
2/17/22	3/17/22	3/31/22	\$.24
5/19/22	6/16/22	6/30/22	.24
8/18/22	9/15/22	9/30/22	.24
11/17/22	12/15/22	12/30/22	.25
Total for 2022			<u>\$.97</u>

The Company’s ability to pay dividends is subject to certain restrictions imposed by the Federal Reserve and capital requirements of Federal and Virginia banking statutes and regulations. Additionally, the Company intends to follow a policy of retaining sufficient earnings in order to maintain the net worth and reserves of the Bank at adequate levels and to provide for the Company’s growth and ability to compete in its market area.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

FINANCIAL HIGHLIGHTS (In thousands, except for per share information)

	<u>2022</u>	<u>2021</u>
Results of Operations		
Interest and dividend income	\$ 10,700	\$ 11,899
Interest expense	<u>601</u>	<u>569</u>
Net interest income	10,099	11,330
Provision for loan losses	<u>(247)</u>	<u>(283)</u>
Net interest income after provision for loan losses	10,346	11,613
Noninterest income	2,188	1,887
Noninterest expense	<u>9,533</u>	<u>9,272</u>
Income before income taxes	3,001	4,228
Income tax expense	<u>434</u>	<u>660</u>
Net Income	<u>\$ 2,567</u>	<u>\$ 3,568</u>
Financial Condition, At Year End		
Assets	\$ 293,295	\$ 290,405
Deposits	257,346	252,331
Loans, net of allowance	205,698	176,680
Stockholders' Equity	32,330	34,825
Per Share Data		
Net income per share, basic and diluted	\$ 2.57	\$ 3.60
Dividends per share	.97	.96
Book value per share	32.22	34.96
Performance Ratios		
Return on average assets ¹	0.86%	1.26%
Return on average equity ¹	7.81%	10.52%
Dividend payout ratio	37.83%	26.71%
Average equity to average assets ¹	11.06%	11.99%

¹Ratios are based primarily on daily average balances

PIONEER BANKSHARES, INC. AND SUBSIDIARY

General Business Description

Pioneer Bankshares, Inc. (the “Company”), a Virginia one bank holding company headquartered in Stanley, Virginia, was incorporated under the laws of the Commonwealth of Virginia on November 4, 1983. The Company’s wholly-owned subsidiary, Pioneer Bank, Inc. (the “Bank”) was established as a national bank in 1909. The Bank converted from a national bank to a state chartered bank, effective April 1994, and changed its name to Pioneer Bank, effective April 1999.

Pioneer Bank’s main branch and corporate office are located in Stanley, Virginia, with other branch locations in Shenandoah, Luray, Harrisonburg, Ruckersville, and Charlottesville, Virginia. The Bank also operates a small Business Banking Center in Harrisonburg, VA. The Business Banking Center primarily services commercial loans for business clients. Additionally, the Bank operates a small finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and dealer auto lending.

Pioneer Bank also owns and operates two subsidiaries, one of which is Pioneer Financial Services, LLC. Income received from insurance services and non-banking investment services is handled through Pioneer Financial Services, LLC. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with foreclosed properties, as a means of minimizing the risk of liability to the Bank.

The assets of the Company consist primarily of all of the stock of the Bank, real estate holdings leased to the Bank, a portfolio of equity investment securities, and minimal cash accounts.

The Bank is engaged in the general commercial banking business, primarily serving the counties of Page, Greene, Rockingham, and Albemarle, Virginia. In addition, the close proximity and mobile nature of individuals and businesses in adjoining Virginia counties and nearby cities places these markets within the Bank’s targeted trade area. The Bank also anticipates serving some individuals and businesses from other areas, including, but not limited to, the counties surrounding Page County.

The Bank offers a full range of banking and related financial services focused primarily towards serving individual consumers, small to medium size commercial businesses, and the professional community. The Bank strives to serve the banking needs of its customers while developing personal, hometown relationships. The Bank’s Board of Directors and management believe that the marketing of customized banking services will enable the Bank to continue its position in the financial services marketplace.

The Bank provides individual consumers, professionals and small and medium size commercial businesses in its market area with responsive and technologically advanced banking services. These services include competitively priced loans that are based on deposit relationships, easy access to the Bank’s decision-makers, and quick and innovative action necessary to meet a customer’s banking needs. The Bank’s capitalization and lending limit enables it to satisfy the credit needs of a large portion of the targeted market segment. In the event there are customers whose loan requirements exceed the Bank’s lending limit, the Bank will seek to arrange such loans on a participation basis with other financial institutions or private investors. The Board of Directors and management believe the Bank’s present capitalization will support substantial growth in deposits and loans.



Independent Auditor's Report

To the Board of Directors and Stockholders
Pioneer Bankshares, Inc.
Stanley, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Pioneer Bankshares, 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 (loss), 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 its operations and its 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 the financial statements are issued or available to be issued.

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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the 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 market data, financial highlights, and general business description 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 & Barbours, P.C.

Winchester, Virginia
April 11, 2023

PIONEER BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2022 AND 2021

(In Thousands, except share and per share data)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and due from banks	\$ 3,998	\$ 3,048
Interest-bearing deposits in other banks	11,305	33,392
Federal funds sold	475	2,437
Securities available for sale, at fair value	62,241	61,772
Equity securities, at fair value	24	4,127
Restricted securities, at cost	413	394
Loans receivable, net of allowance of \$2,117 in 2022 and \$2,330 in 2021	205,698	176,680
Bank premises and equipment, net	3,987	4,282
Accrued interest receivable	930	812
Other assets	4,224	3,461
Total Assets	<u>\$ 293,295</u>	<u>\$ 290,405</u>
LIABILITIES		
Deposits		
Noninterest bearing:	\$ 95,767	\$ 94,055
Interest bearing:		
Demand	62,517	57,192
Savings	46,268	63,782
Time deposits	52,794	37,302
Total Deposits	257,346	252,331
Accrued expenses and other liabilities	1,119	749
Borrowings	2,500	2,500
Total Liabilities	<u>260,965</u>	<u>255,580</u>
STOCKHOLDERS' EQUITY		
Common stock; \$.50 par value, authorized 5,000,000 shares; outstanding – 1,003,392 and 996,182 shares in 2022 and 2021, respectively	502	498
Retained earnings	36,842	35,045
Accumulated other comprehensive loss	(5,014)	(718)
Total Stockholders' Equity	<u>32,330</u>	<u>34,825</u>
Total Liabilities and Stockholders' Equity	<u>\$ 293,295</u>	<u>\$ 290,405</u>

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

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

(In Thousands, except per share data)

	2022	2021
INTEREST AND DIVIDEND INCOME:		
Loans including fees	\$ 9,469	\$ 11,368
Interest on securities – taxable	893	397
Interest on securities – nontaxable	22	---
Deposits and federal funds sold	299	61
Dividends	17	73
Total Interest and Dividend Income	<u>10,700</u>	<u>11,899</u>
INTEREST EXPENSE:		
Deposits	509	479
Borrowings	92	90
Total Interest Expense	<u>601</u>	<u>569</u>
NET INTEREST INCOME	10,099	11,330
PROVISION FOR LOAN LOSSES	(247)	(283)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>10,346</u>	<u>11,613</u>
NONINTEREST INCOME:		
Service charges on deposit accounts	1,302	1,199
Commission income	69	98
Other income	86	91
Change in fair value of equity securities	(312)	502
Gain on sale of other investment	1,442	---
Gain (loss) on sale of fixed assets	316	(3)
Loss on sale of securities available for sale	(715)	---
Total Noninterest Income	<u>2,188</u>	<u>1,887</u>
NONINTEREST EXPENSES:		
Salaries and employee benefits	4,769	4,418
Occupancy expenses	450	428
Equipment expenses	377	413
ATM expenses	511	548
Sales and franchise tax	172	279
Director compensation and fees	184	152
Electronic banking expenses	181	89
Hosted network and security monitoring expenses	197	241
Professional and audit fees	372	476
Data processing fees	583	546
Telephone	242	228
Amortization expenses of housing fund investments	334	490
Other expenses	1,161	964
Total Noninterest Expenses	<u>9,533</u>	<u>9,272</u>
INCOME BEFORE INCOME TAXES	3,001	4,228
INCOME TAX EXPENSE	434	660
NET INCOME	<u>\$ 2,567</u>	<u>\$ 3,568</u>
PER SHARE DATA:		
Net income, basic and diluted	\$ 2.57	\$ 3.60
Dividends	<u>\$ 0.97</u>	<u>\$ 0.96</u>

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands of Dollars)

	<u>2022</u>	<u>2021</u>
Net Income	\$2,567	\$3,568
Other comprehensive loss, net of tax:		
Unrealized (losses) on securities available for sale:		
Unrealized holding losses arising during period, (net of tax of \$1,290 and \$218 for 2022 and 2021, respectively)	(4,861)	(815)
Reclassification adjustments for losses included in net income (net of tax of \$(150) for 2022)	<u>565</u>	<u>---</u>
Other comprehensive loss	<u>(4,296)</u>	<u>(815)</u>
Comprehensive (loss) income	<u><u>\$(1,729)</u></u>	<u><u>\$ 2,753</u></u>

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

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

(In Thousands of Dollars)

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
BALANCE DECEMBER 31, 2020	\$ <u>495</u>	\$ <u>32,231</u>	\$ <u>97</u>	\$ <u>32,823</u>
Net Income		3,568		3,568
Other Comprehensive Loss			(815)	(815)
Cash Dividends		(953)		(953)
Stock issued for compensation	<u>3</u>	<u>199</u>		<u>202</u>
BALANCE DECEMBER 31, 2021	\$ <u>498</u>	\$ <u>35,045</u>	\$ <u>(718)</u>	\$ <u>34,825</u>
Net Income		2,567		2,567
Other Comprehensive Loss			(4,296)	(4,296)
Cash Dividends		(971)		(971)
Stock issued for compensation	<u>4</u>	<u>201</u>		<u>205</u>
BALANCE DECEMBER 31, 2022	\$ <u>502</u>	\$ <u>36,842</u>	\$ <u>(5,014)</u>	\$ <u>32,330</u>

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

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

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,567	\$ 3,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(247)	(283)
Net (accretion) amortization on securities	(86)	53
Fair value adjustment on equity securities	312	(502)
Losses on sales of securities available for sale	715	---
Deferred income tax (benefit) expense	(63)	192
Depreciation	344	359
Amortization of low income housing investments	334	490
Stock based compensation	205	202
Amortization of right-of-use asset	77	66
(Gain) loss on sales and disposals of premises & equipment, net	(316)	3
Net change in:		
Accrued interest receivable	(118)	68
Other assets	64	(162)
Accrued expenses and other liabilities	<u>335</u>	<u>(156)</u>
Net Cash Provided by Operating Activities	<u>4,123</u>	<u>3,898</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in interest-bearing deposits in other banks	22,087	(637)
Net change in federal funds sold	1,962	(2)
Net change in restricted securities	(19)	75
Proceeds from calls, maturities and principal payments of securities available for sale	3,012	28,565
Proceeds from sales of securities available for sale	14,114	---
Purchase of securities available for sale	(23,660)	(74,079)
Purchases of equity securities	---	(2,781)
Proceeds from sales of equity securities	3,791	232
Net decrease (increase) in loans	(28,771)	19,281
Proceeds on sale of bank premises and equipment	336	---
Purchase of bank premises and equipment	<u>(69)</u>	<u>(146)</u>
Net Cash (Used in) Investing Activities	<u>(7,217)</u>	<u>(29,492)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Demand and savings deposits	(10,477)	33,024
Time deposits	15,492	(8,509)
Proceeds from borrowings	269	1
Curtailements of borrowings	(269)	(376)
Dividends paid	<u>(971)</u>	<u>(953)</u>
Net Cash Provided by Financing Activities	<u>4,044</u>	<u>23,187</u>
CASH AND CASH EQUIVALENTS		
Net increase (decrease) in cash and cash equivalents	950	(2,407)
Cash and cash equivalents, beginning of year	3,048	5,455
Cash and cash equivalents, end of year	<u>\$ 3,998</u>	<u>\$ 3,048</u>
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	\$ 440	\$ 664
Income taxes	539	631
Supplemental Disclosure of non-cash activity:		
Unrealized (loss) on securities available for sale	\$ (5,436)	(1,033)
Liabilities assumed to acquire right of use assets under operating leases	35	---

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of Pioneer Bankshares, Inc. ("Company"), and its wholly-owned subsidiary Pioneer Bank ("Bank"), conform to accounting principles generally accepted in the United States of America and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Consolidation Policy - The consolidated financial statements of the Company include the Bank as well as Pioneer Financial Services, LLC, and Pioneer Special Assets, LLC which are wholly-owned subsidiaries of the Bank. All significant inter-company balances and transactions have been eliminated.

Use of Estimates – In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Reclassifications - Certain reclassifications have been made to prior period balances to conform to the current year presentation. None were of a material nature and had no effect on prior year net income or stockholders' equity.

Subsequent Events - In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 11, 2023, which is the date the financial statements were available to be issued.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities which the Company intends to hold for indefinite periods of time, including securities used as part of the Company's asset/liability management strategy are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. At December 31, 2022 and 2021, all debt securities were classified as available for sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on debt securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Company intends to sell the security or (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-than-likely that the Company will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

The Company regularly reviews each debt security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, a best estimate of the present value of cash flows expected to be collected from debt securities, the institution's intention with regard to holding the security and the likelihood that the Company would be required to sell the security before recovery.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Restricted equity securities are comprised primarily of Federal Home Loan Bank stock and Federal Reserve Bank stock. Restricted securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

Gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

Loans Receivable - Loans receivable are intended to be held until maturity and are reported at their outstanding principal balance net of any adjustments for charge-offs, unearned income, the allowance for loan losses, and deferred loan fees and costs. Interest is computed by methods which generally result in level rates of return on principal. Interest income is generally not recognized on nonaccrual loans and payments received on such loans are applied as a reduction of the loan principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The Company classifies all loans as past due when the payment of principal and interest based upon contractual terms is 30 or more days delinquent.

The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection for all loan classes. Commercial non-real estate classes are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or generally when principal or interest becomes 90 days past due, whichever occurs first. Real estate loans, which includes the residential, commercial, construction and land categories, are generally placed on nonaccrual status when principal and interest becomes 90 days past due. Consumer non-real estate loans, including personal automobile loans and all other individual loans are placed on nonaccrual status at varying intervals, based on the type of product, generally when principal and interest becomes between 90 days and 120 days past due. Revolving consumer credit card loans are not placed on nonaccrual but are generally charged-off if they reach 120 days past due, with unpaid fees and finance charges reversed against interest income. Consumer non-real estate loans are typically charged off between 90 and 120 days past due unless the loan is well secured and in the process of collection and are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines. In most cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All other loan classes are generally charged off within the range of 90 to 180 days, unless there are specific or extenuating circumstances that warrant further collection or legal actions.

Interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Payments received on nonaccrual loans are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans are generally removed from nonaccrual status when the concern no longer exists as to the collectability of principal and interest and the borrower has been able to demonstrate a specific period of payment performance.

Allowance for Loan Losses – The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb probable losses inherent in the portfolio. This evaluation process is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance evaluation process also gives consideration to risk characteristics associated with each segment of the loan portfolio, which are further defined in Notes 6 and 7 of this report.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

Loans are generally charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on the evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, concentrations of credit within the portfolio, loan growth trends, levels of adversely classified loans, past due trends, as well as other factors related to the knowledge and experience of lending personnel and legal, regulatory, or compliance issues related to lending practices. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their 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 examination.

The allowance consists of specific and various general components. The specific component relates to loans classified as impaired. Specific allowances on an impaired loan are established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 of the circumstances surrounding the loan and the borrower, including 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 and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large commercial real estate loans and construction land loans are reviewed and evaluated on an annual basis or as they become delinquent so as to determine any possible impairment. Residential real estate loans are specifically evaluated for possible impairment on a case by case basis as they become delinquent or are identified as a potential problem credit. The majority of smaller balance homogeneous loans are collectively evaluated for impairment.

Troubled Debt Restructurings - 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 restructure (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. All TDR's are considered to be impaired loans. 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.

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 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.

Bank Premises and Equipment – Land values are carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over estimated useful lives ranging from 3 to 40 years, on a straight-line method.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Other Real Estate Owned- Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned. There was one consumer real estate loan in process of foreclosure and no properties held in other real estate owned as of December 31, 2022. There were no properties held in other real estate owned or formal foreclosure proceedings in process as of December 31, 2021.

Income Taxes – Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. 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 basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during 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 benefit 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 unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no such liabilities recorded as of December 31, 2022 or December 31, 2021.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the Company's consolidated statements of income.

Financial Instruments - In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit-card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank 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.

Cash Flow Reporting – For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Advertising Costs - The Company follows the policy of charging the production costs of advertising to expense as incurred. Advertising expense amounted to \$58,000 and \$63,000, for the years ended December 31, 2022 and 2021, respectively.

Earnings Per Share – Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

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. Potential common shares that may be issued by the Company are determined using the treasury stock method.

Stock Compensation – On an annual basis, the company pays two-thirds of its board of director fees and retainer fees in the form of stock compensation. Additionally, a portion of certain officers' bonuses are periodically paid with stock compensation. The fair market value of the Company's stock at the time of the stock issuance is used as the pricing factor to arrive at the appropriate number of shares issued.

There were no stock options or other stock awards outstanding at December 31, 2022 and 2021.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale.

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain individuals. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Goodwill – Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired. Acquired goodwill is tested for impairment at least annually or more frequently if events and circumstances exist that indicate an impairment test should be performed. The balance of goodwill was \$360,000 at December 31, 2022 and 2021, and was included in other assets on the consolidated balance sheets. The results of management's evaluation of goodwill for impairment determined no impairment charges were required during the years ended December 31, 2022 and 2021.

Recent Accounting Pronouncements – During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 taxes, as required by the standard. The adjustment recorded at adoption was not significant to total shareholders' equity as compared to the December 31, 2022 balance and consisted of an adjustment to the allowance for credit losses on loans, as well as the establishment of a reserve for unfunded loan commitments. Subsequent to adoption, the Company will record adjustments to its allowance for credit losses and reserve for unfunded commitments through the provision for credit losses in the consolidated statements of income.

The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using an average charge-off methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics using call report codes. The Company primarily utilizes a regression analysis of historical loss rates against the Federal Open Market Committee (FOMC) quarterly economic projections for Change in real GDP and National Unemployment to quantify its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: ability of staff, value of collateral, concentrations of credit, other economic conditions, external/legal/regulatory considerations, level and trends of problem loans, the quality of our loan review function, the nature and volume of the loan portfolio, and other factors, as deemed necessary. The Company's CECL implementation process was overseen by the Company's SVP/CFO and AVP/Financial Controller along with an internal workgroup consisting of the Commercial Lending Team, the AVP/Director of Retail Banking, Consumer Loan Officers, and the VP/Chief Risk and Compliance Officer 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. During 2022, the Company calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model. In addition, the Company engaged a third-party to perform a comprehensive model validation.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):*

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions”. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

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.

NOTE 2 *NATURE OF OPERATIONS:*

The Company operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services to its customers through its subsidiary bank. As a state chartered member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Board of Governors of the Federal Reserve Banking System. As of December 31, 2022, the Bank had six branch locations available to customers with 3 being located in Page County, 1 in Greene County, 1 in Rockingham County, and 1 in Albemarle County. The Bank also operates two separate subsidiaries, one being known as Pioneer Financial Services, LLC, which offers a variety of consumer investment and insurance services. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with certain foreclosed properties. The Bank also operates a small Business Banking Center in Harrisonburg, VA. The Business Banking Center primarily services commercial loans for business clients. Additionally, the Bank operates a small consumer loan finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and dealer auto lending.

NOTE 3 *CASH AND DUE FROM BANKS:*

The Federal Reserve Bank reduced the reserve requirement to zero percent effective March 26, 2020. The Bank also maintains required deposit relationships with 3 separate correspondent banks in accordance with their separate and individual Fed Funds Credit Line Agreements. The amount on deposit with these correspondent banks was \$741,000 and \$691,000, as of December 31, 2022 and 2021, respectively.

NOTE 4 *DEPOSITS IN AND FEDERAL FUNDS SOLD TO BANKS:*

The Bank had cash deposited in and federal funds sold to other banks, some of which exceed federally insured limits, totaling approximately \$771,000 thousand and \$3.7 million at December 31, 2022 and 2021, respectively. Management has established acceptable risk tolerances relating to uninsured deposits in other banks and diversifies these funds in accordance with policy guidelines.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES:

The amortized cost and fair value of securities available for sale at December 31, 2022 and 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<u>December 31, 2022</u>				
Available for Sale				
U.S. treasury securities	\$ 15,214	\$ ---	\$ (544)	\$ 14,670
Mortgage-backed securities	2,088	---	(296)	1,792
Agency securities	29,986	---	(3,631)	26,355
State and municipals	17,549	---	(1,492)	16,057
Corporate securities	<u>3,750</u>	<u>---</u>	<u>(383)</u>	<u>3,367</u>
	<u>\$ 68,587</u>	<u>\$ ---</u>	<u>\$ (6,346)</u>	<u>\$ 62,241</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<u>December 31, 2021</u>				
Available for Sale				
U.S. treasury securities	\$ 10,351	\$ ---	\$ (116)	\$ 10,235
Mortgage-backed securities	2,512	13	(50)	2,475
Agency securities	29,983	---	(583)	29,400
State and municipals	19,086	15	(180)	18,921
Corporate securities	<u>750</u>	<u>---</u>	<u>(9)</u>	<u>741</u>
	<u>\$ 62,682</u>	<u>\$ 28</u>	<u>\$ (938)</u>	<u>\$ 61,772</u>

Realized gains and losses on available for sale securities are summarized below:

	2022 (In Thousands)	2021 (In Thousands)
Gains	\$ ---	\$ ---
Losses	<u>(715)</u>	<u>---</u>
Net (Losses)	<u>\$ (715)</u>	<u>\$ ---</u>

Proceeds on the sale of securities available for sale during 2022 totaled \$14.1 million. There were no sales of securities available for sale during the year ended December 31, 2021.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

Equity securities consisted of investments in mutual funds and the common stock of certain community banking institutions at December 31, 2022 and 2021. The following table presents information on the change in the fair value of equity securities that was recognized in earnings during the years ended December 31, 2022 and 2021, as well as the portion of those balances which relate to equity securities still held at December 31, 2022 and 2021.

	For the Years Ended December 31, 2022 2021 (in thousands)	
Net (losses) gains recognized during the year on equity securities	\$ (312)	\$ 502
Net (gains) losses recognized on equity securities sold	<u>310</u>	<u>18</u>
Net unrealized (losses) gains recognized on equity securities still held at the balance sheet date	<u>\$ (2)</u>	<u>\$ 520</u>

The amortized cost and fair value of securities available for sale at December 31, 2022, by contractual maturity, are shown in the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Securities Available for Sale</u>	
	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>
	(In Thousands)	
Due within one year	\$ 12,369	\$ 12,156
Due after one year through five years	44,448	39,799
Due five years through ten years	8,955	7,757
Due after ten years	<u>2,815</u>	<u>2,529</u>
	<u>\$ 68,587</u>	<u>\$ 62,241</u>

Securities available for sale with an amortized cost of \$2,000 and fair value of \$2,000 at December 31, 2021, were pledged to secure public deposits and for other purposes required by law. There were none pledged at December 31, 2022.

Management recognizes that current economic conditions and market trends may result in other than temporary impairment on securities in the Company's portfolio. Management's evaluation of the individual securities within the investment portfolio is performed on a quarterly basis and assesses the unrealized loss positions that exist to determine whether there is potential other than temporary impairment. The key factors considered during this evaluation process are the amount of unrealized loss, percentage decline in value, length of time in loss position, near-term prospects of the issuer, current market activity, financial strength ratings from industry reports, credit quality, credit ratings, as well as management's intent and ability to hold securities until such time that they can recover in value and further assessment and determination that the institution will not be required to sell such investments to meet operational cash flow needs in the near future. In analyzing an issuer's financial condition, management also considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As of December 31, 2022 and 2021, the Company's evaluation concluded there was no other-than-temporary impairment present.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

As of December 31, 2022, there were 41 securities available for sale that had unrealized losses, which was considered to be temporary. The schedule of unrealized losses by category and length of time that each individual security had been in a continuous loss position was as follows (in thousands):

		<u>Corporate Securities</u>	<u>Mortgaged Backed Securities</u>	<u>Agency Securities</u>	<u>State and Municipal Securities</u>	<u>US Treasury Securities</u>	<u>Total</u>
Less than 12 Months	Fair Value	\$2,721	\$ 332	\$---	\$1,870	\$9,868	\$14,791
	Unrealized Losses	(279)	(17)	---	(12)	(172)	(480)
12 or more Months	Fair Value	646	1,459	26,355	14,187	4,803	47,450
	Unrealized Losses	(104)	(279)	(3,631)	(1,481)	(372)	(5,867)
Total	Fair Value	3,367	1,791	26,355	16,057	14,671	62,241
	Unrealized Losses	(383)	(296)	(3,631)	(1,492)	(544)	(6,346)

As of December 31, 2021, there were 26 securities available for sale that had an unrealized loss, which was considered to be temporary. The schedule of unrealized losses by category and length of time that each individual security had been in a continuous loss position was as follows (in thousands):

		<u>Corporate Securities</u>	<u>Mortgaged Backed Securities</u>	<u>Agency Securities</u>	<u>State and Municipal Securities</u>	<u>US Treasury Securities</u>	<u>Total</u>
Less than 12 Months	Fair Value	\$742	\$ ---	\$29,400	\$14,444	\$10,139	\$54,725
	Unrealized Losses	(9)	---	(583)	(180)	(112)	(884)
12 or more Months	Fair Value	---	1,635	---	---	96	1,731
	Unrealized Losses	---	(50)	---	---	(4)	(54)
Total	Fair Value	742	1,635	29,400	14,444	10,235	56,456
	Unrealized Losses	(9)	(50)	(583)	(180)	(116)	(938)

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

The Bank also holds additional investments in the Federal Home Loan Bank of Atlanta (“FHLB”) in the form of FHLB stock, which is a membership requirement. Loan advances from FHLB are subject to additional stock purchase requirements, which are generally redeemed as outstanding loan balances are repaid, subject to FHLB’s quarterly excess capital evaluation process. FHLB evaluates the excess capital stock of its members on a quarterly basis to determine stock repurchase activities. Additionally, the FHLB generally pays quarterly dividends on the outstanding stock investment of each of its members.

FHLB stock is generally viewed as a long term investment and is considered to be a restricted security, which is carried at cost, because there is no market for the stock other than FHLB or other member institutions. As of December 31, 2022 and 2021 the Bank’s investment in FHLB stock totaled approximately \$288,000 and \$269,000, respectively, and was included in restricted securities on the consolidated balance sheets.

Management’s evaluation of FHLB stock for possible impairment is based on the ultimate recoverability of par value rather than recognizing temporary declines in value. Management’s evaluation of FHLB stock as of December 31, 2022 and 2021 did not consider this investment to be other than temporarily impaired, and therefore, no impairment has been recognized.

NOTE 6 LOANS:

Loans are stated at their face amount, net of deferred loan fees, and are classified as follows:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Real estate loans		
Construction & land loans	\$ 7,479	\$ 8,904
Residential equity lines of credit	2,419	2,117
Residential 1-4 family	72,413	61,790
Residential second mortgages 1 - 4 family	2,012	1,730
Residential multifamily	5,886	4,026
Commercial agricultural loans	3,639	3,981
Commercial municipal loans	302	335
Commercial owner & non-owner occupied	69,407	58,425
Total real estate loans	163,557	141,308
Commercial non real estate loans	19,992	14,235
Consumer non real estate loans		
Personal installments	23,734	22,989
Credit cards	532	478
Total consumer installment loans	24,266	23,467
Gross loans ⁽¹⁾	207,815	179,010
Less allowance for loan losses	(2,117)	(2,330)
Net loans receivable	\$ 205,698	\$ 176,680

(1)Gross loans are presented net of deferred loan fees and discounts of \$265,000 and \$248,000, respectively for December 31, 2022 and 2021.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The Bank grants commercial, real estate and consumer installment loans to its customers. Collateral requirements for loans are determined on a case by case basis depending upon the purpose of the loan and the financial condition of the borrower. The ultimate collectability of the Bank's loan portfolio and the ability to realize the value of any underlying collateral, if needed, are influenced by the economic conditions of its market service area.

The Bank's loan portfolio is concentrated in real estate loans, including those secured by residential consumer properties and small business commercial properties. The residential real estate loans, including equity lines of credit, residential 1 – 4 family first and second mortgages, and multifamily loans totaled \$82.7 million as of December 31, 2022 as compared to \$69.7 million at December 31, 2021. The small business commercial real estate loans, including commercial construction and land loans, agricultural/farm loans, and other business properties totaled \$80.7 million as of December 31, 2022 as compared to \$71.1 million at December 31, 2021. Management has established specific lending criteria relating to real estate loans as a means of assessing the risk inherent in the portfolio.

Deposit account overdrafts are also classified as loans and totaled \$55,000 and \$38,000 as of December 31, 2022 and 2021, respectively.

The following table reflects the detailed breakdown of impaired loans with and without a recorded allowance by loan class as of and for the year ended December 31, 2022 (in thousands):

Impaired Loans with a Recorded Allowance <u>December 31, 2022</u>	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Residential Real Estate					
1-4 Family Residences	\$ 1,099	\$ 1,099	\$ 87	\$ 985	\$ 58
Consumer					
Automobile Loans	<u>16</u>	<u>16</u>	<u>12</u>	<u>9</u>	<u>1</u>
Totals	<u>\$ 1,115</u>	<u>\$ 1,115</u>	<u>\$ 99</u>	<u>\$ 994</u>	<u>\$ 59</u>
Impaired Loans without a Recorded Allowance <u>December 31, 2022</u>	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	
Construction & Land Loans					
Other – Land Only	\$ 8	\$ 8	\$ 10	\$ 2	
Residential Real Estate					
Equity Lines of Credit	59	59	60	---	
1-4 Family Residences	2,501	2,501	2,435	100	
Commercial Real Estate					
Owner Occupied	1,834	1,834	1,099	140	
Agricultural Loans	313	313	331	20	
Totals	<u>\$ 4,715</u>	<u>\$ 4,715</u>	<u>\$3,935</u>	<u>\$ 262</u>	

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the detailed breakdown of impaired loans with and without a recorded allowance by loan class as of and for the year ended December 31, 2021 (in thousands):

Impaired Loans with a Recorded Allowance <u>December 31, 2021</u>	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Residential Real Estate					
1-4 Family Residences	\$ 871	\$ 871	\$ 102	\$ 725	\$ 23
Consumer					
Automobile Loans	<u>2</u>	<u>2</u>	<u>1</u>	<u>15</u>	<u>1</u>
Totals	<u>\$ 873</u>	<u>\$ 873</u>	<u>\$ 103</u>	<u>\$ 740</u>	<u>\$ 24</u>
Impaired Loans without a Recorded Allowance <u>December 31, 2021</u>	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	
Construction & Land Loans					
Other – Land Only	\$ 12	\$ 12	\$ 6	\$ 1	
Residential Real Estate					
Equity Lines of Credit	60	60	59	3	
1-4 Family Residences	2,368	2,368	2,374	121	
Commercial Real Estate					
Owner Occupied	363	363	967	9	
Agricultural Loans	349	349	264	18	
Commercial – Non Real Estate					
Agricultural Loans	---	---	5	---	
Industrial Loans	---	---	45	---	
Totals	<u>\$ 3,152</u>	<u>\$ 3,152</u>	<u>\$3,720</u>	<u>\$ 152</u>	

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2022 (in thousands):

Past Due Loans by Class	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Total Current	Total Loans
Construction & Land Loans						
Residential	\$ ---	\$ ---	\$ ---	\$ ---	\$ 177	\$ 177
Commercial	---	---	---	---	3,273	3,273
Other – Land only	---	---	---	---	4,029	4,029
Residential Real Estate						
Equity Lines of Credit	---	---	---	---	2,419	2,419
1-4 Family Residences	1,888	182	77	2,147	72,278	74,425
Multifamily Dwellings	---	---	---	---	5,886	5,886
Commercial Real Estate						
Owner & non-owner occupied	1,478	---	---	1,478	67,929	69,407
Agricultural / Farm loans	---	---	79	79	3,560	3,639
Municipals	---	---	---	---	302	302
Commercial – Non Real Estate						
Agricultural	---	---	---	---	425	425
Industrial	---	---	---	---	16,446	16,446
Municipals	---	---	---	---	3,121	3,121
Consumer – Non Real Estate						
Credit Cards	1	---	---	1	531	532
Automobile loans	517	69	16	602	19,069	19,671
Other personal loans	<u>36</u>	<u>1</u>	<u>---</u>	<u>37</u>	<u>4,026</u>	<u>4,063</u>
Totals Gross Loans	<u>\$ 3,920</u>	<u>\$ 252</u>	<u>\$ 172</u>	<u>\$ 4,344</u>	<u>\$ 203,471</u>	<u>\$ 207,815</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2021 (in thousands):

<u>Past Due Loans by Class</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Total Current</u>	<u>Total Loans</u>
Construction & Land Loans						
Residential	\$ ---	\$ ---	\$ ---	\$ ---	\$ 550	\$ 550
Commercial	---	---	---	---	1,197	1,197
Other – Land only	---	---	12	12	7,145	7,157
Residential Real Estate						
Equity Lines of Credit	---	---	---	---	2,117	2,117
1-4 Family Residences	1,322	673	140	2,135	61,385	63,520
Multifamily Dwellings	---	---	---	---	4,026	4,026
Commercial Real Estate						
Owner & non-owner occupied	256	---	---	256	58,169	58,425
Agricultural / Farm loans	---	---	---	---	3,981	3,981
Municipals	---	---	---	---	335	335
Commercial – Non Real Estate						
Agricultural	---	---	---	---	322	322
Industrial	---	---	---	---	12,634	12,634
Municipals	---	---	---	---	1,279	1,279
Consumer – Non Real Estate						
Credit Cards	1	---	3	4	474	478
Automobile loans	263	82	---	345	17,896	18,241
Other personal loans	<u>22</u>	<u>--</u>	<u>2</u>	<u>24</u>	<u>4,724</u>	<u>4,748</u>
Totals Gross Loans	<u>\$ 1,864</u>	<u>\$ 755</u>	<u>\$ 157</u>	<u>\$ 2,776</u>	<u>\$ 176,234</u>	<u>\$ 179,010</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2022 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual Loans
Residential Real Estate		
1-4 Family Residences	\$ ---	\$ 465
Commercial Real Estate		
Agricultural / Farm loans	---	79
Consumer – Non Real Estate		
Automobile loans	<u>16</u>	<u>---</u>
Totals Gross Loans	<u>\$ 16</u>	<u>\$ 544</u>

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2021 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual Loans
Construction & Land Loans		
Other – Land Only	\$ 12	\$ ---
Residential Real Estate		
1-4 Family Residences	58	521
Commercial Real Estate		
Agricultural / Farm loans	---	92
Consumer – Non Real Estate		
Automobile loans	---	1
Other personal loans	<u>1</u>	<u>---</u>
Totals Gross Loans	<u>\$ 71</u>	<u>\$ 614</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 **LOANS: (continued)**

Loans past due greater than 90 days and still accruing interest at December 31, 2022 and 2021 totaled \$16,000 and \$71,000, respectively. Management continually monitors past due accounts and places these accounts in nonaccrual status if the payment plans are not adhered to. Nonaccrual loans excluded from impaired loan disclosure amounted to \$12,000 and \$20,000, at December 31, 2022 and 2021, respectively. The nonaccrual loans excluded from impaired loan disclosure at December 31, 2022 and 2021 consisted primarily of real estate loans, which were in the process of collection.

The loan portfolio is comprised of various categories or segments, each of which have certain risk characteristics that are evaluated at the time of loan origination and periodically thereafter. Construction loans carry risks associated with whether or not the project will be completed according to schedule and within its original budget, as well as valuation risk associated with the overall value of the collateral upon completion. Residential real estate loans carry risks associated with continued credit-worthiness and financial stability of the borrower, as well as potential valuation changes relating to collateral. Commercial real estate loans carry risks associated with the continued operations of the business, as well as sufficient cash flow and profitability to service the debt. Additionally, commercial real estate loans are subject to risks associated with potential collateral valuation changes.

Commercial non-real estate loans, including those in the industrial and agricultural categories, carry similar risks to the commercial real estate loans, as they are dependent upon the continued successful business operations and cash flow. Commercial non-real estate loans also carry a risk associated with collateral being more difficult to assess. Consumer loans carry risks associated with the continued credit-worthiness and financial stability of the borrower, as well as potential for rapid depreciation or reduced value of the collateral, especially in automobile lending.

During 2021 the Company participated in the Paycheck Protection Program (PPP). The PPP commenced subsequent to the passage of the Coronavirus Aid, Relief and Economic Security ("CARES") Act in March 2020, and was later expanded by the Paycheck Protection Program and Health Care Enhancement Act of April 2020 and the Consolidated Appropriations Act of 2021. The PPP was designed to provide U.S. small businesses with cash-flow assistance during the COVID-19 pandemic through loans that are fully guaranteed by the Small Business Administration (SBA) which could then be forgiven upon satisfaction of certain criteria. The Company had 4 PPP loans with outstanding balances totaling \$667 thousand as of December 31, 2021 and no outstanding PPP loans as of December 31, 2022. As compensation for originating the loans, the Company received lender processing fees from the SBA, which were deferred, along with the related loan origination costs. These net fees were accreted to interest income over the contractual life of the loans. Upon forgiveness of a PPP loan and repayment by the SBA, which may be prior to the loan's maturity, the remainder of any unrecognized net fees were recognized in interest income. The outstanding PPP loans were included in the commercial and industrial segment at December 31, 2021. The Bank processed a significant amount of PPP loans which resulted in additional interest and loan fee income of approximately \$26,000 for the year ended December 31, 2022 and approximately \$2.0 million for the year ended December 31, 2021. This income is included in interest income on loans in the consolidated income statement included in this report.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 **LOANS: (continued)**

Management has developed an internal loan risk rating system as part of its credit analysis process which serves as the credit quality indicator for loans in the portfolio. Non-retail loans (i.e. all loans, excluding loans to consumers for home mortgages or other consumer purposes) are assigned an appropriate risk rating at the time of origination based on specific assessment factors relating to the borrower's ability to meet contractual obligations under the loan agreement. This process includes reviewing borrowers' financial information, historical payment experience, credit documentation, public information, and other information specific to each borrower. Loan rating assessments also include consideration of business cash flow and debt obligations. Risk ratings are generally reviewed on an annual basis for credit relationships with total credit exposure of \$500,000 or more, or at any point management becomes aware of information affecting the borrower's ability to fulfill their obligations. Management utilizes both internal and external loan review processes as a means of monitoring the appropriateness of risk ratings across the loan portfolio. Retail credits are assigned a pass rating at the time of their origination. Updates to risk ratings assigned to retail credits are made primarily on the basis of the payment activity.

The Bank's internal rating system includes multiple ratings considered to be indicative of pass rated credits, as well as several non-pass or classified ratings consisting of special mention, substandard, doubtful, and loss. Pass credits generally consist of loans secured by cash or cash equivalents and loans to borrowers with a strong cash flow ratio, stable financial net worth and above average sources of liquidity to meet financial obligations and may also include loans to borrowers that may have minor, yet manageable, weaknesses related to the stability of cash flow and repayment sources and may require periodic monitoring. Special mention credits are loans that have identified weaknesses or adverse trends in the borrower's financial position that could potentially impact the Bank's credit position at some future date if not monitored closely. Substandard credits are those loans that have been identified as having a well-defined, specific, or major weakness in the primary cash flow sources or upon which significant reliance is being placed on secondary sources of repayment due to the borrower's financial difficulties. Potential for losses related to substandard credits is evaluated on a regular basis with specific allocations being made as needed, as well as other corrective actions necessary to protect the institution. Loans categorized as doubtful also have well defined weaknesses with the added characteristic of the likelihood that collection of payment in full is highly questionable or perhaps improbable. Loans classified as loss are considered to be totally uncollectible or of such little value that their continuance on the Bank's books as an asset is not warranted. Retail credits 90 or more days past due are generally classified as substandard, with residential real estate loans being evaluated for individual impairment on a case by case basis as they become delinquent or are identified as a potential problem credit.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following tables represent summaries of the Bank's loan portfolio by class and credit quality indicator as of December 31, 2022 (in thousands):

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total Loans</u>
Construction & Land Loans						
Residential	\$ 177	\$ ---	\$ ---	\$ ---	\$ ---	\$ 177
Commercial	3,273	---	---	---	---	3,273
Other – Land only	4,021	---	8	---	---	4,029
Residential Real Estate						
Equity Lines of Credit	2,419	---	---	---	---	2,419
1-4 Family Residences	72,192	76	2,157	---	---	74,425
Multifamily Dwellings	5,886	---	---	---	---	5,886
Commercial Real Estate						
Owner & non-owner occupied	66,772	1,296	1,339	---	---	69,407
Agricultural / Farm loans	2,760	566	313	---	---	3,639
Municipals	302	---	---	---	---	302
Commercial – Non Real Estate						
Agricultural	425	---	---	---	---	425
Industrial	16,446	---	---	---	---	16,446
Municipals	3,121	---	---	---	---	3,121
Consumer – Non Real Estate						
Credit Cards	532	---	---	---	---	532
Automobile loans	19,597	---	74	---	---	19,671
Other personal loans	<u>4,060</u>	<u>---</u>	<u>3</u>	<u>---</u>	<u>---</u>	<u>4,063</u>
Totals Gross Loans	<u>\$201,983</u>	<u>\$1,938</u>	<u>\$ 3,894</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 207,815</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following tables represent summaries of the Bank's loan portfolio by class and credit quality indicator as of December 31, 2021 (in thousands):

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total Loans</u>
Construction & Land Loans						
Residential	\$ 319	\$ ---	\$ 231	\$ ---	\$ ---	\$ 550
Commercial	1,197	---	---	---	---	1,197
Other – Land only	7,126	---	31	---	---	7,157
Residential Real Estate						
Equity Lines of Credit	2,117	---	---	---	---	2,117
1-4 Family Residences	61,383	78	2,059	---	---	63,520
Multifamily Dwellings	4,026	---	---	---	---	4,026
Commercial Real Estate						
Owner & non-owner occupied	53,800	4,625	---	---	---	58,425
Agricultural / Farm loans	2,847	784	350	---	---	3,981
Municipals	335	---	---	---	---	335
Commercial – Non Real Estate						
Agricultural	322	---	---	---	---	322
Industrial	12,634	---	---	---	---	12,634
Municipals	1,279	---	---	---	---	1,279
Consumer – Non Real Estate						
Credit Cards	475	---	3	---	---	478
Automobile loans	18,138	---	103	---	---	18,241
Other personal loans	<u>4,746</u>	<u>---</u>	<u>2</u>	<u>---</u>	<u>---</u>	<u>4,748</u>
Totals Gross Loans	<u>\$170,744</u>	<u>\$5,487</u>	<u>\$ 2,779</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 179,010</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 *LOANS: (continued)*

At December 31, 2022, there were a total of \$1.5 million in loans classified as troubled debt restructurings, with no additional loans modified during 2022. There were approximately \$788,000 in restructured loan balances classified as performing and in compliance with their modified terms at December 31, 2022. Restructured loans classified as nonperforming based on their past due or nonaccrual status at December 31, 2022 totaled \$679,000. There were no unfunded commitments for loans classified as troubled debt restructures as of December 31, 2022 and no new troubled debt restructuring during the year ended December 31, 2022.

At December 31, 2021, there were a total of \$1.7 million in loans classified as troubled debt restructurings, with approximately \$157,000 being loans that were modified during 2021. There were approximately \$1.1 in restructured loan balances classified as performing and in compliance with their modified terms at December 31, 2021. Restructured loans classified as nonperforming based on their past due or nonaccrual status at December 31, 2021 totaled \$610,000. There were no unfunded commitments for loans classified as troubled debt restructures as of December 31, 2021. The following table details the number of loans and balances of loans modified in troubled debt restructurings for the year ended December 31, 2021:

(Dollars in thousands)

	Number of TDR <u>modifications</u>	Pre- modification outstanding recorded <u>investment</u>	Post- modification outstanding recorded <u>investment</u>
Residential Real Estate – 1- 4 Family Residences	3	\$159	\$159
Total	<u>3</u>	<u>\$ 159</u>	<u>\$159</u>

Loans classified as troubled debt restructurings are monitored for payment default on an on-going basis. There were no loans that defaulted within 12 months of the original modification date during the years ended December 31, 2022 and 2021. The Bank defines default as those accounts having payments 90 days or more past due.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 ALLOWANCE FOR LOAN LOSSES (ALLL):

The summary table below includes the allowance allocations and total loans evaluated both individually and collectively for impairment, as well as a roll-forward representation of the activity that has occurred in the allowance account during the period ending December 31, 2022 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Total
ALLL ending balance 12/31/2021	<u>\$ 77</u>	<u>\$ 828</u>	<u>\$ 757</u>	<u>\$ 132</u>	<u>\$ 536</u>	<u>\$ 2,330</u>
Charge-offs	---	---	---	---	(287)	(287)
Recoveries	---	---	12	---	310	322
Provision	<u>(25)</u>	<u>(53)</u>	<u>(25)</u>	<u>26</u>	<u>(171)</u>	<u>(248)</u>
ALLL ending Balance 12/31/2022	<u>\$ 52</u>	<u>\$ 775</u>	<u>\$ 744</u>	<u>\$ 158</u>	<u>\$ 388</u>	<u>\$ 2,117</u>
Evaluated individually for impairment	--	87	---	---	12	99
Evaluated collectively for impairment	52	688	744	158	376	2,018
Total Gross Loans 12/31/2022	<u>\$ 7,479</u>	<u>\$ 82,730</u>	<u>\$ 73,348</u>	<u>\$ 19,992</u>	<u>\$ 24,266</u>	<u>\$ 207,815</u>
Evaluated individually for impairment	8	3,659	2,147	---	16	5,830
Evaluated collectively for impairment	7,471	79,071	71,201	19,992	24,250	201,985

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 ALLOWANCE FOR LOAN LOSSES (ALLL): (continued)

The summary table below includes the allowance allocations and total loans evaluated both individually and collectively for impairment, as well as a roll-forward representation of the activity that has occurred in the allowance account during the period ending December 31, 2021 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Loans to Non depository Financial Institutions	Total
ALLL ending balance 12/31/2020	<u>\$ 80</u>	<u>\$ 880</u>	<u>\$ 768</u>	<u>\$ 179</u>	<u>\$ 636</u>	<u>\$ 95</u>	<u>\$ 2,638</u>
Charge-offs	---	---	---	---	(350)	---	(350)
Recoveries	---	18	13	---	294	---	325
Provision	(3)	(70)	(24)	(47)	(44)	(95)	(283)
ALLL ending Balance 12/31/2021	<u>\$ 77</u>	<u>\$ 828</u>	<u>\$ 757</u>	<u>\$ 132</u>	<u>\$ 536</u>	<u>\$ ---</u>	<u>\$ 2,330</u>
Evaluated individually for impairment	--	102	---	---	1	---	103
Evaluated collectively for impairment	77	726	757	132	535	---	2,227
Total Gross Loans 12/31/2021	<u>\$ 8,904</u>	<u>\$ 69,663</u>	<u>\$ 62,741</u>	<u>\$ 14,235</u>	<u>\$ 23,467</u>	<u>\$ ---</u>	<u>\$ 179,010</u>
Evaluated individually for impairment	12	3,299	712	---	2	---	4,025
Evaluated collectively for impairment	8,892	66,364	62,029	14,235	23,465	---	174,985

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 *BANK PREMISES and EQUIPMENT:*

Bank premises, equipment and computer software included in the financial statements at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
	(In Thousands)	
Land	\$ 1,627	\$ 1,627
Land improvements and buildings	5,851	6,046
Furniture and equipment	4,676	4,909
Computer software	<u>1,618</u>	<u>1,679</u>
	13,772	14,261
Less accumulated depreciation	<u>9,785</u>	<u>9,979</u>
Net	<u>\$ 3,987</u>	<u>\$ 4,282</u>

Depreciation and amortization related to bank premises, equipment and software included in operating expense was \$344,000 and \$359,000 for December 31, 2022 and 2021, respectively.

NOTE 9 *LEASES:*

The Company leases an office property and may, from time to time, lease equipment used in its operations in the normal course of business. Leases greater than 12 months in duration are recorded in the consolidated balance sheets at the lease commencement date and are classified as either operating or finance leases based on the Company's assessment of the underlying agreement.

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. 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 currently has two long-term leases; a branch location in Charlottesville, Virginia, and a commercial loan office in Harrisonburg, Virginia. Both leases are reflected in the tables below. There are no options to renew included in either lease agreement. This lease agreement also does not provide for a residual value guarantee and has no restrictions or covenants that would impact dividends or require incurring additional financial obligations. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

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

(Dollars in thousands)	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Lease Liability	\$ 56	\$ 100
Right-of-use asset	\$ 55	\$ 97
Weighted average remaining lease term	7.6 months	1.4 years
Weighted average discount rate	3.11%	2.81%

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 LEASES: (continued)

	For the Years Ended	
(Dollars in thousands)	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash paid for amounts included in lease liabilities	\$ 81	\$ 70
Operating lease cost	\$ 81	\$ 70

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

For the years ending December 31	Lease Payments Due (in thousands)
2023	\$ 48
2024	9
Total undiscounted cash flows	<u>\$ 57</u>
Discount	(1)
Lease liability	<u>\$ 56</u>

NOTE 10 DEPOSITS:

The Bank's total deposit portfolio consists primarily of demand checking accounts, savings accounts and time deposit accounts. Total deposits were \$257.3 million and \$252.3 million as of December 31, 2022 and 2021, respectively. Included in total deposits were reciprocal CDARs balances which totaled \$2.3 million at December 31, 2021. There were no reciprocal CDARs balances as of December 31, 2022. Customer time deposit balances that met or exceeded the \$250,000 FDIC insurance limit totaled \$24.3 million and \$2.9 million as of December 31, 2022 and 2021, respectively. At December 31, 2022, time deposit scheduled maturities (in thousands) were as follows:

2023	\$ 40,035
2024	8,079
2025	1,410
2026	550
2027	1,928
2028 & Beyond	<u>792</u>
Total	<u>\$ 52,794</u>

The Bank had one customer with large deposit balances exceeding 5% of total deposits as of December 31, 2022. The total deposit balances for this customer as of December 31, 2022 were \$19.5 million or 7.59% of total deposits.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 *BORROWINGS:*

The Bank has a line of credit with the Federal Home Loan Bank of Atlanta upon which credit advances can be made up to 40% of total Bank assets, subject to certain eligibility requirements. The total credit availability as of December 31, 2022 was \$91.6 million, with outstanding advance and letter of credit balances totaling \$9.5 million. The net remaining availability as of December 31, 2022 was \$82.1 million, subject to additional collateral requirements. Outstanding FHLB advances at December 31, 2022 consisted of one fixed rate advance in the amount of \$2.5 million with an interest rate of 3.37%. Additionally, the Bank had a letter of credit in the amount of \$7.0 million which was pledged to secure public deposits. The \$2.5 million advance requires quarterly interest payments with the full amount of principal due at maturity in December 2028. FHLB advances bear interest at a fixed or floating rate depending on the terms and maturity of each advance and numerous renewal options are available. At December 31, 2022, the Bank had \$25.0 million of first lien 1-4 family residential mortgages pledged as collateral with \$15.5 million in unused credit availability. On certain fixed rate advances, the FHLB may convert the advance to an indexed floating rate at some set point in time for the remainder of the term. If the advance converts to a floating rate, the Bank may repay all or part of the advance without a prepayment penalty. At December 31, 2021, the Bank had total outstanding advances of \$2.5 million and a letter of credit of \$7.0 million.

The Bank also has available unsecured credit lines with other correspondent banks totaling \$21.0 million, which can be used for short-term liquidity purposes, if necessary. Any funds borrowed on these credit lines are required to be repaid within 7 to 30 business days. The interest rate on such borrowings is set in accordance with the then current daily market rate. As of December 31, 2022 and 2021, there were no outstanding borrowings against these credit facilities.

NOTE 12 *DIVIDEND LIMITATION ON SUBSIDIARY BANK:*

A principal source of funds of the Company is dividend transfers paid by the Bank. The amount of dividends the Bank may pay to the Company is regulated by the Federal Reserve. As of December 31, 2022, the maximum amount of dividends the Bank could pay to the Company was \$6.8 million or 20.96% of the consolidated net assets, without requesting permission from the Federal Reserve Bank. There are additional regulatory guidelines, which establishes further limitations for banks based on quarterly earnings.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 **INCOME TAXES:**

The Company files income tax returns in the U.S. federal jurisdiction and the states of Virginia, West Virginia and North Carolina. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2019. The components of income tax expense are as follows:

	<u>2022</u>	<u>2021</u>
	<u>(In Thousands)</u>	
Current income tax expense	\$ 497	\$ 468
Deferred income tax (benefit) expense	<u>(63)</u>	<u>192</u>
Income Tax Expense	<u>\$ 434</u>	<u>\$ 660</u>

The reasons for the differences between income tax expense and the amount computed by applying the statutory federal income tax rate are as follows:

	<u>2022</u>	<u>2021</u>
	<u>(In Thousands)</u>	
Income taxes computed at the applicable federal income tax rate	\$ 630	\$ 888
Increase (decrease) resulting from:		
Tax-exempt income and dividends	(11)	(10)
Low income housing investments	(219)	(236)
Other	<u>34</u>	<u>18</u>
Income Tax Expense	<u>\$ 434</u>	<u>\$ 660</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAXES: (continued)

At December 31, net deferred tax assets were comprised of the following:

	<u>2022</u>	<u>2021</u>
	<u>(In Thousands)</u>	
Deferred Tax Assets:		
Allowance for loan losses	\$ 351	\$ 422
Lease liability	12	21
Nonaccrual interest	111	104
Securities available for sale	1,333	191
Deferred loan fees	55	52
Other	<u>1</u>	<u>2</u>
Total	\$ <u>1,863</u>	<u>\$ 792</u>
Deferred Tax Liabilities:		
Depreciation	\$ 70	\$ 107
Right-of-use asset	12	20
Cash surrender value of life insurance	54	52
Goodwill	76	76
Equity securities	1	120
Other	<u>45</u>	<u>17</u>
Total	\$ <u>258</u>	<u>\$ 392</u>
Net Deferred Tax Assets	\$ <u><u>1,605</u></u>	<u><u>\$ 400</u></u>

NOTE 14 REGULATORY MATTERS:

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The quantitative measures established by regulation ensure capital adequacy and require the Bank to maintain minimum amounts and ratios as set forth in the table below. In conjunction with the minimum capital requirements, the Bank is also required to maintain a capital conservation buffer which is intended to absorb losses during periods of financial and economic stress. Failure to maintain the minimum ratios, inclusive of the buffer, will result in restrictions on capital distributions and other payments. This buffer was 2.5% for all periods presented and is applicable for all ratios with the exception of the tier 1 leverage ratio. Management believes, as of December 31, 2022 and 2021, the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2022, the most recent notification from the Bank's primary federal regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I, and Tier I leverage ratios as set forth in the table. The Bank's actual capital amounts and ratios are also presented in the following table:

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 REGULATORY MATTERS: (continued)

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
			(in thousands)			
As of December 31, 2022:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 34,921	16.7%	\$ 16,712	≥ 8.0%	\$ 20,890	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 32,804	15.7%	\$ 12,534	≥ 6.0%	\$ 16,712	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 32,804	15.7%	\$ 9,401	≥ 4.5%	\$ 13,579	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	\$ 32,804	11.1%	\$ 11,866	≥ 4.0%	\$ 14,833	≥ 5.0%
As of December 31, 2021:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 32,744	17.8%	\$ 14,707	≥ 8.0%	\$ 18,383	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 30,446	16.6%	\$ 11,030	≥ 6.0%	\$ 14,707	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	\$ 30,446	16.6%	\$ 8,273	≥ 4.5%	\$ 11,949	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	\$ 30,446	10.5%	\$ 11,547	≥ 4.0%	\$ 14,434	≥ 5.0%

NOTE 15 EARNINGS PER SHARE:

The following shows the weighted average number of shares used in computing earnings per share for the years ended December 31, 2022 and 2021.

	<u>2022</u>		<u>2021</u>	
	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>	<u>Weighted Average Shares</u>	<u>Per Share Amount</u>
Basic and diluted earnings per share	1,000,457	\$2.57	991,717	\$ 3.60

There were no potentially dilutive securities outstanding during the years ended December 31, 2022 and 2021.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 **OFF-BALANCE SHEET COMMITMENTS:**

The contract or notional amount of financial instruments with off-balance sheet risks are as follows:

	December 31,	
	2022	2021
	(In Thousands)	
Unfunded lines of credit (commercial and personal)	\$ 14,973	\$ 8,723
Loan commitments and letters of credit (commercial and personal)	18,731	19,096
Credit card unused credit limits	1,963	1,689

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 credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the counter-party.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit generally are un-collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments for which collateral is deemed necessary.

NOTE 17 **TRANSACTIONS WITH RELATED PARTIES:**

During the year, executive officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. Deposit account balances of executive officers, directors and their related interests totaled \$18.2 million as of December 31, 2022 and \$27.3 million for the year ended December 31, 2021. Loan transactions, including all extensions of credit to such related parties are shown in the following schedule:

	2022	2021
	(In Thousands)	
Total loans, beginning of year	\$ 3,329	\$ 2,183
New loans	107	774
Effect of change in composition of related parties	400	433
Payments	(487)	(61)
Total loans, end of year	\$ 3,349	\$ 3,329

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price (exit price) that would be received to sell an asset or paid to transfer the liability in the principal or most advantageous market for the asset or the liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or the liability and in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

In accordance with this guidance, the Company groups financial assets and financial liabilities generally measured at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices in active markets, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

Equity securities: Equity securities are recorded at fair value on a recurring basis. Fair values for equity securities are based upon quoted market prices for identical securities in active markets (Level 1) or quoted prices for identical securities in markets not deemed to be active due to the volume of shares transferred and frequency of trades (Level 2).

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2022 and December 31, 2021:

Description	Balances Outstanding (In Thousands)	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>As of December 31, 2022</i>				
U.S. treasury securities	\$ 14,670	\$ ---	\$ 14,670	\$ ---
Mortgage-backed Securities	1,792	---	1,792	---
Agency securities	26,355	---	26,355	---
State & Municipals	16,057	---	16,057	---
Corporate securities	<u>3,367</u>	---	<u>3,367</u>	---
Total Available –for-sale securities	<u>\$ 62,241</u>	<u>\$ ---</u>	<u>\$ 62,241</u>	<u>\$ ---</u>
Equity Securities	\$ 24	\$ 16	\$ 8	\$ ---

As of December 31, 2021

U.S. treasury securities	\$ 10,235	\$ ---	\$ 10,235	\$ ---
Mortgage-backed Securities	2,475	---	2,475	---
Agency securities	29,400	---	29,400	---
State & Municipals	18,921	---	18,921	---
Corporate securities	<u>741</u>	---	<u>741</u>	---
Total Available –for-sale securities	<u>\$ 61,772</u>	<u>\$ ---</u>	<u>\$ 61,772</u>	<u>\$ ---</u>
Equity Securities	\$ 4,127	\$ 4,119	\$ 8	\$ ---

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: The Fair Value Measurement accounting standard also applies to loans measured for impairment including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old, not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business financial statement if not considered significant using observable market data. Internal collateral evaluations relating to commercial loans secured by business assets such as inventory and equipment are generally performed on an annual basis. However, since this is not a formalized or certified valuation, these evaluations are considered to be level 3 for fair value disclosure and reporting purposes. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

For residential and commercial real estate loans considered to be collateral dependent, appraisals or updated collateral evaluations are generally obtained in conjunction with specific allowance allocations and/or anticipated foreclosure proceedings, on a case by case basis, depending upon the strength of additional mitigating arrangements with individual borrowers. The outstanding principal balance of impaired loans net of specific reserves considered to be collateral dependent in the level 3 category as of December 31, 2022 totaled approximately \$1.0 million compared to \$770,000 at December 31, 2021. These loans primarily consisted of consumer real estate and consumer installment loans. As a general rule, management utilizes a significant discount factor for outdated appraisals when calculating its allowance allocation estimates and making specific reserves. Local professional realtors are also contacted regarding potential fair market values in an effort to ensure that the discounted values are within reasonable ranges on individual properties. Additionally, updated tax assessed values are also considered in this evaluation process on a case by case basis.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair market value less selling expenses. Fair value of OREO properties held are generally based on current appraisal values, as previously defined above. There were no properties held in OREO at December 31, 2022 and 2021.

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis during the period.

Description of Assets:	Balances Outstanding (In Thousands)	Carrying values		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2022				
Impaired Loans, net of allowance	\$ 1,016	\$ ---	\$ ---	\$ 1,016
As of December 31, 2021				
Impaired Loans, net of allowance	\$ 770	\$ ---	\$ ---	\$ 770

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2022 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) ⁽¹⁾
Assets				
Impaired loans	\$ 1,016	Discounted appraised value or recent tax assessment values	Selling costs and discounts for age of the valuation and/or lack of marketability	35% - 38% (35%)

⁽¹⁾Weighted based on the relative fair values of the instruments.

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2021 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) ⁽¹⁾
Assets				
Impaired loans	\$ 770	Discounted appraised value or recent tax assessment values	Selling costs and discounts for age of the valuation and/or lack of marketability	30% - 35% (30%)

⁽¹⁾Weighted based on the relative fair values of the instruments.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial statements, including those financial assets and financial liabilities that are not required to be measured at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2022 are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2022 using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Balance
Assets		(In thousands)			
Cash and cash equivalents	\$3,998	\$ 3,998	\$ ---	\$ ---	\$3,998
Interest bearing deposits in other banks	11,305	10,553	---	736	11,289
Federal funds sold	475	475	---	---	475
Securities available for sale	62,241	---	62,241	---	62,241
Equity securities	24	16	8	---	24
Loans, net	205,698	---	---	207,501	207,501
Bank owned life insurance	473	---	473	---	473
Accrued interest receivable	930	---	930	---	930
Liabilities					
Non-interest bearing deposits	95,767	---	95,767	---	95,767
Interest bearing demand deposits	62,517	---	62,517	---	62,517
Savings deposits	46,268	---	46,268	---	46,268
Time deposits	52,794	---	---	52,932	52,932
Borrowings	2,500	---	2,296	---	2,296
Accrued interest payable	221	---	221	---	221

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2021 are as follows:

		Fair Value Measurements at December 31, 2021 using			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Fair Value Balance
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	
Assets		(In thousands)			
Cash and cash equivalents	\$3,048	\$ 3,048	\$ ---	\$ ---	\$3,048
Interest bearing deposits in other banks	33,392	32,640	---	747	33,387
Federal funds sold	2,437	2,437	---	---	2,437
Securities available for sale	61,772	---	61,772	---	61,772
Equity securities	4,127	4,119	8	---	4,127
Loans, net	176,680	---	---	177,774	177,774
Bank owned life insurance	456	---	456	---	456
Accrued interest receivable	812	---	812	---	812
Liabilities					
Non-interest bearing deposits	94,055	---	94,055	---	94,055
Interest bearing demand deposits	57,192	---	57,192	---	57,192
Savings deposits	63,782	---	63,782	---	63,782
Time deposits	37,302	---	---	37,424	37,424
Borrowings	2,500	---	2,956	---	2,956
Accrued interest payable	59	---	59	---	59

NOTE 19 BENEFIT PLANS:

The Bank has a 401(k) Plan available to employees at least 18 years of age on the first day of the month following their start date. Employees may contribute compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 4 percent of an employee's eligible annual compensation, subject to employee contributions. Additional amounts may be contributed, at the option of the Bank's Board of Directors. Prior to January 1, 2021, the Bank's contributions to the 401(k) Plan were in a Profit Sharing Plan. Contributions made on or after January 1, 2021 were in a Safe Harbor Plan. Employer contributions in the Profit Sharing Plan vest to the employee at 100% after six years of service. Employer contributions in the Safe Harbor Plan vest to the employee immediately. Total expense attributable to this 401(k) plan amounted to approximately \$105,000 and \$88,000 for years ending December 31, 2022 and 2021.

The Bank also provides a cafeteria insurance plan including medical, life, and long-term disability coverage for eligible employees. The net expense attributable to this insurance plan was approximately \$346,000 and \$354,000, for the years ending December 31, 2022 and 2021, respectively.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 *LOW INCOME HOUSING TAX CREDIT INVESTMENTS:*

The Bank has invested in seven separate housing equity funds at December 31, 2022. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds were recorded as other assets on the consolidated balance sheets and were \$1.0 million and \$1.4 million at December 31, 2022 and 2021, respectively. The expected terms of these investments and the related tax benefits run through 2034. Tax credits and other tax benefits recognized as a component of income tax expense during the years ended December 31, 2022 and 2021 were \$219,000 and \$236,000 respectively, related to these investments. There are no additional capital calls included in other liabilities as of December 31, 2022. As of December 31, 2021 there was expected capital calls totaling \$5,500, included in other liabilities on the consolidated balance sheets.

NOTE 21 *REVENUE RECOGNITION:*

Substantially all of the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within noninterest income. A limited amount of other in-scope items such as gains and losses on other real estate owned are recorded in noninterest expense. The recognition of interest income and certain sources of noninterest income (e.g. gains on sales of securities available for sale, change in fair value of equity securities, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in noninterest income are discussed in the following paragraphs.

Service Charges on Deposit Accounts

The majority of the company's noninterest income is derived from short term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM and interchange fees, and fees for various services such as stop payments, wire transfers, and cashiers checks. The Company's performance obligations on revenue generated from deposit accounts and other related services are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized. The company earns interchange fees from debit and credit cardholder transactions conducted through the Visa and MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are generally recognized daily, concurrently with the transaction processing services provided to the cardholder.

Commission Income

Commissions are primarily received on the brokerage of investment and insurance services to customers. Brokerage fee commissions are earned when a financial instrument trade is completed or an insurance contract is signed. Revenue from these services is recognized monthly.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 REVENUE RECOGNITION (continued):

Noninterest income disaggregated by major source, for the years ended December 31, 2022 and 2021, consisted of the following:

Noninterest income (in thousands):	Years Ended December 31,	
	2022	2021
Service charges on deposit accounts [1]:		
Overdrawn account and nonsufficient funds charges	\$ 414	\$ 309
ATM fees	766	774
Monthly service charges	103	99
Other service charges	19	17
Commission income [1]	69	98
Gain on sale of other investment	1,442	---
Gain (loss) on sale of fixed assets [1]	316	(3)
Change in fair value of equity securities	(312)	502
Loss on sale of securities available for sale	(715)	---
Other operating income [2]	86	91
Total noninterest income	<u>\$ 2,188</u>	<u>\$ 1,887</u>

[1] Income within the scope of Topic 606.

[2] For the years ended December 31, 2022 and 2021, includes other income within the scope of Topic 606 amounting to \$69 thousand and \$74 thousand, respectively.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 *PARENT CORPORATION ONLY FINANCIAL STATEMENTS:*

BALANCE SHEETS

	December 31,	
	2022	2021
	(In Thousands)	
ASSETS		
Cash and cash equivalents	\$ 3,711	\$ 210
Investment in subsidiary	28,150	30,087
Equity securities, at fair value	24	4,127
Bank premises and equipment, net	329	342
Other assets	123	187
Total Assets	<u>\$ 32,337</u>	<u>\$ 34,953</u>
LIABILITIES		
Accrued expenses and other liabilities	\$ 7	\$ 128
Total Liabilities	<u>7</u>	<u>128</u>
STOCKHOLDERS' EQUITY		
Common stock	502	498
Retained earnings	36,842	35,045
Accumulated other comprehensive (loss)	<u>(5,014)</u>	<u>(718)</u>
Total Stockholders' Equity	<u>32,330</u>	<u>34,825</u>
Total Liabilities and Stockholders' Equity	<u>\$ 32,337</u>	<u>\$ 34,953</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF INCOME

	December 31,	
	2022	2021
	(In Thousands)	
INCOME		
Dividends from subsidiary	\$ 550	\$ 1,300
Interest income	3	---
Dividend income	1	57
Change in fair value of equity securities	(312)	503
Rent income	82	83
Total Income	<u>324</u>	<u>1,943</u>
EXPENSES		
Compensation expense	78	69
Occupancy expenses	34	37
Other operating expenses	50	56
Total Expenses	<u>162</u>	<u>162</u>
Net income before income tax (benefit) expense and undistributed income of subsidiary	162	1,781
INCOME TAX (BENEFIT) EXPENSE	<u>(47)</u>	<u>95</u>
Net income before undistributed income of subsidiary	209	1,686
Undistributed income of subsidiary	<u>2,358</u>	<u>1,882</u>
NET INCOME	<u>\$ 2,567</u>	<u>\$ 3,568</u>

PIONEER BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF CASH FLOWS

		December 31,
	2022	2021
		(In Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,567	\$ 3,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed subsidiary income	(2,358)	(1,882)
Fair value adjustment on equity securities	312	(503)
Depreciation	24	24
Stock based compensation	205	202
Net change in:		
Other assets	63	(54)
Accrued expenses and other liabilities	(121)	110
Net Cash Provided by Operating Activities	<u>692</u>	<u>1,465</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities	3,791	232
Purchase of equity securities	---	(2,781)
Purchase of bank premises and equipment	(11)	---
Net Cash Provided by (Used In) Investing Activities	<u>3,780</u>	<u>(2,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(971)	(953)
Net Cash Used in Financing Activities	<u>(971)</u>	<u>(953)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	3,501	(2,037)
Cash and Cash Equivalents, Beginning of Year	<u>210</u>	<u>2,247</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,711</u>	<u>\$ 210</u>