

CNB
Community
Bancorp,
Inc.

Hillsdale, Michigan



Years Ended
December 31,
2023 and 2022

Consolidated
Financial
Statements

CNB COMMUNITY BANCORP, INC.

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INDEPENDENT AUDITORS' REPORT

March 13, 2024

Board of Directors and Shareholders
CNB Community Bancorp, Inc.
Hillsdale, Michigan

Opinion

We have audited the accompanying consolidated financial statements of **CNB Community Bancorp, Inc.** (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **CNB Community Bancorp, Inc.** as of December 31, 2023 and 2022, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Corporation's internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2024, expressed an unqualified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation 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.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in 2023 the Company adopted Accounting Standards Codification 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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.

Rehmann Lobarr LLC

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except share data)

	December 31,	
	2023	2022
ASSETS		
Cash and due from banks	\$ 73,791	\$ 119,859
Certificates of deposits	-	245
Investment Securities		
Marketable equity securities	377	228
AFS debt securities, at fair value (amortized cost of \$70,549 and \$26,342) ⁽¹⁾	67,579	23,123
HTM debt securities, at amortized cost, net of allowance for credit losses of \$0 ⁽¹⁾	106,866	99,544
Portfolio Loans	967,541	892,970
Allowance for credit loss	(12,967)	(12,890)
Total loans, net	954,574	880,080
Loans held for sale	436	751
Accrued interest receivable	4,973	3,790
Premises and equipment, net	10,670	9,823
Bank-owned life insurance	16,572	15,711
Goodwill	2,591	2,591
Other	7,532	9,556
Total assets	\$ 1,245,961	\$ 1,165,301
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	\$ 224,546	\$ 273,701
NOW, MMDA, and other interest-bearing deposits	545,307	475,621
Savings	160,331	186,721
Time	143,204	127,282
Total deposits	1,073,388	1,063,325
FHLB advances	50,000	-
Other borrowings	5,212	6,615
Accrued interest payable	782	295
Due to broker	12,637	-
Other	8,355	6,930
Total liabilities	1,150,374	1,077,165
Commitments and contingencies (Notes 12, 13, 14, and 15)		
Shareholders' equity		
Common stock, no par value; 4,000,000 shares authorized, 2,204,695 shares issued and outstanding (2,189,581 at December 31, 2022)	16,319	15,779
Unearned restricted stock awards	(1,029)	(1,037)
Retained earnings	83,565	75,945
Accumulated other comprehensive (loss) income	(3,268)	(2,551)
Total shareholders' equity	95,587	88,136
Total liabilities and shareholders' equity	\$ 1,245,961	\$ 1,165,301

⁽¹⁾ AFS is Available-for-Sale and HTM is Held-to-Maturity

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Year Ended December 31,	
	2023	2022
Interest and dividend income		
Loans, including fees	\$ 49,245	\$ 39,586
Debt securities		
Taxable	2,559	1,855
Tax-exempt	444	398
Dividends and other	5,064	1,672
Total interest and dividend income	57,312	43,511
Interest expense		
Deposits	16,380	3,387
Borrowed funds	296	314
Total interest expense	16,676	3,701
Net interest income	40,636	39,810
Provision for credit losses ⁽²⁾	600	1,145
Net interest income after provision for loan losses	40,036	38,665
Noninterest income		
Service charges on deposit accounts	1,253	1,164
Trust fees	1,939	1,796
Gain on loans sold	664	996
ATM service charges	2,426	2,399
Net gain (loss) on equity securities	42	(13)
Net loan servicing fees	324	241
Other	1,086	1,349
Total noninterest income	7,734	7,932
Noninterest expenses		
Compensation and benefits	19,658	17,716
Occupancy and equipment, net	5,981	5,698
Marketing and public relations	866	1,216
ATM fees	1,384	1,236
Professional services	1,019	993
Data communications	1,057	302
Other	4,574	4,197
Total noninterest expenses	34,539	31,358
Income before federal income taxes	13,231	15,239
Federal income taxes	2,618	3,032
Net income	\$ 10,613	\$ 12,207
Net income per basic share of common stock	\$ 4.91	\$ 5.68

⁽²⁾ Beginning January 1, 2023, calculation is based on CECL methodology. Prior to January 1, 2023, calculation was based on the probable incurred loss methodology.

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ("OCI")

(Dollars in thousands)

	Year Ended December 31,	
	2023	2022
Net income	\$ 10,613	\$ 12,207
Other Comprehensive Loss		
Available-for-sale debt securities		
Unrealized gains (losses) arising during the period	249	(3,209)
Tax effect	(51)	675
Unrealized gains (losses) on AFS securities, net of tax	198	(2,534)
Cash flow hedge		
Unrealized losses arising during the period	(997)	-
Reclassification adjustment for net interest (income) expense included in net income	(162)	-
Other comprehensive loss related to cash flow hedge, before income tax benefit	(1,159)	-
Tax effect	244	-
Unrealized losses on cash flow hedge, net of tax	(915)	-
Other comprehensive loss, net of tax	(717)	(2,534)
Comprehensive income	\$ 9,896	\$ 9,673

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except shares)

	Common Stock		Unearned Restricted Stock Awards	Retained Earnings	Accumulated Other Comprehensive Loss (Net of Taxes)	Total Shareholders' Equity
	Shares	Amount				
Balances, January 1, 2022	2,180,191	\$ 15,363	\$ (1,104)	\$ 66,598	\$ (17)	\$ 80,840
Comprehensive income	-	-	-	12,207	(2,534)	9,673
Common stock grants (Note 16)	2,225	90	-	-	-	90
Restricted common stock awards, net of forfeitures (Note 16)	7,165	326	67	-	-	393
Dividends declared - \$1.31 per share of common stock	-	-	-	(2,860)	-	(2,860)
Balances, December 31, 2022	2,189,581	15,779	(1,037)	75,945	(2,551)	88,136
Comprehensive income	-	-	-	10,613	(717)	9,896
Common stock grants (Note 16)	2,380	84	-	-	-	84
Restricted common stock awards, net of forfeitures (Note 16)	12,734	456	8	-	-	464
Dividends declared - \$1.36 per share of common stock	-	-	-	(2,993)	-	(2,993)
Balances, December 31, 2023	2,204,695	\$ 16,319	\$ (1,029)	\$ 83,565	\$ (3,268)	\$ 95,587

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,	
	2023	2022
Operating activities		
Net income	\$ 10,613	\$ 12,207
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities		
Depreciation	1,424	1,442
Amortization of mortgage servicing rights	557	688
Provision for credit losses ⁽²⁾	600	1,145
Share-based compensation	548	483
Net amortization of discounts/premiums on investments	(524)	(111)
Net (gain) loss on equity securities	(148)	13
Increase in cash surrender value of bank-owned life insurance	(406)	(364)
Net gain on foreclosed assets	(25)	(40)
Origination of loans held for sale	(14,117)	(26,145)
Proceeds from sales of loans	15,096	27,187
Net gain on disposal of premises and equipment	(334)	(415)
Net gain on sold loans	(664)	(996)
Deferred income taxes	(631)	(407)
Changes in operating assets and liabilities which provided (used) cash		
Accrued interest receivable	(1,183)	(1,190)
Accrued interest payable	487	160
Other assets	387	(1,838)
Other liabilities	1,998	2,046
Net cash provided by operating activities	13,678	13,865
Investing activities		
Activity in available-for-sale debt securities		
Purchases	(33,799)	(3,882)
Maturities, calls, and principal payments	2,251	2,280
Activity in held-to-maturity debt securities		
Purchases	(13,025)	(63,193)
Maturities, calls, and principal payments	6,205	5,107
Net change in certificates with other banks	245	449
Loan principal originations, net	(75,094)	(89,823)
Proceeds from sales of foreclosed assets	189	665
Net purchases of premises and equipment	(2,395)	(1,899)
Proceeds from sales of premises and equipment	458	1,610
Purchases of bank-owned life insurance	(455)	-
Net cash used in Investing activities	(115,420)	(148,686)
Financing activities		
Acceptances and withdrawals of deposits, net	10,063	18,346
Net advances (repayments) of FHLB advances	50,000	(9,000)
Repayments of other borrowings	(1,403)	(1,350)
Cash dividends paid on common stock	(2,986)	(2,860)
Net cash provided by financing activities	55,674	5,136
Net (decrease) increase in cash and cash equivalents	(46,068)	(129,685)
Cash and cash equivalents, beginning of year	119,859	249,544
Cash and cash equivalents, end of year	\$ 73,791	\$ 119,859

⁽²⁾ Beginning January 1, 2023, calculation is based on CECL methodology. Prior to January 1, 2023, calculation was based on the probable incurred loss methodology.

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

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1. THE BUSINESS OF THE CORPORATION

Consolidation and Nature of Business

The consolidated financial statements include the accounts of *CNB Community Bancorp, Inc.*, a registered bank holding company (the "Corporation"), and its wholly-owned subsidiary County National Bank (the "Bank").

The Corporation owns 100% of the issued and outstanding common shares of the Bank. The Bank is a community bank engaged in the business of retail and commercial banking services through its 13 full-service branches in Michigan located in Hillsdale, Jackson, Lenawee and Calhoun counties as well as its Loan Production Office in Kalamazoo County. Active competition, principally from other commercial banks, savings banks and credit unions, exists in the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

The Bank is a federally chartered bank and is a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations of the FDIC and the supervision of the Office of the Comptroller of the Currency ("OCC") and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations of the Federal Reserve Board governing bank holding companies.

Concentration Risks

The Bank's primary deposit products are interest- and noninterest-bearing checking accounts, savings accounts, and time deposits, and its primary lending products are residential and commercial real estate mortgages, commercial and consumer loans. The Bank does not have any significant concentrations with respect to any one industry, client, or depositor. The Bank also provides investment services through its Wealth Management Division.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accounting and reporting policies of the Corporation and its subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform to classifications used in 2023.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include, but are not limited to, the determination of the allowance for credit losses, mortgage servicing rights, the valuation of intangible assets, the valuation of derivative instruments, and the fair value of financial instruments.

Cash and Due from Banks

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions that occasionally exceed federally insured limits. Management does not believe the Bank is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

As of December 31, 2023, the Bank had \$2,600 in cash collateral on deposit with a counterparty to interest rate swap transactions. Further information on the derivative instruments is included in Note 13.

Certificates of Deposit

Certificates of deposit are held with other financial institutions, are carried at cost.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 3.

Investment Securities

Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity (“HTM”) and are recorded at amortized cost. Debt securities not classified as HTM or trading are classified as AFS and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method through the earliest call date. Realized gains or losses on the sale of AFS debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

The Bank evaluates AFS debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses (“ACL”) on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Bank intends to sell an impaired AFS debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. In evaluating AFS debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Bank considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit losses when management believes the uncollectability of an available-for-sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. No security credit losses were recognized during the years ended December 31, 2023. Accrued interest receivable on available-for-sale debt securities totaled \$303 at December 31, 2023 and is excluded from the estimate of credit losses.

For HTM debt securities, the Bank measures expected credit losses on a collective basis by major security type, then further disaggregated by sector and bond rating. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts based on current and expected changes in credit ratings and default rates. Based on the implied guarantees of the U. S. Government or its agencies related to certain of these HTM investment securities, and the absence of any historical or expected losses, substantially all qualify for a zero-loss assumption. Management has separately evaluated its HTM investment securities from obligations of state and political subdivisions utilizing the historical loss data represented by similar securities. As a result of this evaluation, management determined that the expected credit losses associated with these securities is not significant for financial reporting purposes and therefore, no allowance for credit losses has been recognized during the year ended December 31, 2023. Accrued interest receivable on held-to-maturity debt securities totaled \$490 December 31, 2023 and is excluded from the estimate of credit losses.

As of December 31, 2023, the Bank purchased approximately \$12,600 in securities that had not settled and thus were not physically possessed by the Bank or its safekeepers. However, as the trade of the securities was completed before December 31, 2023, the securities are included within the Bank's AFS securities as of December 31, 2023. The purchase of these investments is recorded as due to broker as of December 31, 2023 to record the corresponding amount payable upon settlement of the transaction. These securities were settled by January 31, 2024.

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Securities without Readily Determinable Fair Values

Equity securities without readily determinable fair values are carried at cost minus impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment.

Included in equity securities without readily determinable fair values are the Bank's holdings in Federal Home Loan Bank ("FHLB") stock and Federal Reserve Bank ("FRB") stock as well as other investments that are deemed to not have a readily determinable fair value and are included in other assets on the consolidated balance sheets.

Equity securities without readily determinable fair values are held at cost and consist of the following holdings as of December 31:

	2023	2022
FHLB stock	\$ 2,250	\$ 1,365
FRB stock	714	696
Other investments	597	597
Total	<u>\$ 3,561</u>	<u>\$ 2,658</u>

Loans

Loans that the Bank has the positive intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Accrued interest receivable related to loans totaled \$4,180 at December 31, 2023.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged-off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for credit losses. Interest received on nonaccrual loans is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming credits within the loan portfolio are comprised of those loans accounted for on a nonaccrual basis and accruing loans contractually past due 90 days or more as to interest or principal payments.

Allowance for Credit Losses

On January 1, 2023, the Bank adopted ASU 2016-03 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology and is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and HTM debt securities. The Bank adopted ASC 326 using the loss rate method for all financial assets measured at amortized cost and off balance sheet credit exposures. As a result, the Bank did not recognize an increase in the ACL for loans upon implementation.

The allowance for credit losses is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Regardless of the determination that a charge-off is appropriate for financial accounting purposes, the Bank manages its loan portfolio by continually monitoring, where possible, a borrower's ability to pay through the collection of financial information, delinquency status, borrower discussion and the encouragement to repay in accordance with the original contract or modified terms, if appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Historical credit loss experience provides the basis for the estimation of expected credit losses, which captures loan balances as of a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over the remaining life. The Bank identified and accumulated loan cohort historical loss data over the last thirteen years. In situations where the Bank's actual loss history was not statistically relevant, the loss history of peers, defined as financial institutions with similar asset size and geographical, were utilized to create a minimum loss rate. Adjustments to historical loss information are made for differences in relevant current loan-specific risk characteristics, such as historical timing of losses relative to the loan origination. In its loss forecasting framework, the Bank incorporates forward-looking information through analysis of variables that have historically been key drivers of increases and decreases in credit losses. These variables include, but are not limited to changes in environmental conditions, such as Michigan unemployment rates, household debt levels and U.S. gross domestic product.

Loans that do not share common risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of the forgiveness is charged off against the allowance for credit losses.

The Bank has identified the following portfolio segments to evaluate and measure on a collective basis when similar risk characteristics exist in the allowance for credit losses:

Commercial:

Repayment of these loans is primarily based on the cash flow of the borrower, and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, collateral includes accounts receivable, inventory, or equipment. Collateral securing these loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. Actual and forecasted changes in gross domestic product are believed to be a corollary to losses associated with these credits.

Commercial real estate:

Commercial properties consist primarily of owner occupied, non-owner occupied, and, to a lesser extent, multifamily. Owner occupied commercial real estate typically consists of buildings housing the owner's operations and is susceptible to changes in the financial condition of the business operated by the property owner. Non-owner occupied typically consist of buildings which are leased to others for their use and rely on rents as the primary source of repayment while multifamily properties are generally comprised of more than four rentable units, such as apartment buildings, with each unit intended to be occupied as the primary residence for one or more persons. All of the credits' risk of loss is primarily driven by general economic changes or changes in regional economies.

Residential real estate:

The most significant drivers of potential loss within the Bank's residential real estate portfolio relate to general, regional, or individual changes in economic conditions and their effect on employment and borrowers' cash flow. Risk in this portfolio is best measured by changes in borrower credit score and loan-to-value. Loss estimates are based on the general movement in local and economic conditions and its effects on employment and the value of homes and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consumer loans:

The majority of these consumer loans are secured by automobiles and recreational type collateral. These loans are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value, if any. Typically, non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of those factors. Loss estimates are based on the general movement in local and economic conditions and its effects on employment and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

The Bank assigns a risk rating to certain loans and periodically performs detailed internal reviews of all commercial loans over a certain threshold as well as lines of credit. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Classified:

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged-off immediately.

The majority of the Bank's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's Loss Mitigation Department for resolution. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Although management believes the allowance to be appropriate, ultimate losses may vary from its periodic estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulator periodically reviews the appropriateness of the allowance. The regulatory agency may require changes to the allowance based on its judgment about information available at the time of their examination.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded only when they are funded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance for credit losses on off balance sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Bank is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Bank has the unconditional right to cancel the obligation. Adjustments to the allowance are reported in the consolidated statement of income as a component of credit loss expense. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans as if such commitments were funded. The allowance balance for credit losses and the credit loss expense on off balance sheet credit exposures as of and for year ended December 31, 2023 was \$285.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held for sale, as described above, 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 legally isolated from the Bank, 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. Other than servicing, as disclosed in Note 6, the Bank has no substantive continuing involvement related to these loans.

Derivative Instruments and Hedging Activities

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. For those derivative instruments that are designated and qualify for special hedge accounting, the Corporation designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income, net of related tax. The Corporation considers any economic mismatch between the hedging instrument and the hedged transaction in its ongoing assessment of hedge effectiveness. If the hedging instrument is not highly effective at achieving offsetting cash flows attributable to the revised contractually specified interest rate(s), hedge accounting will be discontinued. At that time, accumulated other comprehensive income would be frozen and amortized, as long as the forecasted transactions are still probable of occurring. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is settled, (3) it is no longer likely that a forecasted transaction associated with the hedge will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate.

The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. The Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Corporation is a party settle monthly or quarterly. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Corporation has netting agreements with which it does business.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on the fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are in the normal course of business held for sale. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the estimated fair value of the property less estimated selling costs is charged against the allowance for credit losses. Any excess of the fair value over the loan balance less estimated selling costs is recorded as noninterest income. A valuation allowance for losses on other real estate may be maintained to provide for temporary declines in value. The valuation allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred. Foreclosed assets are included in other assets on the accompanying consolidated balance sheets.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or estimated fair value less costs to sell.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation, which is computed using the straight-line method based upon the estimated useful lives of the related assets that ranges from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management evaluates these assets to determine whether based upon an event or changes in circumstances surrounding the underlying assets, the carrying values have been impaired.

Bank-Owned Life Insurance ("BOLI")

The Bank has purchased life insurance policies on certain members of management. 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 adjusted for other charges or other amounts due that are probable at settlement. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income or expenses on the consolidated statements of income.

Goodwill

Goodwill consists of amounts paid in excess of the fair value of identifiable net assets acquired. Goodwill is not amortized but is assessed at least annually for impairment or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

The Corporation analyzes its filing positions in the jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Corporation also reports interest and penalties attributable to income taxes, if any, as a component of its noninterest expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Income Per Share

Basic earnings per share ("EPS") represents income available to common stockholders divided by the weighted-average number of common shares outstanding less unvested restricted stock during the year, which was 2,161,673 and 2,148,543 during 2023 and 2022, respectively. Diluted EPS reflects additional common shares, which were 7,041 and 7,211 during 2023 and 2022, respectively, that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding restricted stock awards (Note 16) and are determined by the treasury stock method.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2023, the most recent consolidated balance sheet presented herein, through March 13, 2024, the date these consolidated financial statements were available to be issued. No such matters were identified.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Accounting Standards Codification ("ASC") Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain off-balance sheet credit exposures not accounted for as insurance (including loan commitments, standby letters of credit, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Prior to ASU No. 2016-13, GAAP required an "incurred loss" methodology for recognizing credit losses that delayed recognition until it was probable a loss had been incurred. Under the incurred loss approach, entities were limited to a probable initial recognition threshold when credit losses were measured; an entity generally only considered past events and current conditions when measuring the incurred loss. CECL requires consideration of future expected losses, including forecasting estimated losses. ASC 326 also updated the accounting for available-for-sale debt securities to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell as well as other changes.

The Corporation adopted ASC 326 on January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The transition to CECL did not include an adjustment to the ACL nor did it impact retained earnings.

ASU 2022-01-Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method, amends existing standard to expand the current last-of-layer method and allow for multiple hedge layers in a single closed portfolio. To reflect the expansion, the last-of-layer method has been renamed the portfolio layer method. The standard also expands the scope of the portfolio layer method to nonprepayable financial assets.

The Corporation adopted the guidance upon entering into the fair value hedge in 2023 as further described in Note 13.

3. FAIR VALUE MEASUREMENTS

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments in available-for-sale debt securities and equity securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, loans held for sale, foreclosed assets, mortgage servicing rights, held-to-maturity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or writedowns of individual assets. Additionally, the Bank uses the exit price notion measuring fair value of financial instruments for disclosure purposes.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

Investment Securities

Debt securities classified as available-for-sale and equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Level 2 securities include government-sponsored enterprises, state and municipal bonds, and corporate debt securities in active markets. The Bank did not have Level 3 investment securities valued on a recurring basis at December 31, 2023 or 2022.

Impaired Loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2023 and 2022, impaired loans were evaluated based on the fair value of the collateral or discounted cash flows. Impaired loans where an allowance is established based on the discounted cash flow analysis or fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or if fair value is determined based on discounted cash flow analysis, the Bank records the impaired loan as nonrecurring Level 3.

Foreclosed Assets

The carrying amounts for foreclosed assets are reported in the consolidated balance sheets in other assets. Upon transfer from the loan portfolio, foreclosed assets are adjusted to fair value and subsequently are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral less the costs to sell. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank classifies the foreclosed asset as nonrecurring Level 3.

Derivatives

Interest rate swaps are reported at fair value utilizing Level 2 inputs. Substantially all of the derivative instruments held by the Corporation for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. The Corporation measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. In addition, the Corporation obtains third party validation sources.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31:

2023	Fair Value			
	Level 1	Level 2	Level 3	Total
Debt Securities				
U.S. Government Agencies and Sponsored Agencies	\$ -	\$ 55,800	\$ -	\$ 55,800
State and municipal	-	8,690	-	8,690
Corporate	-	3,089	-	3,089
Equity Securities	-	377	-	377
Interest rate swaps	-	(2,521)	-	(2,521)
Total assets at fair value	\$ -	\$ 65,435	\$ -	\$ 65,435

2022	Fair Value			
	Level 1	Level 2	Level 3	Total
Debt Securities				
U.S. Government Agencies and Sponsored Agencies	\$ -	\$ 11,057	\$ -	\$ 11,057
State and municipal	-	8,861	-	8,861
Corporate	-	3,205	-	3,205
Equity Securities	-	228	-	228
Total assets at fair value	\$ -	\$ 23,351	\$ -	\$ 23,351

Assets Recorded at Fair Value on a Nonrecurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31:

2023	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Impaired loans ⁽¹⁾	\$ -	\$ -	\$ 199	\$ 199

2022	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Impaired loans ⁽¹⁾	\$ -	\$ -	\$ 985	\$ 985
Foreclosed assets ⁽²⁾	-	-	166	166

⁽¹⁾ Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans and discounted cash flow method for cash flow dependent loans, had a book value amount of \$199 and \$985 as of December 31, 2023 and 2022, respectively, resulting in a specific allocation to the allowance for credit losses of \$6 and \$85 for the years then ended, respectively.

⁽²⁾ Foreclosed assets, which are carried at fair value less estimated costs to sell, were recorded at a fair value of \$166, after a gain of \$37 as of December 31, 2022, which was included in other noninterest income on the consolidated statement of income in 2022. There were no foreclosed assets as of December 31, 2023.

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2023:

Instrument	Level 3 Instruments			
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans	\$ 199	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	9% - 12%

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2022:

Instrument	Level 3 Instruments			
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans	\$ 794	Discounted Cash Flows	Duration of Cash Flows	44 - 445 Months
			Reduction in Interest Rate from Originated Loan Terms	0.275% - 3.125%
	\$ 191	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	9% - 50%
Foreclosed Assets	\$ 166	Sales Comparison Approach	Adjustment for differences between comparable sales	0%-20%

The carrying amounts and estimated fair values of financial instruments not recorded at fair value on the consolidated balance sheets as of December 31, are as follows:

2023	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					
Cash and due from banks	\$ 73,791	\$ 73,791	\$ -	\$ -	\$ 73,791
Investment debt securities held-to-maturity	106,866	-	101,851	-	101,851
FHLB stock	2,250	-	2,250	-	2,250
FRB stock	714	-	714	-	714
Total loans, net	953,202	-	918,018	-	918,018
Loans held for sale	436	-	436	-	436
Accrued interest receivable	4,973	4,973	-	-	4,973
Mortgage servicing rights	1,032	-	-	3,658	3,658
Liabilities:					
Noninterest-bearing demand	\$ 224,546	\$ -	\$ 224,546	\$ -	\$ 224,546
Interest-bearing deposits	848,842	-	886,102	-	886,102
FHLB advances	50,000	-	49,794	-	49,794
Other borrowings	5,212	-	5,212	-	5,212
Accrued interest payable	782	782	-	-	782

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

2022	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets:					
Cash and due from banks	\$ 119,859	\$ 119,859	\$ -	\$ -	\$ 119,859
Certificate of deposits	245	-	245	-	245
Investment debt securities held-to-maturity	99,544	-	93,214	-	93,214
FHLB stock	1,365	-	1,365	-	1,365
FRB stock	696	-	696	-	696
Total Loans, net	880,080	-	856,418	-	856,418
Loans held for sale	751	-	751	-	751
Accrued interest receivable	3,790	3,790	-	-	3,790
Mortgage servicing rights	1,411	-	-	3,573	3,573
Liabilities:					
Noninterest-bearing demand	\$ 273,701	\$ -	\$ 273,701	\$ -	\$ 273,701
Interest-bearing deposits	789,624	-	787,006	-	787,006
Other borrowings	6,615	-	6,612	-	6,612
Accrued interest payable	295	295	-	-	295

4. INVESTMENT IN DEBT SECURITIES

The amortized cost and fair value of held-to-maturity and available-for-sale debt securities, including gross unrealized gains and losses, at December 31 consisted of the following:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government Agencies and Sponsored Agencies	\$ 57,277	\$ 56	\$ 1,533	\$ 55,800
State and municipal	9,622	-	932	8,690
Corporate	3,650	-	561	3,089
Total available-for-sale	70,549	56	3,026	67,579
Held-to-maturity				
U.S. Government Agencies and Sponsored Agencies	88,254	-	5,015	83,239
State and municipal	17,862	-	-	17,862
Corporate	750	-	-	750
Total held-to-maturity	106,866	-	5,015	101,851
Total	\$ 177,415	\$ 56	\$ 8,041	\$ 169,430

There was no allowance for credit losses recorded for available-for-sale or held-to-maturity debt securities as of or for the year ended December 31, 2023.

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

4. INVESTMENT IN DEBT SECURITIES (continued)

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government Agencies and Sponsored Agencies	\$ 12,478	\$ -	\$ 1,421	\$ 11,057
State and municipal	10,214	-	1,353	8,861
Corporate	3,650	-	445	3,205
Total available-for-sale	26,342	-	3,219	23,123
Held-to-maturity				
U.S. Government Agencies and Sponsored Agencies	91,811	-	6,330	85,481
State and municipal	7,733	-	-	7,733
Total held-to-maturity	99,544	-	6,330	93,214
Total	\$ 125,886	\$ -	\$ 9,549	\$ 116,337

Investment securities with carrying values of \$1,164 and \$1,269 as of December 31, 2023 and 2022, respectively, were pledged to secure public deposits or for other purposes as required by law.

The amortized cost and fair value of held-to-maturity and available-for-sale debt securities grouped by contractual maturity at December 31, 2023, are summarized as follows:

2023	Maturing					Total
	Due In One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	Securities Not Due at a Single Maturity Date	
Available-for-sale						
U.S. Government Agencies and Sponsored Agencies	\$ -	\$ 372	\$ -	\$ 622	\$ 56,283	\$ 57,277
State and municipal	-	-	4,030	5,592	-	9,622
Corporate	-	-	3,650	-	-	3,650
Total available-for-sale	-	372	7,680	6,214	56,283	70,549
Held-to-maturity						
U.S. Government Agencies and Sponsored Agencies	44,247	21,199	1,952	-	20,856	88,254
State and municipal	9,671	2,242	4,384	1,565	-	17,862
Corporate	-	-	750	-	-	750
Total held-to-maturity	53,918	23,441	7,086	1,565	20,856	106,866
Total amortized cost	\$ 53,918	\$ 23,813	\$ 14,766	\$ 7,779	\$ 77,139	\$ 177,415
Fair value	\$ 53,206	\$ 22,743	\$ 13,372	\$ 7,341	\$ 72,768	\$ 169,430

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Because of their variable payments, mortgage-backed securities, included within U.S. Government Agencies and Sponsored Agencies, are not reported by a specific maturity grouping.

There were no gross realized gains or losses on available-for-sale securities during 2023 or 2022.

Information pertaining to available-for-sale debt securities with unrealized losses aggregated by investment category for which an allowance for credit losses has not been recorded and the length of time that individual securities have been in a continuous loss position at December 31, 2023 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

4. INVESTMENT IN DEBT SECURITIES (continued)

2023	Less Than Twelve Months		Twelve Months or More		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
Available-for-sale					
U.S. Government Agencies and Sponsored Agencies	\$ 113	\$ 23,954	\$ 1,420	\$ 9,162	\$ 1,533
State and municipal	-	-	932	8,690	932
Corporate	-	-	561	2,689	561
Total available-for-sale	\$ 113	\$ 23,954	\$ 2,913	\$ 20,541	\$ 3,026

As of December 31, 2023, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon management's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to the available-for-sale securities and in consideration of historical credit loss experience and internal forecasts, specific to the Corporation's securities portfolio.

Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to U.S. Government Agencies and Sponsored Agencies, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. At December 31, 2023 none of these securities are past due or on nonaccrual. Accordingly, no allowance for credit losses has been recorded for these securities.

The following information pertains to both AFS and HTM securities with gross unrealized and unrecognized losses at December 31, 2022 aggregated by investment category and length of time that individual securities have been in a continuous unrealized or unrecognized loss position:

2022	Less Than Twelve Months		Twelve Months or More		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
Available-for-sale					
U.S. Government Agencies and Sponsored Agencies	\$ 172	\$ 5,167	\$ 1,249	\$ 5,865	\$ 1,421
State and municipal	285	3,650	1,068	5,211	1,353
Corporate	131	869	314	1,936	445
Total available-for-sale	588	9,686	2,631	13,012	3,219
Held-to-maturity					
U.S. Government Agencies and Sponsored Agencies	2,309	49,995	4,021	35,486	6,330
Total held-to-maturity	2,309	49,995	4,021	35,486	6,330
Total unrealized losses on debt securities	\$ 2,897	\$ 59,681	\$ 6,652	\$ 48,498	\$ 9,549

The number of securities in an unrealized loss position as of December 31, 2023 and 2022 was 86 and 79, respectively.

The unrealized loss on our AFS and HTM securities portfolio resulted from the recent increases in short-term and intermediate-term benchmark interest rates.

As of December 31, 2022, the Bank conducted an analysis to determine whether any AFS or HTM securities currently in an unrealized loss position should be identified as other-than-temporarily impaired, noting none.

CNB COMMUNITY BANCORP, INC.

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5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Bank grants commercial, consumer, and residential mortgage loans to clients situated primarily in Hillsdale, Jackson, Lenawee, Calhoun, and Kalamazoo counties. The ability of the Bank's debtors to honor their repayment obligations is dependent upon the real estate and general economic conditions of this region. Substantially all of the consumer and residential mortgage loans are secured by various items of property, while commercial loans are secured primarily by business assets, real estate, and personal guarantees; a portion of the loans are unsecured.

Loans are summarized as follows at December 31:

	2023	2022
Commercial	\$ 243,374	\$ 229,540
Commercial real estate	515,904	473,351
Residential real estate	167,271	150,358
Consumer	<u>40,787</u>	<u>39,316</u>
Total loans	967,336	892,565
Net deferred loan origination costs/(fees)	205	405
Allowance for credit losses	<u>(12,967)</u>	<u>(12,890)</u>
Loans, net	<u>\$ 954,574</u>	<u>\$ 880,080</u>

The following table represents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

2023 ⁽¹⁾	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance at beginning of year ⁽¹⁾	\$ 2,802	\$ 6,791	\$ 1,158	\$ 323	\$ 1,816	\$ 12,890
Provision for (reduction to) credit losses	487	72	963	447	(1,654)	315
Loans charged-off	(341)	-	-	(46)	-	(387)
Recoveries	<u>27</u>	<u>91</u>	<u>7</u>	<u>24</u>	<u>-</u>	<u>149</u>
Balance at end of year	<u>\$ 2,975</u>	<u>\$ 6,954</u>	<u>\$ 2,128</u>	<u>\$ 748</u>	<u>\$ 162</u>	<u>\$ 12,967</u>

⁽¹⁾ The Bank adopted ASC 326 and did not recognize an increase in the ACL for loans upon implementation.

CNB COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Prior to the adoption of ASC 326 on January 1, 2023, the Bank calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses for the year ending December 31, 2022:

2022	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance at beginning of year	\$ 2,755	\$ 5,876	\$ 1,593	\$ 517	\$ 1,024	\$ 11,765
Provision for (reduction to) credit losses	25	913	(412)	(173)	792	1,145
Loans charged-off	-	(15)	(29)	(38)	-	(82)
Recoveries	22	17	6	17	-	62
Balance at end of year	\$ 2,802	\$ 6,791	\$ 1,158	\$ 323	\$ 1,816	\$ 12,890
Allowance for credit losses attributable to:						
Individually evaluated for impairment	\$ -	\$ 28	\$ 57	\$ -	\$ -	\$ 85
Collectively evaluated for impairment	2,802	6,763	1,101	323	1,816	12,805
Total allowance for credit losses	\$ 2,802	\$ 6,791	\$ 1,158	\$ 323	\$ 1,816	\$ 12,890
Loans:						
Individually evaluated for impairment	\$ 4,015	\$ 6,037	\$ 1,862	\$ -	\$ -	\$ 11,914
Collectively evaluated for impairment	225,525	467,314	148,496	39,316	-	880,651
Total loans ending balance	\$ 229,540	\$ 473,351	\$ 150,358	\$ 39,316	\$ -	\$ 892,565

The following table provides collateral information by loan class for collateral dependent loans with a specific reserve. The amortized cost of collateral dependent loans by class at December 31, 2023 is as follows:

	Loan Class				Total
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	
Collateral Type					
Real Estate	\$ -	\$ 190	\$ -	\$ -	\$ 190
Other	9	-	-	-	9
Total	\$ 9	\$ 190	\$ -	\$ -	\$ 199

CNB COMMUNITY BANCORP, INC.

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5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2023:

Credit risk profile by risk rating	Term Loans Amortized Cost Basis by Year of Origination				Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	Prior		
Commercial						
Pass	\$ 32,485	\$ 48,489	\$ 38,901	\$ 41,458	\$ 75,666	\$ 236,999
Special Mention	328	150	186	182	443	1,289
Classified	-	143	1,368	1,405	2,170	5,086
Total	<u>\$ 32,813</u>	<u>\$ 48,782</u>	<u>\$ 40,455</u>	<u>\$ 43,045</u>	<u>\$ 78,279</u>	<u>\$ 243,374</u>
Gross write offs:	\$ -	\$ 191	\$ -	\$ 150	\$ -	\$ 341
Commercial real estate						
Pass	\$ 97,150	\$ 114,895	\$ 99,034	\$ 152,492	\$ 26,667	\$ 490,238
Special Mention	210	956	1,960	3,914	617	7,657
Classified	2,693	1,516	49	12,753	998	18,009
Total	<u>\$ 100,053</u>	<u>\$ 117,367</u>	<u>\$ 101,043</u>	<u>\$ 169,159</u>	<u>\$ 28,282</u>	<u>\$ 515,904</u>
Gross write offs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate						
Pass	\$ 32,890	\$ 26,871	\$ 26,445	\$ 47,648	\$ 29,902	\$ 163,756
Special Mention	97	290	147	710	559	1,803
Classified	-	-	-	1,203	509	1,712
Total	<u>\$ 32,987</u>	<u>\$ 27,161</u>	<u>\$ 26,592</u>	<u>\$ 49,561</u>	<u>\$ 30,970</u>	<u>\$ 167,271</u>
Gross write offs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer						
Pass	\$ 8,892	\$ 8,623	\$ 6,079	\$ 14,494	\$ 2,410	\$ 40,498
Special Mention	74	84	16	15	-	189
Classified	-	5	-	59	36	100
Total	<u>\$ 8,966</u>	<u>\$ 8,712</u>	<u>\$ 6,095</u>	<u>\$ 14,568</u>	<u>\$ 2,446</u>	<u>\$ 40,787</u>
Gross write offs:	\$ 46	\$ -	\$ -	\$ -	\$ -	\$ 46

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2022:

Credit risk profile by risk rating	Risk Rating				Total
	Pass	Special Mention	Substandard	Doubtful	
Commercial	\$ 222,481	\$ 33	\$ 6,704	\$ -	\$ 229,218
Commercial real estate	449,695	753	22,406	-	472,854
Residential real estate	143,239	2,115	1,635	-	146,989
Consumer	38,040	150	54	-	38,244
Total	<u>\$ 853,455</u>	<u>\$ 3,051</u>	<u>\$ 30,799</u>	<u>\$ -</u>	<u>\$ 887,305</u>

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(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the homogeneous loans allocated by payment activity as of December 31, 2022:

	Credit Risk Profile by Payment Activity				Total
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	
Payment activity					
Performing	\$ 322	\$ 497	\$ 3,369	\$ 1,072	\$ 5,260
Nonperforming	-	-	-	-	-
Total	\$ 322	\$ 497	\$ 3,369	\$ 1,072	\$ 5,260

The following tables show an aging analysis of the loan portfolio by time past due as of December 31:

2023	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial	\$ 240,542	\$ 1,484	\$ 242	\$ 1,106	\$ 243,374
Commercial real estate	506,370	5,418	545	3,571	515,904
Residential real estate	164,459	2,053	603	156	167,271
Consumer	40,621	166	-	-	40,787
Total	\$ 951,992	\$ 9,121	\$ 1,390	\$ 4,833	\$ 967,336

2022	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial	\$ 227,329	\$ 1,990	\$ 185	\$ 36	\$ 229,540
Commercial real estate	470,620	923	731	1,077	473,351
Residential real estate	148,737	1,165	85	371	150,358
Consumer	39,198	118	-	-	39,316
Total	\$ 885,884	\$ 4,196	\$ 1,001	\$ 1,484	\$ 892,565

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables shows the ending balance of nonaccrual loans by category as of the date indicated:

	Nonaccrual Loans					
	As of December 31, 2023			As of December 31, 2022 ⁽¹⁾		
	Nonaccrual with no allowance for credit losses	Nonaccrual with an allowance for credit losses	Total nonaccrual	Nonaccrual with no allowance for credit losses	Nonaccrual with an allowance for credit losses	Total nonaccrual
Commercial	\$ 1,097	\$ 9	\$ 1,106	\$ 36	\$ -	\$ 36
Commercial real estate	3,571	-	3,571	886	191	1,077
Residential real estate	156	-	156	371	-	371
Consumer	-	-	-	-	-	-
Total	\$ 4,824	\$ 9	\$ 4,833	\$ 1,293	\$ 191	\$ 1,484

⁽¹⁾Beginning January 1, 2023, calculation is based on CECL methodology. Prior to January 1, 2023, calculation was based on the probable incurred loss methodology.

The Bank did not recognize any interest income on nonaccrual loans during the year ended December 31, 2023.

The following table presents information related to impaired loans by class of loans and related interest income recognized as of the year ended December 31, 2022:

2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	\$ 4,057	\$ 4,015	\$ -	\$ 1,121	\$ 42
Commercial real estate	5,911	5,846	-	3,174	65
Residential real estate	1,074	1,069	-	925	5
Total loans with no related allowance recorded	11,042	10,930	-	5,220	112
Loans with an allowance recorded					
Commercial	-	-	-	7	-
Commercial real estate	191	191	28	477	-
Residential real estate	797	793	57	774	4
Total loans with an allowance recorded	988	984	85	1,258	4
Total impaired loans					
Commercial	4,057	4,015	-	1,128	42
Commercial real estate	6,102	6,037	28	3,651	65
Residential real estate	1,871	1,862	57	1,699	9
Total impaired loans	\$ 12,030	\$ 11,914	\$ 85	\$ 6,478	\$ 116

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(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Bank provides multiple types of concessions on one specific loan. If after the initial concession is granted, the borrower continues to experience financial distress an additional modification may be granted. The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual status.

The Bank had no modifications on credits to borrowers in financial distress during the year ended December 31, 2023 or defaults in 2023 on modifications for borrowers in financial distress during the previous 12 months. There were no principal balance differences between pre-modification and post-modification of loans to borrowers in financial distress and any adjustment on payment deferrals were immaterial for the year ended December 31, 2023.

6. MORTGAGE SERVICING

The Bank services mortgage loans for others which generally consists of collecting principal and interest payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Mortgage loans serviced as of December 31, 2023 and 2022, approximated \$284,000 and \$300,000, respectively; such loans are not included on the accompanying consolidated balance sheets.

The estimated fair value of mortgage servicing rights was approximately \$3,658 and \$3,573 at December 31, 2023 and 2022, respectively. The fair value of servicing rights was determined using a discount rate of 11.00% and 11.25%, respectively, and prepayment speeds ranging from 6.35% to 11.23% and 6.67% to 10.25%, respectively.

The following summarizes the carrying value and the changes therein of mortgage servicing rights for the years ended December 31:

	2023	2022
Balance at beginning of year	\$ 1,411	\$ 1,777
Mortgage servicing rights capitalized	178	322
Mortgage servicing rights amortized	(557)	(688)
Balance at end of year	<u>\$ 1,032</u>	<u>\$ 1,411</u>

7. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following assets at December 31:

	2023	2022
Land and improvements	\$ 1,528	\$ 1,567
Buildings and improvements	9,423	8,934
Leasehold improvements	1,392	1,389
Furniture and equipment	13,173	11,857
Construction-in-process	501	-
Total	26,017	23,747
Less accumulated depreciation	(15,347)	(13,924)
Premises and equipment, net	<u>\$ 10,670</u>	<u>\$ 9,823</u>

Depreciation expense was \$1,424 and \$1,442 in 2023 and 2022, respectively.

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8. DEPOSITS

Scheduled annual maturities of time deposits for each of the five years succeeding December 31, 2023, are summarized as follows:

Year	Amount
2024	\$ 123,800
2025	6,639
2026	9,949
2027	2,285
2028	<u>531</u>
Total	<u>\$ 143,204</u>

Time deposits that meet or exceed the FDIC insurance limit for the years ending December 31, 2023 and 2022 were \$45,309 and \$75,136, respectively.

9. BORROWED FUNDS

Federal Home Loan Bank Advances

FHLB advances and their contractual maturities are summarized as follows at December 31:

		2023
Fixed-rate advances:		
December 21, 2026	4.21%	\$ 25,000
December 20, 2027	4.07%	15,000
December 19, 2028	3.96%	<u>10,000</u>
Total FHLB advances		<u>\$ 50,000</u>

None of the above advances require principal payments until maturity. Outstanding FHLB borrowings were collateralized by a blanket lien on all qualified loans with lendable values totaling approximately \$302,000 at December 31, 2023. There were no FHLB advances outstanding as of December 31, 2022.

Other Borrowings

The Corporation entered into a single commercial term loan facility in the amount of \$10,000 in May of 2020. The facility requires principal and interest payments of \$136 each month at a fixed rate of interest of 3.75%. The maturity date is May 28, 2027. The Corporation had an outstanding balance on this term loan of \$5,212 and \$6,615 as of December 31, 2023 and 2022, respectively. Borrowings in this facility are collateralized by 100% of the Bank's outstanding common stock. Scheduled annual principal maturities of the term note for each of the five years succeeding December 31 are summarized as follows:

Year	Amount
2024	\$ 1,456
2025	1,513
2026	1,571
2027	<u>672</u>
Total	<u>\$ 5,212</u>

Additionally, the Corporation has available a line of credit of \$7,000 that matures every three years. As of December 31, 2023 and 2022, the line had not been drawn upon.

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10. FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following components for the years ended December 31:

	2023	2022
Current	\$ 2,533	\$ 2,625
Deferred	85	407
Income taxes	\$ 2,618	\$ 3,032

Federal income tax expense differs from the statutory federal income tax rate applied to pre-tax income primarily due to tax-exempt income earned for both 2023 and 2022.

The Corporation had a net deferred tax asset in the amount of \$1,352 and \$1,088 as of December 31, 2023 and 2022, respectively. The components of the net deferred tax asset are included within other assets on the accompanying consolidated balance sheets and are primarily related to temporary basis differences in the allowance for credit losses, Deferred Compensation Incentive Plan, derivatives, intangible assets, deferred loan costs, mortgage servicing rights, and unrealized gains (losses) on available-for-sale securities.

Management concluded that there are no material uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for 2020 through 2023, the years which remain subject to examination by major tax jurisdictions as of December 31, 2023. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2023 or 2022, and management is not aware of any claims for such amounts by federal or state income tax authorities.

11. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers, and their affiliates. Such loans aggregated \$2,315 and \$2,677 as of December 31, 2023 and 2022, respectively.

Deposits

Deposits of Corporation directors, executive officers, and their affiliates were \$2,760 and \$4,199 at December 31, 2023 and 2022, respectively.

12. OFF BALANCE SHEET ACTIVITIES

The Bank is a party to credit-related financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments may include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making such commitments, including requirements for collateral, as it does for on-balance sheet instruments; no significant losses are anticipated as a result of these commitments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	Contract Amount	
	2023	2022
Unfunded commitments under lines of credit	\$ 242,702	\$ 227,021
Standby letters of credit	7,339	5,764

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing clients. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized 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. A majority of such commitments are at variable rates of interest; a portion is unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. OFF BALANCE SHEET ACTIVITIES (Continued)

Standby letters of credit are conditional commitments issued by the Bank to guarantee a client's performance 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 clients. The Bank generally holds collateral supporting those commitments if deemed necessary and at December 31, 2023 and 2022, such collateral amounted to approximately \$36,292 and \$29,537, respectively. Guarantees that are not derivative contracts are not significant and have not been recorded on the Corporation's consolidated balance sheets. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2023 or 2022.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank through normal operations is exposed to certain risks arising from business operations and/or overall economic conditions. Management of operational risks is predominately through internal controls as well as decisions by management so as to mitigate these risks while management of economic risks, including interest rate, credit, and liquidity primarily are managed through the amount and duration of our assets and liabilities up to and including the use of derivative financial instruments. Specifically, the Bank enters into derivative financial instruments so as to manage exposures arising from receipt or payment of actual or projected future cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used as one tool in managing differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to our mortgage loans and deposits.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments and mortgage loans held for sale, the Bank utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Bank commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Bank fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of mortgage loans held for sale. The notional amount of fixed rate forward loan sale commitments was \$436 and \$751 at December 31, 2023 and 2022, respectively.

The fair value of the rate lock loan commitments related to the origination of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in these consolidated financial statements.

Collateral Requirements

To reduce credit risk related to the use of derivative instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the client. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate. If the counterparty does not have the right and ability to redeem the collateral or the Bank is permitted to sell or re-pledge the collateral on short notice, the Bank records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Interest Rate Swap Designated as Fair Value Hedge:

On August 25, 2023, the Bank entered into an interest rate swap agreement with a notional amount of approximately \$55.6 million, effectively converting certain fixed rate mortgage loans into floating. The swap has a 5-year maturity with no change to the notional amount for the first two years and then amortization for the remaining life to approximately under \$28 million. The relationship has been designated and qualifies as a fair value hedge and, as such, changes in the fair value are recorded as an adjustment to the loan portfolio specifically represented in the hedge. The hedge was determined to be fully effective during 2023 and management expects it to remain effective for the remaining term.

The carrying amount of the hedged asset was \$87,508 and the cumulative basis adjustment was \$1,372 as of December 31, 2023 and is included in net portfolio loans on the consolidated balance sheet. The cumulative amount of fair value hedging adjustment included in the carrying amount of hedged assets was \$1,372 as of December 31, 2023. The fair value of the swap of (\$1,362) is included in other assets on the consolidated balance sheet as of December 31, 2023.

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13. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Interest Rate Swap Designated as Cash Flow Hedge:

On August 25, 2023, the Bank entered into an interest rate swap agreement with a notional amount of \$40 million, effectively converting the variable rate of the underlying fixed rate deposit. The swap has a 5-year maturity with no change to the minimum notional amount over the term. The relationship has been designated and qualifies as a cash flow hedge and, as such, changes in the fair value are recorded in accumulated other comprehensive income (loss) to the extent the relationship is an effective hedge.

The swap, with a fair value of (\$1,159) which is recorded in other assets at December 31, 2023, was determined to be part of a fully effective hedging relationship during 2023 and management expects it to remain effective for the remaining term. As such, no amount of ineffectiveness has been included in net income. The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedge no longer be considered effective. Amounts related to the swap reported in OCI will be reclassified to interest income as interest payments are made on the deposits. At December 31, 2023, the Corporation expected \$247 of the unrealized loss to be reclassified as a decrease to interest expense during 2024.

The effect of the cash flow hedge accounting on OCI for the year ended December 31, 2023 was as follows:

	Amount of Gain (Loss) recognized in OCI on derivative	Location of Gain (Loss) reclassified from OCI into Income	Amount of Gain (loss) Reclassified from OCI into Income
Interest Rate Swap	\$ (1,159)	Interest Income	\$ 162

Summary information about the interest rate swaps designated as of December 31, 2023 is as follows:

	2023
Fair value hedge designation:	
Notional amounts	\$ 55,000
Hedged item	1,372
Interest rate contract designed as hedging instrument	(1,362)
Maturity Date	August 25, 2028
Cash flow hedge designation:	
Notional amounts	\$ 40,000
Fair Value of hedge	(1,159)
Maturity Date	August 25, 2028
Gain/ (loss) recognized in other comprehensive income	(915)

Interest income recorded on these swap transactions and related restricted cash totaled \$377 for the year ended December 31, 2023 and is reported as a component of interest income on loans.

14. REGULATORY MATTERS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by the federal banking agencies that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines involving quantitative measures of their assets, liabilities, and certain off balance sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2020. The capital conservation buffer as of December 31, 2023 and 2022, is 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

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(Dollars in thousands except per share data)

14. REGULATORY MATTERS (Continued)

Quantitative measurements established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes as of December 31, 2023 and 2022, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2023 and 2022, the most recent notifications from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the most recent notification that management believes have changed the Bank's category.

The Corporation's and the Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total capital to risk weighted assets						
Corporation	\$ 108,104	11.4%	\$ 99,445	10.5%	\$ N/A	N/A%
Bank	110,814	11.7	99,442	10.5	94,706	10.0
Tier 1 (core) capital to risk weighted assets						
Corporation	96,265	10.2	80,407	8.5	N/A	N/A
Bank	98,975	10.5	80,405	8.5	75,675	8.0
Common Tier 1 (CET1)						
Corporation	96,265	10.2	66,218	7.0	N/A	N/A
Bank	98,975	10.5	66,216	7.0	61,486	6.5
Tier 1 (core) capital to average assets						
Corporation	96,265	8.1	47,659	4.0	N/A	N/A
Bank	98,975	8.3	47,658	4.0	59,572	5.0

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital to risk weighted assets						
Corporation	\$ 99,087	11.3%	\$ 92,321	10.5%	\$ N/A	N/A%
Bank	103,262	11.8	92,318	10.5	87,921	10.0
Tier 1 (core) capital to risk weighted assets						
Corporation	88,096	10.0	74,574	8.5	N/A	N/A
Bank	92,272	10.5	74,572	8.5	70,185	8.0
Common Tier 1 (CET1)						
Corporation	88,096	10.0	61,414	7.0	N/A	N/A
Bank	92,272	10.5	61,412	7.0	57,025	6.5
Tier 1 (core) capital to average assets						
Corporation	88,096	7.8	45,150	4.0	N/A	N/A
Bank	92,272	8.2	45,148	4.0	56,435	5.0

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(Dollars in thousands except per share data)

14. REGULATORY MATTERS (Continued)

Restrictions on Cash and Amounts Due from Banks

The Bank may be required by regulatory agencies to maintain legal cash reserves based on the level of certain client deposits. There were no required reserve balances at December 31, 2023 and 2022.

Restrictions on Dividends, Loans, and Advances

Federal and state banking regulations place certain restrictions on dividends paid and the amount of loans or advances that can be extended by the Bank to the Corporation.

Prior approval of the Federal Reserve Board and OCC is required if the total dividends declared by the Bank in a calendar year exceed the sum of the retained net income of the Bank for the current year plus its retained net income for the two preceding years, less any required transfers from retained earnings to common stock (as defined). In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital standards. At January 1, 2023 the Bank's retained earnings available for the legal payment of dividends, without prior approval from regulators, was approximately \$21,187.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's contributed capital (par value common stock and additional paid-in capital). Accordingly, at December 31, 2023, Bank funds available for loans or advances to the Corporation amounted to approximately \$2,389.

15. CONTINGENCIES

Litigation

The Corporation may be party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate in foreclosure proceedings, the Bank is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted at December 31, 2023.

16. SHARE-BASED PAYMENTS

Stock Compensation Plan

A Stock Compensation Plan was adopted by the Corporation in July 2022 and replaced the 2015 Plan whose shares have all been issued. The aggregate number of shares that may be issued and outstanding pursuant to the exercise of options, and the granting of restricted stock awards or stock appreciation rights under the 2022 Plan may not exceed in aggregate 160,000 common shares. There are no such stock options nor stock appreciation rights awarded under the plans as of December 31, 2023 and 2022.

Under the provisions of the plan, the Corporation cannot be obligated to "cash-settle" any of the restricted stock awards through redemption. The fair value of restricted stock at the grant date was determined by the Corporation's Board of Directors based on the weighted-average selling price of the Corporation's common stock for the previous month (\$35.77 and \$39.76 per share weighted for May of 2023 and June of 2022, respectively). The shares become vested over a five-year period. The shares vest on December 31 of each year if the designated performance criteria are met for that year. During the period the shares are not vested, the grantee may not sell, assign, transfer or pledge the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Unvested restricted stock is immediately forfeited when the employment of a grantee is terminated. Noninterest expense is recognized for the fair value of the vested shares as of the vesting date.

	2023		2022	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested beginning of year:	28,049	\$ 37.09	31,758	\$ 34.88
Granted	15,500	35.77	15,325	39.76
Vested	(12,859)	28.95	(10,874)	36.17
Forfeited	(2,766)	36.75	(8,160)	34.75
Nonvested at end of year	<u>27,924</u>	<u>\$ 36.84</u>	<u>28,049</u>	<u>\$ 37.09</u>

CNB COMMUNITY BANCORP, INC.

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(Dollars in thousands except per share data)

16. SHARE-BASED PAYMENTS (Continued)

Included within the Corporation's consolidated statements of income is compensation expense of \$440 and \$369 in 2023 and 2022, respectively, and directors' and advisory members' fees expense of \$24 for both 2023 and 2022, related to the vested shares, as applies under each plan. Diluted earnings per share were impacted by approximately \$0.09 and \$0.11 for 2023 and 2022, respectively, as a result of these common stock equivalents. As of December 31, 2023, and 2022 cumulative unrecognized compensation costs related to nonvested restricted stock awards are presented as a reduction of shareholders' equity. As of December 31, 2023, there was \$1,029 of total remaining unrecognized compensation expense related to nonvested restricted stock awards. The remaining expense is expected to be recognized over a weighted-average service period of 3.12 years.

Equity Compensation

The Board of Directors equity compensation is based upon similar criteria to the stock compensation plan but without the vesting period. Noninterest expense was recognized for the fair value of the shares upon issuance. Included in the consolidated statements of income in 2023 and 2022 is directors' and advisory members' fees expense of \$84 and \$90, respectively.

17. OTHER EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

A noncontributory profit sharing plan covers all eligible employees following the completion of three months of employment who are 18 years of age or older. Contributions to the plan are made periodically to the employees' plan account. The amount of each contribution is discretionary as determined by the Board of Directors.

The Bank also has a complimentary Safe Harbor 401(k) plan for eligible employees, following three consecutive months of service. The Bank makes a "Safe Harbor" matching contribution in the amount of 100% of the employees' contribution. The percentage rate applies to only the first 5% of the employees' plan salary.

Compensation expense related to the noncontributory pension/profit sharing plan was approximately \$1,363 and \$1,189 in 2023 and 2022, respectively. Contributions to the Safe Harbor 401(k) plan were \$617 and \$515 in 2023 and 2022, respectively.

Bank-Owned Life Insurance

The Bank has invested \$14,455 in two separate single premium, bank-owned, endorsement split-dollar life insurance programs. Such policies are recorded at their cash surrender value, estimated to be \$16,572 and \$15,711 as of December 31, 2023 and 2022, respectively. Bank-owned life insurance is an alternative investment vehicle, generally non-liquid, which may generate additional earnings to offset various benefit plan expenses. The earnings on the insurance are not taxed unless withdrawn or surrendered prior to the death of the insured. Any changes in cash surrender value of the policies are recorded as either noninterest income or noninterest expenses in the consolidated statements of income.

Employee Cash Incentive Plan

The Bank established a nonqualified plan of deferred compensation benefits for its eligible key employees effective January 1, 2022. The Plan is intended to provide certain officer and executives deferred compensation as an incentive and reward for their contribution to the success of the Corporation. Predominantly, the payments are lump sum on predetermined dates. The amount contributed for past performance was \$1,333 and \$1,243 as of December 31, 2023 and 2022, respectively. These are included in other liabilities on the consolidated balance sheet. Additionally, the accumulated liability for these plans totaled \$1,441 and \$1,287 as of December 31, 2023 and 2022, respectively.

Deferred Directors Fees Plan

Effective April 1, 2018, the Corporation established a deferred directors fees plan maintained primarily for the purpose of providing the option to defer compensation for eligible directors. Participants are 100% vested at all times and amounts are payable in one lump sum. As of December 31, 2023, and 2022, the Corporation has a liability recorded on the consolidated balance sheet of \$499 and \$356, respectively, including interest earned.

18. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities

During 2022, collateral was repossessed related to loans receivable of \$128, which amounts were then transferred to foreclosed assets. There was no collateral repossessed in 2023.

Non-Cash Financing Activities

As of December 31, 2023, and 2022, common stock dividends declared in the amount of \$1,080 and \$1,073, respectively, were unpaid and included in other liabilities on the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18. SUPPLEMENTAL CASH FLOWS INFORMATION (Continued)

Other Cash Flows Information

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2023	2022
Interest	\$ 16,189	\$ 3,541
Income taxes	\$ 1,273	\$ 2,075

19. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Bank invests in qualified affordable housing projects. At December 31, 2023 and 2022, the balance of the investment in qualified affordable housing projects was \$396 and \$534, respectively. The Bank accounts for these investments using the proportional amortization method. These balances are reflected in other assets on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled \$46 and \$53 at December 31, 2023 and 2022. The Bank expects to fulfill these commitments through 2034.

During 2023 and 2022, the Bank amortized \$148 and \$180, respectively, which was included in income tax expense. Additionally, during 2023 and 2022, the Corporation recognized tax credits and other benefits from its investment in affordable housing tax credits of \$147 and \$184, respectively.

20. REVENUE FROM CONTRACTS WITH CLIENTS

The Bank's primary revenue stream accounted for under ASC 606 relates to service charges on deposit accounts.

Consistent with Topic 606, noninterest income covered by this guidance is recognized, as services are transferred to our clients, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. A description of the Bank's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Bank earns fees from its deposit clients for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the client's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the client's account balance.

Interchange Income: The Bank earns interchange fees from debit cardholder transactions conducted through the Mastercard payment network. These balances are reflected in ATM service charges on the consolidated statement of income. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Wealth Management Fees (Gross): The Corporation earns wealth management fees from its contracts with clients to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at quarter-end. Other related services provided include financial planning services and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

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21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of AOCI and details the components of OCI, including the amount of income tax expense (benefit) allocated to each component of OCI:

	Unrealized Holding Gains (Losses) on Securities AFS	Unrealized Gains (Losses) on Cash Flow Hedges	Total
January 1, 2022	\$ (17)	\$ -	\$ (17)
Unrealized gains (losses) arising during the year	(3,209)	-	(3,209)
Reclassification adjustments for net (gains) losses	-	-	-
Net unrealized gains (losses)	(3,209)	-	(3,209)
Tax effect ⁽¹⁾	675	-	675
OCI, net of tax	(2,534)	-	(2,534)
December 31, 2022	\$ (2,551)	\$ -	\$ (2,551)
Unrealized gains (losses) arising during the year	249	(997)	(748)
Reclassification adjustments for net (gains) losses included in net income	-	(162)	(162)
Net unrealized gains (losses)	249	(1,159)	(910)
Tax effect ⁽¹⁾	(51)	244	193
OCI, net of tax	198	(915)	(717)
December 31, 2023	<u>\$ (2,353)</u>	<u>\$ (915)</u>	<u>\$ (3,268)</u>

⁽¹⁾ Based on federal income tax rate of 21% for all years presented.

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	
	2023	2022
Realized gains (losses) on cash flow hedge ⁽²⁾	\$ 162	\$ -
Tax effect ⁽¹⁾	(34)	-
Net Income	<u>\$ 128</u>	<u>\$ -</u>

⁽¹⁾ Based on federal income tax rate of 21% for all years presented.

⁽²⁾ Realized gains (losses) on cash flow hedge are represented in interest income on the corresponding income statement.

