

Select Bank

Financial Corporation

2022
Annual Report

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Shareholder relations contact:

Courtney M. King
(434) 942-0792
courtney@myselectbank.com
www.myselectbank.com

Transfer Agent and Registrar:
Pacific Stock Transfer
www.pacificstocktransfer.com

Dear Fellow Shareholder,

As we have observed the consumer reaction to recent bank failures over the past 10 weeks, resulting in growing uncertainty, we have reassured the communities we serve of our Select Bank solidarity and security. Our bank remains safe, secure, trusted, accessible and fundamentally sound. We maintain strong core operating earnings, capital, and liquidity. We have reinforced this message throughout our markets, emphasizing the great benefit of community banking.

On behalf of the Board, Management, and Staff, it is our sincere pleasure to share our results from another unprecedented yet prosperous 2022, highlighting a strong financial performance with consistent earnings growth, a strong balance sheet, core deposits and meaningful relationships in the markets we serve.

For the 12 months ended December 31, 2022:

- Net income of \$2,540,345 increased \$516,430 from the prior year
- Total assets grew \$45,461,156 (11.5%) to \$440,354,059
- Total loans grew \$58,475,551 (19.7%) to \$354,601,699
- Total deposits grew \$55,379,518 (15.7%) to \$407,218,121
- We paid our seventh semi-annual cash dividend.
- An additional tranche of a preferred stock issuance strengthened the Bank's balance sheet further, positioning us for additional growth.

During 2022, our entire team successfully embraced the challenge of a core conversion of our banking system, as well as our loan origination system. These significant upgrades have enabled us to scale up our product offerings, broaden our digital capabilities and provide enhanced customer service. We focused on optimizing our new markets through customer acquisition and deepening community relationships, resulting in enhancing franchise value.

Although the current economic climate has been challenging, we believe there is an opportunity with Federal Reserve rate hikes near terminal. Despite these conditions, we ended April 2023 with unaudited bank operations reporting record year to date net income of \$1,307,696, indicating a strong profitability and earnings year. We see the current environment as an opportunity for growth, in our people, our customers, shareholders, and our future.

Like all our banking peers and per regulation, we continue to hold a securities portfolio of available-for-sale securities. We have the ability and intent to hold these investments to maturity to receive the full value of each investment. Throughout the remainder of 2023 we will closely manage our non-interest expense, optimize our efficiencies, invest in our staff and focus on core deposit growth.

Providing long-term value to our shareholders remains one of our strategic core goals. We are pleased to announce on May 10th our board declared the first semi-annual common stock dividend of 2023, payable on May 31st to shareholders as of May 24th record date. The first semi-annual common stock dividend of \$0.14 per share, represents an increase of \$0.03 per share annually.

We are confident in the future of Select Bank and the vital role we play in the communities we serve. Our door is always open anytime you would like to meet with us or have questions or comments. We are grateful to you, our shareholders, for your dedication and loyalty. We eagerly look forward to the future!

Sherri. A. Sackett



Chief Executive Officer

Consolidated Balance Sheets December 31, 2022 and 2021

Assets

	2022	2021
Cash and amounts due from banks	\$ 4,509,607	\$ 5,853,632
Interest bearing deposits in other banks	7,015,997	31,955,773
Federal funds sold	6,965,698	243,519
Total cash and cash equivalents	18,491,302	38,052,924
Investments		
Securities available-for-sale at fair value	49,677,809	46,374,002
Loans	354,601,699	296,126,148
Less allowance for loan losses	(2,250,160)	(2,082,187)
Net Loans	352,351,539	294,043,961
Bank premises, furniture, and equipment, net	6,043,642	6,144,920
Restricted equity securities	1,161,150	1,133,600
Other real estate owned	-	34,858
Deferred tax assets	2,877,209	865,196
Cash surrender value of life insurance	6,154,091	6,021,703
Right of use asset - operating	239,420	-
Accrued interest receivable and other assets	3,357,897	2,221,739
Total other assets	19,833,409	16,422,016
Total assets	\$ 440,354,059	\$ 394,892,903

Liabilities and Stockholders' Equity

Liabilities

Deposits		
Interest bearing	\$ 339,604,486	\$ 300,274,846
Non-interest bearing	67,802,020	51,563,757
Total deposits	407,218,121	351,838,603
Borrowings	-	5,000,000
Subordinated debt	11,368,000	12,238,000
Lease obligation	241,268	-
Interest, taxes, and other liabilities	1,202,347	946,118
Total liabilities	420,218,121	370,022,721

Stockholders' Equity

Common stock, \$5.00 par value, 20,000,000 shares authorized, 1,554,616 and 1,554,616 shares issued and outstanding in 2022 and 2021, respectively.	7,773,080	7,773,080
Preferred stock, \$5.00 par value, 5,000,000 shares authorized, 350,524 and 287,188 shares issued and outstanding in 2022 and 2021, respectively.	1,752,620	1,435,940
Surplus	11,788,800	11,155,480
Retained earnings	6,499,212	4,586,663
Accumulated other comprehensive income (loss)	(7,677,774)	(80,981)
Total stockholders' equity	20,135,938	24,870,182
Total liabilities and stockholders' equity	\$ 440,354,059	\$ 394,892,903

Consolidated Statements of Income Years Ended December 31, 2022 and 2021

Interest Income

	2022	2021
Interest and fees on loans	\$ 14,449,103	14,705,706
Interest on deposits in other banks	198,789	47,750
Federal funds sold	14,416	225
Investment securities	923,117	215,421
Dividends on restricted equity services	98,846	76,837
	15,684,271	15,045,939

Interest Expense

Interest on deposits	2,748,866	2,534,865
Interest on borrowed funds	809,126	553,878
	12,126,279	11,957,196
Provision for loan losses	260,000	560,000
Net interest income after provision for loan losses	11,866,279	11,397,196

Other Income

Service charges on deposit accounts	75,309	59,175
Other customer service fees	205,300	100,183
Mortgage brokerage fees	375,810	874,486
Gain (loss) on sale of other real estate sold	(124)	(1,484)
Gain on early extinguishment of debt	676,601	-
Gain on disposal of premises and equipment	75,364	-
Increase in cash surrender value of life insurance	132,388	54,267
Consulting fee income	7,500	1,500
Total other income	1,548,148	1,088,127

Other Expenses

Salaries and employee benefits	5,357,119	6,259,955
Occupancy expense	869,082	684,937
Telephone expense	138,903	137,943
FDIC assessment expense	358,968	293,726
Legal and professional fees	601,487	452,387
Data processing fees	817,071	578,359
Marketing expense	202,457	192,744
Computer expenses	228,555	240,873
Taxes other than income taxes	314,458	345,227
Loss on check fraud	337,440	-
Other operating expenses	1,040,419	795,826
Total other expenses	10,265,959	9,981,977
Income before income taxes	3,148,468	2,503,346

Income Tax Expense

	608,123	479,431
Net Income	\$ 2,540,345	\$ 2,023,915

Select Bank

Financial Corporation

Board of Directors

T. Clay Davis

Director

Asset Liability Committee

Executive Committee

Loan Committee

T. Scott Garrett, M.D.

Director

Audit Committee

Nominating & Compensation Committee

Jennifer B. Lucado

Director

Loan Committee

C. Letcher Newcomb II

Director

Audit Committee

Loan Committee

Robert K. Pearson, Jr.

Director

Audit Committee

Planning & Development Committee

Allan W. Pettigrew

Director

Loan Committee

Planning & Development Committee

Larry H. Redmond, M.D.

Director

Asset Liability Committee

Nominating & Compensation Committee

Sherri A. Sackett

Director

Asset Liability Committee

Executive Committee

Loan Committee

J. Michael Thomas

Director

Loan Committee

Daniel P. Thornton

Chairman

Executive Committee

Loan Committee

Nominating & Compensation Committee

Planning & Development Committee

M. Ralph Wilkes

Vice Chair

Audit Committee

Executive Committee

Loan Committee

Nominating & Compensation Committee

Executive Leadership



Sherri A. Sackett
CEO

T. Clay Davis
President,
Chief Strategy
Officer

Michael Forren
Senior Market
President

J. Michael Thomas
Senior Credit Advisor

Community Presence

Asheboro



Bedford



Boonsboro



Burlington



Forest



F.A.L.L. Classic golf tournament at London Downs Golf Club.



High school interns from Beacon of Hope.

Staunton

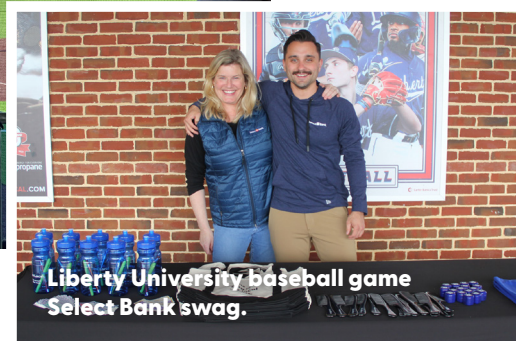


Toy drive at Select Bank Staunton.



Trunk or Treat at Select Bank Staunton.

Timberlake



Hear us:

WIQO Lynchburg
WLNI Lynchburg
CYK Staunton
WBAG Burlington



Follow us:



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"We see the current environment as an opportunity for growth, in our people, our customers, shareholders, and our future."

Sherri. A. Sackett
CEO