

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, T. Richard Harvey

Name of the Holding Company Director and Official
President and Chief Executive Officer
 Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

T. Richard Harvey
 Signature of Holding Company Director and Official
 03/17/2021
 Date of Signature

For holding companies not registered with the SEC—
 Indicate status of Annual Report to Shareholders:

is included with the FR Y-6 report
 will be sent under separate cover
 is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____
 C.I. _____

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2020

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Mountain-Valley Bancshares, Inc.

Legal Title of Holding Company

Post Office Box 1969

(Mailing Address of the Holding Company) Street / P.O. Box

Elkins WV 26241
 City State Zip Code

317 Davis Avenue Elkins, WV 26241

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Anthony N. Ricottilli Treasurer

Name Title

304-637-2265

Area Code / Phone Number / Extension

304-637-2270

Area Code / FAX Number

aricottilli@mountainvalleybank.com

E-mail Address

www.mountainvalleybank.com

Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report.....

2. a letter justifying this request has been provided separately ...

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

<hr/> <p>Legal Title of Subsidiary Holding Company</p> <hr/> <p>(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box</p> <hr/> <p>City State Zip Code</p> <hr/> <p>Physical Location (if different from mailing address)</p> <hr/>	<hr/> <p>Legal Title of Subsidiary Holding Company</p> <hr/> <p>(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box</p> <hr/> <p>City State Zip Code</p> <hr/> <p>Physical Location (if different from mailing address)</p> <hr/>
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**ANNUAL REPORT OF HOLDING COMPANIES - FR Y-6
MOUNTAIN-VALLEY BANCSHARES, INC.
DECEMBER 31, 2020**

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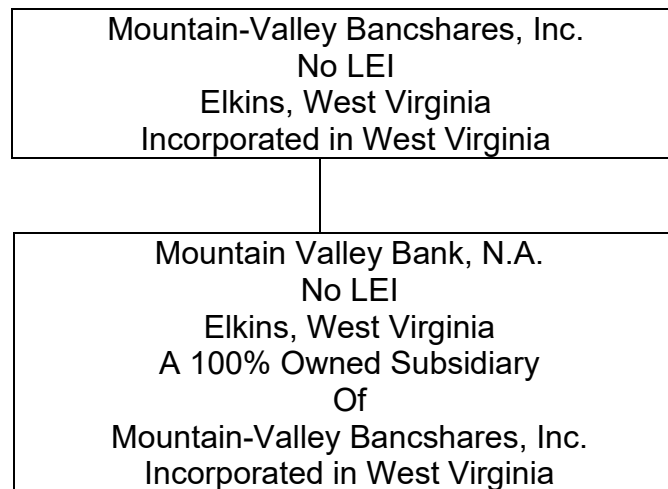
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**Form FR Y-6
Mountain-Valley Bancshares, Inc.
Elkins, West Virginia
Year Ending December 31, 2020**

Report Item

1. a. Mountain-Valley Bancshares, Inc. is not required to file form 10K with the Securities and Exchange Commission.
- b. Mountain-Valley Bancshares, Inc. does prepare an annual report for its shareholders. Annual report provided as Attachment A.

2. a. Organizational Chart



2. b. Submitted via e-mail on February 11, 2021.

**FORM FR Y-6
MOUNTAIN-VALLEY BANCSHARES, INC.
DECEMBER 31, 2020**

Report Item 3: Shareholders

(1)a (1)b (1)c (2)a (2)b (2)c

Report Item 3(1): Shareholders

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-20.

3(1)a Name & Address (City, State, Country)	3(1)b Country of Citizenship Or Incorporation	3(1)c Number of Each Class of Voting Securities	Percentage
Shriners Hospitals for Crippled Children Tampa, Florida USA	USA	33,300 Common Stock	7.96%
Cecelia W. Wallace Mill Creek, WV USA	USA	23,680 Common Stock	5.66%

Report Item 3(2): Shareholders

Shareholders not listed in 3(1) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-20.

3(2)a Name & Address (City, State, Country)	3(2)b Country of Citizenship Or Incorporation	3(2)c Number of Each Class of Voting Securities	Percentage
NONE	NONE	NONE	NONE

Report Items 4: Directors and Officers
(1) (2) (3) a,b,c and (4) a,b,c

(1)	(2)	(3) a	(3) b	(3) c	4(a)	4 (b)	4 (c)
Name & Address (City, State, Country)	Principal Occupation If Other Than With Bank Holding Company	Title & Position with Bank Holding Company	Title & Position With Subsidiaries (Name of Subsidiary)	Title & Position With Other Businesses (Name of Other Business)	Percentage of Voting Shares in Bank Holding Company	Percentage of Voting Shares in Subsidiaries (Name of Subsidiary)	Name of Other Companies With a 25% or Greater Voting Interest
T. Richard Harvey Elkins, WV United States	Chariman of the Board, President and Chief Executive Officer of Mountain Valley Bank, N.A.	Director President & Chief Executive Officer	Chariman of the Board, President and Chief Executive Officer Mountain Valley Bank, N.A.	None	0.98%	N/A	N/A
Donald J. Judy Beverly, WV United States	Retired	Director Chairman of the Board	Vice Chairman of the Board Mountain Valley Bank, N.A.	Retired	3.83%	N/A	N/A
Russell T. Linger, Jr. Huttonsville, WV United States	Dairy Farmer	Director	Director Mountain Valley Bank, N.A.	President Linger Farms Inc.	2.09%	N/A	Linger Farms Inc. 50% Interest
Pat A. Nichols Davis, WV United States	Attorney at Law	Director	Director Mountain Valley Bank, N.A.	Owner Pat A. Nichols Attorney at Law	0.78%	N/A	Pat A. Nichols Attorney at Law 100% Owner
David J. Orr Parsons, WV United States	Consultant	Director Executive Vice President	Director Mountain Valley Bank, N.A.	Owner Orr Enterprises LLC	3.31%	N/A	Orr Enterprises LLC 100% Owner
Richard L. Thompson Elkins, WV United States	Rustic Fence Manufacturing	Director	Director Mountain Valley Bank, N.A.	President Judy Fencecraft, Inc.	2.13%	N/A	Judy Fencecraft, Inc. 100% Owner

CONSOLIDATED FINANCIAL STATEMENTS
MOUNTAIN-VALLEY BANCSHARES, INC.
DECEMBER 31, 2020



MOUNTAIN-VALLEY BANCSHARES, INC.

317 Davis Ave., P.O. Box 1969, Elkins, WV 26241 (304) 637-2265

Dear Stockholders:

On behalf of the directors, officers, and employees of Mountain-Valley Bancshares, Inc. and Mountain Valley Bank, N.A., we are pleased to submit herewith our audited consolidated financial statements for the year ended December 31, 2020.

The COVID-19 pandemic had a significant impact on all facets of life in 2020. Every individual and business dealt with trying times and challenging issues throughout the year. Mountain Valley Bank has taken extraordinary measures during this pandemic to enable us to continue to provide for the financial needs of our customers and support the communities we serve. Indeed, all aspects of our operations were affected by the pandemic, and it became necessary to transform the way we do business in a very short period of time. Our customers adapted as well, and expanded their use of our alternative delivery channels including internet and mobile banking, online bill payment, debit cards, ATMs, and cash management.

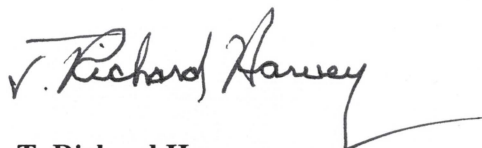
Our primary focus throughout 2020 was to ensure a safe and clean environment for our employees and our customers, and to assist our customers in any way possible to help them navigate through these uncertain times. Our bank is an active participant in the Small Business Administration's Paycheck Protection Program (PPP). Our loan department personnel have done an outstanding job administering this program, which continues to provide a lifeline to many businesses throughout our region during these difficult economic times.

While managing through a year unlike any other, our organization's financial performance remained strong in 2020. Assets on our balance sheet grew by \$28,485,000, or 19.8%, and we finished the year with total assets of \$172,228,903. The PPP loans that we booked during the year contributed significantly to this growth. Total deposits showed substantial growth of \$27,208,000, or 22.6% during the year, enhanced by a considerable amount of Economic Impact Payments kept on deposit by our customers.

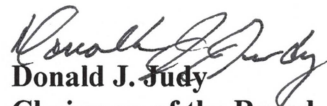
Our earnings performance was solid again in 2020, as we posted net income of \$1,324,116 for the year. These earnings, along with our strong capital position, enabled our Board of Directors to maintain our dividend to shareholders of \$1.15 per share for the year.

Our employees continue to do a remarkable job during these trying times, and we acknowledge their significant contributions to our ongoing success. Our bank, and the banking system in general, have shown an amazing resilience throughout these days of pandemic. We look forward to putting these unprecedented times behind us, and we look to the future with confidence and optimism.

Sincerely,



T. Richard Harvey
President and CEO
Mountain Valley Bank, N.A.



Donald J. Judy
Chairman of the Board
Mountain-Valley Bancshares, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Mountain-Valley Bancshares, Inc.
Elkins, West Virginia

We have audited the accompanying financial statements of Mountain-Valley Bancshares, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2020, 2019, and 2018, and the related notes to the financial statements.

Management's Responsibility for the 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain-Valley Bancshares, Inc. and subsidiary as of December 31, 2020 and 2019, and the results of their operations and cash flows for the years ended December 31, 2020, 2019, and 2018, in accordance with accounting principles generally accepted in the United States of America.

Conley CPA Group, PLLC

**Fairmont, West Virginia
February 16, 2021**

CONSOLIDATED BALANCE SHEETS
MOUNTAIN-VALLEY BANCSHARES, INC.
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and due from banks (Note 2)	\$ 2,723,507	\$ 1,994,558
Interest-bearing deposits in other banks	25,225,215	10,678,080
Federal funds sold	--	<u>659,652</u>
Total Cash and Cash Equivalents	<u>27,948,722</u>	<u>13,332,290</u>
Investment securities (Note 3)		
Available-for-sale securities, at approximate market value	38,857,319	34,063,310
Loans: (Note 4)	103,488,821	94,259,021
Less: Unearned income	(288,343)	(141,529)
Allowance for loan losses	<u>(1,275,904)</u>	<u>(1,167,692)</u>
Net Loans	<u>101,924,574</u>	<u>92,949,800</u>
Bank premises, furniture and equipment, net (Note 5)	1,348,025	1,324,752
Accrued interest receivable and other assets	<u>2,150,263</u>	<u>2,073,892</u>
TOTAL ASSETS	<u>\$172,228,903</u>	<u>\$143,744,044</u>
LIABILITIES		
Deposits: (Note 6)		
Noninterest-bearing	\$ 55,336,222	\$ 39,207,905
Interest-bearing	<u>92,174,061</u>	<u>81,094,192</u>
Total Deposits	<u>147,510,283</u>	<u>120,302,097</u>
Securities sold under agreements to repurchase (Note 7)	1,122,619	1,279,798
Interest, taxes and other liabilities	<u>3,027,792</u>	<u>2,315,513</u>
Total Liabilities	<u>151,660,694</u>	<u>123,897,408</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$.20; 1,000,000 shares authorized; 508,020 shares issued	101,604	101,604
Additional paid-in capital	1,175,565	1,175,565
Retained earnings (Note 10)	22,973,872	22,130,693
Accumulated other comprehensive (loss) (Note 11)	(1,301,234)	(1,179,628)
Less: Common stock held in treasury, 89,814 shares at cost	<u>(2,381,598)</u>	<u>(2,381,598)</u>
Total Stockholders' Equity	<u>20,568,209</u>	<u>19,846,636</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$172,228,903</u>	<u>\$143,744,044</u>

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

CONSOLIDATED STATEMENTS OF INCOME
MOUNTAIN-VALLEY BANCSHARES, INC.
Years Ended December 31, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
INTEREST INCOME			
Interest and fees on loans	\$ 5,334,999	\$ 5,345,910	\$ 4,956,630
Deposits in other banks	85,257	93,375	57,596
Interest on federal funds sold	225	101,162	47,782
Investment securities:			
Taxable	281,438	442,338	404,222
Tax-exempt	<u>358,543</u>	<u>287,325</u>	<u>266,562</u>
Total Interest Income	6,060,462	6,270,110	5,732,792
INTEREST EXPENSE			
Interest on deposits and borrowed funds	<u>407,443</u>	<u>385,746</u>	<u>267,099</u>
NET INTEREST INCOME	5,653,019	5,884,364	5,465,693
Provision for loan losses (Note 4)	<u>156,000</u>	<u>50,000</u>	<u>--</u>
Net Interest Income After Provision for Loan Losses	<u>5,497,019</u>	<u>5,834,364</u>	<u>5,465,693</u>
NONINTEREST INCOME			
Charges and fees on deposit accounts	254,337	308,119	311,520
Debit and credit card fees	407,163	393,504	367,096
Other operating income	84,597	72,273	77,311
Gain on investment securities, net	<u>11,519</u>	<u>28,524</u>	<u>--</u>
Total Noninterest Income	<u>757,616</u>	<u>802,420</u>	<u>755,927</u>
NONINTEREST EXPENSES			
Salaries and employee benefits	2,667,425	2,637,994	2,538,715
Occupancy and equipment	393,714	390,990	384,121
Data processing	474,719	475,383	471,795
Director and committee fees	115,550	114,750	122,950
Postage	78,899	81,954	77,815
ATM fees	273,775	259,787	242,333
Dues and assessments	111,085	123,350	140,475
Stationery and supplies	53,644	40,386	54,140
Advertising and public relations	49,819	65,104	65,832
Loss on sale of other real estate	815	--	--
Other operating expenses	<u>391,174</u>	<u>401,227</u>	<u>359,983</u>
Total Noninterest Expenses	<u>4,610,619</u>	<u>4,590,925</u>	<u>4,458,159</u>
Income Before Income Taxes	1,644,016	2,045,859	1,763,461
Income Taxes (Note 8)	<u>319,900</u>	<u>440,200</u>	<u>363,000</u>
NET INCOME	<u>\$ 1,324,116</u>	<u>\$ 1,605,659</u>	<u>\$ 1,400,461</u>
Net Income Per Weighted Average Common Share	<u>\$ 3.17</u>	<u>\$ 3.84</u>	<u>\$ 3.35</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
MOUNTAIN-VALLEY BANCSHARES, INC.
Years Ended December 31, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Income	\$ 1,324,116	\$ 1,605,659	\$ 1,400,461
Other Comprehensive Income (Loss), net of tax:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during period (Net of tax of \$(140,515), \$(195,785), and \$28,265)	379,912	529,346	(76,420)
Less: reclassification adjustment for (gains) included in net income (Net of tax of \$3,110, \$7,701, and \$-0-)	<u>(8,409)</u>	<u>(20,823)</u>	<u>--</u>
	<u>371,503</u>	<u>508,523</u>	<u>(76,420)</u>
Defined benefit pension plans:			
Net (loss) gain arising during period (Net of tax of \$182,383, \$62,786, and \$(24,406))	(493,109)	(169,753)	65,987
Less: amortization of prior service cost included in net periodic pension cost (Net of tax of \$-0-, \$-0-, and \$1,596)	<u>--</u>	<u>--</u>	<u>(4,316)</u>
	<u>(493,109)</u>	<u>(169,753)</u>	<u>61,671</u>
Other Comprehensive (Loss) Income	<u>(121,606)</u>	<u>338,770</u>	<u>(14,749)</u>
COMPREHENSIVE INCOME	<u>\$ 1,202,510</u>	<u>\$ 1,944,429</u>	<u>\$ 1,385,712</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
MOUNTAIN-VALLEY BANCSHARES, INC.
Years Ended December 31, 2020, 2019, and 2018

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2017	\$101,604	\$1,175,565	\$20,065,537	\$ (1,503,649)	\$(2,381,598)	\$17,457,459
Net income			1,400,461			1,400,461
Other comprehensive (loss)				(14,749)		<u>(14,749)</u>
Total Comprehensive Income						1,385,712
Cash dividends \$1.10 per share	_____	_____	<u>(460,027)</u>	_____	_____	<u>(460,027)</u>
Balance, December 31, 2018	101,604	1,175,565	21,005,971	(1,518,398)	(2,381,598)	18,383,144
Net income			1,605,659			1,605,659
Other comprehensive income				338,770		<u>338,770</u>
Total Comprehensive Income						1,944,429
Cash dividends \$1.15 per share	_____	_____	<u>(480,937)</u>	_____	_____	<u>(480,937)</u>
Balance, December 31, 2019	101,604	1,175,565	22,130,693	(1,179,628)	(2,381,598)	19,846,636
Net income			1,324,116			1,324,116
Other comprehensive (loss)				(121,606)		<u>(121,606)</u>
Total Comprehensive Income						1,202,510
Cash dividends \$1.15 per share	_____	_____	<u>(480,937)</u>	_____	_____	<u>(480,937)</u>
Balance, December 31, 2020	<u>\$101,604</u>	<u>\$1,175,565</u>	<u>\$22,973,872</u>	<u>\$ (1,301,234)</u>	<u>\$(2,381,598)</u>	<u>\$20,568,209</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
MOUNTAIN-VALLEY BANCSHARES, INC.
Years Ended December 31, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES			
Net income	\$ 1,324,116	\$ 1,605,659	\$ 1,400,461
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	156,000	50,000	--
Depreciation, amortization, and accretion	230,520	173,766	196,534
Deferred income tax expense (benefit)	24,800	22,500	(6,400)
Realized investment security (gains)	(11,519)	(28,524)	--
Loss on other real estate	815	--	--
(Increase) in interest receivable and other assets	(144,493)	(183,511)	(28,406)
Increase in interest, taxes, and other liabilities	<u>36,787</u>	<u>50,944</u>	<u>66,503</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,617,026</u>	<u>1,690,834</u>	<u>1,628,692</u>
INVESTING ACTIVITIES			
Securities available-for-sale			
Proceeds from maturities and calls	23,001,921	20,496,359	11,204,296
Payments for purchases	(27,372,152)	(18,501,633)	(10,526,851)
Net (increase) in loans	(9,177,524)	(2,494,224)	(747,813)
Proceeds from sale of other real estate owned	134,235	--	33,600
(Additions) to premises, furniture, and equipment	<u>(157,144)</u>	<u>(70,136)</u>	<u>(88,332)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(13,570,664)</u>	<u>(569,634)</u>	<u>(125,100)</u>
FINANCING ACTIVITIES			
Net increase in deposits	27,208,186	5,829,533	319,816
Net (decrease) increase in repurchase agreements	(157,179)	(2,654,739)	313,331
Cash dividends	<u>(480,937)</u>	<u>(480,937)</u>	<u>(460,027)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>26,570,070</u>	<u>2,693,857</u>	<u>173,120</u>
Increase in Cash and Cash Equivalents	14,616,432	3,815,057	1,676,712
Cash and Cash Equivalents at Beginning of Year	<u>13,332,290</u>	<u>9,517,233</u>	<u>7,840,521</u>
Cash and Cash Equivalents at End of Year	<u>\$27,948,722</u>	<u>\$13,332,290</u>	<u>\$ 9,517,233</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MOUNTAIN-VALLEY BANCSHARES, INC.
December 31, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Mountain-Valley Bancshares, Inc. (the company) and its wholly-owned subsidiary, Mountain Valley Bank, N.A. (the bank). All significant intercompany balances and transactions have been eliminated in consolidation. The company consolidates subsidiaries in which it either holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The company has no other entities that are required to be consolidated under generally accepted accounting principles.

Nature of Operations

The company provides a variety of financial services to individuals and small businesses through its offices in Randolph and Tucker counties, West Virginia. Its primary deposit products are demand deposits, savings and term certificate accounts and its primary lending products are residential mortgage, commercial, and consumer loans.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

Reclassifications

Certain items from 2019 and 2018 have been reclassified to conform to the 2020 financial statement presentation.

Significant Group Concentrations of Credit Risk

Most of the company's activities are with customers located within Randolph and Tucker counties, West Virginia. Note 3 discusses the types of securities the company utilizes for investments. Note 4 discusses the types of loans the company grants to its customers. The company does not have any significant lending concentrations to any one industry or customer. Additionally, the bank maintains correspondent banking relationships in which the bank is in excess of federally insured limits at various times throughout the year.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and certain interest-bearing deposits in other banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Management determines the appropriate classification of securities at the time of purchase. Debt securities that the company has the positive intent and the ability to hold to maturity are carried at amortized cost. Securities to be held for indefinite periods of time are classified as available for sale and carried at estimated fair value. Historically, the company has been able to hold available for sale securities to maturity and believes it has the ability to hold these securities to maturity in the future. Unrealized gains and losses on securities classified as available for sale are carried as a separate component of Accumulated Other Comprehensive Income (Loss), net of deferred income taxes.

Gains or losses on sales of securities recognized by the specific identification method are reported as securities gains and losses within noninterest income or noninterest expense of the Consolidated Statements of Income. The company reviews securities on a quarterly basis for possible impairment. The company determines whether a decline in fair value below the amortized cost basis of a security is other-than-temporary. This determination requires significant judgment. In making this judgment, the company's review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer, recent changes in external credit ratings, and the assessment of collection of the security's contractual amounts from the issuer or issuers.

If the company intends to sell, or it is probable that it will be required to sell an impaired debt security before recovery of its amortized cost basis less any current period credit loss, other-than-temporary impairment is recognized in earnings. The credit loss is defined as the difference between the present value of cash flows expected to be collected and the amortized cost basis. The amount recognized in earnings is equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. If the company does not intend to sell, and it is unlikely that it will be required to sell the impaired debt security prior to recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the following: 1) the amount representing the credit loss, which is recognized within noninterest expense of the Consolidated Statements of Income, and 2) the amount related to all other factors, which is recognized in accumulated other comprehensive income (loss) within shareholders' equity of the Consolidated Balance Sheets.

Federal Home Loan Bank Stock

The company, as a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. Management reviews the FHLB stock for impairment based on the ultimate recoverability of the cost basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

The company grants mortgage, commercial and consumer loans to its customers. A substantial portion of the loan portfolio is represented by residential and commercial mortgage loans throughout Randolph and Tucker counties, West Virginia. The ability of the company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any deferred fees (unearned income) on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the related loan yield using the interest method. Loan origination costs are primarily being recognized as incurred. The use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs were deferred and amortized as an adjustment of the loan yield.

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 the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Generally, the company considers impaired loans to include:

- Loans classified as non-accrual loans
- Loans which have been classified as substandard, doubtful, or loss and/or which have a specific loan loss allocation
- Loans past due for longer than 90 days that have a principal balance of \$50,000 or greater

Periodically, groups of homogeneous loans not included in the above categories are collectively evaluated for impairment.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the company has entered into commitments to extend credit, including letters of credit. Such financial instruments are recorded when they are funded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount, including capital improvements, or fair value less cost to sell. Revenue and expenses from operations and subsequent changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed primarily on the straight-line method over the estimated useful lives of the assets.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The company evaluates its income tax expense utilizing two components: current and deferred. The company determines current income taxes, i.e. taxes to be paid or refunded for the current period, by applying the provisions of the current tax law to taxable income or excess of deductions over revenues. The company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The company recognizes interest and penalties, if any, on income taxes as a component of operating expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The company and the bank are subject to income taxes in the U.S. Federal and West Virginia jurisdictions. The company and its subsidiary file consolidated federal and state income tax returns.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Earnings Per Common Share

Earnings per share represent income attributable to common stockholders divided by the weighted-average number of common shares outstanding during the period. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive (loss) income. Other comprehensive income includes unrealized gains on securities available for sale, unrealized losses related to factors other than credit risk on debt securities, and changes in the funded status of the pension plan which are also recognized as separate components of equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 9. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Cash Flows

Mountain-Valley Bancshares, Inc. and subsidiary paid approximately \$317,000, \$393,000, and \$355,000 of applicable income taxes during 2020, 2019, and 2018, respectively. The company made transfers of loans to foreclosed assets held for resale and repossessions of approximately \$47,000, \$88,000, and \$34,000 in 2020, 2019, and 2018, respectively. Payments of interest did not vary materially from interest reported on the consolidated statements of income for the respective years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

The following standards were adopted during the year ended December 31, 2020:

In May 2014, the FASB issued ASU No. 2014-09, “Revenues from Contracts with Customers”. ASU No. 2014-09 provides a framework to address revenue recognition issues, creating more consistency and comparability of revenue recognition practices across entities and industries, and improves the usefulness of information provided to financial statement users. The company’s revenue is composed of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the company’s revenues were not affected. This update is effective for the company’s annual reporting period of December 31, 2020, and did not have a material impact on the company’s consolidated financial statements. See Note 18 for further discussion.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables – Nonrefundable Fees and Other Costs”. ASU No. 2017-08 amends the amortization period for certain purchased callable debt securities held at a premium, from the contractual life of the instrument to the earliest call date. This update is effective for the company’s annual reporting period of December 31, 2020 and did not have a material impact on the company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurements”. ASU 2018-13 improves the effectiveness of disclosure requirements on fair value measurements. This update is effective for the company’s annual reporting period of December 31, 2020 and did not have a material impact on the company’s consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-03, “Codification Improvements to Financial Instruments”. The amendments in this update represent changes to clarify or improve the codification. The amendments make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. This update is effective for the company’s annual reporting period of December 31, 2020, and did not have a material impact on the company’s consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

The following standards were adopted during the year ended December 31, 2019:

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (ASC Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. The amendments in this update aim to enhance the reporting model for financial instruments and to provide users of financial statements with more decision-useful information. This update was effective for the company’s annual reporting period of December 31, 2019, and did not have a material impact on the company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. The objective of ASU No. 2016-15 is to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update was effective for the company’s annual reporting period of December 31, 2019, and did not have a material impact on the company’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation – Retirement Benefits”. ASU No. 2017-07 reflects changes to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost for defined benefit pension plans as well as other postretirement benefits. This update was effective for the company’s annual reporting period of December 31, 2019, and did not have a material impact on the company’s consolidated financial statements.

NOTE 2. RESTRICTIONS ON CASH AND DUE FROM BANKS

The Federal Reserve establishes reserve requirements within specified ranges for purposes of implementing monetary policy on certain types of deposits of depository institutions. Effective March 26, 2020, the Federal Reserve reduced the reserve requirement to zero in order to support the flow of credit to households and businesses during the COVID-19 Pandemic. As of December 31, 2019, the subsidiary bank’s required reserve balance was approximately \$1,206,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and approximate fair values of available-for-sale investment securities, with gross unrealized gains and losses, are summarized as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Approximate Fair Value
Debt Securities:				
U.S. agency securities	\$ 97,133	\$ 1,758	\$ --	\$ 98,891
U.S. government-sponsored enterprises (GSEs)	12,785,720	9,808	--	12,795,528
State and municipal securities	18,963,394	537,531	(7,388)	19,493,537
Mortgage-backed securities				
GSE residential	<u>6,303,075</u>	<u>169,955</u>	<u>(3,667)</u>	<u>6,469,363</u>
	<u>\$ 38,149,322</u>	<u>\$ 719,052</u>	<u>\$ (11,055)</u>	<u>\$ 38,857,319</u>

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Approximate Fair Value
Debt Securities:				
U.S. agency securities	\$ 120,514	\$ --	\$ (1,556)	\$ 118,958
U.S. government-sponsored enterprises (GSEs)	11,525,985	14,601	(10,174)	11,530,412
State and municipal securities	16,185,122	220,203	(23,160)	16,382,165
Mortgage-backed securities				
GSE residential	<u>6,032,600</u>	<u>34,597</u>	<u>(35,422)</u>	<u>6,031,775</u>
	<u>\$ 33,864,221</u>	<u>\$ 269,401</u>	<u>\$ (70,312)</u>	<u>\$ 34,063,310</u>

Government-sponsored enterprises (GSEs) include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

At December 31, 2020 and 2019, the company held no securities of any single issuer (excluding the U.S. government-sponsored enterprises) with a book value that exceeded 10% of stockholders' equity.

The amortized cost and approximate fair value of available-for-sale investment securities by contractual maturity and estimated repayments at December 31, 2020 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Within 1 year	\$ 8,935,913	\$ 8,983,111
Over 1 year through 5 years	16,354,212	16,587,996
After 5 years through 10 years	4,995,613	5,159,958
Over 10 years	<u>1,560,509</u>	<u>1,656,891</u>
	31,846,247	32,387,956
 Mortgaged-backed securities	 <u>6,303,075</u>	 <u>6,469,363</u>
	 <u>\$ 38,149,322</u>	 <u>\$ 38,857,319</u>

Investment securities with an approximate carrying amount of \$15,554,000 and \$15,198,000, at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

There were no sales of securities available-for-sale during the years ended December 31, 2020, 2019, or 2018.

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the entity's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

Temporarily Impaired Securities (Continued)

Available-for-sale securities that have been in a continuous unrealized loss position are as follows:

	December 31, 2020					
	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value
<u>AVAILABLE-FOR-SALE</u>						
U.S. agency securities	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
U.S. government-sponsored enterprises (GSEs)	--	--	--	--	--	--
State and municipal securities	(7,388)	412,384	--	--	(7,388)	412,384
Mortgaged-backed GSE residential	(3,667)	457,773	--	--	(3,667)	457,773
Total	<u>\$ (11,055)</u>	<u>\$ 870,157</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (11,055)</u>	<u>\$ 870,157</u>

	December 31, 2019					
	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value
<u>AVAILABLE-FOR-SALE</u>						
U.S. agency securities	\$ --	\$ --	\$ (1,556)	\$ 118,958	\$ (1,556)	\$ 118,958
U.S. government-sponsored enterprises (GSEs)	(1,286)	2,496,347	(8,888)	4,041,041	(10,174)	6,537,388
State and municipal securities	(18,362)	1,310,307	(4,798)	1,078,293	(23,160)	2,388,600
Mortgaged-backed GSE residential	(1,772)	352,921	(33,650)	2,236,842	(35,422)	2,589,763
Total	<u>\$ (21,420)</u>	<u>\$ 4,159,575</u>	<u>\$ (48,892)</u>	<u>\$ 7,475,134</u>	<u>\$ (70,312)</u>	<u>\$ 11,634,709</u>

At December 31, 2020, there was one GSE security with an unrealized loss of \$3,667 and one state and municipal security with an unrealized loss of \$7,388.

At December 31, 2019, there was one U.S. agency security with an unrealized loss of \$1,556 and seven GSE securities with an unrealized loss of \$10,174. In addition, there were eight state and municipal securities with an unrealized loss of \$23,160 and six mortgage-backed securities with an unrealized loss of \$35,422.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the company does not intend to sell the investments and it is not more likely than not the company will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the company does not consider these investments to be other-than-temporarily impaired at December 31, 2020 and 2019.

Other-Than-Temporary Impairment

Upon acquisition of a security, the company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities. At December 31, 2020 and 2019, the company has no beneficial interests in securitized financial assets.

Management routinely conducts periodic reviews to identify and evaluate each investment security. Factors such as default rate, severity of unrealized loss and credit ratings are considered to determine whether an other-than-temporary impairment has occurred.

As of December 31, 2020 and 2019, the company does not consider any securities to be other-than-temporarily impaired.

NOTE 4. LOANS

Loans and loan commitments are comprised primarily of loans to borrowers in lumber, auto, multi-family and single family residential real estate, and retail/service industries throughout West Virginia. Collateralization centers primarily around commercial and residential real estate, personal property and business equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

A summary of the component balances of loans at December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Real estate loans:		
Residential 1-4 family	\$ 43,700,117	\$ 42,561,696
Commercial and agricultural	35,153,905	33,721,355
Construction and land development	3,842,843	4,554,898
State, county, municipal loans	<u>222,611</u>	<u>292,555</u>
Total real estate loans	82,919,476	81,130,504
Commercial and agricultural loans	9,994,016	10,306,987
Paycheck Protection Program loans	7,691,253	--
Consumer installment loans	<u>2,884,076</u>	<u>2,821,530</u>
Total Loans	<u>\$103,488,821</u>	<u>\$ 94,259,021</u>

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law March 27, 2020, created the Paycheck Protection Program (PPP), the objective of which is to provide small businesses with financial support to cover payroll and certain other qualifying expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. The principal amount and accrued interest of PPP loans are fully forgivable, provided certain eligibility and use of funds criteria are satisfied in compliance with the program guidelines. The SBA will reimburse lenders for PPP loans that are forgiven subject to applications for forgiveness submitted by the borrowers. Borrowers must certify their compliance with all requirements of the program and submit other necessary documentation in completing the applications for forgiveness.

An analysis of the allowance for loan losses for the years ended December 31, 2020, 2019, and 2018 is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 1,167,692	\$ 1,159,133	\$ 1,115,470
Loans charged-off	(49,398)	(56,585)	(48,963)
Recoveries of loans previously charged-off	1,610	15,144	92,626
Provision for loan losses	<u>156,000</u>	<u>50,000</u>	<u>--</u>
Balance at end of year	<u>\$ 1,275,904</u>	<u>\$ 1,167,692</u>	<u>\$ 1,159,133</u>

The company is not committed to lend additional funds to borrowers whose loans are considered impaired or whose loans have been modified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

The company maintains an internal loan grading system to monitor the credit quality of commercial loans. Commercial loan risk grades are determined based on an evaluation of the relevant characteristics of each loan, assigned at the inception of each loan and adjusted thereafter at any time to reflect changes in the risk profile and sustainability of the primary source of repayment and overall financial strength of the borrower. This includes an analysis of cash flow available to repay debt, profitability, liquidity, leverage, and overall financial trends. Other factors include management, industry or property type risks, an assessment of secondary sources of repayment such as collateral or guarantees, other terms and conditions of the loans that may increase or reduce risk, and economic conditions and other external factors that may influence repayment capability and financial condition.

The company performs an annual review of a sample of commercial borrowers with an aggregate indebtedness of \$100,000 or greater. In addition, the company performs a quarterly review of all loans greater than \$10,000 with a past due status of greater than 45 days.

The company uses an eight-point internal risk rating system. The first five categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions.

Loans classified as Special Mention have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or in the credit position at some future date. Borrowers may be experiencing adverse operating trends such as declining revenues or margins. Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a loan as Special Mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.

Loans classified as Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt by the borrower. They are characterized by the distinct possibility the company will sustain some loss if the deficiencies are not corrected. They require more intensive supervision by management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral.

Loans classified as Doubtful are loans that have all the weaknesses inherent in one classified as Substandard with the added characteristic the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans classified as Doubtful have a high probability of total or substantial loss, but because of specific pending events that may strengthen the loan, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

Residential real estate and consumer loans are not assigned specific internal risk grades, unless they are included in the quarterly loan review of loans greater than \$10,000 with a past due status of greater than 45 days. Loans not included in the quarterly review are considered “Pass”.

The following tables represent the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful as of December 31, 2020 and 2019:

	2020				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Pass	\$ 36,523,769	\$ 17,685,269	\$ 45,791,773	\$ 2,881,108	\$102,881,919
Special Mention	--	--	310,097	2,968	313,065
Substandard	--	--	293,837	--	293,837
Doubtful	--	--	--	--	--
Total	<u>\$ 36,523,769</u>	<u>\$ 17,685,269</u>	<u>\$ 46,395,707</u>	<u>\$ 2,884,076</u>	<u>\$103,488,821</u>

	2019				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Pass	\$ 34,013,910	\$ 10,306,987	\$ 46,505,436	\$ 2,816,817	\$ 93,643,150
Special Mention	--	--	327,922	4,713	332,635
Substandard	--	--	283,236	--	283,236
Doubtful	--	--	--	--	--
Total	<u>\$ 34,013,910</u>	<u>\$ 10,306,987</u>	<u>\$ 47,116,594</u>	<u>\$ 2,821,530</u>	<u>\$ 94,259,021</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio. Measurements of delinquency and past due status are based on the contractual terms of each loan.

Past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when collection in full of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income on most loans generally is discontinued when a loan becomes 90 to 120 days past due as to principal and interest. However, regardless of delinquency status, if a loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days), then the loan will not be placed on nonaccrual. When interest accruals are discontinued, unpaid interest recognized in income is reversed. The company's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or apply the cash receipt to principal when the ultimate collectability of principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest has been paid.

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2020 and 2019:

	<u>2020</u>				<u>Total</u>
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	
Current	\$ 36,518,664	\$ 17,685,269	\$ 45,175,216	\$ 2,869,206	\$102,248,355
30 – 90 Days	5,105	--	865,196	14,870	885,171
> 90 Days	--	--	222,994	--	222,994
Subtotal	36,523,769	17,685,269	46,263,406	2,884,076	103,356,520
Nonaccrual	--	--	132,301	--	132,301
TOTAL	<u>\$ 36,523,769</u>	<u>\$ 17,685,269</u>	<u>\$ 46,395,707</u>	<u>\$ 2,884,076</u>	<u>\$103,488,821</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

	2019				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Current	\$ 33,919,614	\$ 10,306,987	\$ 45,599,808	\$ 2,814,739	\$ 92,641,148
30 – 90 Days	94,296	--	1,183,641	6,791	1,284,728
> 90 Days	--	--	333,145	--	333,145
Subtotal	34,013,910	10,306,987	47,116,594	2,821,530	94,259,021
Nonaccrual	--	--	--	--	--
TOTAL	<u>\$ 34,013,910</u>	<u>\$ 10,306,987</u>	<u>\$ 47,116,594</u>	<u>\$ 2,821,530</u>	<u>\$ 94,259,021</u>

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is uncertain. Typically, the company does not consider loans for impairment unless a sustained period of delinquency (i.e. 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e. negative financial trends, bankruptcy filings, eminent foreclosure proceedings, etc.). Consistent with the company's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

The following tables set forth the company's impaired loan information by class of loans as of December 31, 2020 and 2019:

	2020				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
<u>Impaired Loans with Specific Allowance:</u>					
Recorded Investment	\$ --	\$ --	\$ 87,368	\$ --	\$ 87,368
Related Allowance	\$ --	\$ --	\$ 35,000	\$ --	\$ 35,000
<u>Impaired Loans with No Specific Allowance:</u>					
Recorded Investment	\$ --	\$ --	\$ 111,252	\$ --	\$ 111,252
<u>Total Impaired Loans:</u>					
Recorded Investment	\$ --	\$ --	\$ 198,620	\$ --	\$ 198,620
Unpaid Principal Balance	\$ --	\$ --	\$ --	\$ --	\$ --
Average Recorded Investment	\$ --	\$ --	\$ 131,000	\$ --	\$ 131,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

	2019				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
<u>Impaired Loans with Specific Allowance:</u>					
Recorded Investment	\$ --	\$ --	\$ --	\$ --	\$ --
Related Allowance	\$ --	\$ --	\$ --	\$ --	\$ --
<u>Impaired Loans with No Specific Allowance:</u>					
Recorded Investment	\$ --	\$ --	\$ --	\$ --	\$ --
<u>Total Impaired Loans:</u>					
Recorded Investment	\$ --	\$ --	\$ --	\$ --	\$ --
Unpaid Principal Balance	\$ --	\$ --	\$ --	\$ --	\$ --
Average Recorded Investment	\$ 16,000	\$ --	\$ 69,000	\$ --	\$ 85,000

The following table summarizes the approximate recognition of interest income on impaired loans for the years ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Average impaired loans	<u>\$ 131,000</u>	<u>\$ 85,000</u>	<u>\$ 73,000</u>
Amount of contractual interest on impaired loans	<u>\$ 9,000</u>	<u>\$ 8,000</u>	<u>\$ 5,000</u>
Amount of interest income recognized while impaired	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 10,000</u>

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change.

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" if both (1) the debtor is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. As of December 31, 2020, there was one troubled debt restructuring with a recorded investment of \$45,000. The loan was in compliance with restructured terms and did not require a specific reserve in the allowance for loan loss. There were no troubled debt restructurings as of December 31, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

Allocations are made for specific loans based upon management's estimate of the borrower's ability to repay and other factors impacting collectability. Other loans not specifically reviewed are segregated by class and allocations are made based upon historical loss percentages adjusted for current environmental factors. The environmental factors considered for the portfolio include estimated probable inherent, but undetected, losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the allowance for credit loss analysis. During 2020 and 2019, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The following tables summarize the primary segments of the allowance for loan losses segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2020 and 2019.

	2020				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Balance, Beginning	\$ 428,229	\$ 114,725	\$ 581,574	\$ 43,164	\$ 1,167,692
Charge-offs	--	--	(47,066)	(2,332)	(49,398)
Recoveries	--	--	575	1,035	1,610
Provision	<u>68,774</u>	<u>752</u>	<u>86,453</u>	<u>21</u>	<u>156,000</u>
Balance, Ending	<u>\$ 497,003</u>	<u>\$ 115,477</u>	<u>\$ 621,536</u>	<u>\$ 41,888</u>	<u>\$ 1,275,904</u>
Portfolio Loans:					
Individually evaluated for impairment	\$ --	\$ --	\$ 198,620	\$ --	\$ 198,620
Collectively evaluated for impairment	<u>36,523,769</u>	<u>17,685,269</u>	<u>46,197,087</u>	<u>2,884,076</u>	<u>103,290,201</u>
Total Portfolio Loans	<u>\$ 36,523,769</u>	<u>\$ 17,685,269</u>	<u>\$ 46,395,707</u>	<u>\$ 2,884,076</u>	<u>\$103,488,821</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 4. LOANS (CONTINUED)

	2019				
	<u>Commercial Real Estate</u>	<u>Other Commercial</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Balance, Beginning	\$ 451,794	\$ 164,913	\$ 497,094	\$ 45,332	\$ 1,159,133
Charge-offs	--	--	(55,015)	(1,570)	(56,585)
Recoveries	--	--	11,239	3,905	15,144
Provision	(23,565)	(50,188)	128,256	(4,503)	50,000
Balance, Ending	<u>\$ 428,229</u>	<u>\$ 114,725</u>	<u>\$ 581,574</u>	<u>\$ 43,164</u>	<u>\$ 1,167,692</u>
Portfolio Loans:					
Individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively evaluated for impairment	<u>34,013,910</u>	<u>10,306,987</u>	<u>47,116,594</u>	<u>2,821,530</u>	<u>94,259,021</u>
Total Portfolio Loans	<u>\$ 34,013,910</u>	<u>\$ 10,306,987</u>	<u>\$ 47,116,594</u>	<u>\$ 2,821,530</u>	<u>\$ 94,259,021</u>

NOTE 5. BANK PREMISES, FURNITURE AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment at December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 370,454	\$ 370,454
Bank premises	2,122,550	2,123,513
Equipment, furniture and fixtures	<u>1,387,687</u>	<u>1,319,875</u>
	3,880,691	3,813,842
Allowance for depreciation	<u>(2,532,666)</u>	<u>(2,489,090)</u>
	<u>\$ 1,348,025</u>	<u>\$ 1,324,752</u>

Depreciation expense for years ended December 31, 2020, 2019, and 2018 was approximately \$134,000, \$138,000, and \$137,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 6. DEPOSITS

Deposits at December 31, were as follows:

	<u>2020</u>	<u>2019</u>
Deposits of individuals, partnerships, and corporations		
Noninterest bearing demand	\$ 55,336,000	\$ 39,208,000
Interest bearing demand	22,718,000	18,612,000
Money market	10,230,000	9,438,000
Savings	38,543,000	32,364,000
Time deposits	<u>20,683,000</u>	<u>20,680,000</u>
Total deposits	<u>\$ 147,510,000</u>	<u>\$ 120,302,000</u>

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2020 and 2019, was approximately \$1,411,000 and \$1,180,000, respectively.

At December 31, 2020, the approximate scheduled maturities of time deposits are as follows:

2021	\$ 13,265,000
2022	3,026,000
2023	1,228,000
2024	2,364,000
2025 and later	<u>800,000</u>
	<u>\$ 20,683,000</u>

Deposits of related parties, including directors, executive officers, and their related interests of Mountain-Valley Bancshares, Inc. and subsidiary, represented approximately 1% of total deposits at December 31, 2020 and 2019.

NOTE 7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature on a daily basis. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The company may be required to provide additional collateral based on the fair value of the underlying securities.

Additional information concerning securities sold under agreements to repurchase for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Average balance	<u>\$ 1,107,320</u>	<u>\$ 1,223,539</u>
Average interest rate	<u>.68%</u>	<u>.80%</u>
Maximum month-end balance	<u>\$ 1,272,192</u>	<u>\$ 2,604,937</u>
Interest expense	<u>\$ 7,582</u>	<u>\$ 9,764</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 8. INCOME TAXES

The allocation of federal and state income taxes between current and deferred portions for the years ended December 31, 2020, 2019, and 2018 is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current tax expense:			
Federal	\$ 233,400	\$ 348,500	\$ 308,800
State	<u>61,700</u>	<u>69,200</u>	<u>60,600</u>
	<u>295,100</u>	<u>417,700</u>	<u>369,400</u>
Deferred tax expense (benefit):			
Federal	19,300	17,500	(5,000)
State	<u>5,500</u>	<u>5,000</u>	<u>(1,400)</u>
	<u>24,800</u>	<u>22,500</u>	<u>(6,400)</u>
 INCOME TAXES	 <u><u>\$ 319,900</u></u>	 <u><u>\$ 440,200</u></u>	 <u><u>\$ 363,000</u></u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates for the years ended December 31, 2020, 2019, and 2018 are summarized as follows:

	<u>2020</u>		<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Statutory federal tax rate	\$ 345,200	21%	\$ 429,600	21%	\$ 370,000	21%
Increase (decrease) resulting from:						
State taxes, net of federal tax benefit	54,200	3%	60,000	3%	47,000	3%
Tax-exempt income	(80,300)	(5%)	(68,000)	(3%)	(57,000)	(3%)
Other items, net	<u>800</u>	<u>--</u>	<u>18,600</u>	<u>1%</u>	<u>3,000</u>	<u>--</u>
 INCOME TAXES	 <u><u>\$ 319,900</u></u>	 <u><u>19%</u></u>	 <u><u>\$ 440,200</u></u>	 <u><u>22%</u></u>	 <u><u>\$ 363,000</u></u>	 <u><u>21%</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 8. INCOME TAXES (CONTINUED)

The components of the deferred tax assets and (liabilities) at December 31, 2020, 2019, and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Deferred tax assets:			
Provision for loan loss	\$ 280,000	\$ 251,000	\$ 249,000
Net unrealized depreciation on available-for-sale securities	--	--	134,000
Employee benefit plans	<u>672,000</u>	<u>490,000</u>	<u>427,000</u>
Gross deferred tax assets	<u>952,000</u>	<u>741,000</u>	<u>810,000</u>
Deferred tax (liabilities):			
Net unrealized appreciation on available-for-sale securities	(191,000)	(54,000)	--
Depreciation	(49,000)	(24,000)	(37,000)
Prepaid pension cost	(297,000)	(265,000)	(230,000)
Investment discount accretion	(6,000)	(9,000)	(6,000)
Other items	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>
Gross deferred tax (liabilities)	<u>(593,000)</u>	<u>(402,000)</u>	<u>(323,000)</u>
Net deferred tax assets	<u>\$ 359,000</u>	<u>\$ 339,000</u>	<u>\$ 487,000</u>

No deferred income tax asset valuation allowance was provided since it is more likely than not that realization of the deferred income tax assets will occur in future years.

The company's evaluation on December 31, 2020 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2017 through 2020 tax years remain subject to examination by the tax authorities. The company does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 9. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

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

Fair Value Hierarchy

The company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1-Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2-Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 9. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (Continued)

Level 3-Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at December 31, 2020

	Total Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Available-for-sale	<u>\$38,857,319</u>	<u>\$ 3,017,427</u>	<u>\$35,839,892</u>	<u>\$ --</u>

Fair Value Measurements at December 31, 2019

	Total Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Available-for-sale	<u>\$34,063,310</u>	<u>\$ 3,094,407</u>	<u>\$30,968,903</u>	<u>\$ --</u>

During the years ended December 31, 2020 and 2019, the company had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 9. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. (For the years ended December 31, 2020 and 2019, there were no liabilities measured at fair value on a non-recurring basis.)

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

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impairment is measured based upon the present value of expected future cash flows from the loan discounted at the loan's effective rate and the loan's observable market price or the fair value of collateral, if the loan is collateral dependent. Fair value is measured using a market approach based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an appraisal conducted by an independent, licensed appraiser outside of the bank using comparable property sales (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses expense on the Consolidated Statements of Income.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at December 31, 2020

	Total Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	<u>\$ 198,620</u>	<u>\$ --</u>	<u>\$ 132,300</u>	<u>\$ 66,320</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 9. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Measurements at December 31, 2019

	Total Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

NOTE 10. RESTRICTIONS ON DIVIDENDS

The primary source of funds for dividends paid by Mountain-Valley Bancshares, Inc. is dividends received from its subsidiary, Mountain Valley Bank, N.A. The approval of the regulatory agencies is required if the total of all dividends declared by the subsidiary bank in any calendar year exceeds the subsidiary bank's net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years. In addition, dividends paid by the bank to the company would be prohibited if the effect thereof would cause the bank's capital to be reduced below applicable minimum capital requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 11. OTHER COMPREHENSIVE INCOME (LOSS)

Following are the components of other comprehensive income (loss) as of December 31, 2017, and for the years ended December 31, 2018, 2019, and 2020:

	<u>Unrealized Gain (Loss) on Securities Available- For-Sale</u>	<u>Minimum Pension (Liability)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
Balance December 31, 2017, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	\$ (286,768)	\$ (1,216,881)	\$ (1,503,649)
Other Comprehensive (Loss) – 2018			
Unrealized (losses) on securities available-for-sale	(104,685)	--	(104,685)
Minimum pension liability	--	84,481	84,481
Deferred income tax effect	<u>28,265</u>	<u>(22,810)</u>	<u>5,455</u>
	<u>(76,420)</u>	<u>61,671</u>	<u>(14,749)</u>
Balance December 31, 2018, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	(363,188)	(1,155,210)	(1,518,398)
Other Comprehensive Income – 2019			
Unrealized gains on securities available-for-sale	725,131	--	725,131
Less: Reclassification adjustment for realized (gains)	(28,524)	--	(28,524)
Minimum pension liability	--	(232,539)	(232,539)
Deferred income tax effect	<u>(188,084)</u>	<u>62,786</u>	<u>(125,298)</u>
	<u>508,523</u>	<u>(169,753)</u>	<u>338,770</u>
Balance December 31, 2019, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	145,335	(1,324,963)	(1,179,628)
Other Comprehensive (Loss) – 2020			
Unrealized gains on securities available-for-sale	520,427	--	520,427
Less: Reclassification adjustment for realized (gains)	(11,519)	--	(11,519)
Minimum pension liability	--	(675,492)	(675,492)
Deferred income tax effect	<u>(137,405)</u>	<u>182,383</u>	<u>44,978</u>
	<u>371,503</u>	<u>(493,109)</u>	<u>(121,606)</u>
Balance December 31, 2020, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	<u>\$ 516,838</u>	<u>\$ (1,818,072)</u>	<u>\$ (1,301,234)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 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 customers. These financial instruments include commitments to extend credit, including undisbursed lines of credit, as well as 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 policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risks:

	<u>2020</u>	<u>2019</u>
Commitments to grant loans and extend credit	\$ 1,702,700	\$ 3,969,400
Unfunded commitments under lines of credit	11,271,300	9,185,500
Letters of credit	<u>43,000</u>	<u>15,000</u>
	<u>\$ 13,017,000</u>	<u>\$ 13,169,900</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Unfunded commitments under commercial lines of credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. Certain of these commitments, such as lines of credit, may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount and type of collateral obtained, if deemed necessary by the bank, is based on management's credit evaluation of the customer.

Letters of credit are conditional lending commitments issued by the bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support private borrowing arrangements. Essentially all letters of credit issued have expiration dates ranging from three to seven years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank has granted loans to executive officers, directors and their affiliates. Set forth below is a summary of the related party loan activity for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 674,780	\$ 574,942
New borrowings	230,000	793,600
Repayments	<u>(760,677)</u>	<u>(693,762)</u>
Balance, ending	<u>\$ 144,103</u>	<u>\$ 674,780</u>

NOTE 14. EMPLOYEE BENEFIT PLANS

The subsidiary bank has a defined benefit pension plan covering all eligible employees. According to the plan, employees must work a minimum of 1,000 hours during the first twelve months and attain age 21 before they are eligible to participate. To be fully vested, employees must be employed for three years.

Included in accumulated other comprehensive income at December 31, 2020 are unrecognized actuarial losses of \$2,490,511 (\$1,818,072, net of tax) which have not yet been recognized in net periodic cost. The actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2021 is \$119,728 (\$87,401, net of tax).

Net periodic pension cost included the following components:

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 220,053	\$ 176,562	\$ 197,538
Interest cost	172,843	174,791	170,029
Expected return on plan assets	(285,836)	(231,445)	(254,350)
Recognized net actuarial loss	76,742	70,087	79,143
Amortization of prior service cost	--	--	(5,912)
Total Pension Expense	<u>\$ 183,802</u>	<u>\$ 189,995</u>	<u>\$ 186,448</u>

Weighted-average assumption:

Discount rate	3.50%	4.25%	3.75%
Expected return on assets	6.50%	6.50%	6.75%
Rate of compensation increase	3.00%	3.00%	3.00%

The expected long-term rate of return on plan assets is based on historical returns of various benchmark indices and the plan's current asset mix.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 4,981,287	\$ 4,155,240
Service cost	220,053	176,562
Interest cost	172,843	174,791
Actuarial gain (loss)	698,899	547,235
Benefits paid	<u>(228,609)</u>	<u>(72,541)</u>
Projected benefit at end of the year	5,844,473	4,981,287
Change in plan assets		
Fair value of plan assets at beginning of year	4,147,802	3,424,289
Actual return on plan assets	252,734	495,000
Benefits paid	(228,609)	(72,541)
Employer contributions	300,000	320,000
Administrative expenses	<u>(20,234)</u>	<u>(18,946)</u>
Fair value of plan assets at end of year	<u>4,451,693</u>	<u>4,147,802</u>
Funded status	<u><u>\$(1,392,780)</u></u>	<u><u>\$ (833,485)</u></u>
Weighted-average assumptions at end of year:		
Discount rate	2.75%	3.50%
Rate of compensation increase	3.00%	3.00%

Mortality table assumptions at end of year:

	December 31,	
	2020	2019
Post-Retirement	PRI-2012 Proj. with MP-2020	PRI-2012 Proj. with MP-2019
Retirees/Beneficiaries	PRI-2012 Scale MP-2020	PRI-2012 Scale MP-2019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

Amounts recognized in the statement of financial position consist of:

	<u>2020</u>	<u>2019</u>
Noncurrent assets	\$ 1,097,731	\$ 981,533
Noncurrent liabilities	<u>(2,490,511)</u>	<u>(1,815,018)</u>
	<u>\$ (1,392,780)</u>	<u>\$ (833,485)</u>

Unrecognized actuarial (losses) recognized in accumulated other comprehensive (loss) (net of tax effect) was (\$493,109) and (\$169,753) for the years ended December 31, 2020 and 2019, respectively.

The accumulated benefit obligation for the defined benefit pension plan was \$4,758,881 and \$4,082,840 at December 31, 2020 and 2019, respectively.

The subsidiary bank's pension plan asset allocations at December 31, 2020 and 2019, are as follows:

<u>Asset Category</u>	<u>Percentage of Plan Assets at December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	10%	2%
Bonds, bond funds and other fixed income	40%	47%
Equity securities	<u>50%</u>	<u>51%</u>
Total	<u>100%</u>	<u>100%</u>

The subsidiary bank's weighted-average asset allocations at December 31, 2020 and 2019, were approximately:

<u>Asset Category</u>	<u>Target Asset Mix</u>	<u>Plan Allocation Range</u>	<u>Weighted-Average Percentage of Plan Assets at December 31,</u>	
			<u>2020</u>	<u>2019</u>
Cash and cash equivalents	2%	0 – 10%	10%	2%
Bonds, bond funds and other fixed income	49%	45 – 55%	40%	47%
Equities (common stock and stock funds)	49%	45 – 55%	50%	51%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

The investment policy, as established by the plan's trustees, is to invest in assets based on the target allocations shown on the previous page or as deemed appropriate based on current market conditions. The assets will be reallocated periodically by the trustees based on the allocation ranges set forth in the plan to meet target allocations. The investment policy is reviewed periodically to determine if the policy or the actual asset allocation range should be changed. The plan assets will be invested with the primary goal to ensure the solvency of the plan over time and to meet pension obligations as required. The secondary goal is to seek the highest rate of return possible without taking excess risk. The plan will also maintain sufficient liquidity to provide for the payment of benefits or distributions. Assets will be invested in a balanced portfolio composed primarily of equities, fixed income, and cash or cash equivalent money market investments.

To minimize risk through proper diversification, no individual holding (excluding mutual funds) may exceed 10% of total market value. To the extent possible, the fixed income portion of the portfolio will be diversified by issuer and by maturity date and the equity portion of the investment portfolio will be adequately diversified by industry, investment style, and geographic region. The use of speculative common stock holdings is precluded by the plan.

The company groups its pension plan assets in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are as follows:

Level 1 – Valuation is based on quoted prices in active markets that are accessible at the measurement date for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset. Valuations are obtained from pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Valuation methodologies vary based upon the individual types of assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

The fair values of the bank's pension plan assets at December 31, 2020 and 2019, by asset category are as follows:

		2020		
<u>Asset Category</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 433,216	\$ 433,216	\$ --	\$ --
Fixed income:				
Corporate bonds	1,724,691	--	1,724,691	--
Mutual funds	65,946	65,946	--	--
Equity securities:				
Mutual funds	2,227,840	2,227,840	--	--
	<u>\$ 4,451,693</u>	<u>\$ 2,727,002</u>	<u>\$ 1,724,691</u>	<u>\$ --</u>
		2019		
<u>Asset Category</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 64,926	\$ 64,926	\$ --	\$ --
Fixed income:				
Municipal bonds	30,396	--	30,396	--
Corporate bonds	1,417,704	--	1,417,704	--
Mutual funds	506,973	506,973	--	--
Equity securities:				
Mutual funds	2,127,803	2,127,803	--	--
	<u>\$ 4,147,802</u>	<u>\$ 2,699,702</u>	<u>\$ 1,448,100</u>	<u>\$ --</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

Estimated future benefit payments, which reflect expected future service, as appropriate, for each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are as follows:

<u>Year(s)</u>	<u>Amount</u>
2021	\$ 144,695
2022	148,502
2023	189,138
2024	208,915
2025	210,473
2026 – 2030	<u>1,247,870</u>
Total	<u>\$2,149,593</u>

The subsidiary bank expects to contribute approximately \$350,000 to its pension plan in 2021.

In addition to the defined benefit plan, the company's subsidiary, Mountain Valley Bank, N.A., also has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Under the provisions of the plan, eligible employees may defer a portion of their compensation, not to exceed the dollar limit determined by law. A matching contribution equal to a percentage of the amount the employee deferred is determined annually by the employer. Employees must complete one year of service and attain age 21 before they are eligible to participate. The company contributed approximately \$14,000, \$14,000, and \$13,000 to the plan for the years 2020, 2019, and 2018, respectively.

NOTE 15. AVAILABLE BORROWINGS

The subsidiary bank has available from the Federal Home Loan Bank of Pittsburgh a line of credit with maximum available borrowings as of December 31, 2020, of approximately \$51,655,000. This line of credit has a variable interest rate based on the Federal Home Loan Bank's cost of funds and is collateralized by certain qualifying assets as defined by the agreement.

In addition to the Federal Home Loan Bank available borrowings, the bank also has available borrowings with correspondent banks under various credit agreements of \$7,750,000 as of December 31, 2020. Borrowings under these agreements are unsecured with interest rates at the current Federal Funds rate. These agreements are considered for renewal annually by the parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 15. AVAILABLE BORROWINGS (CONTINUED)

The Federal Reserve Bank also provides available borrowings through its discount window subject to available collateral.

During the year ended December 31, 2019, the bank had available similar borrowing arrangements. As of December 31, 2020 and 2019, the bank had no outstanding borrowings under the above agreements.

NOTE 16. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The company (on a consolidated basis) and the bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the company's and the bank's financial statements.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the company and the bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory reporting requirements. The capital amounts and classifications under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In 2019, the federal banking agencies jointly issued a final rule that provides for a community bank leverage ratio framework (CBLR framework) for qualifying community banking organizations. This final rule established an optional, simplified measure of capital adequacy consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 16. MINIMUM REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital, but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2020, both the company and bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios are presented below as of December 31:

	<u>Actual</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>As of December 31, 2020:</u>				
Tier 1 (Core) Capital to Average Total Assets:				
Consolidated	\$ 21,869,000	13.0%	N/A	N/A
Subsidiary bank	\$ 21,553,000	12.8%	\$ 13,438,000	8.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 16. MINIMUM REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>As of December 31, 2019:</u>						
Total Capital to Risk-Weighted Assets:						
Consolidated	\$ 22,055,000	26.8%	\$ 6,578,000	8.0%	N/A	N/A
Subsidiary bank	\$ 21,748,000	26.5%	\$ 6,575,000	8.0%	\$ 8,219,000	10.0%
Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	\$ 21,026,000	25.6%	\$ 4,933,000	6.0%	N/A	N/A
Subsidiary bank	\$ 20,719,000	25.2%	\$ 4,932,000	6.0%	\$ 6,575,000	8.0%
Common Equity Tier 1 Capital to Risk-Weighted Assets:						
Consolidated	\$ 21,017,000	25.6%	\$ 3,700,000	4.5%	N/A	N/A
Subsidiary bank	\$ 20,719,000	25.2%	\$ 3,699,000	4.5%	\$ 5,342,000	6.5%
Leverage Capital to Adjusted Average Total Assets:						
Consolidated	\$ 21,017,000	14.6%	\$ 5,759,000	4.0%	N/A	N/A
Subsidiary bank	\$ 20,719,000	14.4%	\$ 5,758,000	4.0%	\$ 7,198,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The investment of the company (Mountain-Valley Bancshares, Inc.) in its wholly-owned subsidiary, Mountain Valley Bank, N.A., is presented on the equity method of accounting. The company's balance sheets at December 31, 2020 and 2019, as well as the related statements of income and cash flows for the years ended December 31, 2020, 2019, and 2018, are as follows:

BALANCE SHEETS
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 334,912	\$ 321,688
Investment in Mountain Valley Bank, N.A.	20,252,048	19,538,612
Premises and equipment	<u>18,780</u>	<u>24,145</u>
TOTAL ASSETS	<u>\$ 20,605,740</u>	<u>\$ 19,884,445</u>
LIABILITIES		
Other liabilities	<u>\$ 37,531</u>	<u>\$ 37,809</u>
TOTAL LIABILITIES	37,531	37,809
STOCKHOLDERS' EQUITY	<u>20,568,209</u>	<u>19,846,636</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 20,605,740</u>	<u>\$ 19,884,445</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (CONTINUED)

STATEMENTS OF INCOME
Years Ended December 31, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
INCOME			
Dividend from bank subsidiary	\$ 480,937	\$ 480,937	\$ 460,027
Other	<u>18,360</u>	<u>18,360</u>	<u>18,360</u>
	<u>499,297</u>	<u>499,297</u>	<u>478,387</u>
EXPENSES			
Other	<u>7,323</u>	<u>6,195</u>	<u>6,844</u>
	<u>7,323</u>	<u>6,195</u>	<u>6,844</u>
Income Before Income Taxes and Equity in Undistributed Net Income of Subsidiary	491,974	493,102	471,543
INCOME TAX	<u>2,900</u>	<u>3,200</u>	<u>3,000</u>
	489,074	489,902	468,543
Equity in Undistributed Net Income of Bank Subsidiary	<u>835,042</u>	<u>1,115,757</u>	<u>931,918</u>
NET INCOME	<u>\$ 1,324,116</u>	<u>\$ 1,605,659</u>	<u>\$ 1,400,461</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (CONTINUED)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020, 2019, and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:			
Net Income	\$1,324,116	\$1,605,659	\$1,400,461
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(835,042)	(1,115,757)	(931,918)
Depreciation and amortization	5,365	5,365	5,365
Increase (decrease) in other liabilities	<u>(278)</u>	<u>116</u>	<u>(1,659)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>494,161</u>	<u>495,383</u>	<u>472,249</u>
Cash Flows from Financing Activities:			
Dividends paid	<u>(480,937)</u>	<u>(480,937)</u>	<u>(460,027)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(480,937)</u>	<u>(480,937)</u>	<u>(460,027)</u>
Net Increase in Cash	13,224	14,446	12,222
Cash at Beginning of Year	<u>321,688</u>	<u>307,242</u>	<u>295,020</u>
Cash at End of Year	<u>\$ 334,912</u>	<u>\$ 321,688</u>	<u>\$ 307,242</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

The company's sources of revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents sources of revenue from contracts with customers in the scope of ASC 606 for the years ended December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Charges and fees on deposit accounts	\$ 254,337	\$ 308,119	\$ 311,520
Debit and credit card fees	407,163	393,504	367,096
Safe deposit box fees	12,823	13,695	15,503
Gain/(loss) on sale of other real estate	(815)	--	--

The company elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

A description of the company's revenue streams accounted for under ASC 606 is as follows:

Charges and Fees on Deposit Accounts

The company earns fees from its deposit customers for transaction-based, 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 company fulfills the customer'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 company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customers' account balances.

Debit and Credit Card Fees

The company earns interchange fees from cardholder transactions conducted through the card provider's payment network. 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.

Safe Deposit Box Fees

The company earns fees from customers for rental of safe deposit boxes. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. Rentals and renewals occur consistently over time, therefore, revenue is recognized on a basis consistent with the duration of the performance obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MOUNTAIN-VALLEY BANCSHARES, INC.

NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Gain/(Loss) on Sale of Other Real Estate

The company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the company finances the sale of other real estate owned to the buyer, the company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. If a significant financing component is present, the company adjusts the transaction price to determine the related gain or loss on the sale.

NOTE 19. COVID-19 ACCOUNTING IMPACT

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency relating to a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase of exposure globally.

On March 27, 2020 the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the coronavirus pandemic. This legislation aims at providing relief for individuals and businesses that have been negatively impacted by the coronavirus pandemic.

On December 27, 2020 the President of the United States signed into law the Coronavirus Appropriations ACT, 2021 (the Appropriations Act), which enacts numerous stimulus and economic assistance provisions.

The CARES Act includes a provision for the bank to opt out of applying the “trouble-debt restructuring” (TDR) accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and December 30, 2020 were eligible for this relief if the related loans were not more than 30 days past due as of December 31, 2019. The Appropriations Act extends the opt out period end-date from December 30, 2020 to the earlier of January 1, 2022 or the date that is 60 days after the date on which the COVID-19 public health emergency is terminated.

While the company continues to evaluate the disruption caused by the pandemic and impact of the CARES Act and Appropriations Act, the full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the company in the future.

NOTE 20. SUBSEQUENT EVENTS

The company has evaluated subsequent events through February 16, 2021, the date these consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2020, requiring recognition or disclosure.

**IN
MEMORIAM**



**Guy H. Michael, Jr., MD
1925 - 2020**

MOUNTAIN-VALLEY BANCSHARES, INC.

BOARD OF DIRECTORS

T. Richard Harvey

Pat A. Nichols

Donald J. Judy

David J. Orr

Russell T. Linger, Jr.

Richard L. Thompson

OFFICERS

Donald J. Judy Chairman of the Board

T. Richard Harvey President and CEO

David J. Orr Executive Vice President

Rebecca L. McClung Secretary

Anthony N. Ricottilli Treasurer

MOUNTAIN VALLEY BANK, N.A.

BOARD OF DIRECTORS

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Director of Development
Cortland Acres Association

T. Richard Harvey, CPA
Chairman of the Board
Mountain Valley Bank, N.A.

Donald J. Judy
Retired, President
Judy Fencecraft, Inc.

Nellie Bell Liggett
Retired
Mountain Valley Bank, N.A.

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Linger Farms, Inc.

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Pat A. Nichols
Attorney at Law
Nichols & Nichols

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Mountain Valley Bank, N.A.

Richard L. Thompson
President
Judy Fencecraft, Inc.

F. Casey Wallace
Retired
Judy Fencecraft, Inc.

MOUNTAIN VALLEY BANK, N.A.

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Rebecca L. McClung Vice President/Senior Loan Officer
Diana J. Summerfield Customer Service Manager/Security Officer
Joan E. Hostetler Marketing/Human Resources/CRA Officer
Anthony N. Ricottilli, CPA Controller
Stefanie K. Geesey Internal Auditor
Anita J. Curtis Loan Administration Officer
S. Diane Chidester Operations Officer
Kelly L. Godwin.....Information Technology Manager
Ashley N. Long Compliance Officer
Roxanne Knicely Assistant Controller
Kenneth W. Cooper Data Applications Manager
Sallie J. Pyle Account Services Manager
Christy D. Setler Operations Support Manager
Matthew D. Hewitt Internal Support Specialist
Jordan A. Hoover Administrative Assistant
Jenese E. Lansberry Loan Officer
Janet L. Myles Loan Officer
Crystal D. Cutright Loan Officer
Logan W. Mongold Loan Officer
Kandi M. McAtee Head Teller, Mill Creek Office
Christa D. Licwov Head Teller, Main Office
Lynda J. Daft Head Teller, Chenoweth Creek Office
Sierra J. Pritt Head Teller, Parsons Office

MOUNTAIN VALLEY BANK, N.A.

MISSION STATEMENT

To provide excellent banking service to our customers.

To provide good employment for our personnel.

To provide a fair return on the investment of our stockholders.

Results: A list of branches for your depository institution: **MOUNTAIN VALLEY BANK, N.A. (ID_RSSD: 1011432)**.
 This depository institution is held by **MOUNTAIN-VALLEY BANCSHARES, INC. (1404641)** of **ELKINS, WV**.
 The data are as of **12/31/2020**. Data reflects information that was received and processed through **01/05/2021**.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

- OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
- Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
- Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
- Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
- Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail

Note:
 To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of **Change, Close, Delete, or Add**.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	1011432	MOUNTAIN VALLEY BANK, N.A.	317 DAVIS AVENUE	ELKINS	WV	26241	RANDOLPH	UNITED STATES	Not Required	Not Required	MOUNTAIN VALLEY BANK, N.A.	1011432	
OK		Full Service	2260974	CHENOWETH CREEK OFFICE	1955 BEVERLY PIKE	ELKINS	WV	26241	RANDOLPH	UNITED STATES	Not Required	Not Required	MOUNTAIN VALLEY BANK, N.A.	1011432	
OK		Full Service	886530	MILL CREEK BRANCH	9896 SENECA TRAIL	MILL CREEK	WV	26280	RANDOLPH	UNITED STATES	Not Required	Not Required	MOUNTAIN VALLEY BANK, N.A.	1011432	
OK		Full Service	1993211	PARSONS BRANCH	401 FIRST STREET	PARSONS	WV	26287	TUCKER	UNITED STATES	Not Required	Not Required	MOUNTAIN VALLEY BANK, N.A.	1011432	