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FRB RICHMOND

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

03/20/2018
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] 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 1404641
C.I.

Date of Report (top-tier holding company's fiscal year-end):
12 / 31 / 2017
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

City	State	Zip Code
Elkins	West Virginia	26241

317 Davis Avenue
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Anthony N. Ricottilli	Treasurer

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.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

ANNUAL REPORT OF HOLDING COMPANIES - FR Y-6
MOUNTAIN-VALLEY BANCSHARES, INC.
DECEMBER 31, 2017

CONTENTS

Form FR Y-6
Mountain-Valley Bancshares, Inc.
Elkins, West Virginia
Year Ending December 31, 2017

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. Enclosed are two copies of the 2017 annual report.

2. a. Organizational Chart

Mountain-Valley Bancshares, Inc.
No LEI
Elkins, West Virginia
Incorporated in West Virginia

Mountain Valley Bank, N.A.
No LEI
Elkins, West Virginia
A 100% Owned Subsidiary
Of
Mountain-Valley Bancshares, Inc.
Incorporated in West Virginia

2. b. Submitted via e-mail on February 20, 2018.

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 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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	

FORM FR Y-6
MOUNTAIN-VALLEY BANCSHARES, INC.
DECEMBER 31, 2017

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 12-31-17.

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	23,780 Common Stock	5.69%

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 12-31-17

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

Form FR Y-6
Mountain-Valley Bancshares, Inc.
December 31, 2017

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

(1) Name & Address (City, State, Country)	(2) Principal Occupation If Other Than With Bank Holding Company	(3) a Title & Position with Bank Holding Company	(3) b Title & Position With Subsidiaries (Name of Subsidiary)	(3) c Title & Position With Other Businesses (Name of Other Business)	4(a) Percentage of Voting Shares in Bank Holding Company	4 (b) Percentage of Voting Shares in Subsidiaries (Name of Subsidiary)	4 (c) 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.	President & CEO	Chariman of the Board, President and Chief Executive Officer Mountain Valley Bank, N.A.	None	0.77%	N/A	N/A
Donald J. Judy Beverly, WV United States	Retired	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. 51% Interest
Pat A. Nichols Davis, WV United States	Attorney at Law	Director	Director Mountain Valley Bank, N.A.	Owner Nichols and Nichols	0.57%	N/A	Nichols and Nichols 100% Owner
David J. Orr Parsons, WV United States	Orr-Wilson Insurance President	Executive Vice President	Director Mountain Valley Bank, N.A.	President Orr-Wilson Insurance	3.31%	N/A	Orr-Wilson Insurance Agency 100% Owner
James F. Wilson Elkins, WV United States	Frank E. Wilson Lumber Company President & General Manager	Director	N/A	President & General Manager Frank E. Wilson Lumber Company	1.43%	N/A	Frank E. Wilson Lumber Co. 84% Interest
	James F. Wilson Agency Agent			Agent James F. Wilson Agency			James F. Wilson Agency 66.6% Interest
	James F. Wilson Wood Waste Owner			Owner James F. Wilson Wood Waste			James F. Wilson Wood Waste 100% Interest
	Ruthbell Lumber Company Treasurer			Treasurer Ruthbell Lumber Company			
	Esther B. Wilson Trust Trustee			Trustee Esther B. Wilson Trust			
	Frank E. Wilson Residuary Trust Trustee			Trustee Frank E. Wilson Residuary Trust			

Mountain-Valley Bancshares, Inc.

Annual Report
2017

Mountain-Valley Bancshares, Inc.

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

Dear Stockholders and Friends:

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, 2017.

Our organization turned in another year of solid financial performance in 2017. Net income before taxes was $1,494,175, an increase of 42% compared to the previous year. Net income after taxes, however, was $801,875, an increase of only 9% compared to the same time period. The reason for this aberration was the effect on our 2017 income taxes relating to the new federal tax law which was enacted on December 22, 2017. Generally Accepted Accounting Principles (GAAP) require that deferred tax assets and deferred tax liabilities be adjusted for the effects of changes in tax laws or rates, and the effect of those adjustments must be recognized in current income during the reporting period that contains the enactment date. Accordingly, the immediate consequence of the new tax law for our organization was a one-time book entry which increased our 2017 income tax expense by $252,800, resulting in an effective tax rate of 46% for the year. While this obviously had a significant negative impact on our 2017 earnings, we are confident that the long-term benefits of the new tax law will outweigh the effects of this one-time charge.

Our balance sheet displayed healthy growth in all key areas during 2017. Comparisons to year-end 2016 balance sheet categories are distorted by a single, unusually large deposit that was received on the final business day of 2016, and subsequently withdrawn on the first business day of 2017. Excluding the effects of this unusual deposit, our total deposits increased by $2,707,284, total loans increased by $1,790,853, and total assets grew by $4,418,753 during 2017.

We continued to enhance the products and services offered to our customers in 2017. All passbook savings accounts were converted to statement savings accounts, and our bank introduced a free checking account, eliminating fees that had previously been charged based on a combination of usage and minimum average account balances.

Our earnings and strong capital position enabled our Board of Directors to increase our dividend to stockholders in 2017. Dividends paid were $1.00 per share, compared to $.95 in the previous year, representing an increase of 5.3%.

The ongoing success of our organization is truly a team effort. Our directors, management team, and dedicated staff of employees remain committed to providing excellent banking products and services to the communities we serve. We thank you, our shareholders, for your support and for your investment in Mountain-Valley Bancshares, Inc.

Sincerely,

T. Richard Harvey

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

Donald J. Judy

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

CONTENTS

Conley
CPA GROUP, PLLC

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, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2017, 2016, and 2015, 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, 2017 and 2016, and the results of their operations and cash flows for the years ended December 31, 2017, 2016, and 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, in 2017, the Company adopted new accounting guidance ASU 2018-02 – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Our opinion is not modified with respect to this matter.

Conley CPA Group, PLLC

Fairmont, West Virginia
February 22, 2018

CONSOLIDATED BALANCE SHEETS
MOUNTAIN-VALLEY BANCSHARES, INC.
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and due from banks (Note 2)	$ 2,123,720	$ 1,827,743
Interest-bearing deposits in other banks	3,216,801	17,154,590
Federal funds sold	2,500,000	--
Total Cash and Cash Equivalents	7,840,521	18,982,333
Investment securities (Note 3)		
Available-for-sale securities, at approximate market value	36,209,780	36,607,882
Loans: (Note 4)	91,122,402	89,337,941
Less: Unearned income	(127,269)	(133,661)
Allowance for loan losses	(1,115,470)	(1,101,084)
Net Loans	89,879,663	88,103,196
Bank premises, furniture and equipment, net (Note 5)	1,441,839	1,491,309
Accrued interest receivable and other assets	1,909,618	2,077,948
TOTAL ASSETS	$137,281,421	$147,262,668
LIABILITIES		
Deposits: (Note 6)		
Noninterest-bearing	$ 35,209,042	$ 47,765,213
Interest-bearing	78,943,706	78,080,251
Total Deposits	114,152,748	125,845,464
Securities sold under agreements to repurchase (Note 7)	3,621,206	2,472,884
Interest, taxes and other liabilities	2,050,008	1,809,000
Total Liabilities	119,823,962	130,127,348
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 and Note 18)	20,065,537	19,414,095
Accumulated other comprehensive (loss) (Note 11 and Note 18)	(1,503,649)	(1,174,346)
Less: Common stock held in treasury, 89,814 shares at cost	(2,381,598)	(2,381,598)
Total Stockholders' Equity	17,457,459	17,135,320
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$137,281,421	$147,262,668

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

CONSOLIDATED STATEMENTS OF INCOME
MOUNTAIN-VALLEY BANCSHARES, INC.
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
INTEREST INCOME			
Interest and fees on loans	$ 4,655,359	$ 4,551,647	$ 4,531,327
Deposits in other banks	28,067	16,561	10,747
Investment securities:			
Taxable	341,667	327,607	376,048
Tax-exempt	256,805	168,034	152,199
Total Interest Income	5,281,898	5,063,849	5,070,321
INTEREST EXPENSE			
Interest on deposits and borrowed funds	264,121	285,575	300,555
NET INTEREST INCOME	5,017,777	4,778,274	4,769,766
Provision for loan losses (Note 4)	24,000	252,000	12,000
Net Interest Income After Provision for Loan Losses	4,993,777	4,526,274	4,757,766
NONINTEREST INCOME			
Charges and fees on deposit accounts	303,467	331,270	354,758
Debit and credit card fees	349,493	330,038	326,402
Other operating income	86,882	94,660	111,397
Gain on sale of OREO	---	60,587	---
Gain on investment securities, net	---	1,698	---
Total Noninterest Income	739,842	818,253	792,557
NONINTEREST EXPENSES			
Salaries and employee benefits	2,438,418	2,428,991	2,468,411
Occupancy and equipment	375,748	385,925	400,219
Data processing	446,054	443,376	443,044
Director and committee fees	105,500	105,000	101,450
Postage	78,948	81,415	79,228
ATM fees	230,044	216,856	208,553
Dues and assessments	135,961	150,368	160,075
Stationery and supplies	47,017	48,198	52,004
Advertising and public relations	61,900	69,933	70,744
Other operating expenses	319,854	361,983	335,610
Total Noninterest Expenses	4,239,444	4,292,045	4,319,338
Income Before Income Taxes	1,494,175	1,052,482	1,230,985
Income Taxes (Note 8)	692,300	318,800	366,970
NET INCOME	$ 801,875	$ 733,682	$ 864,015
Net Income Per Weighted Average Common Share	$ 1.92	$ 1.75	$ 2.07

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, 2017, 2016, and 2015

	2017	2016	2015
Net Income	$ 801,875	$ 733,682	$ 864,015
Other Comprehensive (Loss) Income, net of tax:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during period (Net of tax of $(54,427), $173,451, and $(74,814))	81,640	(260,177)	112,224
Less: reclassification adjustment for (gains) included in net income (Net of tax of $-0-, $679, and $-0-)	--	(1,019)	--
	81,640	(261,196)	112,224
Defined benefit pension plans:			
Net (loss) gain arising during period (Net of tax of $92,819, $(4,987), and $7,604)	(139,228)	7,482	(11,403)
Less: amortization of prior service cost included in net periodic pension cost (Net of tax of $2,627, $2,627, and $2,627)	(3,942)	(3,942)	(3,942)
	(143,170)	3,540	(15,345)
Other Comprehensive (Loss) Income	(61,530)	(257,656)	96,879
COMPREHENSIVE INCOME	$ 740,345	$ 476,026	$ 960,894

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, 2017, 2016, and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2014	$101,604	$1,175,565	$18,590,079	$ (1,013,569)	$(2,381,598)	$16,472,081
Net income			864,015			864,015
Other comprehensive income				96,879		96,879
Total Comprehensive Income						960,894
Cash dividends $.90 per share			(376,385)			(376,385)
Balance, December 31, 2015	101,604	1,175,565	19,077,709	(916,690)	(2,381,598)	17,056,590
Net income			733,682			733,682
Other comprehensive (loss)				(257,656)		(257,656)
Total Comprehensive Income						476,026
Cash dividends $.95 per share			(397,296)			(397,296)
Balance, December 31, 2016	101,604	1,175,565	19,414,095	(1,174,346)	(2,381,598)	17,135,320
Net income			801,875			801,875
Other comprehensive (loss)				(61,530)		(61,530)
Total Comprehensive Income						740,345
Reclassification for effect of remeasuring deferred tax asset (Note 18)			267,773	(267,773)		--
Cash dividends $1.00 per share			(418,206)			(418,206)
Balance, December 31, 2017	$101,604	$1,175,565	$20,065,537	$ (1,503,649)	$(2,381,598)	$17,457,459

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, 2017, 2016, and 2015

	2017	2016	2015
OPERATING ACTIVITIES			
Net income	$ 801,875	$ 733,682	$ 864,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	24,000	252,000	12,000
Depreciation, amortization, and accretion	214,118	191,794	163,545
Deferred income tax expense (benefit)	242,700	144,500	(2,000)
Realized investment security (gains)	--	(1,698)	--
(Gain) on other real estate	--	(60,587)	--
(Increase) in interest receivable and other assets	(33,351)	(296,652)	(6,429)
Increase (decrease) in interest, taxes, and other liabilities	2,392	48,086	(144,770)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,251,734	1,011,125	886,361
INVESTING ACTIVITIES			
Securities available-for-sale			
Proceeds from maturities and calls	4,093,555	22,795,135	6,775,659
Payments for purchases	(3,638,540)	(28,939,271)	(1,190,324)
Net (increase) decrease in loans	(1,800,467)	1,408,389	(4,275,921)
Proceeds from sale of other real estate owned	--	345,087	--
(Additions) to premises, furniture, and equipment	(85,494)	(111,523)	(59,275)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,430,946)	(4,502,183)	1,250,139
FINANCING ACTIVITIES			
Net (decrease) increase in deposits	(11,692,716)	15,849,371	(946,563)
Net increase (decrease) in repurchase agreements	1,148,322	(181,942)	(208,487)
Cash dividends	(418,206)	(397,296)	(376,385)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(10,962,600)	15,270,133	(1,531,435)
(Decrease) increase in Cash and Cash Equivalents	(11,141,812)	11,779,075	605,065
Cash and Cash Equivalents at Beginning of Year	18,982,333	7,203,258	6,598,193
Cash and Cash Equivalents at End of Year	$ 7,840,521	$18,982,333	$ 7,203,258

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

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 2016 and 2015 have been reclassified to conform to the 2017 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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

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.

The Tax Cuts and Jobs Act, which was enacted in December 2017, had a substantial impact on the company's income tax expense for the year ended December 31, 2017. Note 8 discusses the impact of the Tax Cuts and Jobs Act in more detail.

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 $450,000, $193,000, and $526,000 of applicable income taxes during 2017, 2016, and 2015, respectively. The company made transfers of loans to foreclosed assets held for resale and repossessions of approximately $-0-, $-0-, and $276,000 in 2017, 2016, and 2015, respectively. Payments of interest did not vary materially from interest reported on the consolidated statements of income for the respective years.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers". ASU 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. This update is effective for the company's annual reporting period of December 31, 2019. The company does not expect ASU No. 2014-09 to have a material impact on its consolidated financial statements

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 is effective for the company's annual reporting period of December 31, 2019. The company does not expect ASU 2016-01 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in ASU No. 2016-13 reflect an entity's current estimate of all expected credit losses and broadens the information an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually, including the use of forecasted information. The company is currently assessing the impact ASU 2016-13 will have on its consolidated financial statements and will apply the amendments in this update through a cumulative–effect adjustment to retained earnings, as necessary, for the annual reporting period of December 31, 2021.

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 is effective for the company's annual reporting period of December 31, 2019. The company does not expect ASU 2016-15 to have a material impact on its consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

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 is effective for the company's annual reporting period of December 31, 2019. The company does not expect ASU No. 2017-07 to have a material impact on its consolidated financial statements.

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. The company does not expect ASU No. 2017-08 to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". ASU No. 2018-02 provides guidance regarding reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate of 21% from the company's historical 34% rate. This update is effective for the company's annual reporting period of December 31, 2019, but the company has adopted this update for its December 31, 2017 consolidated financial statements. See Note 18 for further discussion.

NOTE 2. RESTRICTIONS ON CASH AND DUE FROM BANKS

The subsidiary bank is required to maintain average reserve balances on hand or with the Federal Reserve Bank. The required reserve balance as of December 31, 2017 and 2016, was approximately $1,041,000 and $981,000, respectively.

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, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Approximate Fair Value
Debt Securities:				
U.S. agency securities	$ 190,974	$ --	$ (6,607)	$ 184,367
U.S. government-sponsored enterprises (GSEs)	18,795,808	--	(198,774)	18,597,034
State and municipal securities	13,485,021	31,907	(143,198)	13,373,730
Mortgage-backed securities GSE residential	4,130,810	--	(76,161)	4,054,649
	$ 36,602,613	$ 31,907	$ (424,740)	$ 36,209,780

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Approximate Fair Value
Debt Securities:				
U.S. agency securities	$ 216,567	$ --	$ (4,207)	$ 212,360
U.S. government-sponsored enterprises (GSEs)	19,749,529	7,572	(154,555)	19,602,546
State and municipal securities	12,210,721	32,883	(274,763)	11,968,841
Mortgage-backed securities GSE residential	4,959,966	--	(135,831)	4,824,135
	$ 37,136,783	$ 40,455	$ (569,356)	$ 36,607,882

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

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

At December 31, 2017 and 2016, 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, 2017 were as follows:

	Amortized Cost	Fair Value
Within 1 year	$ 10,880,846	$ 10,845,657
Over 1 year through 5 years	19,064,332	18,808,141
After 5 years through 10 years	2,526,625	2,501,333
Over 10 years	--	--
	32,471,803	32,155,131
Mortgaged-backed securities	4,130,810	4,054,649
	$ 36,602,613	$ 36,209,780

Investment securities with an approximate carrying amount of $17,124,000 and $16,815,000, at December 31, 2017 and 2016, 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, 2017, 2016, or 2015.

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, 2017 and 2016.

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, 2017					
	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value
AVAILABLE-FOR-SALE						
U.S. agency securities	$ --	$ --	$ (6,607)	$ 184,367	$ (6,607)	$ 184,367
U.S. government-sponsored enterprises (GSEs)	(7,151)	2,538,933	(191,623)	16,058,102	(198,774)	18,597,035
State and municipal securities	(41,955)	6,221,855	(101,243)	3,684,756	(143,198)	9,906,611
Mortgaged-backed GSE residential	(47,114)	2,780,361	(29,047)	1,274,288	(76,161)	4,054,649
Total	$ (96,220)	$ 11,541,149	$ (328,520)	$ 21,201,513	$ (424,740)	$ 32,742,662

	December 31, 2016					
	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value
AVAILABLE-FOR-SALE						
U.S. agency securities	$ (4,207)	$ 212,360	$ --	$ --	$ (4,207)	$ 212,360
U.S. government-sponsored enterprises (GSEs)	(149,152)	16,100,378	(5,403)	1,994,597	(154,555)	18,094,975
State and municipal securities	(274,763)	8,477,930	--	--	(274,763)	8,477,930
Mortgaged-backed GSE residential	(135,831)	4,824,135	--	--	(135,831)	4,824,135
Total	$ (563,953)	$ 29,614,803	$ (5,403)	$ 1,994,597	$ (569,356)	$ 31,609,400

At December 31, 2017, there was one U.S. agency security with an unrealized loss of $6,607 and seventeen GSE securities with an unrealized loss of $198,774. In addition, there were thirty-three state and municipal securities with an unrealized loss of $143,198 and six mortgage-backed securities with an unrealized loss of $76,161.

At December 31, 2016, there was one U.S. agency security with an unrealized loss of $4,207 and fifteen GSE securities with an unrealized loss of $154,555. In addition, there were thirty state and municipal securities with an unrealized loss of $274,763 and six mortgage-backed securities with an unrealized loss of $135,831.

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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016, 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 in Randolph and Tucker counties, West Virginia. Collateralization centers primarily around commercial and residential real estate, personal property and business equipment.

NOTE 4. LOANS (CONTINUED)

A summary of the component balances of loans at December 31, 2017 and 2016, is as follows:

	2017	2016
Mortgage loans on real estate:		
Residential 1-4 family	$ 41,076,163	$ 38,572,084
Commercial and agricultural	38,656,269	38,731,391
Construction and land development	76,479	489,348
State, county, municipal loans	130,002	119,208
Total Mortgage Loans on Real Estate	79,938,913	77,912,031
Commercial and agricultural loans	8,853,133	8,895,814
Consumer installment loans	2,330,356	2,530,096
Total Loans	$ 91,122,402	$ 89,337,941

An analysis of the allowance for loan losses for the years ended December 31, 2017, 2016, and 2015 is as follows:

	2017	2016	2015
Balance at beginning of year	$ 1,101,084	$ 1,257,984	$ 1,263,261
Loans charged-off	(26,432)	(449,282)	(115,186)
Recoveries of loans previously charged-off	16,818	40,382	97,909
Provision for loan losses	24,000	252,000	12,000
Balance at end of year	$ 1,115,470	$ 1,101,084	$ 1,257,984

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

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.

NOTE 4. LOANS (CONTINUED)

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.

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".

NOTE 4. LOANS (CONTINUED)

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, 2017 and 2016:

	2017				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Pass	$ 38,786,271	$ 8,853,133	$ 40,539,391	$ 2,325,703	$ 90,504,498
Special Mention	--	--	448,894	4,653	453,547
Substandard	--	--	164,357	--	164,357
Doubtful	--	--	--	--	--
Total	$ 38,786,271	$ 8,853,133	$ 41,152,642	$ 2,330,356	$ 91,122,402

	2016				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Pass	$ 38,126,692	$ 8,664,806	$ 38,485,644	$ 2,530,096	$ 87,807,238
Special Mention	24,319	231,008	270,519	--	525,846
Substandard	699,588	--	305,269	--	1,004,857
Doubtful	--	--	--	--	--
Total	$ 38,850,599	$ 8,895,814	$ 39,061,432	$ 2,530,096	$ 89,337,941

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 in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. 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, 2017 and 2016:

	2017				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Current	$ 38,732,274	$ 8,853,133	$ 39,462,032	$ 2,314,720	$ 89,362,159
30 – 90 Days	53,997	--	1,526,254	15,636	1,595,887
> 90 Days	--	--	80,846	--	80,846
Subtotal	38,786,271	8,853,133	41,069,132	2,330,356	91,038,892
Nonaccrual	--	--	83,510	--	83,510
TOTAL	$ 38,786,271	$ 8,853,133	$ 41,152,642	$ 2,330,356	$ 91,122,402

NOTE 4. LOANS (CONTINUED)

	2016				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Current	$ 38,129,427	$ 8,895,814	$ 36,961,626	$ 2,519,917	$ 86,506,784
30 – 90 Days	21,584	--	1,794,537	10,179	1,826,300
> 90 Days	--	--	305,269	--	305,269
Subtotal	38,151,011	8,895,814	39,061,432	2,530,096	88,638,353
Nonaccrual	699,588	--	--	--	699,588
TOTAL	$ 38,850,599	$ 8,895,814	$ 39,061,432	$ 2,530,096	$ 89,337,941

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, 2017 and 2016:

	2017				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Impaired Loans with Specific Allowance:					
Recorded Investment	$ --	$ --	$ 83,510	$ --	$ 83,510
Related Allowance	$ --	$ --	$ 19,000	$ --	$ 19,000
Impaired Loans with No Specific Allowance:					
Recorded Investment	$ --	$ --	$ 80,847	$ --	$ 80,847
Total Impaired Loans:					
Recorded Investment	$ --	$ --	$ 164,357	$ --	$ 164,357
Unpaid Principal Balance	$ --	$ --	$ 164,357	$ --	$ 164,357
Average Recorded Investment	$ 117,000	$ --	$ 235,000	$ --	$ 352,000

NOTE 4. LOANS (CONTINUED)

	2016				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Impaired Loans with Specific Allowance:					
Recorded Investment	$ --	$ --	$ --	$ --	$ --
Related Allowance	$ --	$ --	$ --	$ --	$ --
Impaired Loans with No Specific Allowance:					
Recorded Investment	$ 699,588	$ --	$ 305,269	$ --	$1,004,857
Total Impaired Loans:					
Recorded Investment	$ 699,588	$ --	$ 305,269	$ --	$1,004,857
Unpaid Principal Balance	$ 699,588	$ --	$ 305,269	$ --	$1,004,857
Average Recorded Investment	$ 350,000	$ --	$ 153,000	$ --	$ 503,000

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

	2017	2016	2015
Average impaired loans	$ 352,000	$ 503,000	$ 119,000
Amount of contractual interest on impaired loans	$ 20,000	$ 70,000	$ 16,000
Amount of interest income recognized while impaired	$ 43,000	$ 37,000	$ 9,000

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, 2017 and 2016, there were no troubled debt restructurings.

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 2017 and 2016, 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, 2017 and 2016.

	2017				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Balance, Beginning	$ 484,277	$ 117,069	$ 462,355	$ 37,383	$ 1,101,084
Charge-offs	--	--	(20,826)	(5,606)	(26,432)
Recoveries	4,878	375	4,662	6,903	16,818
Provision	(2,948)	12,612	21,506	(7,170)	24,000
Balance, Ending	$ 486,207	$ 130,056	$ 467,697	$ 31,510	$ 1,115,470
Portfolio Loans:					
Individually evaluated for impairment	$ --	$ --	$ 164,357	$ --	$ 164,357
Collectively evaluated for impairment	38,786,271	8,853,133	40,988,285	2,330,356	90,958,045
Total Portfolio Loans	$ 38,786,271	$ 8,853,133	$ 41,152,642	$ 2,330,356	$ 91,122,402

NOTE 4. LOANS (CONTINUED)

	2016				
	Commercial Real Estate	Other Commercial	Residential Real Estate	Consumer	Total
Balance, Beginning	$ 482,274	$ 183,398	$ 520,953	$ 71,359	$ 1,257,984
Charge-offs	--	(449,282)	--	--	(449,282)
Recoveries	15,300	18,465	625	5,992	40,382
Provision	(13,297)	364,488	(59,223)	(39,968)	252,000
Balance, Ending	$ 484,277	$ 117,069	$ 462,355	$ 37,383	$ 1,101,084
Portfolio Loans:					
Individually evaluated for impairment	$ 699,588	$ --	$ 305,269	$ --	$ 1,004,857
Collectively evaluated for impairment	38,151,011	8,895,814	38,756,163	2,530,096	88,333,084
Total Portfolio Loans	$ 38,850,599	$ 8,895,814	$ 39,061,432	$ 2,530,096	$ 89,337,941

NOTE 5. BANK PREMISES, FURNITURE AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment at December 31, 2017 and 2016, is as follows:

	2017	2016
Land	$ 370,454	$ 370,454
Bank premises	2,100,555	2,084,938
Equipment, furniture and fixtures	1,223,665	1,218,276
	3,694,674	3,673,668
Allowance for depreciation	(2,252,835)	(2,182,359)
	$ 1,441,839	$ 1,491,309

Depreciation expense for years ended December 31, 2017, 2016, and 2015 was approximately $135,000, $131,000, and $131,000, respectively.

NOTE 6. DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016, was approximately $468,000 and $467,000, respectively.

At December 31, 2017, the approximate scheduled maturities of time deposits are as follows:

2018	$ 10,615,000
2019	4,153,000
2020	2,161,000
2021	1,761,000
2022 and later	1,164,000
	$ 19,854,000

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, 2017 and 2016.

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, 2017 and 2016 is as follows:

	2017	2016
Average balance	$ 2,895,863	$ 2,515,456
Average interest rate	1.11%	1.06%
Maximum month-end balance	$ 3,621,206	$ 2,881,676
Interest expense	$ 32,158	$ 26,609

NOTE 8. INCOME TAXES

The allocation of federal and state income taxes between current and deferred portions for the years ended December 31, 2017, 2016, and 2015 is as follows:

	2017	2016	2015
Current tax expense:			
Federal	$ 399,200	$ 151,700	$ 328,600
State	50,400	22,600	40,370
	449,600	174,300	368,970
Deferred tax expense (benefit):			
Federal	244,200	122,800	(1,700)
State	(1,500)	21,700	(300)
	242,700	144,500	(2,000)
INCOME TAXES	$ 692,300	$ 318,800	$ 366,970

The reasons for the differences between the statutory federal income tax rate and the effective tax rates for the years ended December 31, 2017, 2016, and 2015 are summarized as follows:

	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Statutory federal tax rate	$ 508,000	34%	$ 357,800	34%	$ 418,500	34%
Increase (decrease) resulting from:						
State taxes, net of federal tax benefit	31,800	2%	36,600	3%	26,300	2%
Tax-exempt income	(87,600)	(6%)	(59,400)	(6%)	(59,500)	(5%)
Other items, net	(12,700)	(1%)	(16,200)	(1%)	(18,330)	(1%)
	439,500	29%	318,800	30%	366,970	30%
Change in federal tax rate	252,800	17%	--	--	--	--
INCOME TAXES	$ 692,300	46%	$ 318,800	30%	$ 366,970	30%

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act lowered the company's statutory federal corporate tax rate from 34% to 21% effective January 1, 2018 and made numerous other tax law changes. U.S. generally accepted accounting principles (GAAP) requires companies to recognize the effect of tax law changes in the period of enactment. As a result, the company recorded deferred income tax expense of $252,800 in 2017 due to the required remeasurement of the company's deferred tax assets and liabilities.

NOTE 8. INCOME TAXES (CONTINUED)

The components of the deferred tax assets and (liabilities) at December 31, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Deferred tax assets:			
Provision for loan loss	$ 237,000	$ 341,000	$ 432,000
Net unrealized depreciation on available-for-sale securities	106,000	212,000	37,000
Employee benefit plans	450,000	571,000	574,000
Gross deferred tax assets	793,000	1,124,000	1,043,000
Deferred tax (liabilities):			
Depreciation	(44,000)	(73,000)	(90,000)
Prepaid pension cost	(221,000)	(307,000)	(215,000)
Investment discount accretion	(3,000)	(3,000)	(5,000)
Other items	(50,000)	(64,000)	(84,000)
Gross deferred tax (liabilities)	(318,000)	(447,000)	(394,000)
Net deferred tax assets	$ 475,000	$ 677,000	$ 649,000

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, 2017, revealed no uncertain tax positions that would have a material impact on the financial statements. The 2014 through 2017 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.

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.

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.

The following methods and assumptions were used by the company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Securities

Fair value estimates are based on 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, if quoted market prices are not available.

Loans Receivable

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities

Fair value estimates are estimated using a discounted cash flow calculation that applies external market interest rates on comparable instruments to a schedule of aggregated expected monthly cash flows.

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

Short Term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short term borrowings maturing within ninety days approximate their fair values. Fair values of other short term borrowings are estimated using discounted cash flow analyses based on the company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

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, 2017

	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	$36,209,780	$ 340,000	$35,869,780	$ --

Fair Value Measurements at December 31, 2016

	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	$36,607,882	$ 1,413,498	$35,194,384	$ --

During the years ended December 31, 2017 and 2016, the company had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

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, 2017 and 2016, 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, 2017			
	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	$ 164,357	$ --	$ 83,510	$ 80,847

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

Fair Value Measurements at December 31, 2016

	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	$ 1,004,857	$ --	$ 757,225	$ 247,632

The estimated fair values, and related carrying or notional amounts, of the company's financial instruments are as follows:

	December 31,			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 7,840,521	$ 7,840,521	$ 18,982,333	$ 18,982,333
Securities available-for-sale	36,209,780	36,209,780	36,607,882	36,607,882
Federal Home Loan Bank stock	74,800	74,800	73,500	73,500
Federal Reserve Bank stock	36,300	36,300	36,300	36,300
Loans, net	89,879,663	90,113,574	88,103,196	87,781,201
Accrued interest receivable	340,525	340,525	325,411	325,411
FINANCIAL LIABILITIES:				
Deposits	$ 114,152,748	$ 113,953,252	$ 125,845,464	$ 125,749,353
Repurchase agreements	3,621,206	3,621,206	2,472,884	2,472,884
Accrued interest payable	17,356	17,356	18,298	18,298

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.

NOTE 11. OTHER COMPREHENSIVE INCOME (LOSS)

Following are the components of other comprehensive income (loss) as of December 31, 2014, and for the years ended December 31, 2015, 2016, and 2017:

	Unrealized Gain (Loss) on Securities Available-For-Sale	Minimum Pension (Liability)	Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2014, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	$ (168,368)	$ (845,201)	$ (1,013,569)
Other Comprehensive Income – 2015			
Unrealized gains on securities available-for-sale	187,038	--	187,038
Minimum pension liability	--	(25,576)	(25,576)
Deferred income tax effect	(74,814)	10,231	(64,583)
	112,224	(15,345)	96,879
Balance December 31, 2015, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	(56,144)	(860,546)	(916,690)
Other Comprehensive (Loss) – 2016			
Unrealized (losses) on securities available-for-sale	(433,628)	--	(433,628)
Reclassification adjustment for realized (gains)	(1,698)	--	(1,698)
Minimum pension liability	--	5,900	5,900
Deferred income tax effect	174,130	(2,360)	171,770
	(261,196)	3,540	(257,656)
Balance December 31, 2016, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	(317,340)	(857,006)	(1,174,346)
Other Comprehensive (Loss) – 2017			
Unrealized gains on securities available-for-sale	136,067	--	136,067
Minimum pension liability	--	(238,616)	(238,616)
Deferred income tax effect	(54,427)	95,446	41,019
	81,640	(143,170)	(61,530)
Reclassification for effect of remeasuring deferred tax asset (Note 18)	(51,068)	(216,705)	(267,773)
Balance December 31, 2017, Accumulated Other Comprehensive (Loss), Net of Deferred Tax	$ (286,768)	$ (1,216,881)	$ (1,503,649)

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, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risks:

	2017	2016
Commitments to grant loans and extend credit	$ 979,600	$ 1,986,600
Unfunded commitments under lines of credit	8,877,100	10,081,900
Letters of credit	9,300	68,500
	$ 9,866,000	$ 12,137,000

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 within one year. 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.

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, 2017 and 2016:

	2017	2016
Balance, beginning	$ 456,669	$ 371,868
New loans	710,031	308,545
Repayments	(481,587)	(223,744)
Balance, ending	$ 685,113	$ 456,669

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, 2017 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of $5,912 ($4,316, net of tax) and unrecognized actuarial losses of $1,672,872 ($1,221,197, net of tax). The prior service cost and 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, 2018 is $5,912 ($4,316, net of tax), and $79,143 ($57,774, net of tax), respectively.

Net periodic pension cost included the following components:

	Year Ended December 31,		
	2017	2016	2015
Service cost	$ 160,842	$ 157,895	$ 157,672
Interest cost	165,270	170,031	156,052
Expected return on plan assets	(223,455)	(207,516)	(219,619)
Recognized net actuarial loss	72,992	76,373	70,369
Amortization of prior service cost	(6,569)	(6,569)	(6,569)
Total Pension Expense	$ 169,080	$ 190,214	$ 157,905
Weighted-average assumption:			
Discount rate	4.25%	4.50%	4.25%
Expected return on assets	6.75%	7.00%	7.75%
Rate of compensation increase	3.00%	3.50%	3.50%

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.

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, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 3,926,648	$ 3,817,746
Service cost	160,842	157,895
Interest cost	165,270	170,031
Actuarial gain (loss)	456,861	45,591
Benefits paid	(137,325)	(264,615)
Projected benefit at end of the year	4,572,296	3,926,648
Change in plan assets		
Fair value of plan assets at beginning of year	3,265,360	2,920,772
Actual return on plan assets	392,473	204,246
Benefits paid	(137,325)	(264,615)
Employer contributions	220,000	420,000
Administrative expenses	(17,196)	(15,043)
Fair value of plan assets at end of year	3,723,312	3,265,360
Funded status	$ (848,984)	$ (661,288)
Weighted-average assumptions at end of year:		
Discount rate	3.75%	4.25%
Rate of compensation increase	3.00%	3.00%

Mortality table assumptions at end of year:

	December 31,	
	2017	2016
Post-Retirement	RP-2014 Adj. to 2006 Proj. with MP-2017 post-2006	RP-2000 Generational Proj. with Scale AA
Retirees/Beneficiaries	RP-2014 Adj. to 2006 Scale MP-2017 post-2006	RP-2014 Adj. to 2006 Scale MP-2016 post-2006

NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

Amounts recognized in the statement of financial position consist of:

	2017	2016
Noncurrent assets	$ 817,976	$ 767,056
Noncurrent liabilities	(1,666,960)	(1,428,344)
	$ (848,984)	$ (661,288)

Amounts recognized in accumulated other comprehensive income (loss) (net of tax effect) consist of:

	2017	2016
Unrecognized actuarial (losses) gains	$ (139,228)	$ 7,482
Unrecognized prior service costs	(3,942)	(3,942)
	$ (143,170)	$ 3,540

The accumulated benefit obligation for the defined benefit pension plan was $3,719,079 and $3,159,903 at December 31, 2017 and 2016, respectively.

The subsidiary bank's pension plan asset allocations at December 31, 2017 and 2016, are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	2017	2016
Cash and cash equivalents	4%	12%
Bonds, bond funds and other fixed income	43%	39%
Equity securities	53%	49%
Total	100%	100%

The subsidiary bank's weighted-average asset allocations at December 31, 2017 and 2016, were approximately:

	Target Asset Mix	Plan Allocation Range	Weighted-Average Percentage of Plan Assets at December 31,	
Asset Category			2017	2016
Cash and cash equivalents	2%	0 – 10%	4%	12%
Bonds, bond funds and other fixed income	49%	45 – 55%	43%	39%
Equities (common stock and stock funds)	49%	45 – 55%	53%	49%

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, 2017 and 2016, as well as the related statements of income and cash flows for the years ended December 31, 2017, 2016, and 2015, are as follows:

BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 295,020	$ 282,139
Investment in Mountain Valley Bank, N.A.	17,166,916	16,852,255
Premises and equipment	34,875	40,240
TOTAL ASSETS	$ 17,496,811	$ 17,174,634
LIABILITIES		
Other liabilities	$ 39,352	$ 39,314
TOTAL LIABILITIES	39,352	39,314
STOCKHOLDERS' EQUITY	17,457,459	17,135,320
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,496,811	$ 17,174,634

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

STATEMENTS OF INCOME
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
INCOME			
Dividend from bank subsidiary	$ 418,206	$ 397,296	$ 376,385
Other	18,360	18,360	17,100
	436,566	415,656	393,485
EXPENSES			
Other	6,182	6,179	6,168
	6,182	6,179	6,168
Income Before Income Taxes and Equity in Undistributed Net Income of Subsidiary	430,384	409,477	387,317
INCOME TAX	4,700	4,700	4,170
	425,684	404,777	383,147
Equity in Undistributed Net Income of Bank Subsidiary	376,191	328,905	480,868
NET INCOME	$ 801,875	$ 733,682	$ 864,015

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Cash Flows From Operating Activities:			
Net Income	$ 801,875	$ 733,682	$ 864,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of bank subsidiary	(376,191)	(328,905)	(480,868)
Depreciation and amortization	5,365	5,365	5,365
Increase (decrease) in other liabilities	38	1,348	(10,829)
NET CASH PROVIDED BY OPERATING ACTIVITIES	431,087	411,490	377,683
Cash Flows from Financing Activities:			
Dividends paid	(418,206)	(397,296)	(376,385)
NET CASH (USED IN) FINANCING ACTIVITIES	(418,206)	(397,296)	(376,385)
Net Increase in Cash	12,881	14,194	1,298
Cash at Beginning of Year	282,139	267,945	266,647
Cash at End of Year	$ 295,020	$ 282,139	$ 267,945

NOTE 18. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2017, the company adopted ASU 2018-02 – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Prior to the issuance of ASU 2018-02, generally accepted accounting principles required deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, including situations in which the related income tax effect of items in accumulated other comprehensive income were originally recognized in other comprehensive income, rather than in net income.

NOTE 18. CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The amendments in ASU 2018-02 allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification is equal to the difference between the historical statutory federal corporate income tax rate of 34% and the newly enacted 21% statutory federal corporate income tax rate. Consequently, the adoption of ASU 2018-02 eliminates the stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 and improves the usefulness of the information reported in these financial statements. The adoption of ASU 2018-02 was applied retrospectively by the company.

The effect of the change in accounting principle is as follows:

	December 31, 2017		
	Prior to Adoption of ASU 2018-02	After Adoption of ASU 2018-02	Effect of Change
Accumulated other comprehensive (loss)	$ (1,235,876)	$ (1,503,649)	$ (267,773)
Retained earnings	19,797,764	20,065,537	267,773

NOTE 19. SUBSEQUENT EVENTS

The company has evaluated subsequent events through February 22, 2018, the date these consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2017, requiring recognition or disclosure.

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David J. Orr .... Executive Vice President

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Crystal D. Cutright	Assistant Loan Officer
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Christa D. Licwov	Head Teller, Main Office
Mildred M. Shaffer	Head Teller, Parsons Office
Matthew D. Hewitt	Head Teller, Chenoweth Creek Office