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, DAVID M FLAIR
Name of the Holding Company Director and Official

CEO/DIRECTOR
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.*

N/M F/L
Signature of Holding Company Director and Official

3-27-2020
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
C.I.

**Date of Report** (top-tier holding company's fiscal year-end):
12 31 2019
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

BAYVANGUARD MHC
Legal Title of Holding Company

7114 NORTH POINT RD
(Mailing Address of the Holding Company) Street / P.O. Box

| BALTIMORE | MD | 21219 |
|---|---|---|
| City | State | Zip Code |

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| CLAUDIA KRAFT | CONTROLLER |
|---|---|
| Name | Title |

410-477-5000 1017
Area Code / Phone Number / Extension

410-477-3869
Area Code / FAX Number

ckraft@bayvanguard.com
E-mail Address

www.bayvanguard.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

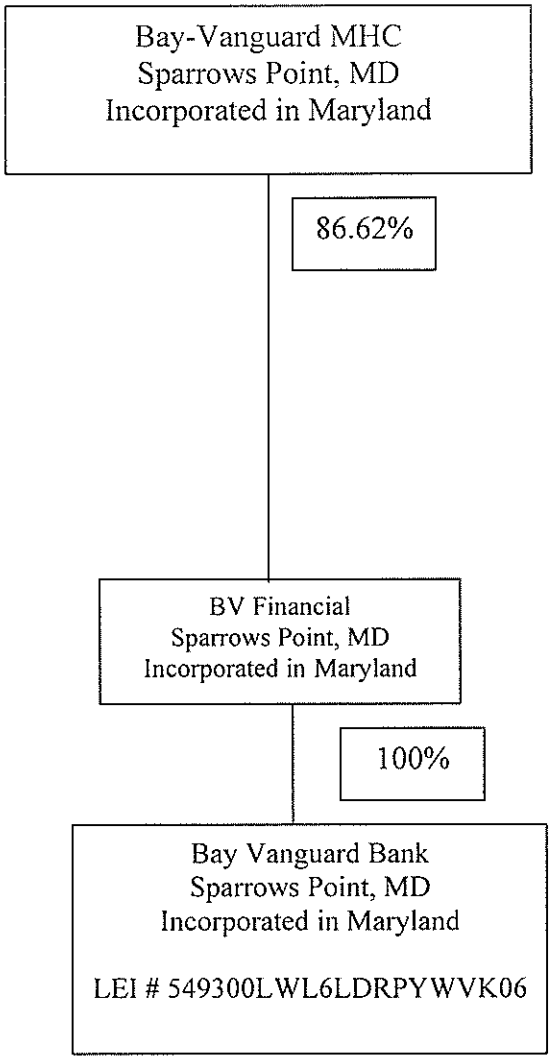
In accordance with the General Instructions for this report (check only one),

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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

| Form FR Y-6 | Bay-Vanguard MHC | Year Ending December 31, 2019 |
|---|---|---|



**Results:** A list of branches for your holding company. BAY-VANGUARD, MHC ([illegible]) of SPARROWS POINT, MD.
The data are as of 06/30/2018. Data reflects information that was received and processed through [illegible].

**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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Full Service (Head Office) | 242976 | BAYVANGUARD BANK | 7114 NORTH POINT ROAD | SPARROWS POINT | MD | 21219 | BALTIMORE | UNITED STATES | 45361 | 0 | BAYVANGUARD BANK | 242976 | OK |
| | | Full Service | 703178 | ESSEX BRANCH | 532 EASTERN BOULEVARD | BALTIMORE | MD | 21221 | BALTIMORE | UNITED STATES | Not Required | Not Required | BAYVANGUARD BANK | 242976 | OK |
| | | Full Service | 4520216 | FOUNDRY BRANCH | 921 EAST FORT AVE SUITE 102 | BALTIMORE | MD | 21230 | BALTIMORE CITY | UNITED STATES | Not Required | Not Required | BAYVANGUARD BANK | 242976 | OK |
| | | Full Service | 4154509 | ARUNDEL MILLS BRANCH | 7657 ARUNDEL MILLS BLVD | HANOVER | MD | 21076 | ANNE ARUNDEL | UNITED STATES | 518148 | 105 | BAYVANGUARD BANK | 242976 | OK |
| | | Full Service | 4154488 | PASADENA BRANCH | 8070 RITCHIE HWY | PASADENA | MD | 21122 | ANNE ARUNDEL | UNITED STATES | 492529 | 104 | BAYVANGUARD BANK | 242976 | OK |
| Add | 3/1/2019 | Full Service | 2431336 | DUNDALK BRANCH | 3101 NORTH POINT RD | DUNDALK | MD | 21222 | BALTIMORE | UNITED STATES | Not Required | Not Required | BAYVANGUARD BANK | 242976 | OK |
| Add | 3/1/2019 | Full Service | 428471 | CANTON BRANCH | 2101 EASTERN AVE | BALTIMORE | MD | 21231 | BALTIMORE | UNITED STATES | Not Required | Not Required | BAYVANGUARD BANK | 242976 | OK |
| Add | 3/1/2019 | Full Service | 2431318 | BAYVIEW BRANCH | 6201 EASTERN AVE | BALTIMORE | MD | 21224 | BALTIMORE | UNITED STATES | Not Required | Not Required | BAYVANGUARD BANK | 242976 | OK |

## Report Item 4: Insiders

1.(a) Top Tier – Bay-Vanguard MHC

Name
City, State, Country

Bay-Vanguard MHC is the principal security holder for BV Financial
Baltimore, Maryland USA

1(b) Mid Tier - BV Financial - Executive Officers and Directors

MHC
Baltimore, Maryland USA

| Name | Occupation | Title Holding Co | Subsidiaries | Other Businesses | % Voting in Holding Co | % Voting in Sub | Co. Name 25% or more %Voting |
|---|---|---|---|---|---|---|---|
| William Streett Baldwin<br>Baltimore, MD | CPA | Director | Director | Principal<br>Ellin & Tucker | N/A | Less than 1% | N/A |
| Joseph S. Galli<br>Washington DC | Real Estate Development | Director | Director | Bernstein Companies-EVP | N/A | Less than 1% | N/A |
| David M. Flair (Bank Emp)<br>Bel Air, MD | N/A | Director/Co-President/CEO | Director/Co-President/CEO | N/A | N/A | Less than 1% | N/A |
| Gary Amereihn<br>Abingdon, MD | N/A | Director | Director | N/A | N/A | Less than 1% | N/A |
| Brian K. McHale<br>Baltimore, MD | Steamship Clerk | Director | Director | Steamship Clerk/Longshore Assoc. | N/A | Less than 1% | N/A |
| Bill Crompton<br>Annapolis, MD | N/A | Director | Director | N/A | N/A | Less than 1% | N/A |
| George Philippou<br>Lutherville, MD | Attorney | Director | Director | Attorney/H&S Properties Corp. | N/A | Less than 1% | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tim Prindle (Bank Emp)<br>Arnold, MD | N/A | Director/Co-President/CEO | Director/Co-President/CEO | BayVanguard Bank | N/A | Less than 1% | N/A |
| Ed Nolley<br>Baltimore, MD | N/A | Director | Director | N/A | N/A | Less than 1% | N/A |
| Mike Synder<br>Reisterstown, MD | Attorney | Director | Director | M.T. Laney Company-General Counsel | N/A | Less than 1% | N/A |
| Josh Posnick<br>Washington DC | Real Estate Development | Director | Director | Mill Creek Residential-VP Development | N/A | Less than 1% | N/A |
| Michael Dee (Bank Emp)<br>Annapolis, MD | N/A | CFO | CFO | BayVanguard Bank | N/A | Less than 1% | N/A |
| Edmund T. Leonard<br>Catonsville, MD | N/A | Chairman of the Board | Chairman of the Board | N/A | N/A | Less than 1% | N/A |
| Bay-Vanguard MHC | N/A | N/A | N/A | N/A | N/A | 86.62%-6,149,810 | N/A |

Report Item 3: Securities Holders

3.1. Ownership is the depositors, has no shares outstanding owns 6,149,810 - 86.62% of BV Financial which is the stock holding company of BayVanguard Bank.

3.2. N/A

Report Item 3: Securities Holders

1.(a) Top Tier

Name
City, State, Country

Bay-Vanguard MHC is the principal security holder for BV Financial
Baltimore, Maryland USA owns 6,149,810 - 86.62%

1(b) Mid Tier

BV Financial
Baltimore, Maryland USA
Name

3.1. N/A

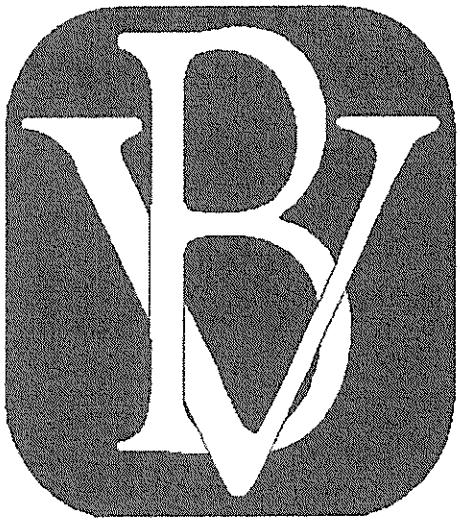
3.2. N/A

**BV FINANCIAL INSIDER OWNERSHIP**
**3/18/2020**

.kj

| | # Shares Owned | Options 60 days | Total | Subtotal BV 401K | Subtotal BV ESOP | % ownership |
|---|---|---|---|---|---|---|
| Leonard | 4,182 | | 4,182 | | 4,182 | 0.06% |
| Amereihn | 3,500 | | 3,500 | | | 0.05% |
| Flair | 21,498 | 10,600 | 32,098 | 3,345 | 4,142 | 0.45% |
| Baldwin | 1,350 | | 1,350 | | | 0.02% |
| Crompton | 1,000 | | 1,000 | | | 0.01% |
| Nolley | 500 | | 500 | | | 0.01% |
| Posnick | 100 | | 100 | | | 0.00% |
| McHale | 3,221 | | 3,221 | | | 0.05% |
| Philippou | 1,000 | | 1,000 | | | 0.01% |
| Galli | 29,709 | | 29,709 | | | 0.42% |
| Prindle | 10,800 | | 10,800 | | | 0.15% |
| Snyder | 100 | | 100 | | | 0.00% |
| | 76,960 | 10,600 | 87,560 | 3,345 | 8,324 | 1.23% |
| Other Officers listed in report | | | | | | |
| Dee | 9,562 | 4,800 | 14,362 | | 2,101 | 0.20% |
| Grover | - | - | - | - | - | 0.00% |
| | 9,562 | 4,800 | 14,362 | - | 2,101 | 0.20% |
| TOTAL | 86,522 | 15,400 | 101,922 | 3,345 | 10,425 | 1.43% |

| | | | |
|---|---|---|---|
| TOTal Shares O\S | 7,105,422 | 6,149,810 | MHC shares |
| options w\in 60 days | 15,400 | 955,612 | public shares |
| | 7,120,822 | | |
| | **1.43%** | **9.05%** | Insider % of public shares |



Financial, Inc.

# NOTICE OF 2020 ANNUAL MEETING
# PROXY STATEMENT AND
# ANNUAL REPORT
# FOR THE YEAR ENDED
# DECEMBER 31, 2019

## Corporate Profile

BV Financial, Inc., headquartered in Baltimore, Maryland, is the holding company for BayVanguard Bank. A majority of the outstanding shares of BV Financial, Inc.'s common stock is owned by Bay-Vanguard M.H.C., a mutual holding company. BV Financial, Inc. is quoted on the OTC Bulletin Board under the symbol "BVFL."

BayVanguard Bank is a Maryland chartered stock savings bank headquartered in Baltimore, Maryland. BayVanguard Bank is a community-oriented financial institution offering traditional deposit and loan products. BayVanguard has been in existence since 1873. It acquired Vanguard Federal Savings and Loan Association in 1996. BayVanguard Bank converted into the mutual holding company form of ownership in 2005. It acquired Vigilant Federal Savings Bank in 2013 and Kopernik Bank in 2019. Subsequent to this reporting period, it acquired MB Bancorp, Inc. and its subsidiary, Madison Bank, in February 2020. BayVanguard operates ten banking locations in Maryland.

## Transfer Agent

Computershare
211 Quality Circle, Suite 210
College Station, Texas 77845

Financial, Inc.

Dear Shareholder:

Change, change, and more change: that is what has been going on at BV Financial, Inc. and its subsidiary, BayVanguard Bank, over the past eighteen months. For starters, the Company changed from a June 30 fiscal year-end to a more traditional calendar year-end. This change was to better align the Company's annual reporting with that of the Bank's regulatory reporting time frames and existing calendar year-end reporting for its health and benefit plans.

In August 2018, the Bank converted from a Federal savings bank to a Maryland-chartered savings bank. This was done in part to help accomplish our strategic goal of increasing our commercial lending and deposit offerings as well as to bring in a more locally oriented regulator and reduce our regulatory costs. With the change in our charter came a change in our name from Bay-Vanguard Federal Savings Bank to BayVanguard Bank. In January 2019, the Company converted from a Federally chartered savings and loan holding company to a Maryland-chartered bank holding company. This was accomplished in part to facilitate acquisitions.

In January 2019, the Bank made a strategic decision to change its core data processing company. The change is projected to save the Company money over the length of the contract while providing additional product offerings for our customers.

February 2019 saw the Bank complete its largest acquisition to date with the merger of Kopernik Bank. The Kopernik merger added three full-service branches to our network and $133 million of assets to our balance sheet. As a part of the Kopernik Bank merger, we added six new directors while also seeing five of our directors retire. We are thankful for the service of the departing directors Robert Kern, Carolyn Mroz, Steven Lang, Michael Birmingham, and Veronica Koch.

In February 2020, we completed our acquisition of MB Bancorp, Inc. and its wholly owned subsidiary Madison Bank of Maryland. This acquisition added three additional branches to our network and $115 million in assets.

As we move further into 2020, we will see the retirement of Edmund T. Leonard at the annual meeting in May. Mr. Leonard has been the Chairman of the Company since its inception in 2005. In addition, Mr. Leonard was Chairman of the Bank from 1996 until February 2019. Mr. Leonard guided the Company through the 2000's, a time that saw many other financial institutions fail, and through the revitalization that the Company is experiencing now. We wish Mr. Leonard a peaceful and happy retirement. Mr. Amereihn, the current Chairman of the Bank, will be taking over the Chairmanship of the Company upon Mr. Leonard's departure.

Finally, we would like to thank all our shareholders for their continued support of the Company.

David M. Flair
Co-President and Chief Executive Officer

Timothy L. Prindle
Co-President and Chief Executive Officer

7114 North Point Boulevard, Baltimore, Maryland 21219
(410) 477-5000 • Fax (410) 477-3869

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April 2, 2020

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of BV Financial, Inc. The meeting will be held at BayVanguard Bank's main office, 7114 North Point Road, Baltimore, Maryland on Thursday, May 7, 2020 at 1:00 p.m., local time.

The notice of annual meeting and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. Directors and officers of the Company, as well as a representative of Rowles & Company, LLP, the Company's independent registered public accounting firm, will be present to respond to appropriate questions of stockholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to vote via the Internet or by completing and mailing the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

Timothy L. Prindle
*Co-President and Chief Executive Officer*

David M. Flair
*Co-President and Chief Executive Officer*

***ATTENDANCE AT THE ANNUAL MEETING IS DISCOURAGED***

In light of the ongoing health concerns relating to the Coronavirus and to best protect the health of our employees, shareholders and community, we are requesting that shareholders **DO NOT ATTEND** the Annual Meeting in person this year.

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**BV Financial, Inc.**
**7114 North Point Road**
**Baltimore, Maryland 21219**
**(410) 477-5000**

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# Notice of Annual Meeting of Stockholders

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On Thursday, May 7, 2020, BV Financial, Inc. (the "Company") will hold its annual meeting of stockholders at BayVanguard Bank's main office, 7114 North Point Road, Baltimore, Maryland. The meeting will begin at 1:00 p.m., local time. At the meeting, stockholders will consider and act on the following:

1. The election of seven directors;

2. The ratification of the appointment of Rowles & Company, LLP as the independent registered public accounting firm for the Company for the 2020 fiscal year; and

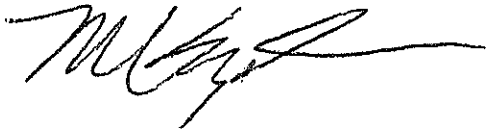
3. Such other business that may properly come before the meeting.

NOTE: The Board of Directors is not aware of any other business scheduled to come before the meeting.

Only stockholders of record as of the close of business on March 20, 2020 are entitled to receive notice of and to vote at the meeting and any adjournment or postponement of the meeting.

Please vote via the Internet or by completing and signing the enclosed proxy card and mailing it promptly in the enclosed envelope. The proxy will not be used if you attend the meeting and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS



Michael L. Snyder
*Corporate Secretary*

Baltimore, Maryland
April 2, 2020

**IMPORTANT: The prompt return of proxies will save the Company the expense of further requests for proxies to ensure a quorum. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States.**

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# BV FINANCIAL, INC.

# PROXY STATEMENT

## GENERAL INFORMATION

We are providing this proxy statement to you in connection with the solicitation of proxies by the Board of Directors of BV Financial, Inc. for the 2020 annual meeting of stockholders and for any adjournment or postponement of the meeting. In this proxy statement, BV Financial, Inc. may also be referred to as "BV Financial," the "Company," "we," "our" or "us."

BV Financial is the holding company for BayVanguard Bank. In this proxy statement, BayVanguard Bank may also be referred to as the "Bank" or "BayVanguard."

We are holding the 2020 annual meeting at BayVanguard Bank's main office, 7114 North Point Road, Baltimore, Maryland on Thursday, May 7, 2020 at 1:00 p.m., local time.

We intend to mail this proxy statement and the enclosed proxy card to stockholders of record beginning on or about April 2, 2020.

## INFORMATION ABOUT VOTING

### Who Can Vote at the Meeting

You are entitled to vote your shares of BV Financial common stock that you owned as of March 20, 2020. As of the close of business on that date, 7,105,422 shares of BV Financial common stock were outstanding, including 6,149,810 shares of common stock held by Bay-Vanguard, M.H.C. Each share of common stock has one vote.

### Ownership of Shares; Attending the Meeting

You may own shares of BV Financial in one or more of the following ways:

- Directly in your name as the stockholder of record;
- Indirectly through a broker, bank or other holder of record in "street name"; or
- Indirectly in the BV Financial, Inc. Stock Fund in our 401(k) Plan or the BayVanguard Bank Employee Stock Ownership Plan (the "ESOP").

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us or to vote in person at the meeting.

If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the instruction form provided by your broker, bank or other

holder of record that accompanies this proxy statement. If you hold your shares in street name, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of BV Financial common stock held in street name in person at the meeting, you must obtain a written proxy in your name from the broker, bank or other nominee who is the record holder of your shares.

## Quorum and Vote Required

***Quorum.*** We will have a quorum and will be able to conduct the business of the annual meeting if a majority of the outstanding shares of common stock entitled to vote are present at the meeting, either in person or by proxy.

***Votes Required for Proposals.*** At this year's annual meeting, stockholders will be asked to elect seven directors and to ratify the appointment of Rowles & Company, LLP as the Company's independent registered public accounting firm. In voting on the election of directors, you may vote in favor of the nominees, withhold votes as to nominees or withhold votes as to any nominee. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected.

In voting on the ratification of the appointment of Rowles & Company, LLP as the Company's independent registered public accounting firm, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To ratify the selection of Rowles & Company, LLP as our independent registered public accounting firm for fiscal 2020, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote at the annual meeting is required.

***Routine and Non-Routine Proposals.*** The rules of the New York Stock Exchange determine for all companies whether proposals presented at stockholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name may vote on the proposal without receiving voting instructions from the owner. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when a broker or other entity is unable to vote on a particular proposal because the broker or other entity has not received voting instructions from the beneficial owner. The election of directors is currently considered a non-routine matter, while the ratification of Rowles & Company, LLP as our independent registered public accounting firm for fiscal 2020 is currently considered a routine matter.

***How We Count Votes.*** If you return valid proxy instructions or attend the meeting in person, we will count your shares to determine whether there is quorum, even if you abstain from voting. Broker non-votes also will be counted to determine the existence of a quorum.

In the election of directors, votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In counting votes on the proposal to ratify the selection of the independent registered public accounting firm, abstentions will have the same effect as a negative vote while broker non-votes will have no effect on the proposal.

Because Bay-Vanguard, M.H.C. owns more than half of the outstanding shares of BV Financial common stock, the votes it casts will ensure the presence of a quorum and determine the outcome of Item 1 (Election of Directors) and Item 2 (Appointment of Independent Registered Public Accounting Firm).

## Voting by Proxy

The Company's Board of Directors is sending you this proxy statement to request that you allow your shares of Company common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of Company common stock represented at the meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. The Board of Directors recommends that you vote:

- **FOR** each of the nominees for director; and
- **FOR** ratification of the appointment of Rowles & Company, LLP as the Company's independent registered public accounting firm for the 2020 fiscal year.

If any matters not described in this proxy statement are properly presented at the annual meeting, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the annual meeting to solicit additional proxies. If the annual meeting is postponed or adjourned, your shares of Company common stock may be voted by the persons named in the proxy card on the new meeting date, provided that the new meeting occurs within 30 days of the annual meeting and you have not revoked your proxy. The Company does not currently know of any other matters to be presented at the meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Corporate Secretary of the Company in writing before your common stock has been voted at the annual meeting, deliver a later dated proxy or attend the meeting and vote your shares in person. Attendance at the annual meeting will not in itself constitute revocation of your proxy.

Instead of voting by mailing a proxy card, registered stockholders can vote their shares of Company common stock via the Internet. The Internet voting procedures are designed to authenticate stockholders' identities, allow stockholders to provide their voting instructions and confirm that their instructions have been recorded properly. Specific instructions for Internet voting are set forth on the enclosed proxy card. **The deadline for voting via the Internet is 1:00 a.m., Eastern time, on May 7, 2020.**

## Participants in the ESOP or 401(k) Plan

If you participate in the ESOP or if you invest in the BV Financial Stock Fund in our 401(k) Plan, you will receive a voting form for each plan that reflects the shares you may direct the trustees to vote on your behalf under the respective plans. Under the terms of the ESOP, all allocated shares of BV Financial common stock held by the ESOP are voted by the ESOP trustee, as directed by plan participants. All unallocated shares of Company common stock held by the ESOP and all allocated shares for which no timely voting instructions are received are voted by the ESOP trustee in the same proportion as shares for which the trustee has received timely voting instructions, subject to the exercise of its fiduciary duties. Under the terms of the 401(k) Plan, a participant may direct the stock fund trustee how to vote the shares in the BV Financial Stock Fund credited to his or her account. The stock fund trustee will vote all shares for which it does not receive timely instructions from participants in the same proportion as shares for which the trustee received voting instructions. **The deadline for returning your voting instructions for shares held through the ESOP or 401(k) Plan is April 28, 2020.**

## CORPORATE GOVERNANCE AND BOARD MATTERS

### Director Independence

Because the Company is not listed on a national securities exchange, there are no independence requirements for its directors. However, if the Company was to apply the current listing standards of The NASDAQ Stock Market, all of its directors would be independent, except for Mr. Flair and Mr. Prindle, each of whom is an employee of BV Financial and the Bank.

### Committees of the Board of Directors

The following table identifies our standing committees and their members at December 31, 2019. All members of each committee are independent in accordance with the listing requirements of The NASDAQ Stock Market. Each committee operates under a written charter that is approved by the Board of Directors that governs its composition, responsibilities and operations. Each committee reviews and reassesses the adequacy of its charter at least annually.

| Director | Audit Committee | Compensation Committee | Nominating and Governance Committee |
|---|---|---|---|
| Gary T. Amereihn | | | |
| William Streett Baldwin | X* | | X |
| William B. Crompton, III | X | | |
| David M. Flair | | | X |
| Joseph S. Galli | | | |
| Edmund T. Leonard | | X | |
| Brian K. McHale | X | | |
| Edmond B. Nolley, Jr. | | | |
| George Philippou | | X | X* |
| Timothy L. Prindle | | | |
| Joshua W. Posnick | | X* | |
| Michael L. Snyder | | X | |
| Number of meetings in 2019 | [4] | [6] | [2] |

*Chairman

***Audit Committee.*** The Audit Committee is responsible for ensuring that BV Financial maintains reliable accounting policies and financial reporting processes and reviewing the performance of BV Financial's independent registered public accounting firm. The Audit Committee selects the independent registered public accounting firm and meets with them to discuss the results of the annual audit and any related matters.

***Compensation Committee.*** The Compensation Committee is responsible for all matters regarding BV Financial's and the Bank's employee compensation and benefit programs. The Compensation Committee reviews all compensation components for the Company's Chief Executive Officer and other highly compensated executive officers including base salary, bonus, equity incentives, benefits and other perquisites. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved by the full Board of Directors. We do not have a contractual arrangement with any compensation consultant who has a role in determining or recommending the amount or form of executive or director compensation.

***Nominating and Governance Committee.*** The Nominating and Governance Committee is responsible for the annual selection of management's nominees for election as directors and for

developing and implementing a set of policies and practices relating to corporate governance, including implementation of and monitoring adherence to BV Financial's corporate governance policy.

### Director Compensation

The applicable fees that are paid to our non-employee directors for their service on BayVanguard's Board of Directors are listed below. Directors do not receive any compensation for their service on the Board of Directors of BV Financial or Bay-Vanguard, M.H.C.

Fees per meeting of BayVanguard Bank:

| | |
|---|---|
| Regular or Special Meetings | $1,000 |
| Committee Meetings Attended | $ 500 |
| Additional fee for Chairman of the Board per Meeting | $ 500 |
| Additional fee for Chairman of the Audit Committee per Meeting | $ 500 |

### Board and Committee Meetings

During the year ended December 31, 2019, the Board of Directors of BV Financial held three meetings and the Board of Directors of the Bank held 13 meetings. No director attended fewer than 75% of the meetings of the Board of Directors and Board committees on which they served in 2019.

### Director Attendance at the Annual Meeting of Stockholders

The Board of Directors encourages directors to attend the annual meeting of stockholders. All but three of the directors attended the previous annual meeting of stockholders.

## STOCK OWNERSHIP

The following table provides information as of March 20, 2020 with respect to persons and entities known to the Company to be the beneficial owner of more than 5% of the Company's outstanding common stock. A person or entity may be considered to beneficially own any shares of common stock over which the person or entity has, directly or indirectly, sole or shared voting or investing power.

| Name and Address | Number of Shares Owned | Percent of Common Stock Outstanding |
|---|---|---|
| Bay-Vanguard, M.H.C.<br>7114 North Point Road<br>Baltimore, Maryland 21219 | 6,149,810 | 86.55% |

The following table provides information about the shares of Company common stock that may be considered to be owned by each director or nominee for director of the Company and by all directors, nominees for director and executive officers of the Company as a group as of March 20, 2020. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. Except as disclosed below, each of the named individuals has sole or shared voting and investment power with respect to the shares shown. The number of shares beneficially owned by all directors, nominees for director and executive officers as a group totaled 1.43% of our common stock as of March 20, 2020. Each director, director nominee and executive officer owned less than 1% of our outstanding common stock as of that date.

| Name | Number of Shares Owned (Excluding Options) | Number of Shares That May Be Acquired Within 60 Days by Exercising Options | Total |
|---|---|---|---|
| Gary T. Amereihn | 3,500 | — | 3,500 |
| William Streett Baldwin | 1,350 | — | 1,350 |
| William B. Crompton, III | 1,000 | — | 1,000 |
| David M. Flair | 21,498[1] | 10,600 | 32,098 |
| Joseph S. Galli | 29,709 | — | 29,709 |
| Edmund T. Leonard | 4,182[2] | — | 4,182 |
| Brian K. McHale | 3,221 | — | 3,221 |
| Edmond B. Nolley, Jr. | 500 | — | 500 |
| George Philippou | 1,000[3] | — | 1,000 |
| Timothy L. Prindle | 10,800 | — | 10,800 |
| Joshua W. Posnick | 100 | — | 100 |
| Michael L. Snyder | 100 | — | 100 |
| All Directors, Director Nominees and Executive Officers as a group (14 persons) | 86,522 | 15,400 | 101,922 |

(1) Includes 4,142 shares allocated under the ESOP and 3,345 shares held in trust in the BayVanguard Bank 401(k) Plan.
(2) Shares allocated under the ESOP.
(3) Shares pledged as security.

## ITEMS TO BE VOTED ON BY STOCKHOLDERS

### Item 1 — Election of Directors

The Company's Board of Directors consists of twelve members. However, Edmund T. Leonard will retire at the annual meeting at which point the Board of Directors will be reduced to eleven members. The Board is divided into three classes with three-year staggered terms. The Board of Directors' nominees for election this year to serve for the term noted below or until their successors have been elected and qualified are:

Edmond B. Nolley (one year)
Timothy L. Prindle (one year)
William B. Crompton, III (two years)
Joshua W. Posnick (two years)
Gary T. Amereihn (three years)
Michael L. Snyder (three years)
Brian K. McHale (three years)

Unless you indicate on the proxy card that your shares should not be voted for certain nominees, the Board of Directors intends that the proxies solicited by it will be voted for the election of the Board's nominees. If any nominee is unable to serve, the persons named on the proxy card would vote your shares to approve the election of any substitute proposed by the Board of Directors. At this time, we know of no reason why any nominee might be unable to serve.

**The Board of Directors recommends a vote "FOR" the election of the nominees.**

Information regarding the Board of Directors' nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated in each nominee's biography is as of December 31, 2019. There are no family relationships among the directors or executive officers. The indicated period for service as a director includes service as a director of either Bay Federal Savings and Loan Association or Vanguard Federal Savings and Loan Association, which merged to form Bay-Vanguard Federal Savings Bank in April 1996.

## Board Nominees for a Term Ending in 2021

*Edmond B. Nolley, Jr.* retired from Delmarva Bank Data Processing Center in Easton, Maryland having served as their President and Chief Executive Officer for 9 years. Mr. Nolley is also retired from the Maryland Army National Guard where he served as Brigadier General. Age 73. Director since 2019.

*Timothy L. Prindle* was elected as the Co-Chief Executive Officer, Co-President and member of the Board of Directors of Bay-Vanguard M.H.C., BV Financial and BayVanguard Bank in January 2019. Previously he served as Chief Executive Officer and President of Kopernik Bank since 2012. Age 34. Director since 2019.

## Board Nominees for a Term Ending in 2022

*William B. Crompton, III* retired from the Office of the Comptroller of the Currency in 2015 and has held senior positions in the Office of the Comptroller of the Currency, Office of Thrift Supervision and Federal Home Loan Bank System for over 30 years. Age 66. Director since 2019.

*Joshua W. Posnick* is Vice President of Development for Mill Creek Residential, a real estate development and management company, located in Washington, D.C. Age 34. Director since 2019.

## Board Nominees for a Term Ending in 2023

*Gary T. Amereihn* retired from Kopernik Bank in 2019 having served as their Chairman, Chief Executive Officer and Chief Financial Officer for 21 years. Age 65. Director since 2019.

*Brian K. McHale* is a steamship clerk with International Longshoremen's Association Local 953 located in Baltimore, Maryland and until 2014 was a state delegate to the Maryland General Assembly. Age 65. Director since 1987.

*Michael L. Snyder* is General Counsel for M.T. Laney Company, Inc, an asphalt and paving contractor located in Eldersburg, Maryland. Previously he served as managing partner from the law firm of Cody & Farley Attorneys. Age 71. Director since 2019.

## Directors with Terms Ending in 2021

*Joseph S. Galli* is an executive vice president of The Bernstein Companies, which is an owner, developer, investor and manager of commercial, residential, industrial and hotel properties in the Mid-Atlantic region of the United States. Within The Bernstein Companies, Mr. Galli is a managing director of Consortium Capital, which is a series of real estate equity funds that invest in commercial real estate throughout the Mid-Atlantic. Mr. Galli is also the Chairman of the Government Relations Committee for the Washington, D.C. chapter of Autism Speaks. Age 56. Director since 2015.

*George Philippou* is General Counsel for H&S Properties Development Corp., a real estate development and management company located in Baltimore, Maryland. Age 52. Director since 2011.

## Directors with Terms Ending in 2022

*William Streett Baldwin* is a director of Ellin & Tucker, Chartered, a business consulting and certified public accounting firm located in Baltimore, Maryland. Mr. Baldwin is a certified public accountant. Age 57. Director since 2012.

*David M. Flair* became the Chief Executive Officer of BV Financial and BayVanguard in October 2013 and was also named President of BV Financial and BayVanguard in November 2014. Mr. Flair was hired as the Chief Financial Officer of BV Financial and BayVanguard in February 2012 and served in that role until May 2014. Mr. Flair served as the Chief Financial Officer of Advance Bank in Baltimore, Maryland, beginning in December 2006 and was also appointed as a director and named the Acting Chief Executive Officer of Advance Bank before his departure in February 2012. Mr. Flair is a certified public accountant and was a partner with Anderson Associates LLP and Beard Miller Company LLP for almost twenty years before joining Advance Bank. Age 56. Director since 2012.

## Item 2 – Ratification of the Independent Registered Public Accounting Firm

Rowles & Company, LLP was the Company's independent registered public accounting firm for the 2109 fiscal year. The Audit Committee of the Board of Directors has appointed Rowles & Company. LLP to be the Company's independent registered public accounting firm for the 2020 fiscal year, subject to ratification by stockholders. A representative of Rowles & Company, LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of the independent registered public accounting firm is not approved by a majority of the votes represented at the annual meeting and entitled to vote, the Audit Committee of the Board of Directors may consider other independent registered public accounting firms.

**The Board of Directors recommends a vote "FOR" the ratification of the appointment of Rowles & Company, LLP as independent registered public accounting firm for the Company for the 2020 fiscal year.**

## SUBMISSION OF BUSINESS PROPOSALS AND STOCKHOLDER NOMINATIONS

The Company's Bylaws provide that for a stockholder to make nominations for the election of directors or proposals for business to be brought before a meeting of stockholders, a stockholder must deliver written notice of such nominations and/or proposals to the Corporate Secretary not less than 30 days before the date of the meeting; provided that if less than 40 days' notice or prior public disclosure of the meeting is given or made to stockholders, such notice must be delivered not later than the close of business on the tenth day following the day on which notice of the meeting was mailed to stockholders or such public disclosure was made.

## MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company. In addition to soliciting proxies by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telephone. None of these persons will receive additional compensation for these activities.

If you and others who share your address own your shares in "street name," your broker or other holder of record may be sending only one annual report and proxy statement to your address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a stockholder residing at such an address wishes to receive a separate annual report or proxy statement in the future, he or she should contact the broker or other holder of record. If you own your shares in "street name" and are receiving multiple copies of our annual report and proxy statement, you can request householding by contacting your broker or other holder of record.

Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope.

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ROWLES
& Company, LLP
Certified Public Accountants

To the Board of Directors
BV Financial, Inc.
Baltimore, Maryland

## Report of Independent Auditors

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of BV Financial, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and June 30, 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the 18-month period ended December 31, 2019 and the year ended June 30, 2018, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 of 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BV Financial, Inc. and Subsidiaries as of December 31, 2019 and June 30, 2018, and the consolidated results of their operations and their cash flows for the 18 months ended December 31, 2019 and year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 18, 2020

8100 Sandpiper Circle, Suite 308, Baltimore, Maryland 21236
443-725-5395 Fax 443-725-5074
Website: www.Rowles.com

# *BV FINANCIAL, INC. AND SUBSIDIARIES*

## Consolidated Balance Sheets

| | 12/31/2019 | 6/30/2018 |
|---|---|---|
| | (In thousands except share amounts) | |
| **Assets** | | |
| Cash | $ 4,767 | $ 2,737 |
| Interest-bearing deposits in other banks | 19,213 | 7,479 |
| Cash and cash equivalents | 23,980 | 10,216 |
| Time deposits in other banks | 250 | 250 |
| Securities available for sale | 8,349 | 13,079 |
| Securities held to maturity (fair value of $4,031 and $5,886) | 3,956 | 5,930 |
| Loans receivable, net of allowance for loan losses of $1,293 and $1,807 | 235,194 | 124,608 |
| Foreclosed real estate and repossessed assets | 450 | 715 |
| Premises and equipment, net | 5,835 | 1,115 |
| Federal Home Loan Bank of Atlanta stock, at cost | 500 | 376 |
| Investment in life insurance | 7,450 | 5,177 |
| Accrued interest receivable | 992 | 498 |
| Goodwill | 1,116 | 120 |
| Intangible assets, net | 1,213 | 23 |
| Deferred tax assets, net | 3,045 | 1,591 |
| Other assets | 1,854 | 508 |
| Total assets | $ 294,184 | $ 167,206 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities | | |
| Noninterest-bearing deposits | $ 21,498 | $ 18,452 |
| Interest-bearing deposits | 196,324 | 120,233 |
| Total deposits | 217,822 | 138,685 |
| Official checks | 827 | 481 |
| Advances from the Federal Home Loan Bank of Atlanta | 3,000 | 3,000 |
| Advance payments by borrowers for taxes and insurance | 1,672 | 1,888 |
| Other liabilities | 4,860 | 1,499 |
| Total liabilities | 228,181 | 145,556 |
| Stockholders' equity | | |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued or outstanding | | |
| Common stock, $0.01 par value; 14,000,000 shares authorized 2019, 9,000,000 2018; 7,346,536 shares issued; and 7,105,422 shares outstanding as of 2019 ; 3,240,238 issued and 2,999,124 outstanding as of 2018 | 73 | 32 |
| Paid-in capital | 10,893 | 10,851 |
| Unearned employee stock ownership plan shares | - | (65) |
| Treasury stock, at cost; 241,114 shares as of 2019 and 2018 | (1,979) | (1,979) |
| Retained earnings | 57,002 | 13,019 |
| Accumulated other comprehensive income (loss) | 14 | (208) |
| Total stockholders' equity | 66,003 | 21,650 |
| Total liabilities and stockholders' equity | $ 294,184 | $ 167,206 |

*See notes to consolidated financial statements.*

## Consolidated Statements of Income

| (in thousands except per share amounts) | 18 Months | 12 Months |
|---|---|---|
| **Interest Income** | 12/31/2019 | 6/30/2018 |
| Loans, including fees | $14,604 | $6,319 |
| Investment securities | 520 | 347 |
| Other interest income | 454 | 89 |
| Total interest income | 15,578 | 6,755 |
| **Interest Expense** | | |
| Interest on deposits | 2,013 | 737 |
| Interest on borrowed money | 150 | 42 |
| Total interest expense | 2,163 | 779 |
| Net interest income | 13,415 | 5,976 |
| **Provision for loan losses** | 160 | 114 |
| Net interest income after provision for loan losses | 13,255 | 5,862 |
| **Noninterest Income** | | |
| Service fees on deposits | 246 | 120 |
| Income from investment in life insurance | 214 | 116 |
| Gain (loss) on sale of foreclosed real estate and repossessed assets | (25) | 31 |
| Other Income | 295 | 156 |
| Total noninterest income | 730 | 423 |
| **Noniterest Expense** | | |
| Compensation and related benefits | 5,931 | 2,766 |
| Occupancy | 817 | 420 |
| Data processing | 780 | 469 |
| Advertising | 79 | 59 |
| Professional fees | 828 | 448 |
| Equipment | 225 | 160 |
| Foreclosed real estate and repossessed assets holding costs | 123 | 86 |
| Write-down of foreclosed real estate and repossessed assets | 111 | 35 |
| Amortization of intangible assets | 115 | 5 |
| FDIC insurance premiums | 84 | 63 |
| Other | 1,049 | 597 |
| Total noninterest expense | 10,142 | 5,108 |
| Net income before tax | 3,843 | 1,177 |
| Income tax expense | 967 | 1,086 |
| **Net income** | $2,876 | $91 |
| **Basic earnings per share** | $ 0.54 | $ 0.03 |
| **Diluted earnings per share** | $ 0.54 | $ 0.03 |
| **Dividends declared per share** | $ 0.15 | $ - |

*See notes to consolidated financial statements.*

## Consolidated Statements of Comprehensive Income

| | **18 Months 12/31/2019** | 12 Months 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| **Net income** | **$ 2,876** | $ 91 |
| **Other comprehensive income (loss)** | | |
| Unrealized gain (loss)loss on securities available for sale | **306** | (199) |
| Income tax relating to securities available for sale | **(84)** | 64 |
| Other comprehensive income (loss) | **222** | (135) |
| **Total comprehensive income (loss)** | **$ 3,098** | $ (44) |

*See notes to consolidated financial statements.*

# *BV FINANCIAL, INC. AND SUBSIDIARIES*

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common stock | Paid-in capital | Unearned employee stock ownership plan shares | Treasury stock | Retained earnings | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|---|
| **Balance, June 30, 2017** | $ 32 | $ 10,848 | $ (134) | $ (1,979) | $ 12,910 | $ (55) | $ 21,622 |
| Net Income | - | - | - | - | 91 | - | 91 |
| Change in unrealized holding loss (net of tax of $64) | - | - | - | - | - | (135) | (135) |
| Reclassification due to adoption of ASU No. 2018-02 | | | | | 18 | (18) | - |
| Employee Stock Option Plan | | 9 | | | | | 9 |
| Employee Stock Ownership Plan compensation including taxes | - | (6) | 69 | - | - | - | 63 |
| **Balance, June 30, 2018** | 32 | 10,851 | (65) | (1,979) | 13,019 | (208) | 21,650 |
| Net Income | - | - | - | - | 2,876 | - | 2,876 |
| Change in unrealized holding gains (loss) (net of tax of $84) | - | - | - | - | | 222 | 222 |
| Equity From Kopernik Merger | | | | | 41,250 | | 41,250 |
| Dividends Declared | | | | | (143) | | (143) |
| Shares Issued to M.H.C. | 41 | (41) | | | | | - |
| Employee Stock Option Plan | | 37 | | | | | 37 |
| Employee Stock Ownership Plan compensation including taxes | - | 46 | 65 | - | - | - | 111 |
| **Balance, December 31, 2019** | $ 73 | $ 10,893 | $ - | $ (1,979) | $ 57,002 | $ 14 | $ 66,003 |

*See notes to consolidated financial statements.*

# *BV FINANCIAL, INC. AND SUBSIDIARIES*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 18 Months 12/31/2019 | 12 Months 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities** | | |
| Net income | $ 2,876 | $ 91 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Net amortization of discounts and premiums | (99) | 67 |
| Provision for loan losses | 160 | 114 |
| Loss (Gain) on sale of foreclosed real estate and other repossessed assets | 25 | (31) |
| Write-downs of foreclosed real estate and other repossessed assets | 111 | 35 |
| Amortization of deferred loan fees/costs | 22 | 86 |
| Depreciation of premises and equipment | 374 | 207 |
| Amortization of intangible assets | 115 | 5 |
| Deferred tax expense | 555 | 1,054 |
| Increase in cash surrender value of life insurance | (214) | (116) |
| Stock-based compensation expense | 100 | 72 |
| (Increase) decrease in accrued interest and other assets | (1,298) | 309 |
| Increase (decrease) in other liabilities | (1,036) | 5 |
| Net cash provided by operating activities | 1,691 | 1,898 |
| **Cash flows from investing activities** | | |
| Purchases of securities held to maturity | - | (1,530) |
| Proceeds from maturities and calls of available for sale securities | 3,000 | - |
| Proceeds from maturities and calls of held to maturity securities | 400 | 20 |
| Principal collected on mortgage-backed securities | 3,493 | 3,067 |
| Net decrease (increase) in loans | 771 | 607 |
| Purchase of premises and equipment | (549) | (36) |
| Proceeds from sale of foreclosed real estate and other repossessed assets | 240 | 211 |
| Proceeds from sale of Federal Hole Loan Bank Stock | 25 | - |
| Net Cash received in merger | 19,318 | - |
| Net cash provided by (used in) investing activities | 26,698 | 2,339 |
| **Cash flows provided by financing activities** | | |
| Increase in official checks | 343 | 97 |
| Net (decrease) increase in deposits | (13,457) | (3,913) |
| (Decrease) increase in advance payments by borrowers for taxes and insurance | (1,394) | (36) |
| Stock options exercised | 26 | - |
| Cash dividends paid | (143) | - |
| Net cash provided by financing activities | (14,625) | (3,852) |
| **Net decrease in cash and cash equivalents** | 13,764 | 385 |
| Cash and cash equivalents at beginning of year | 10,216 | 9,831 |
| **Cash and cash equivalents at end of year** | $ 23,980 | $ 10,216 |
| **Supplementary cash flows information** | | |
| Interest paid | $ 2,160 | $ 779 |
| Income taxes paid | $ 139 | $ 25 |
| **Supplementary noncash transactions** | | |
| Net loans transferred to foreclosed real estate and repossessed assets | $ 220 | $ 637 |

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business

BV Financial, Inc. (the "Company") was organized as a federally chartered corporation at the direction of BayVanguard Bank (the "Bank") in January 2005 to become the mid-tier stock holding company for Bay-Vanguard Federal upon the completion of its reorganization into the mutual holding company form of organization. Pursuant to the Plan of Reorganization, the Bank converted to stock form with all of its stock owned by the Company and organized Bay-Vanguard, M.H.C. (the "M.H.C.") as a federally chartered mutual holding company that owned 55% of the common stock of the Company. In February 2019, the M.H.C. became a Maryland Chartered Corporation. In in May 2013, the Company issued 595,238 shares to the M.H.C. in connection with the acquisition of Vigilant Federal Savings Bank ("Vigilant") and in February 2019, the Company was converted to a Maryland Chartered Corporation and issued 4,099,822 shares to the M.H.C. in connection with the acquisition of Kopernik Bank ("Kopernik"). At December 31, 2019 and June 30, 2018, the M.H.C. owned 86.55% and 68.35% of the common stock of the Company, respectively.

BayVanguard Bank is headquartered in Baltimore, Maryland and is a community-oriented financial institution offering traditional financial services to its local communities. The Bank is engaged primarily in the business of attracting deposits from the general public and using such funds to originate one-to-four family real estate, mobile home, marine, farm loans guaranteed by the U.S. Department of Agriculture ("USDA"), construction, multi-family, commercial real estate, commercial and consumer loans.

The Bank's deposits are insured up to the applicable legal limits by the Federal Deposit Insurance Corporation's Deposit Insurance Fund. BayVanguard Bank is a member of the Federal Home Loan Bank System.

The Company changed its fiscal year from a June 30 year end to a December 31 year end. These financial statements present balances as of December 31, 2019 and June 30, 2018, and activity for the 18 months ended December 31, 2019 and year ended (12 months) June 30, 2018.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All intercompany balances and transactions have been eliminated in consolidation.

### Basis of Financial Statement Presentation and Significant Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the period. Actual results could differ significantly 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 assessment of other than temporary impairment of investment securities, goodwill and intangible asset impairment, and the valuation of deferred tax assets.

### Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Baltimore metropolitan area. The Company does not have any significant concentrations to any one industry or customer.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Securities**

The Company classifies investment securities as held to maturity or available for sale. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost (including amortization of premiums or accretion of discounts). Net unrealized gains and losses for debt securities classified as available for sale are recognized as increases or decreases in other comprehensive income or loss, net of taxes, and excluded from the determination of net income. Realized gains and losses on sales of securities are determined using the specific identification method and are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Premiums on callable debt securities are amortized through the earliest call date.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or until maturity. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance, and projected target prices of investment analysts.

**Federal Home Loan Bank Stock**

Federal law requires a member institution of the Federal Home Loan Bank System to hold stock of its district Federal Home Loan Bank ("the FHLB") in an amount determined by both asset size and borrowings from the FHLB. Purchases and sales of stock are made directly with the FHLB at par value.

The Bank held **$500,000** and $376,000 of FHLB restricted stock at December 31, 2019 and June 30, 2018, respectively.

This restricted stock is carried at cost. Management evaluates whether this investment is impaired based on their assessment of the ultimate recoverability of the investment rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the investment is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

**Loans Receivable**

Loans receivable are stated at unpaid principal balances, adjusted for premiums on loans purchased, the undisbursed portion of loans in process, net deferred loan origination fees and costs, discounts on loans acquired in a merger, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment to the yield of the related loans. The Company is amortizing these amounts over the contractual life of the loan using the interest method. For purchased loans, the related premium or discount is recognized over the contractual life of the purchased loan and is included as part of interest income. Certain discounts on acquired impaired loans are considered non-accretable until the loan is paid in full. The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing.

## Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Loans Receivable (Continued)

A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest payments on impaired loans are recorded in the same manner as interest payments on nonaccrual loans.

### Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level to provide for losses that are probable and can be reasonably estimated. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, the composition and size of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

Management reviews the allowance for loan losses on no less than a quarterly basis in order to identify the inherent losses and to assess the overall collectability of the loan portfolio by reviewing the portfolio by various segments. The evaluation process by portfolio segment includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the value of collateral securing the loan, the borrower's ability to repay, repayment performance, and local economic conditions.

The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties, and there is a likelihood that different amounts would be reported under different conditions or assumptions. The Federal Deposit Insurance Corporation and the Maryland Office of the Commissioner of Financial Regulation, as an integral part of their examination process, periodically reviews the allowance for loan losses and may require the Company to make additional provisions for estimated loan losses based upon judgments different from those of management.

The Company will continue to monitor and modify its allowance for loan losses as conditions dictate. No assurances can be given that the level of the allowance for loan losses will cover all of the inherent losses on the loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

A loan is considered past due or delinquent when a contractual payment is not paid in the month that it is due. A loan is considered impaired when, based on current information and events, it is probable that the

**Allowance for Loan Losses (Continued)**

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. Impairment is measured on a loan-by-loan basis for multi-family, commercial real estate, and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

**Foreclosed Real Estate and Repossessed Assets**

Foreclosed real estate and repossessed assets are composed of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. If the fair value is less than the related loan balance at the time of acquisition, a charge against the allowance for loan losses is recorded. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in noninterest income and expenses.

**Premises and Equipment**

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed based on the straight-line method over the estimated useful lives of the respective assets. Expenditures for improvements are capitalized while costs for maintenance and repairs are expensed as incurred.

**Investment in Life Insurance**

Investment in life insurance is reflected at the net cash surrender value to the Company.

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is evaluated for impairment annually. Any impairment of goodwill would be recorded against income in the period of impairment.

**Intangible Assets**

Intangible assets, consisting of core deposit intangibles, represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged on its own or in combination with a related contract, asset or liability. Core deposit intangibles are amortized on an accelerated basis over a period of seven to ten years. Any impairment of intangible assets would be recorded against income in the period of impairment.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Deferred Income Taxes

Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on consideration of available evidence.

In December 2017, the President of the United States signed the Tax Cuts and Jobs Act of 2017. The Act reduced the Company's federal corporate income tax rate from 34% to 21%. The enactment of the law required the Company to revalue its deferred tax assets and liabilities during the year ended June 30, 2018. The Company recorded net income tax expense of **$731,000** related to this revaluation. Of this amount, **$18,000** of expense was attributable to the Company's net deferred tax asset for unrealized losses on available for sale securities. In addition to adjusting the deferred tax asset for this item, the Company recorded an adjustment to accumulated other comprehensive income with a transfer to retained earnings.

### Statements of Cash Flows

Cash and cash equivalents in the statements of cash flows include cash, federal funds sold and interest bearing deposits in other banks. Federal funds are generally purchased and sold for one-day periods.

### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit. Such financial instruments are recorded in the balance sheet when they are funded.

### Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the appropriate period. Unearned shares under the BayVanguard Bank Employee Stock Ownership Plan (the "ESOP") are not included in outstanding shares for earnings per share purposes. Diluted earnings per share is computed by dividing net income by the weighted average shares outstanding as adjusted for the dilutive effect of stock options based on the treasury stock method. As of December 31, 2019 and June 30, 2018, the Company had **54,950** and 62,000 shares, respectively of unexercised stock options. Options with an exercise price greater than the average market price of the common shares are excluded from the calculation as their effect would be anti-dilutive. Information related to the calculation of earnings per share is summarized as follows:

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| | 18 Months December 31, 2019 | | 12 Months June 30, 2018 | |
|---|---|---|---|---|
| | **Basic** | **Diluted** | Basic | Diluted |
| | (In thousands, except per share data) | | | |
| Net income | $ 2,876 | $ 2,876 | $ 91 | $ 91 |
| Weighted average common shares outstanding | 5,283 | 5,283 | 2,989 | 2,989 |
| Dilutive securities | | | | |
| Stock options | - | 24 | - | 5 |
| Adjusted weighted average shares outstanding | 5,283 | 5,307 | 2,989 | 2,994 |
| Earnings per share amount | $ 0.54 | $ 0.54 | $ 0.03 | $ 0.03 |

### Stock Based Compensation

The Company accounts for stock based compensation under the fair value method of accounting. For stock options, the Company uses a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. Compensation expense related to stock-based awards is recognized over the period during which an individual is required to provide service in exchange for such award.

### Employee Stock Ownership Plan

The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheet as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to paid-in capital. Any dividends on unallocated ESOP shares are reflected as a reduction of the debt from the Company to BayVanguard Bank.

### Reclassifications

Certain prior period amounts have been reclassified to conform with the current period's presentation. Such reclassifications had no effect on net income.

### Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2019, for items that should potentially be recognized or disclosed in these consolidated financial statements. This evaluation was conducted through March 18, 2020, the date these financial statements were available to be issued.

At the close of business on February 29, 2020, the Company completed its previously announced purchase of MB Bancorp, Inc., the parent of Madison Bank of Maryland. The Company paid $15.85 per outstanding share of MB Bancorp, Inc. for total consideration of $29.9 million. A preliminary summary of the transaction is as follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Subsequent Events (continued)**

| | | (in thousands) |
|---|---|---|
| Preliminary Fair value of assets and liabilities acquired: | | |
| Total Assets | $ | 140,384 |
| Total Liabilities | | (110,473) |
| Cash paid for shares of MB Bancorp, Inc. | $ | 29,911 |

Due to the recent closing of the transaction, management has not completed its determination of the fair value of all assets and liabilities acquired from MB Bancorp, Inc. The information in the table above is subject to change as management completes its analysis.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which continues to spread, has adversely affected workforces, customers, economies, and global financial markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the global economy. Therefore, the Company is currently unable to determine the extent of the impact to its future financial condition or results of operations.

**Note 2 – Merger**

As of the close of business on February 28, 2019 the company merged Kopernik Bank with and into the bank. Kopernik was a state chartered mutual savings banks located in Baltimore, Maryland. In accordance with the terms of the transaction the company was required to issue 4,099,822 shares of stock to M.H.C.. The stock was issued based on Kopernik's appraised value of $41,250,000 and an independent appraisal of the company's stock value at the time of the transaction of $11.22 per share. The combination was accounted for using the purchase accounting method, and accordingly all assets and liabilities were recorded at their estimated fair value. The bank recorded premiums of $491,000 on assets and $487,000 on liabilities. The Company also recorded nonaccretable and accretable discounts, related to credit impairment in the loan portfolio, of $388,000 and $831,000, respectively. In addition the bank recorded goodwill totaling $996,000 and identifiable intangibles (core deposit intangible) totaling $1,305,000. The bank recorded total assets of $139.4 million and assumed liabilities of $98.2 million. Fair value adjustments of the assets and liabilities are being amortized over the estimated useful lives of the related assets and liabilities. The credit impairment adjustment will be periodically reevaluated. A summary of the Kopernik transaction during the period ended December 31, 2019, follows:

**Note 2 – Merger (continued)**

| | (in thousands) |
|---|---|
| Fair Value of assets and liabilities acquired: | |
| Cash and cash equivalents | $19,318 |
| Securities held to maturity | 12 |
| Loans receivable | 111,026 |
| Premises and equipment | 1,545 |
| Core deposit intangible | 1,305 |
| Goodwill | 996 |
| Investment in life insurance | 2,059 |
| Other assets | 2,786 |
| Foreclosed real estate | 374 |
| Deposits | (93,044) |
| Advance payments by borrowers for taxes and insurance | (1,178) |
| Other liabilities | (3,949) |
| Appraised Value of Kopernik (recorded in retained earnings) | $41,250 |

NOTE 3 – SECURITIES

Securities available for sale at December 31, 2019 and June 30, 2018, consisted of the following:

| **December 31, 2019** | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| | | (In thousands) | | |
| ***Available for sale*** | | | | |
| U.S. government agency securities | **$ 4,000** | **$ -** | **$ 6** | **$ 3,994** |
| Mortgage-backed securities | **4,330** | **53** | **28** | **4,355** |
| | **$ 8,330** | **$ 53** | **$ 34** | **$ 8,349** |
| June 30, 2018 | | | | |
| ***Available for sale*** | | | | |
| U.S. government agency securities | $ 6,998 | $ - | $ 157 | $ 6,841 |
| Mortgage-backed securities | 6,368 | 3 | 133 | 6,238 |
| | $ 13,366 | $ 3 | $ 290 | $ 13,079 |

Securities held to maturity at December 31, 2019 and June 30, 2018, consisted of the following:

| December 31, 2019 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| ***Held to maturity*** | | | | |
| U.S. Govt Agency | $ - | $ - | $ - | $ - |
| Mortgage Backed Securities | 3,956 | 91 | 16 | 4,031 |
| | $ 3,956 | $ 91 | $ 16 | $ 4,031 |
| June 30, 2018 | | | | |
| ***Held to maturity*** | | | | |
| U.S. Govt Agency | $ 400 | $ - | $ 7 | $ 393 |
| Mortgage Backed Securities | 5,530 | 45 | 82 | 5,493 |
| | $ 5,930 | $ 45 | $ 89 | $ 5,886 |

NOTE 3 – SECURITIES (CONTINUED)

The amortized cost and fair value of securities as of December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

| | Available for sale | | Held to maturity | |
|---|---|---|---|---|
| **December 31, 2019** | Amortized cost | Fair value | Amortized cost | Fair value |
| | | (In thousands) | | |
| Maturing | | | | |
| Due under one year | **$ 1,000** | **$ 1,000** | **$ -** | **$ -** |
| Due after one year through five years | **3,000** | **2,995** | **121** | **121** |
| Due after five years through ten years | **2,410** | **2,443** | **110** | **108** |
| Due after ten years | **1,920** | **1,911** | **3,725** | **3,802** |
| | **$ 8,330** | **$ 8,349** | **$ 3,956** | **$ 4,031** |

June 30, 2018

All mortgage-backed securities are Freddie Mac, Fannie Mae or Ginnie Mae backed securities.

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

NOTE 3 – SECURITIES (CONTINUED)

| | Less than 12 months | | Over 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value |
| **December 31, 2019** | | | (In thousands) | | | |
| ***Available for sale*** | | | | | | |
| U.S. government agency securities | $ - | $ - | $ 6 | $ 3,994 | $ 6 | $ 3,994 |
| Mortgage-backed securities | - | - | 28 | 2,957 | 28 | 2,957 |
| | $ - | $ - | $ 34 | $ 6,951 | $ 34 | $ 6,951 |
| ***Held to maturity*** | | | | | | |
| U.S. government agency securities | $ - | $ - | $ 1 | $ 119 | $ 1 | $ 119 |
| Mortgage-backed securities | - | - | 15 | 2,130 | 15 | 2,130 |
| | $ - | $ - | $ 16 | $ 2,249 | $ 16 | $ 2,249 |
| June 30, 2018 | | | | | | |
| ***Available for sale*** | | | | | | |
| U.S. government agency securities | $ - | $ - | $ 157 | $ 6,841 | $ 157 | $ 6,841 |
| Mortgage-backed securities | 53 | 3,056 | 80 | 3,135 | 133 | 6,191 |
| | $ 53 | $ 3,056 | $ 237 | $ 9,976 | $ 290 | $ 13,032 |
| ***Held to maturity*** | | | | | | |
| U.S. government agency securities | $ - | $ - | $ 7 | $ 393 | $ 7 | $ 393 |
| Mortgage-backed securities | 2 | 2,272 | 80 | 1,362 | 82 | 3,634 |
| | $ 2 | $ 2,272 | $ 87 | $ 1,755 | $ 89 | $ 4,027 |

Management has the ability and intent to hold these investment securities until maturity. The decline in fair value is the result of changes in interest rates, not a deterioration of the credit standing of the issuers. Since no loss is expected on these securities, no impairment has been recorded.

## NOTE 4 – LOANS RECEIVABLE

Loans receivable at December 31, 2019 and June 30, 2018, consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| | (In thousands) | |
| Real estate loans | | |
| One-to-four family owner occupied | $ 90,335 | $ 44,477 |
| One-to-four family nonowner occupied | 54,653 | 25,038 |
| Multi-family and commercial | 56,909 | 29,960 |
| Land | 2,009 | 281 |
| Farm loans guaranteed by the USDA | 6,328 | 6,521 |
| Construction | 10,207 | 1,296 |
| Mobile homes | 2,234 | 3,253 |
| Marine | 9,642 | 11,136 |
| Other consumer | 598 | 516 |
| Commercial | 3,268 | 3,417 |
| Gross loans | 236,183 | 125,895 |
| Deferred loan originations costs, net | 304 | 520 |
| Allowance for loan losses | (1,293) | (1,807) |
| Total loans receivable, net | $ 235,194 | $ 124,608 |

Residential lending repayment is generally dependent on economic and market conditions in the Company's lending area. Multi-family, commercial real estate, commercial and construction loan repayments are generally dependent on the operations of the related properties or the financial condition of its borrower or guarantor. Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy.

The majority of the Company's loans receivable are secured by residential, multi-family and commercial real estate properties located in Maryland. Loans are extended only after evaluation by management of a customer's creditworthiness and other relevant factors on a case-by-case basis. The Company generally does not lend more than 90% of the appraised value of a property and usually requires private mortgage insurance on residential mortgages with loan-to-value ratios in excess of 80%. In some instances, the Company has lent up to 90% of the appraised value of a property through a combination of first and second mortgages without requiring private mortgage insurance. The Company originates and purchases marine loans up to a maximum of 90% of the value of the boat. In addition, the Company generally obtains personal guarantees of repayment from borrowers and/or others for construction, commercial and multi-family residential loans and disburses the proceeds of construction and similar loans only as work progresses on the related projects.

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

A summary of transactions in the allowance for loan losses during the 18 months ended December 31, 2019, follows:

| | (In thousands) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Real estate | | | | | | | | | | | |
| | One-to-four family | | | | | | | | | | | |
| | Owner occupied | Nonowner occupied | Multi-family and commercial | Land | Farm | Construction | Mobile homes | Marine | Other consumer | Commercial | Unallocated | Total |
| Allowance | | | | | | | | | | | | |
| Beginning balance | $ 304 | $ 842 | $ 299 | $ 1 | $ - | $ 8 | $ 42 | $ 89 | $ 2 | $ 28 | $ 192 | $ 1,807 |
| Charge offs | (71) | (605) | (120) | - | - | - | (93) | - | - | - | - | (889) |
| Recoveries | 32 | 74 | 85 | - | - | - | 23 | - | - | - | - | 214 |
| Provision (credit) | (111) | 374 | 19 | 3 | - | 13 | 58 | (70) | (2) | (23) | (100) | 160 |
| Ending balance | $ 154 | $ 685 | $ 283 | $ 4 | $ - | $ 21 | $ 30 | $ 19 | $ - | $ 5 | $ 92 | $ 1,293 |
| Ending balance individually evaluated for impairment | $ 47 | $ 52 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 99 |
| Ending balance collectively evaluated for impairment | $ 107 | $ 633 | $ 283 | $ 4 | $ - | $ 21 | $ 30 | $ 19 | $ - | $ 5 | $ 92 | $ 1,194 |
| Loans | | | | | | | | | | | | |
| Ending balance individually evaluated for impairment | $ 3,261 | $ 1,508 | $ 348 | $ - | $ - | $ - | $ 31 | $ - | $ - | $ - | $ - | $ 5,148 |
| Ending balance collectively evaluated for impairment | 87,074 | 53,145 | 56,561 | 2,009 | 6,328 | 10,207 | 2,203 | 9,642 | 598 | 3,268 | - | 231,035 |
| | $ 90,335 | $ 54,653 | $ 56,909 | $ 2,009 | $ 6,328 | $ 10,207 | $ 2,234 | $ 9,642 | $ 598 | $ 3,268 | $ - | $ 236,183 |

### NOTE 4 – LOANS RECEIVABLE (CONTINUED)

A summary of transactions in the allowance for loan losses during the year ended June 30, 2018, follows:

| | Year Ended June 30, 2018 (in thousands) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Real estate | | | | | | | | | | | |
| | One-to-four family | | | | | | | | | | | |
| | Owner occupied | Nonowner occupied | Multi-family and commercial | Land | Farm | Construction | Mobile homes | Marine | Other consumer | Commercial | Unallocated | Total |
| Allowance | | | | | | | | | | | | |
| Beginning balance | $ 484 | $ 1,034 | $ 328 | $ 1 | $ - | $ 13 | $ 91 | $ 79 | $ 2 | $ 29 | $ 29 | $ [illegible] |
| Charge offs | (27) | (422) | - | - | - | - | (26) | - | - | - | - | [illegible] |
| Recoveries | 53 | 23 | - | - | - | - | 2 | - | - | - | - | [illegible] |
| Provision (credit) | (206) | 207 | (29) | - | - | (5) | (25) | 10 | - | (1) | 163 | [illegible] |
| Ending balance | $ 304 | $ 842 | $ 299 | $ 1 | $ - | $ 8 | $ 42 | $ 89 | $ 2 | $ 28 | $ 192 | $ [illegible] |
| Ending balance individually evaluated for impairment | $ 60 | $ 57 | $ 1 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ [illegible] |
| Ending balance collectively evaluated for impairment | $ 244 | $ 785 | $ 298 | $ 1 | $ - | $ 8 | $ 42 | $ 89 | $ 2 | $ 28 | $ 192 | $ [illegible] |
| Loans | | | | | | | | | | | | |
| Ending balance individually evaluated for impairment | $ 1,973 | $ 1,135 | $ 988 | $ - | $ - | $ - | $ 51 | $ - | $ - | $ - | $ - | $ [illegible] |
| Ending balance collectively evaluated for impairment | 42,504 | 23,903 | 28,972 | 281 | 6,521 | 1,296 | 3,202 | 11,136 | 516 | 3,417 | - | [illegible] |
| | $ 44,477 | $ 25,038 | $ 29,960 | $ 281 | $ 6,521 | $ 1,296 | $ 3,253 | $ 11,136 | $ 516 | $ 3,417 | $ - | $ [illegible] |

The loans acquired in the Vigilant and Kopernik mergers were recorded at estimated fair value on the merger date with no carryover of the related allowance for loan losses. In estimating the fair value of loans acquired, certain factors were considered, including the remaining lives of the acquired loans, payment history, estimated prepayments, estimated loss ratios, the estimated value of the underlying collateral, and the net present value of cash flows expected. Discounts on loans that were not considered impaired at acquisition were recorded as an accretable discount, which will be recognized in interest income over the terms of the related loans. For loans considered to be impaired, the difference between the contractually required payments and expected cash flows was recorded as a nonaccretable discount. Generally, the nonaccretable discount will be recognized after collection of the discounted fair value of the related loan. The remaining accretable and nonaccretable discounts on loans acquired from Vigilant were **$141,000** and **$245,000**, respectively, as of December 31, 2019. The remaining accretable and nonaccretable discounts on loans acquired were $187,000 and $271,000, respectively, as of June 30, 2018. The remaining accretable and nonaccretable discounts on loans acquired from Kopernik were **$769,000** and **$353,000**, respectively, as of December 31, 2019. During the 18 months ended December 31, 2019 and the year ended June 30, 2018, the Company recorded accretion related to the accretable discount on the loans acquired in the mergers of **$165,000** and $32,000, respectively. The remaining outstanding principal balance of loans acquired in the Vigilant merger were **$11.1 million** and $14.5 million as of December 31, 2019 and June 30 2018, respectively. The remaining balance of the loans acquired in the Kopernik merger at December 31, 2019 were **$95.2 million**.

## NOTE 4 – LOANS RECEIVABLE(CONTINUED)

In addition to the credit quality adjustment, the Company recorded a premium on the Vigilant and Kopernik loans acquired related to the interest rate and maturities of the performing loans in the portfolios. As of December 31, 2019 June 30, 2018, the remaining premium, which will be amortized into income over the lives of the Vigilant loans, was **$83,000** and $110,000, respectively. The remaining recorded premium on the Kopernik loans was **$419,000**.

The Company's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those loans characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans (or portions of loans) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.

Determinations as to the classification of loans and the amount of loss allowances are subject to review by our regulators, the Federal Deposit Insurance Corporation and the Maryland Office of the Commissioner of Financial Regulation, which can require that we establish additional loss allowances. The Company regularly reviews its loan portfolio to determine whether any loans require classification in accordance with applicable regulations.

**NOTE 4 - LOANS RECEIVABLE(CONTINUED)**

The following table summarizes the classification of the loan portfolio at December 31, 2019:

| | December 31, 2019 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| Real estate | | | | | |
| One-to-four family owner occupied | $ 89,589 | $ - | $ 746 | $ - | $ 90,335 |
| One-to-four family nonowner occupied | 51,965 | 1,293 | 1,395 | - | 54,653 |
| Multi-family and commercial | 55,215 | 1,201 | 493 | - | 56,909 |
| Land | 2,009 | - | - | - | 2,009 |
| Farm | 6,328 | - | - | - | 6,328 |
| Construction | 9,953 | - | 254 | - | 10,207 |
| Total real estate loans | 215,059 | 2,494 | 2,888 | - | 220,441 |
| Mobile homes | 2,219 | - | 15 | - | 2,234 |
| Marine | 9,642 | - | - | - | 9,642 |
| Other consumer | 598 | - | - | - | 598 |
| Commercial | 3,217 | 51 | - | - | 3,268 |
| Total consumer and commercial | 15,676 | 51 | 15 | - | 15,742 |
| Total loans | $230,735 | $2,545 | $ 2,903 | $ - | $236,183 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following table summarizes classification of the loan portfolio at June 30, 2018

:

| | June 30, 2018 (In thousands) | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Total |
| Real estate | | | | | |
| One-to-four family owner occupied | $ 44,293 | $ - | $ 184 | $ - | $ 44,477 |
| One-to-four family nonowner occupied | 23,713 | - | 1,325 | - | 25,038 |
| Multi-family and commercial | 28,756 | - | 1,204 | - | 29,960 |
| Land | 281 | - | - | - | 281 |
| Farm | 6,521 | - | - | - | 6,521 |
| Construction | 1,296 | - | - | - | 1,296 |
| Total real estate loans | 104,860 | - | 2,713 | - | 107,573 |
| Mobile homes | 3,205 | - | 48 | - | 3,253 |
| Marine | 11,136 | - | - | - | 11,136 |
| Other consumer | 516 | - | - | - | 516 |
| Commercial | 3,417 | - | - | - | 3,417 |
| Total consumer and commercial | 18,274 | - | 48 | - | 18,322 |
| Total loans | $ 123,134 | $ - | $ 2,761 | $ - | $ 125,895 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following tables set forth certain information with respect to our loan portfolio delinquencies by loan class:

| | December 31, 2019 (In thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | Current | Total loans | Loans greater than 90 days and accruing |
| Real estate loans | | | | | | | |
| One-to-four family owner occupied | $ 1,468 | $ - | $ 228 | $ 1,696 | $ 88,639 | $ 90,335 | $ - |
| One-to-four family nonowner occupied | 301 | 101 | 206 | 608 | 54,045 | 54,653 | 50 |
| Multi-family and commercial | - | 118 | - | 118 | 56,791 | 56,909 | - |
| Land | - | - | - | - | 2,009 | 2,009 | - |
| Farm | - | - | - | - | 6,328 | 6,328 | - |
| Construction | 226 | 339 | - | 565 | 9,642 | 10,207 | - |
| Total real estate loans | 1,995 | 558 | 434 | 2,987 | 217,454 | 220,441 | 50 |
| Mobile homes | 16 | 14 | - | 30 | 2,204 | 2,234 | - |
| Marine | - | - | - | - | 9,642 | 9,642 | - |
| Other consumer | - | - | - | - | 598 | 598 | - |
| Commercial | - | - | - | - | 3,268 | 3,268 | - |
| Total consumer and commercial | 16 | 14 | - | 30 | 15,712 | 15,742 | - |
| Total loans | $ 2,011 | $ 572 | $ 434 | $ 3,017 | $ 233,166 | $ 236,183 | $ 50 |

| | June 30, 2018 (In thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | Current | Total loans | Loans greater than 90 days and accruing |
| Real estate loans | | | | | | | |
| One-to-four family owner occupied | $ 45 | $ - | $ 48 | $ 93 | $ 44,384 | $ 44,477 | $ - |
| One-to-four family nonowner occupied | 113 | - | 117 | 230 | 24,808 | 25,038 | 86 |
| Multi-family and commercial | - | - | 414 | 414 | 29,546 | 29,960 | - |
| Land | - | - | - | - | 281 | 281 | - |
| Farm | - | - | - | - | 6,521 | 6,521 | - |
| Construction | - | - | - | - | 1,296 | 1,296 | - |
| Total real estate loans | 158 | - | 579 | 737 | 106,836 | 107,573 | 86 |
| Mobile homes | 24 | 8 | - | 32 | 3,221 | 3,253 | - |
| Marine | - | - | - | - | 11,136 | 11,136 | - |
| Other consumer | - | - | - | - | 516 | 516 | - |
| Commercial | - | - | - | - | 3,417 | 3,417 | - |
| Total consumer and commercial | 24 | 8 | - | 32 | 18,290 | 18,322 | - |
| Total loans | $ 182 | $ 8 | $ 579 | $ 769 | $ 125,126 | $ 125,895 | $ 86 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following is a summary of nonaccrual loans by class as of the dates indicated:

| | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Real estate loans | | |
| One-to-four family owner occupied | **$ 695** | $ 48 |
| One-to-four family nonowner occupied | **334** | 31 |
| Multi-family and commercial | **119** | 744 |
| Land | - | - |
| Farm | - | - |
| Construction | - | - |
| Total real estate loans | **1,148** | 823 |
| Mobile homes | - | 18 |
| Marine | - | - |
| Other consumer | - | - |
| Commercial | - | - |
| Total consumer and commercial loans | - | 18 |
| Total nonaccrual loans | **$ 1,148** | $ 841 |

Interest that would have been accrued under the terms of the nonaccrual loans was approximately **$68,000** at December 31, 2019, and $91,000 at June 30, 2018.

At December 31, 2019 and June 30, 2018, the Company had **$50,000** and $342,000 in residential mortgages in the process of foreclosure.

An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Company classifies a problem loan as impaired, it records an impairment for that portion of the asset that is deemed uncollectible, based on the present value of the expected future cash flows discounted at the loan's original effective interest rate or based on the fair value of the collateral if the loan is collateral dependent.

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following is a summary of impaired loans by class of loans as of December 31, 2019:

| | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **With an allowance recorded** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | $ 225 | $ 225 | $ 34 | $ 339 | $ 11 |
| One-to-four family nonowner occupied | 960 | 960 | 65 | 1,425 | 59 |
| Multi-family and commercial | - | - | - | 64 | - |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | - | - | - | | - |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | 1,185 | 1,185 | 99 | 1,828 | 70 |
| **With no allowance recorded** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | 3,036 | 3,036 | - | 3,486 | 121 |
| One-to-four family nonowner occupied | 548 | 724 | - | 563 | 13 |
| Multi-family and commercial | 348 | 394 | - | 591 | - |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | 31 | 31 | - | 48 | 2 |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | 3,963 | 4,185 | - | 4,688 | 136 |
| **Total** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | 3,261 | 3,261 | 34 | 3,825 | 132 |
| One-to-four family nonowner occupied | 1,508 | 1,684 | 65 | 1,988 | 72 |
| Multi-family and commercial | 348 | 394 | - | 655 | - |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | 31 | 31 | - | 48 | 2 |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | $ 5,148 | $ 5,370 | $ 99 | $ 6,516 | $ 206 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following is a summary of impaired loans by class of loans as of June 30, 2018:

| | Recorded investment | Unpaid principal balance | Related allowance | Average recorded investment | Interest income recognized |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **With an allowance recorded** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | $ 1,308 | $ 1,308 | $ 60 | $ 1,125 | $ 52 |
| One-to-four family nonowner occupied | 958 | 958 | 57 | 822 | 57 |
| Multi-family and commercial | 244 | 290 | 1 | 290 | 15 |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | - | - | - | | - |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | 2,510 | 2,556 | 118 | 2,237 | 124 |
| **With no allowance recorded** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | 665 | 665 | - | 1,508 | 37 |
| One-to-four family nonowner occupied | 177 | 208 | - | 1,683 | 8 |
| Multi-family and commercial | 744 | 1,072 | - | 171 | - |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | 51 | 51 | - | 54 | 2 |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | 1,637 | 1,996 | - | 3,416 | 47 |
| **Total** | | | | | |
| Real estate loans | | | | | |
| One-to-four family owner occupied | 1,973 | 1,973 | 60 | 2,633 | 89 |
| One-to-four family nonowner occupied | 1,135 | 1,166 | 57 | 2,505 | 65 |
| Multi-family and commercial | 988 | 1,362 | 1 | 461 | 15 |
| Land | - | - | - | - | - |
| Farm | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Mobile homes | 51 | 51 | - | 54 | 2 |
| Marine | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| | $ 4,147 | $ 4,552 | $ 118 | $ 5,653 | $ 171 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

Loans may be periodically modified in a troubled debt restructuring ("TDR") to make concessions to help a borrower remain current and/or to avoid foreclosure. Generally, we do not forgive principal or interest on a loan or modify the interest rate on loans that are below market rates. When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans. If we determine that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized. The Company has no commitments to lend additional funds to borrowers whose loans have been modified.

The status of TDRs as of December 31, 2019 and June 30, 2018, follows:

| | | **December 31, 2019** | | |
|---|---|---|---|---|
| | Number of | recorded investment | | |
| | contracts | Performing | Nonperforming | Total |
| | | | (In thousands) | |
| Real estate | | | | |
| One-to-four family owner occupied | **21** | **$ 2,566** | **$ 93** | **$ 2,659** |
| One-to-four family nonowner occupied | **9** | **1,173** | **-** | **1,173** |
| Multi-family and commercial | **1** | **229** | **-** | **229** |
| Land | - | - | - | - |
| Farm | - | - | - | - |
| Construction | - | - | - | - |
| Mobile homes | **1** | **31** | **-** | **31** |
| Marine | - | - | - | - |
| Other consumer | - | - | - | - |
| Commercial | - | - | - | - |
| | **32** | **$ 3,999** | **$ 93** | **$ 4,092** |

| | | June 30, 2018 | | |
|---|---|---|---|---|
| | Number of | recorded investment | | |
| | contracts | Performing | Nonperforming | Total |
| | | | (In thousands) | |
| Real estate | | | | |
| One-to-four family owner occupied | 12 | $ 1,924 | $ - | $ 1,924 |
| One-to-four family nonowner occupied | 8 | 1,104 | - | 1,104 |
| Multi-family and commercial | 2 | 245 | 62 | 307 |
| Land | - | - | - | - |
| Farm | - | - | - | - |
| Construction | - | - | - | - |
| Mobile homes | 1 | 33 | - | 33 |
| Marine | - | - | - | - |
| Other consumer | - | - | - | - |
| Commercial | - | - | - | - |
| | 23 | $ 3,306 | $ 62 | $ 3,368 |

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

There were no TDRs modified during the 18 months ended December 31, 2019 and the year ended June 30, 2018 respectively. The Company acquired 15 TDRs as part of the Kopernik transaction.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are limited to commitments to originate loans and unused lines of credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet. The Company's exposure to credit loss from nonperformance by the other party to the above mentioned financial instruments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company generally requires collateral or other security to support financial instruments with off-balance sheet credit risk.

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. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

| Amounts representing credit risk | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Construction loan commitments | **$ 6,148** | $ 437 |
| Unused lines of credit | **8,720** | 5,472 |
| Mortgage and consumer loan commitments | **2,479** | 3,125 |
| Total | **$ 17,347** | $ 9,034 |
| Letters of Credit | **$ 1,361** | $ - |

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2019 and June 30, 2018 are summarized by major classification as follows:

| | Useful life in years | **12/31/2019** | 6/30/2018 |
|---|---|---|---|
| | | (In thousands) | |
| Land | - | **$ 1,361** | $ 636 |
| Buildings | 15 - 40 | **5,103** | 4,140 |
| Leasehold improvements | 5 - 10 | **243** | 231 |
| Furniture, fixtures, and equipment | 3 - 10 | **1,420** | 1,212 |
| | | **8,127** | 6,219 |
| Accumulated depreciation | | **(2,292)** | (2,104) |
| | | **$ 5,835** | $ 4,115 |

Depreciation expense for the 18 months ended December 31, 2019 and the year ended June 30, 2018, was **$374,000** and $207,000, respectively.

## NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

In February 2019, the BayVanguard Bank acquired Kopernik Bank, As a result of this transaction, the bank recorded goodwill totaling $996,000 and a core deposit intangible of $1.3 million. The goodwill and core deposit intangible are not deductible for tax purposes due to the structure of the transaction. The core deposit intangible is being amortized over ten years. The goodwill and core deposit intangible are evaluated annually for impairment.

In May 2013, the Company acquired Vigilant Federal Savings Bank. As a result of this transaction, the Company recorded goodwill totaling $120,000 and a core deposit intangible totaling $66,000. The goodwill and core deposit intangible are not deductible for tax purposes due to the structure of the transaction. The core deposit intangible is being amortized over ten years. The goodwill and core deposit intangible are evaluated annually for impairment.

The activity in acquired intangible assets related to the mergers for the 18 months ended December 31, 2019 and the year ended June 30, 2018, is as follows:

| | (In thousands) | |
|---|---|---|
| Net carrying amount at beginning of period | $ 23 | $ 28 |
| Core Deposit Intangible From the Kopernik acquisitiom | 1,305 | 0 |
| Amortization | (115) | (5) |
| Net carrying amount at end of the period | $ 1,213 | $ 23 |

At December 31, 2019, future estimated annual amortization expense is as follows (in thousands):

| Year ending | |
|---|---|
| 2020 | $ 135 |
| 2022 | 135 |
| 2023 | 135 |
| 2024 | 136 |
| Thereafter through 2029 | 672 |
| | $ 1,213 |

NOTE 7 – DEPOSITS

Deposits are summarized as follows:

| | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Noninterest-bearing checking accounts | **$ 21,498** | $ 18,452 |
| Interest-bearing checking accounts | **12,593** | 8,979 |
| Money market accounts | **29,934** | 34,157 |
| Savings accounts | **75,590** | 30,795 |
| Certificates of deposit | **78,207** | 46,302 |
| | **$217,822** | $138,685 |

Interest expense on deposits for the 18 months ended December 31, 2019 and the year ended June 30, 2018, is summarized as follows:

| | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Interest-bearing checking accounts | **$ 29** | $ 4 |
| Money market accounts | **140** | 112 |
| Savings accounts | **210** | 44 |
| Certificates of deposit | **1,634** | 577 |
| | **$ 2,013** | $ 737 |

At December 31, 2019 and June 30, 2018, the Bank had **$7.6 million** and $3.2 million in certificates of deposit of $250,000 or more, respectively. Deposits in excess of $250,000 may not be insured by the FDIC.

At December 31, 2019 scheduled maturities of certificates of deposit are as follows (in thousands):

| | |
|---|---|
| 2020 | $ 40,874 |
| 2021 | 12,072 |
| 2022 | 15,713 |
| 2023 | 5,154 |
| 2024 | 4,394 |
| | $ 78,207 |

NOTE 8 – BORROWINGS

The Bank has an agreement under a blanket floating lien with the FHLB providing the Bank a line of credit of up to 20% of its total assets limited to the lendable collateral value of qualified assets the Bank has to pledge to support its borrowings. At December 31, 2019 and June 30, 2018, the Bank had credit availability of **$47.3** million and $38.9 million, respectively. At December 31, 2019 and June 30, 2018, the Bank had a **$3.0 million** FHLB advance outstanding. The current rate is 1.78% with a maturity date of June

NOTE 8 – BORROWINGS(CONTINUED)

28,2021. The Bank is required to maintain qualified mortgage loans as collateral for its FHLB advances in an amount equal to 125% of the outstanding advances. As of December 31, 2019 and June 30, 2018, the Bank had pledged **$50.3 million** and $37.3 million of loans to the FHLB for advances. Additionally, at December 31, 2019 and June 30, 2018, the Bank had a **$2.0 million** unsecured demand line of credit facility with a correspondent bank, which had no outstanding balance. The Bank would be required to pledge securities in its portfolio to receive advances under this line of credit.

NOTE 9 – PROFIT SHARING AND DEFERRED COMPENSATION AGREEMENTS

The Company has a profit sharing plan and a 401(k) plan for all eligible employees. Contributions to the plans are discretionary by the Board of Directors. For the 18 months ended December 31, 2019 and the year ended June 30, 2018, there were no expenses for the profit sharing plan and expenses of **$72,000** and $31,000 for the 401(k) plan, respectively.

The Company has supplemental executive retirement agreements with four retired executive officers, two from the recent merger with Kopernik Bank. Under the agreements, each executive will receive a stated annual benefit in monthly installments. All executives covered by these agreements are receiving benefits under the terms of the agreements. During the 18 months ended December 31, 2019 and the year ended June 30, 2018, benefits of **$302,000** and $114,000 were paid in accordance with the agreements.

The Company has supplemental retirement agreements with certain directors. Under the agreements, each director will receive a stated annual benefit in monthly installments for ten years following his or her separation from service after attaining a normal retirement age of 70. If the director separates either voluntarily or involuntarily from service prior to reaching his or her normal retirement age, the director will receive an unreduced lump sum of the accrued liability balance (i.e., the amount accrued to fund the future benefit expense under the agreement) within thirty days of the separation from service. Upon a change in control, the director will receive a stated annual benefit in monthly installments for ten years following the change in control. If the director dies while actively serving as a director, the director's beneficiary will receive an unreduced lump sum of the accrued liability balance within thirty days of the director's death. If the director dies after monthly payments have commenced under the agreement, the director's beneficiary will receive the remaining installments in monthly payments in accordance with the schedule of payments due to the director.

The Company agreed to maintain post-retirement agreements with two former directors of Vigilant. The agreements call for the Company to pay the premiums for supplemental health insurance for the directors and their spouses for life.

The Company has entered into salary continuation agreements with the Co-CEOs of the Company. Under these agreements, the executives will receive a stated annual benefit in monthly installments for 15 years following separation from service subject to service time and age. If the executive dies after monthly payments have commenced under the agreement, the executive's beneficiary will receive the present value of the remaining installments.

The accrued liabilities for the executive retirement agreements were **$2.6 million** and $782,000 and for the director retirement agreements were **$202,000** and $252,000 at December 31, 2019 and June 30, 2018, respectively. The Company recognized compensation expense related to these plans in the amount of **$209,000** and $101,000 during the 18 months and year ended December 31, 2019 and June 30, 2018, respectively.

NOTE 9 – PROFIT SHARING AND DEFERRED COMPENSATION AGREEMENTS(CONTINUED)

Accounting standards require the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Bank-owned life insurance policies purchased for this purpose do not effectively settle the Company's obligation to the employee in this regard and thus the Company records a benefit cost and a related liability. As of December 31, 2019 and June 30, 2018, the Company has recorded a liability of **$48,000** and $39,000, respectively, for this benefit.

NOTE 10– COMMON STOCK AND EMPLOYEE STOCK OWNERSHIP PLAN

At the same time as the reorganization in 2005, the Bank established an ESOP for its employees. On January 12, 2005, the ESOP acquired 103,684 shares of the Company's common stock with funds provided by a loan from the Company. Accordingly, $1.0 million of common stock acquired by the ESOP was shown as a reduction of stockholders' equity. The ESOP loan was scheduled to be repaid principally from the Bank's contributions to the ESOP in 15 equal annual installments through 2020 and bears interest at the rate of five and one quarter percent (5.25%). The loan was paid off in March 2019 and the shares in the plan are fully allocated to participants. The Bank recognized compensation expense as shares are committed for release from collateral at their fair market value. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized **$100,000** and $63,000 of compensation expense for the 18 months ended December 31, 2019 and the year ended June 30, 2018, respectively. The ESOP holds the common stock in a trust for allocation among participating employees. A total of **6,912** shares were allocated and released to participants during the 18 months ended December 31, 2019 and the year ended June 30, 2018. The unearned ESOP shares totaled **0** and 6,912 at December 31, 2019 and June 30, 2018, respectively. The fair value of the unearned shares at December 31, 2019 and June 30, 2018 was **$0** and $77,805, respectively.

All employees of the Bank who attain the age of 21 and complete one year of service with the Bank were eligible to participate in the ESOP. Each participant's vested interest under the ESOP is determined according to the following schedule: 1 year - 20%, 2 years - 40%, 3 years - 60%, 4 years - 80%, 5 years - 100%. For vesting purposes, a year of service means any plan year in which an employee completes at least 1,000 hours of service.

Vesting accelerates to 100% upon (1) termination of the Plan or upon the permanent and complete discontinuance of contributions by the Bank, (2) termination of service on or after the participant's normal or postponed retirement date, (3) a change in control, or (4) termination of service by reason of death or disability.

NOTE 11 – EQUITY INCENTIVE PLAN

On March 21, 2012, the Company granted stock options covering 10,000 shares of common stock to an officer of the Company, of which **5,000** and 10,000 were exercisable at December 31, 2019 and June 30, 2018, respectively. The options were granted with an exercise price at the then fair market value of the stock of $3.25, vest over five years and expire ten years from the date of grant. On December 14, 2017, the Company granted 52,000 stock options to officers and employees of the Company of which **18,750** and 0 were exercisable at December 31, 2019 and June 30, 2018. The options were granted with an exercise price at the then fair market value of the stock of $8.65, vest over five years and expire ten years from the date of grant.

NOTE 11 – EQUITY INCENTIVE PLAN (CONTINUED)

Information with respect to employee options outstanding during the 18 months ended December 31, 2019 and the year ended June 30, 2018:

| | **12/31/2019** | | 6/30/2018 | |
|---|---|---|---|---|
| | **Shares** | **Weighted average exercise price** | Shares | Weighted average exercise price |
| Outstanding at beginning of period | **62,000** | **$ 7.78** | 10,000 | $ 3.25 |
| Granted | - | - | 52,000 | 8.65 |
| Exercised | **7,050** | - | - | - |
| Expired/cancelled/forfeited | - | - | - | - |
| Outstanding at end of period | **54,950** | **$ 7.78** | 62,000 | $ 7.78 |
| Exercisable at end of period | **23,750** | **$ 7.51** | 10,000 | $ 3.25 |

A summary of information about stock options outstanding is as follows at December 31, 2019 and June 30, 2018:

| | Weighted average exercise price | Outstanding shares | Average Remaining life (years) | Exercisable shares |
|---|---|---|---|---|
| | $ 3.25 | 5,000 | 2.3 | 5,000 |
| | $ 8.65 | 49,950 | 8.0 | 18,750 |
| | | 54,950 | | 23,750 |
| Intrinsic value on December 31, 2019 | | $ 499,570 | | $ 80,000 |

| | Weighted average exercise price | Outstanding shares | Remaining life (years) | Exercisable shares |
|---|---|---|---|---|
| | $ 3.25 | 10,000 | 4.7 | 10,000 |
| | $ 8.65 | 52,000 | 9.5 | - |
| | | 62,000 | | 10,000 |
| Intrinsic value on June 30, 2018 | | $ 215,200 | | $ 80,000 |

The aggregate intrinsic value as presented in the preceding table is calculated as the difference between the estimated fair value of the stock as of December 31, 2019 and June 30, 2018, and the exercise price of the option and multiplying by the number of options outstanding.

NOTE 11 – EQUITY INCENTIVE PLAN (CONTINUED)

The Company recognized **$21,000** and $8,200 in expense during the 18 months ended December 31, 2019 and the year ended June 30, 2018 relating to the granting of stock options.

The estimated fair value of the 52,000 options granted during the year June 30, 2018 was $0.92 per share. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

| | |
|---|---|
| Estimated life | 5.0 years |
| Risk free interest rate | 2.27% |
| Implied volatility | 1.60% |
| Dividend yield | 0.00% |

As of December 31, 2019 and June 30, 2018, there was **$19,100** and $40,100 in future compensation expense associated with outstanding stock options.

NOTE 12 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%

The implementation of a capital conservation buffer began on January 1, 2015, requiring a regulatory capital buffer of 0.625% over the regulatory minimums (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019).

NOTE 12 – REGULATORY MATTERS (CONTINUED)

The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank. The aforementioned

capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but

below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2019 and June 30, 2018 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2019 and June 30, 2018 based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2019, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the

Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The Federal Deposit Insurance Corporation, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

NOTE 12 – REGULATORY MATTERS (CONTINUED)

The following table presents the Bank's capital position based on the financial statements:

| | Actual | | For capital adequacy purposes | | capitalized under prompt corrective action provisions | |
|---|---|---|---|---|---|---|
| **December 31, 2019** | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (In thousands) | | | |
| Tier 1 Leverage ratio | **$ 60,721** | **20.74%** | **$ 11,709** | **4.00%** | **$ 14,636** | **5.00%** |
| Tier 1 capital (to risk-weighted assets) | **$ 60,721** | **32.34%** | **$ 15,960** | **8.50%** | **$ 15,021** | **8.00%** |
| Common Equity Tier 1 Capital Ratio (to risk-weighted assets) | **$ 60,721** | **32.34%** | **$ 13,143** | **7.00%** | **$ 12,205** | **6.50%** |
| Total Capital ratio (to risk-weighted assets) | **$ 62,014** | **33.02%** | **$ 19,715** | **10.50%** | **$ 18,776** | **10.00%** |
| June 30, 2018 | | | | | | |
| Tier 1 Leverage ratio | $ 20,557 | 12.23% | $ 6,722 | 4.00% | $ 8,403 | 5.00% |
| Tier 1 capital (to risk-weighted assets) | $ 20,557 | 19.60% | $ 8,262 | 7.88% | $ 8,393 | 8.00% |
| Common Equity Tier 1 Capital Ratio (to risk-weighted assets) | $ 20,557 | 19.60% | $ 6,688 | 6.38% | $ 6,819 | 6.50% |
| Total Capital ratio (to risk-weighted assets) | $ 21,874 | 20.85% | $ 10,360 | 9.88% | $ 10,491 | 10.00% |

NOTE 12 – REGULATORY MATTERS (CONTINUED)

The following table provides a reconciliation of total stockholders' equity per the consolidated financial statements to capital amounts reflected in the table above:

| | 12/31/2019 | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Total stockholders' equity on consolidated balance sheet | $ 66,003 | $ 21,650 |
| Adjustments to regulatory capital | | |
| Accumulated other comprehensive income | (14) | 208 |
| Intangible assets (core deposit intangible and goodwill) | (2,329) | (143) |
| Disallowed deferred tax assets, net | (2,133) | (209) |
| Equity of BV Financial, Inc. | (806) | (949) |
| Tangible, Tier 1, and core capital | 60,721 | 20,557 |
| Allowance for loan losses (limited) | 1,293 | 1,317 |
| Total capital | $ 62,014 | $ 21,874 |

The Bank was allowed a special bad debt deduction at various percentages of otherwise taxable income for various years through December 1, 1987. If the amounts, which qualified as deductions for federal income tax purposes prior to December 31, 1987 are later used for purposes other than to absorb loan losses, including distributions in liquidations, they will be subject to federal and state income tax at the then current corporate rate. Retained earnings at December 31, 2019 and June 30, 2018 includes **$1.5 million** for which no provision for income tax has been provided. The unrecorded deferred income tax liability on the above amount was approximately **$413,000**.

Federal regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and prior approval of the Federal Deposit Insurance Corporation is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under Federal Deposit Insurance Corporation regulations (i.e., generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the Federal Deposit Insurance Corporation.

The Board of Directors of the M.H.C. determines whether the M.H.C. will waive or receive dividends declared by the Company each time the Company declares a dividend. The M.H.C. may elect to receive dividends and utilize such funds to pay general corporate expenses. The M.H.C. is required to apply to the Board of Governors of the Federal Reserve System with written notice of its intent to waive its dividends prior to the proposed declaration date of the dividend. The Board of Governors of the Federal Reserve System has issued an interim final rule providing that it will not object to dividend waivers under certain circumstances where the waiver is not detrimental to the safe and sound operation of the savings institution and a majority of the mutual holding company's members have approved the waiver of dividends by the mutual holding company within the previous twelve months. If a waiver is granted, dividends waived by the M.H.C. will be excluded from the Company's capital accounts for purposes of calculating dividend

NOTE 12 – REGULATORY MATTERS (CONTINUED)

payments to minority shareholders. Through December 31, 2019, the M.H.C. waived the right to receive its portion of the cash dividends paid, which totaled $1.2 million on a cumulative basis.

In connection with the purchase of Kopernik Bank on February 28, 2019, the Company and Bay-Vanguard M.H.C. became a Maryland chartered bank holding company. As such, Bay-Vanguard M.H.C. lost its ability to waive cash dividends paid by the Company.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

NOTE 13– INCOME TAXES

The income tax provision consists of the following for the eighteen months ended December 31, 2019 and the year ended June 30, 2018:

| | (In thousands) | |
|---|---|---|
| Current expense | | |
| Federal | $ 273 | $ 16 |
| State | 139 | 16 |
| | 412 | 32 |
| Deferred expense | 555 | 1,054 |
| Income tax expense | $ 967 | $ 1,086 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and June 30, 2018 are presented below:

NOTE 13 – INCOME TAXES (CONTINUED)

| | 12/31/2019 | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Deferred tax assets | | |
| Deferred compensation | $ 759 | $ 285 |
| Allowance for loan losses | 367 | 498 |
| Credit fair value adjustment on loans acquired in merger | 70 | 126 |
| Goodwill impairment | 187 | 295 |
| Foreclosed real estate write-downs and deferred gain | 19 | 11 |
| Net operating loss carryover | 2,070 | 222 |
| Nonaccrual interest | 22 | 96 |
| Other | 221 | 112 |
| Total deferred tax assets | 3,715 | 1,645 |
| Deferred tax liabilities | | |
| Prepaid expenses | 59 | 38 |
| Core deposit intangible | 311 | (30) |
| Merger fair value adjustments | 295 | 41 |
| Depreciation | 5 | 5 |
| Total deferred tax liabilities | 670 | 54 |
| Total deferred tax assets, net | $ 3,045 | $ 1,591 |

The amount computed by applying the statutory federal income tax rate to income before income tax provision is different than the taxes provided for the following reasons:

| | 12/31/2019 | | 6/30/2018 | |
|---|---|---|---|---|
| | Amount | Percent of pretax income | Amount | Percent of pretax income |
| | (In thousands) | | | |
| Statutory federal income tax rate | $ 807 | 21.0 % | $ 322 | 27.4 % |
| State tax, net of federal income tax provision | 235 | 6.1 | 69 | 5.9 |
| Income from investment in life insurance | (45) | (1.2) | (32) | (2.7) |
| Nondeductible merger expenses | 36 | 1.0 | 9 | 0.8 |
| Change in tax rate | - | 0.0 | 731 | 62.1 |
| Other | (66) | (1.7) | (13) | (1.1) |
| Income Tax Expense | $ 967 | 25.2 % | $ 1,086 | 92.4 % |

NOTE 13 – INCOME TAXES (CONTINUED)

Management has determined that no deferred tax asset valuation was warranted for its goodwill impairment write-down or net operating loss carryover due to the expectation of future taxable income and the availability of tax planning strategies to generate future income to offset operating losses. The Company acquired a net operating loss carryover of $1.2 million from Vigilant and $7.7 million from Kopernik in connection with the mergers. Use of the net operating losses acquired from was limited to $994,000 for the 18 months ended December 31, 2019. The Company's use of the net operating loss acquired will be limited to $1.1million per year in future periods. The Company's net operating loss carryforwards will expire in the years ending December 31, 2033 and 2039.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. They are currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended June 30, 2016 through December 31, 2019.

## NOTE 14 – RELATED-PARTY TRANSACTIONS

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, officers, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The following table presents a summary of the activity of loans receivable from related parties during the 18 months ended December 31, 2019 and the year ended June 30, 2018:

| | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Balance, beginning | **$ 531** | $ 541 |
| Advances | **129** | 49 |
| Less: retired directors | **(134)** | - |
| Repayments | **(116)** | (59) |
| Balance, ending | **$ 410** | $ 531 |

Deposits of related parties totaled **$1,700,000** and $645,600 as of December 31, 2019 and June 30, 2018, respectively.

NOTE 15 – LEASING ARRANGEMENTS

In September 2014, the Bank entered into an eight-year, non-cancelable operating lease for a branch location in Pasadena, Maryland. The lease also contains a five-year renewal option. In addition to minimum rent payments, the lease contains provisions for additional payments to cover real estate taxes and common area maintenance.

In March 2016, the Bank entered into a non-cancelable operating lease, whose renewal term expires in July 2021, for a branch location at the Foundry on Fort Avenue in Locust Point. The lease contains an option which enables the Bank to renew the lease for an additional five-year period. In addition to minimum rentals, the lease contains escalation clauses based upon price indices and includes provisions for additional payments to cover real estate taxes and common area maintenance.

### NOTE 15 – LEASING ARRANGEMENTS(CONTINUED)

The following table shows the operating lease right of use assets and operating lease liabilities as of December 31, 2019:

| | Consolidated Balance Sheet classification | December 31, 2019 (in thousands) |
|---|---|---|
| Operating lease right of use asset | Other assets | $224 |
| Operating lease liabilities | Other liabilities | $224 |

Operating lease cost included in occupancy expense in the statement of income for the 18 months ending December 31, 2019 and year ended June 30, 2018 was **$237,000** and $150,000, respectively.

Future undiscounted lease payments for operating leases, including those option years for which the Company is reasonable certain to renew, are as follows:

| Year ending December 31, | Amount |
|---|---|
| 2020 | $ 131 |
| 2021 | 98 |
| 2022 | - |
| 2023 | - |
| 2024 | - |
| Thereafter | - |
| Total lease payments | 229 |
| Less imputed interest | (5) |
| Present value of operating lease liabilities | $ 224 |

For operating leases as of December 31, 2019, the weighted average lease term is 1.75 years and the weighted average discount rate is 2.69%. During the 18 months ended December 31, 2019, cash paid for amounts included in the measurement of lease liabilities was $237,000.

### NOTE 16 – COMMITMENTS, CONTINGENCIES AND CONCENTRATION OF CASH ON DEPOSIT

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's consolidated financial position or results of operations.

As of December 31, 2019 and June 30, 2018, the Bank had **$600,000** and $1.2 million, respectively, on deposit at the FHLB of Atlanta. These funds are not insured by the Federal Deposit Insurance Corporation. In the event of a failure of the FHLB of Atlanta, the other Federal Home Loan Banks would support the operations of the failed institution. Additionally, as of December 31, 2019 and June 30, 2018, the Bank had **$7.5 million** and $2.8 million, respectively on deposit at a correspondent bank and **$11.1** million and $0 on deposit at another correspondent bank..

## NOTE 17 – FAIR VALUE MEASUREMENTS

The estimated fair values of the Bank's financial instruments are summarized below. The fair values are estimates derived primarily from present value techniques and may not be indicative of the net realizable or liquidation values. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

## NOTE 17 –FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis by level within the fair value hierarchy used at December 31, 2019 and June 30, 2018, are as follows:

| **December 31, 2019** | Total | Level 1 Quoted prices in active markets for identical assets | Level 2 Significant other observable inputs | Level 3 Significant other unobservable inputs |
|---|---|---|---|---|
| | | (In thousands) | | |
| Securities available for sale | | | | |
| U.S. government agency securities | **$ 3,994** | **$ -** | **$ 3,994** | **$ -** |
| Mortgage-backed securities | **4,355** | **-** | **4,355** | **-** |
| | **$ 8,349** | **$ -** | **$ 8,349** | **$ -** |
| June 30, 2018 | | | | |
| Securities available for sale | | | | |
| U.S. government agency securities | $ 6,841 | $ - | $ 6,841 | $ - |
| Mortgage-backed securities | 6,238 | - | 6,238 | - |
| | $ 13,079 | $ - | $ 13,079 | $ - |

The following valuation techniques were used to measure the fair value of assets in the table above on a recurring basis as of December 31, 2019 and June 30, 2018.

NOTE 17 – FAIR VALUE MEASUREMENTS (CONTINUED)

*Securities available for sale* - The fair values of securities available for sale were based on available market pricing for the securities. We rely on third party brokers to obtain and provide us with this market pricing from a definitive security pricing source.

Assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy used at December 31, 2019 and June 30, 2018, are as follows:

| **December 31, 2019** | | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant other unobservable inputs |
|---|---|---|---|---|
| | | (In thousands) | | |
| Impaired loans | **$5,049** | **$ -** | **$ -** | **$ 5,049** |
| Foreclosed real estate and repossessed assets | **450** | **-** | **-** | **450** |
| | **$5,499** | **$ -** | **$ -** | **$ 5,499** |
| June 30, 2018 | | | | |
| Impaired loans | $ 4,029 | $ - | $ - | $ 4,029 |
| Foreclosed real estate and repossessed assets | 715 | - | - | 715 |
| | $ 4,744 | $ - | $ - | $ 4,744 |

The following valuation techniques were used to measure the fair value of assets in the tables above on a nonrecurring basis as of December 31, 2019 and June 30, 2018.

*Impaired loans* - Loans included in the table have been measured for impairment generally based on the fair value of the loan's collateral. Fair value was determined based upon a discounted cash flow from the expected proceeds of the underlying collateral. These loans are included as Level 3 fair value, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balance reduced by any specific impairment reserve.

There were no transfers in or out of the Level 3 category after the loans were classified as impaired loans.

*Foreclosed real estate and repossessed assets* - Fair value of foreclosed assets was based on the Company's appraisal of the property less costs to sell. This value was determined from a current industry standard appraisal guide based on the value of similar properties adjusted for factors including condition and location of property.

NOTE 17 – FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in the balance of foreclosed real estate and repossessed assets during the 18 months ended December 31, 2019 and the year ended June 30, 2018, were as follows:

| | 12/31/2019 | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Beginning of period balance | $ 715 | $ 293 |
| Improvements and additions | 563 | 637 |
| Write-downs | (111) | (35) |
| Proceeds from sale | (692) | (211) |
| Gain (loss) on sale | (25) | 31 |
| End of period balance | $ 450 | $ 715 |

The following methods and assumptions were used by the Company in estimating the fair values of financial instruments:

**Cash and Cash Equivalents**

The carrying amounts of cash and cash equivalents approximate fair value.

**Time Deposits in Other Banks**

The fair value of time deposits in other banks is estimated using the rates currently available for deposits of similar remaining maturities.

**Investment Securities**

Fair values for securities, excluding Federal Home Loan Bank stock, are based on available market prices. The carrying amount of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

**Loans Receivable**

The fair value of loans receivable were determined using an exit price methodology as prescribed by FASB Accounting Standards Update 2016-01. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital.

**Deposits**

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such certificates to a schedule of aggregated expected monthly maturities on these deposits.

NOTE 17 – FAIR VALUE MEASUREMENTS (CONTINUED)

**Advances from the Federal Home Loan Bank of Atlanta**

The fair value of advances is estimated discounting the contractual cash flows using rates currently offered for advances with similar terms and remaining maturities.

**Off-Balance Sheet Credit Related Instruments**

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these instruments were not significant at December 31, 2019 and June 30, 2018.

The following table summarizes the carrying amounts and fair values of financial instruments at December 31, 2019 and June 30, 2018:

| | **December 31, 2019** | | June 30, 2018 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | (In thousands) | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | **$ 23,980** | **$ 23,980** | $ 10,216 | $ 10,216 |
| Time deposits in other banks | **250** | **250** | 250 | 250 |
| Securities held to maturity | **3,956** | **4,031** | 5,930 | 5,886 |
| Federal Home Loan Bank of Atlanta stock | **500** | **500** | 376 | 376 |
| Loans receivable | **235,194** | **237,898** | 124,608 | 121,309 |
| **Financial liabilities** | | | | |
| Deposits | **$217,822** | **$213,272** | $ 138,685 | $ 129,539 |
| Advances from the Federal Home Loan Bank of Atlanta | **3,000** | **3,224** | 3,000 | 3,094 |

## NOTE 18 – CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Information as to the financial position of BV Financial, Inc. and its results of operations and cash flows as of and for the 18 months and year ended December 31, 2019 and June 30, 2018, are summarized below.

| **Statement of Financial Condition** | **12/31/2019** | 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| **Assets** | | |
| Cash | **$ 778** | $ 827 |
| Employee stock ownership plan loan | **-** | 94 |
| Investment in subsidiary | **65,189** | 20,701 |
| Other assets | **52** | 36 |
| Total Assets | **$ 66,019** | $ 21,658 |
| **Liabilities and Stockholders' Equity** | | |
| Other liabilities | **$ 16** | $ - |
| Total stockholders' equity | **66,003** | 21,650 |
| Total Liabilities & Equity | **$ 66,019** | $ 21,650 |

NOTE 18 – CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (CONTINUED)

| **Statements of Income** | **18 Months 12/31/2019** | 12 Months 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| Interest income | $ 3 | $ 9 |
| Noninterest expense | 21 | 34 |
| Loss before income tax benefit | (18) | (25) |
| Income tax benefit | - | 5 |
| Loss before equity in net income of subsidiary | (18) | (20) |
| Equity in net income of subsidiary | 2,894 | 111 |
| Net income | $ 2,876 | $ 91 |

| **Statements of Cash Flows** | **18 Months 12/31/2019** | 12 Months 6/30/2018 |
|---|---|---|
| | (In thousands) | |
| **Cash flows from operating activities** | | |
| Net income | $ 2,876 | $ 91 |
| Adjustments to reconcile net income to net cash used by operating activities | | |
| Equity in net income of subsidiary | (2,894) | (111) |
| Increase in other assets | (16) | (5) |
| Increase in other liabilities | 8 | 8 |
| Net cash used by operating activities | (26) | (17) |
| **Cash flows from investing activities** | | |
| Principal collected on ESOP loan | 94 | 89 |
| Net cash provided by investing activities | 94 | 89 |
| **Cash flows from financing activities** | | |
| Dividends paid | (143) | - |
| Stock Options Exercised | 26 | - |
| Net cash provided by financing activities | (117) | |
| Increase(decrease) in cash and cash equivalents | (49) | 72 |
| Cash and cash equivalents at beginning of period | 827 | 755 |
| Cash and cash equivalents at end of period | $ 778 | $ 827 |

# Locations

## Baltimore County

*Main Office*
7114 North Point Road
Baltimore, Maryland 21219

*Essex*
532 Eastern Boulevard
Baltimore, Maryland 21221

*Dundalk*
3101 North Point Road
Baltimore, Maryland 21222

*Perry Hall*
8639 Belair Road
Baltimore, MD 21236

## Baltimore City

*Locust Point*
921 East Fort Avenue
Suite 102
Baltimore, Maryland 21230

*Canton*
2101 Eastern Avenue
Baltimore, Maryland 21231

*Bayview*
6201 Eastern Avenue
Baltimore, Maryland 21224

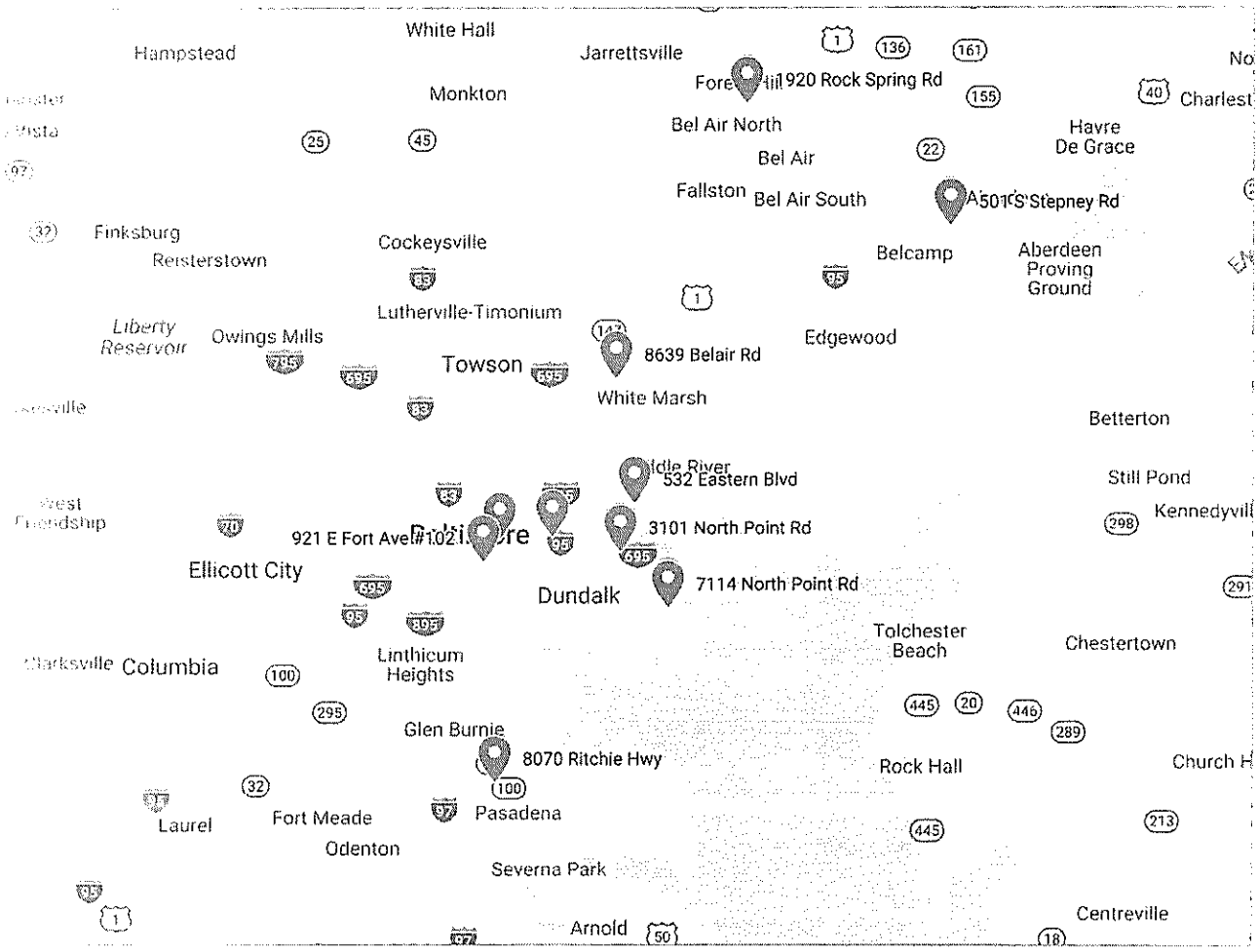
## Anne Arundel County

*Pasadena*
8070 Ritchie Highway
Pasadena, Maryland 21122

## Harford County

*Aberdeen*
501 South Stepney Road
Aberdeen, MD 21001

*Forest Hill*
1920 Rock Spring Road
Forest Hill, MD 21050



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**BV Financial, Inc.**
**Board of Directors**

Edmund T. Leonard,
*Chairman*

Gary T. Amereihn
William Streett Baldwin
William B. Crompton, III
David M. Flair
Joseph S. Galli
Brian K. McHale
Edmond B. Nolley, Jr.
George Philippou
Joshua W. Posnick
Timothy L. Prindle
Michael L. Snyder

**BayVanguard Bank**
**Board of Directors**

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*Chairman*

William Streett Baldwin
William B. Crompton, III
David M. Flair
Joseph S. Galli
Edmund T. Leonard
Brian K. McHale
Edmond B. Nolley, Jr.
George Philippou
Joshua W. Posnick
Timothy L. Prindle
Michael L. Snyder

**Bank Officers**

**David M. Flair**
*Co-President and Chief Executive Officer*

**Michael J. Dee**
*Executive Vice President, Chief Financial Officer*

**Rose M. Searcy**
*Senior Vice President*
*Personnel and Information Technology*

**Christine P. Barton**
*Senior Vice President, Compliance*

**Claudia L. Kraft**
*Vice President, Controller*

**Samantha M. Perouty**
*Assistant Secretary*

**Timothy L. Prindle**
*Co-President and Chief Executive Officer*

**Amar Grover**
*Executive Vice President, Chief Credit Officer*

**Jeffrey S. Collier**
*Senior Vice President, Lending*

**Glenda M. Szyl**
*Vice President, Savings Operations*

**Michael L. Snyder**
*Secretary*

Financial, Inc.