Powell Valley Bankshares, Inc.
2020 ANNUAL REPORT

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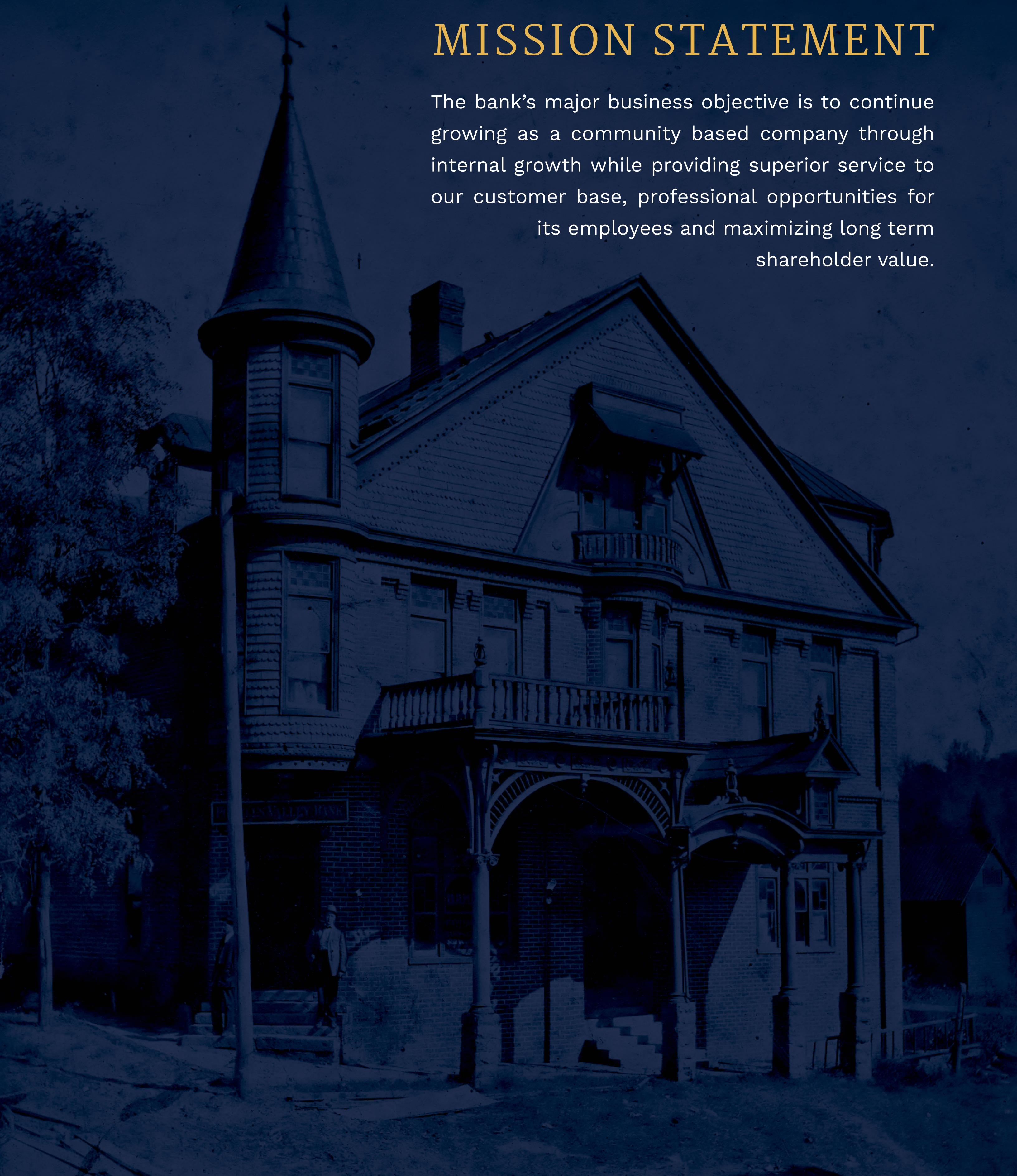
MISSION STATEMENT

The bank's major business objective is to continue growing as a community based company through internal growth while providing superior service to our customer base, professional opportunities for its employees and maximizing long term shareholder value.



Powell Valley Bankshares Inc. Board of Directors

Leton L. Harding, Jr.

President, CEO, and Chairman of the Board

TO OUR SHAREHOLDERS,

2020 will go down as yet another special year in the 133-year history of your Company. The entire world experienced one of the greatest threats to its health and well-being in over a century. Not since the 1918 Spanish Flu epidemic, through which your Bank also persevered, have we faced such a health crisis.

The Covid-19 pandemic has changed every facet of our daily lives, not to mention our economy. The trend towards electronic banking, emails, and text communication, which was coming anyway, has sped up how we live and bank. As always, PVNB was prepared to meet the challenges of a changing time.

The pandemic required herculean commitment by our staff and our operations to maintain and enhance our ability to provide quality customer service. This was achieved by implementing a robust and well-defined business continuity plan, and customers' confidence in their Bank was assured and rewarded.

We are proud to share that your Bank maintained daily operations of every office drive thru and lobby appointments to serve our loyal customers. There was not one (1) regularly scheduled workday that your Bank and its offices were not available to our customers during this crisis!

Extra efforts extended by staff throughout the year included office and department personnel working in shifts to ensure that all areas of the Bank could operate efficiently and effectively each day, working in different departments and other office locations, learning new functions, and, most importantly, caring and supporting one another (an underlying theme of this annual report). Your Bank maintained a safe working environment for both customers and employees. It was a true team effort by everyone involved, stressful and tough, but what we knew we needed to do for our communities and customers.

Powell Valley National Bank led the way with our nationally recognized Paycheck Protection Program (PPP) efforts. The Bank was able to provide $25.3 million dollars in PPP funding during the year, which helped over 485 businesses. PPP loans benefited countless employees of those businesses and their families.

Despite the challenges, the responsibility of maintaining a solid business performance was never far from our mind. Following the sound practices developed over 133 years and drawing upon the institutional knowledge and wisdom developed from coping with a litany of historic crises, PVNB was able to do that very thing.

The Bank had earnings of $2.2 million dollars this year. In addition, your Company was able to provide its shareholders with an increase in dividends paid per share during the year.

Looking back on 2020, each day brought new obstacles and increasing uncertainty. PVNB assessed and adapted to those circumstances as they arose. This allowed us to provide outstanding service to our customers and solid returns to our shareholders, enabling our communities to survive and positioning them to thrive and succeed in the years to come.

Lastly, our thoughts and prayers are with our communities, our friends, and our neighbors who have suffered during this long and arduous year. We are proud of and thankful for all the folks on the front lines, from healthcare professionals, to those who made sure we had food on our tables, and finally, to our dedicated employees.

While some doubt the need for Community Banks in today's modern world, our actions and deeds, through yet another terrible time, prove the value of a deeply rooted and committed Bank.

As a shareholder you should be proud of your Bank. I know that I am.

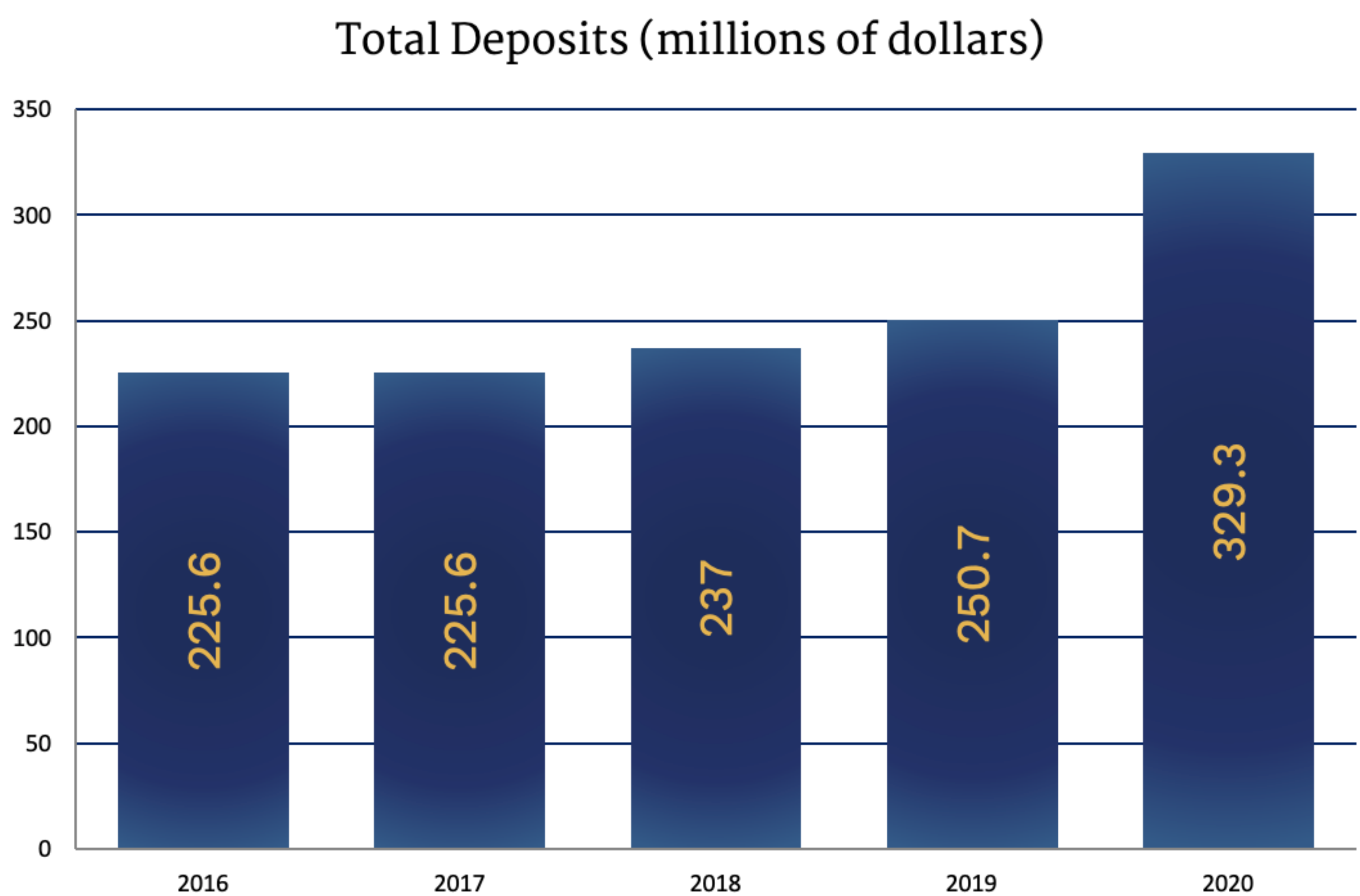
Stay Safe,

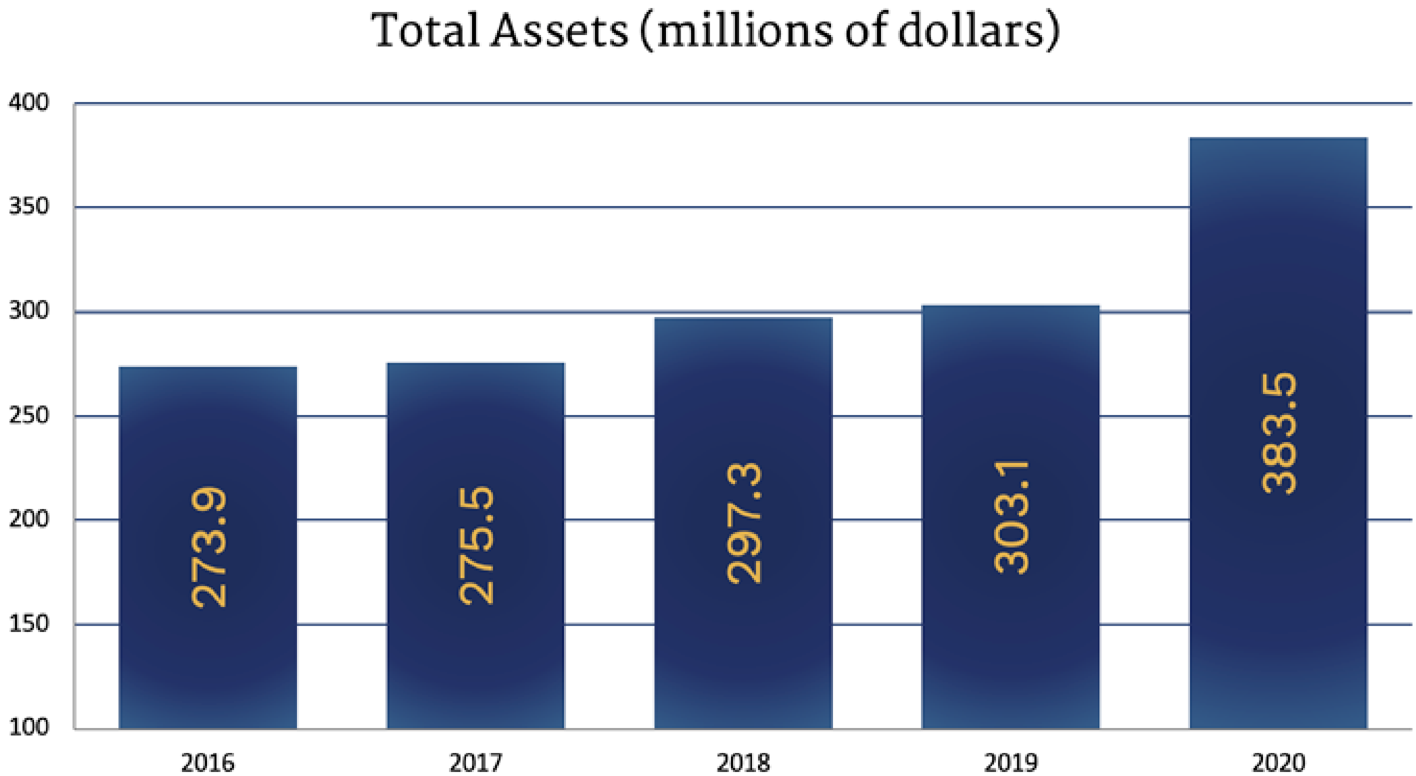
Leton L. Harding, Jr.
President, Chairman, and CEO

FINANCIAL HIGHLIGHTS – FIVE YEAR SUMMARY

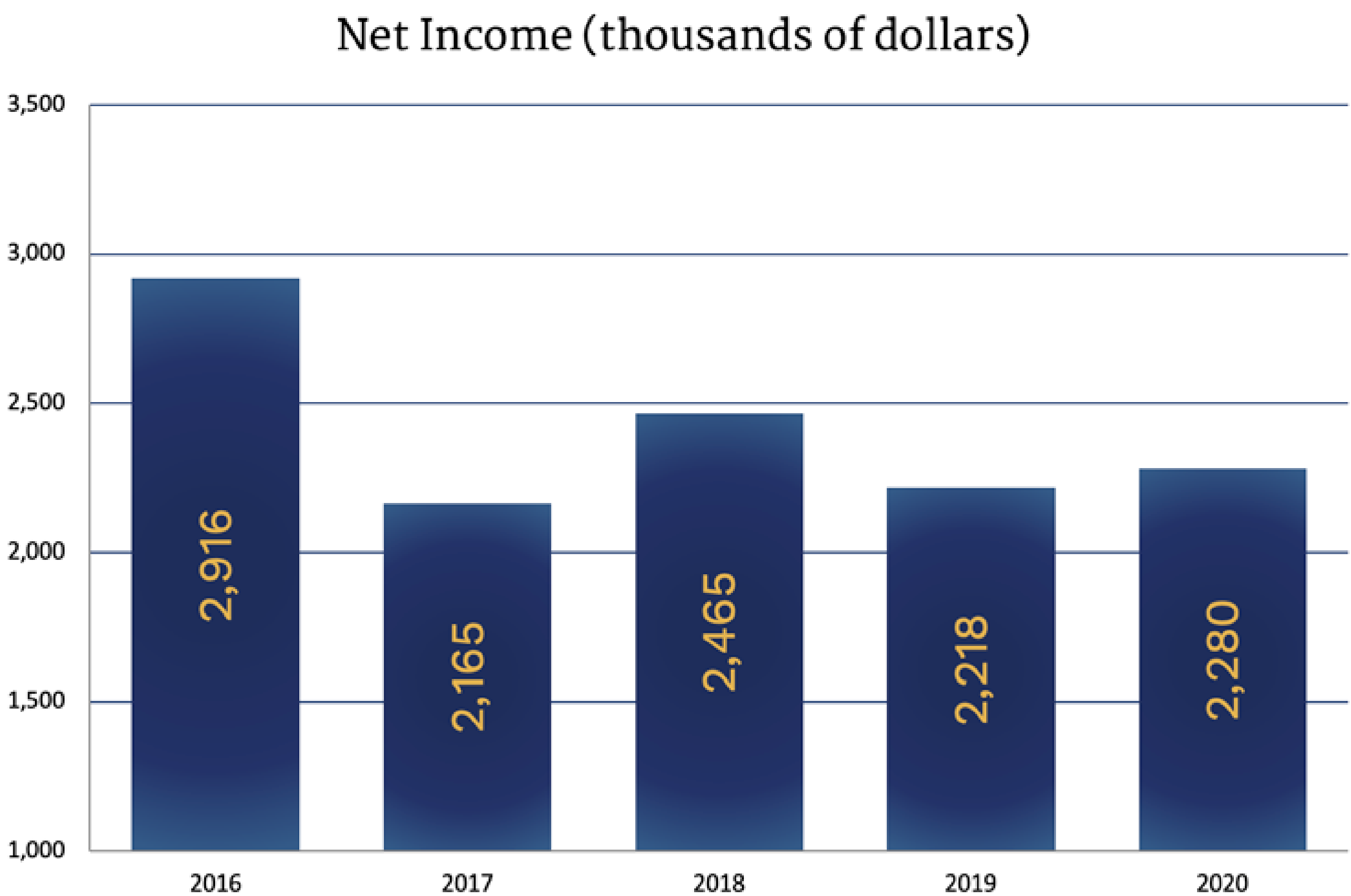
(In Thousands of Dollars)

	2016	2017	2018	2019	2020
Net Earnings After Taxes	2,916	2,165	2,465	2,218	2,280
Total Deposits	225,612	225,569	237,019	250,688	329,276
Loans, Net	164,687	179,947	191,336	214,568	228,745
Securities, including assets	63,171	57,163	51,254	35,444	29,762
Held in trading accounts And other investments Total Assets*	273,884	275,493	297,272	303,131	383,483
Capital	45,675	47,236	47,799	49,978	51,329



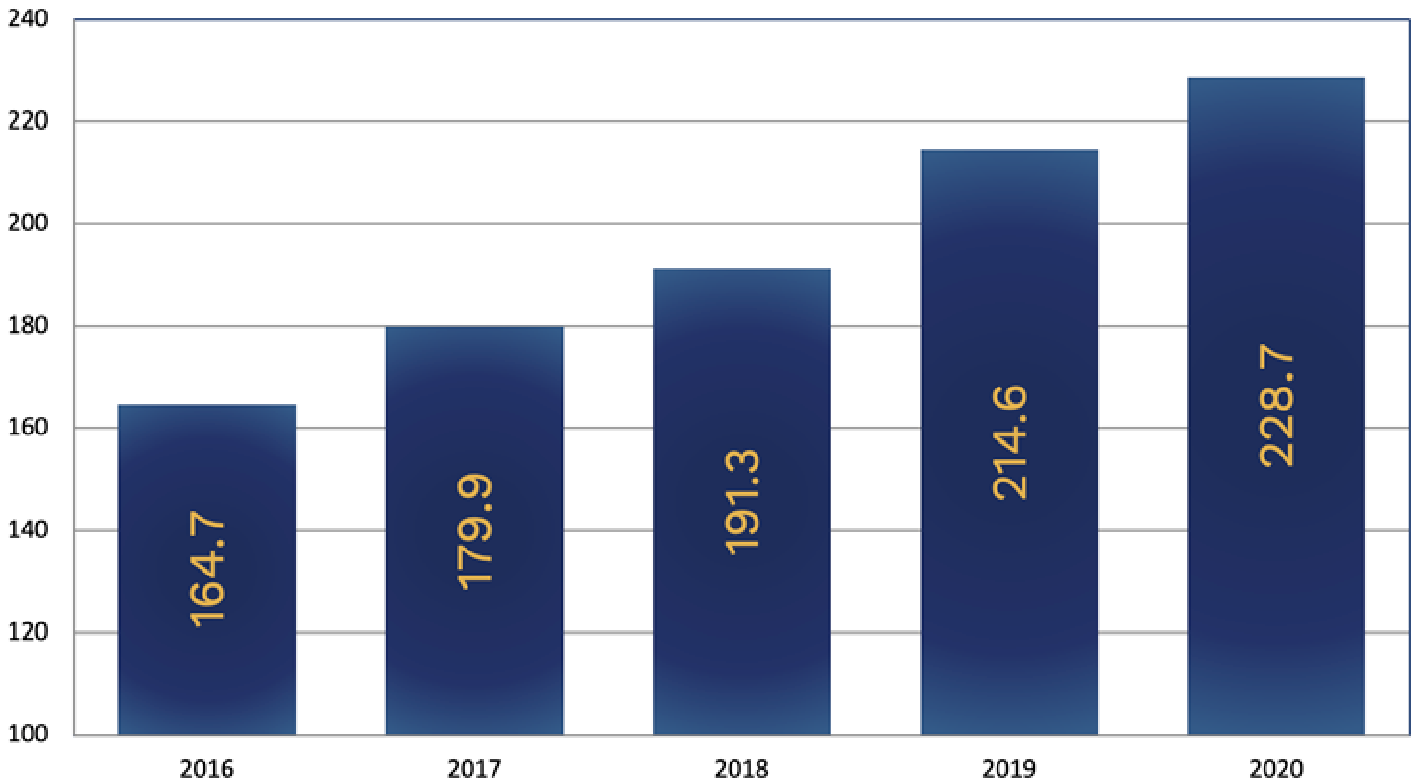


Total Assets (millions of dollars)
400
350
300
250
200
150
100
273.9
275.5
297.3
303.1
383.5
2016
2017
2018
2019
2020

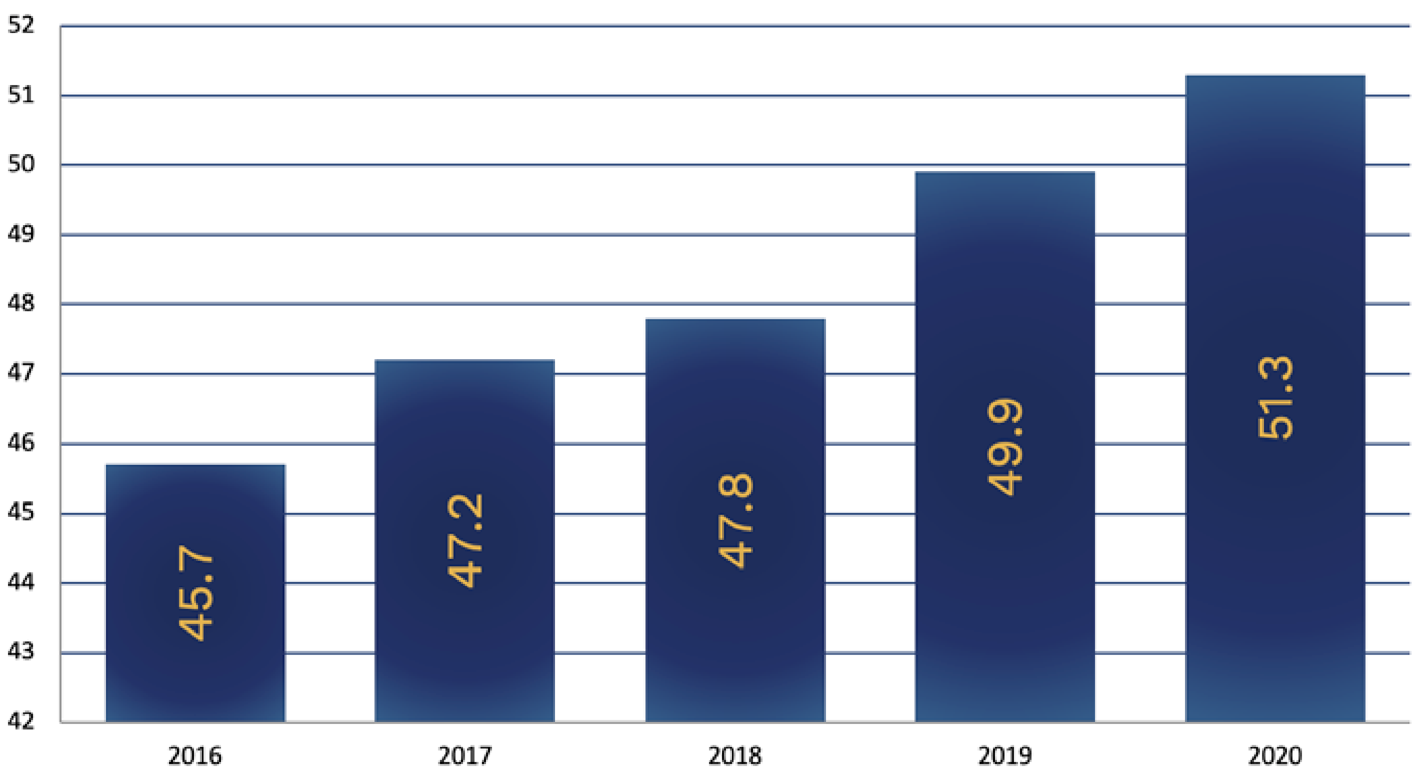


Net Income (thousands of dollars)
3,500
3,000
2,500
2,000
1,500
1,000
2,916
2,165
2,465
2,218
2,280
2016
2017
2018
2019
2020

Total Loans (millions of dollars)

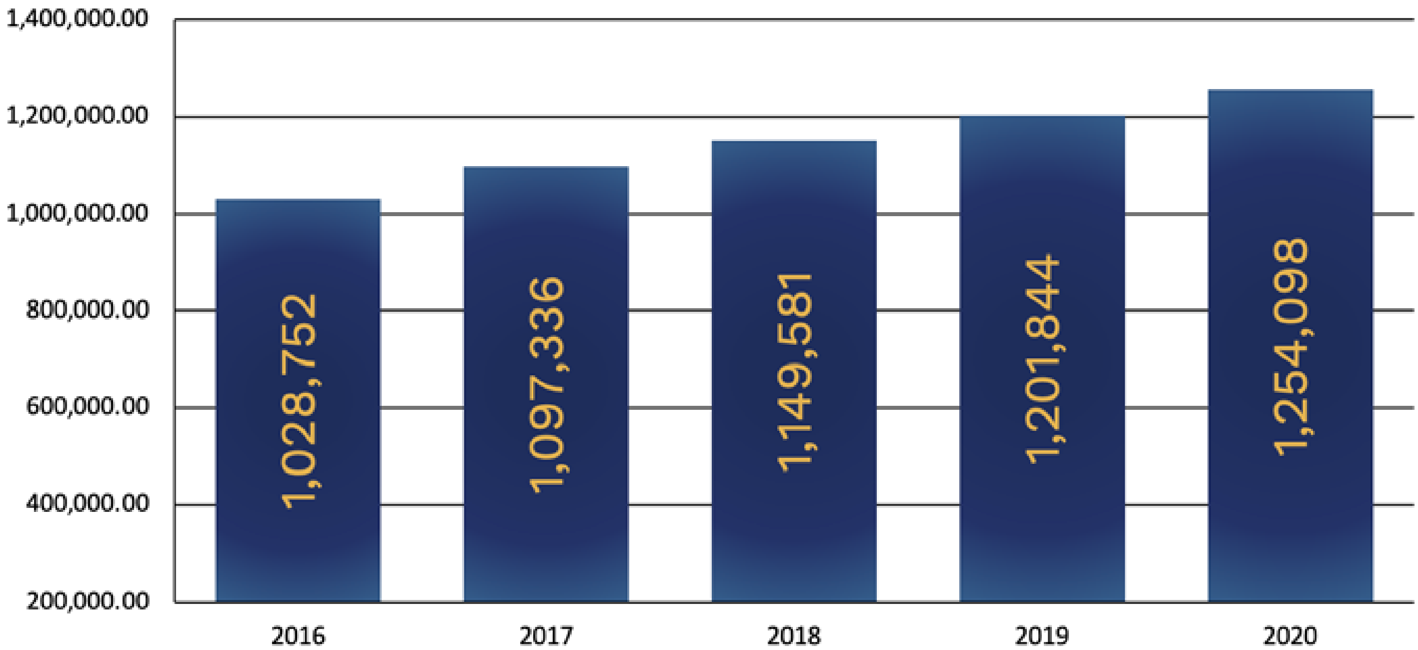


Capital (millions of dollars)

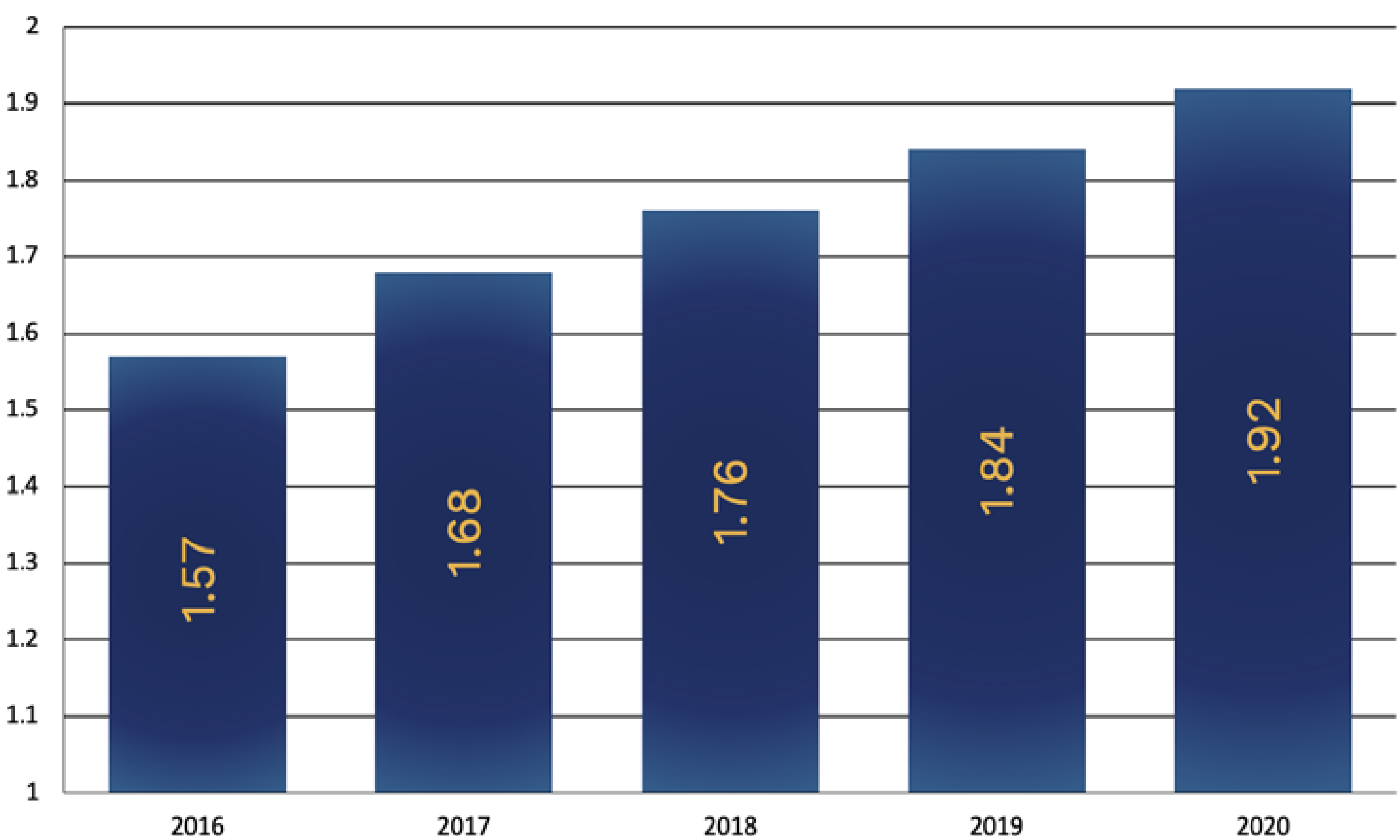


DIVIDEND & SHARES HIGHLIGHTS – FIVE YEAR SUMMARY

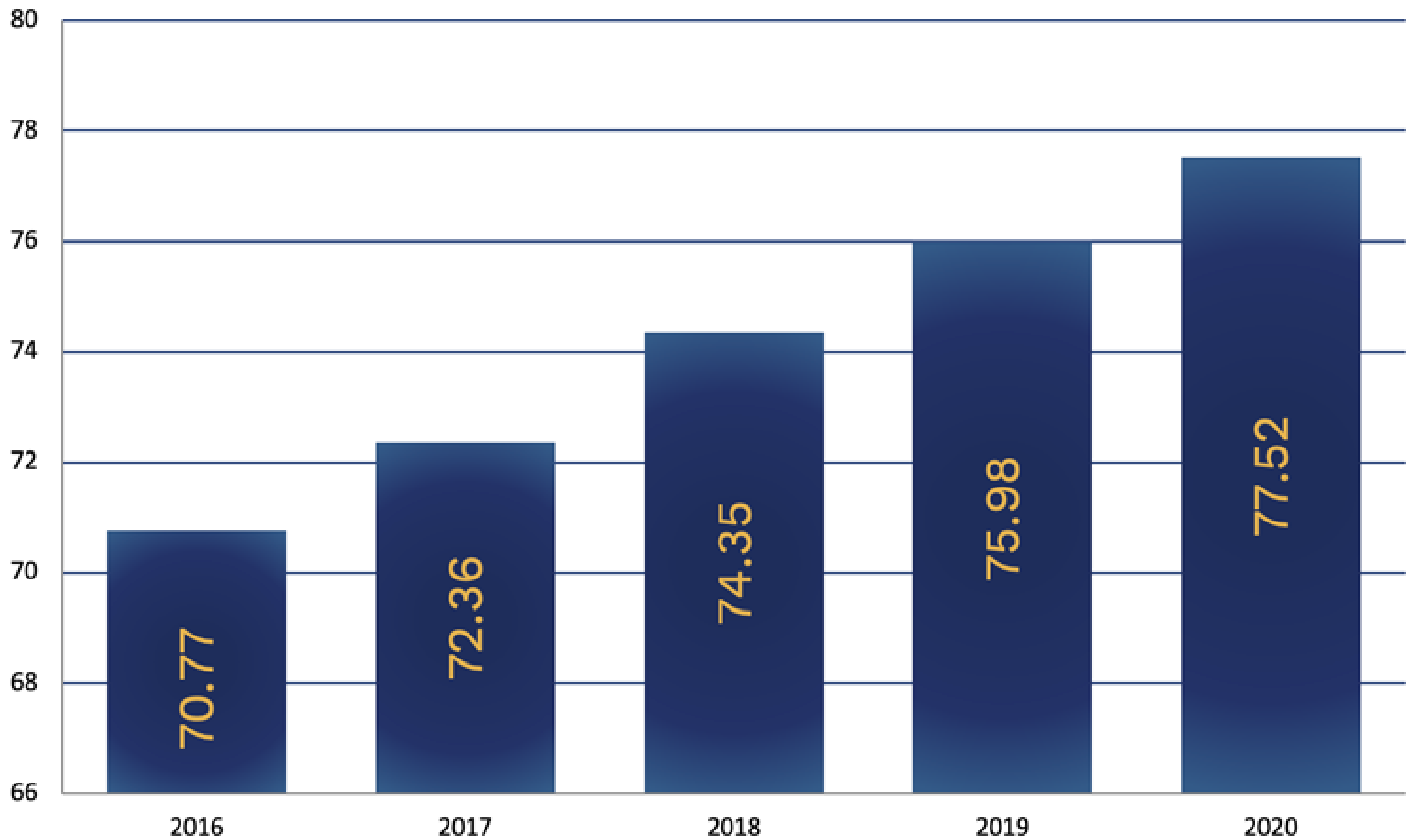
Total Dividends



Total Dividends Paid Per Share Per Year



Book Value Per Share



POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

December 31, 2020

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Powell Valley Bankshares, Inc.
and Subsidiaries
Jonesville, Virginia

We have audited the accompanying consolidated financial statements of Powell Valley Bankshares, Inc. and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

433 E. Center Street, Suite 101 • Kingsport, Tennessee 37660 • 423-246-6104 • Fax: 423-378-4109 • www.BEcpas.com

Opinion

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
March 9, 2021

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 102,382,934	$ 27,629,408
Interest bearing time deposits in banks	2,000,000	4,450,000
Investment securities – available-for-sale	29,117,818	34,805,904
Investments, at cost	643,972	638,472
Loans, net	228,744,885	214,568,298
Foreclosed assets	505,981	765,000
Premises and equipment, net	10,848,434	11,187,604
Accrued interest receivable	1,095,675	1,103,694
Income taxes receivable	136,031	251,483
Deferred income tax asset, net	522,324	449,185
Goodwill	865,410	865,410
Bank owned life insurance	4,766,025	4,653,404
Other assets	1,853,485	1,763,242
Total assets	$ 383,482,974	$ 303,131,104
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest bearing	$ 113,589,498	$ 74,219,232
Interest bearing	215,686,894	176,468,360
Total deposits	329,276,392	250,687,592
Accrued interest and other liabilities	2,877,614	2,465,442
Total liabilities	332,154,006	253,153,034
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 2,000,000 shares authorized; 653,176 shares issued and outstanding, net of 146,824 treasury shares at par, in 2020 and 2019	653,176	653,176
Surplus	653,176	653,176
Retained earnings	49,318,992	48,292,754
Accumulated other comprehensive loss:		
Net unrealized gain on securities	703,624	378,964
Total stockholders' equity	51,328,968	49,978,070
Total liabilities and stockholders' equity	$ 383,482,974	$ 303,131,104

The Notes to Consolidated Financial Statements are an integral part of these statements.

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

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

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 12,395,354	$ 11,075,403
Interest on excess reserves	102,954	445,356
Interest on available-for-sale securities		
U.S. Treasury	219,778	257,358
U.S. Government agencies	252,435	379,342
States and political subdivisions	400,134	581,977
Other	42,962	69,024
Total interest income	13,413,617	12,808,460
INTEREST EXPENSE		
Interest on deposits	1,635,316	1,931,380
Interest on borrowings	108,410	225,245
Net interest income	11,669,891	10,651,835
Provision for loan losses	175,000	50,000
Net interest income after provision for loan losses	11,494,891	10,601,835
NONINTEREST INCOME		
Service charges on deposit accounts	294,997	395,212
Other customer service fees	738,181	676,295
Net gains (losses) on sale of available-for-sale securities	(11,397)	266,434
Bank-owned life insurance income	112,621	108,758
Other income	252,010	111,871
Total noninterest income	1,386,412	1,558,570
NONINTEREST EXPENSES		
Salaries and wages	4,797,151	4,383,539
Employment benefits and taxes	1,200,087	1,136,550
Advertising and public relations	109,939	223,112
Occupancy expenses	725,520	696,180
Equipment rentals, depreciation, and maintenance	464,275	466,674
Director and committee fees	182,000	144,000
Correspondent bank services	471,728	436,944
Legal and professional	173,491	223,040
Stationery and supplies	153,837	135,453
Real estate and franchise tax	432,324	371,903
Data processing	428,390	417,378
Other operating expenses	1,036,536	920,491
Total noninterest expenses	10,175,278	9,555,264
INCOME BEFORE INCOME TAXES	2,706,025	2,605,141
Income tax provision	425,689	387,276
NET INCOME	$ 2,280,336	$ 2,217,865
EARNINGS PER COMMON SHARE		
Net income per common share	$ 3.49	$ 3.40

The Notes to Consolidated Financial Statements are an integral part of these statements.

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
NET INCOME	$ 2,280,336	$ 2,217,865
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX		
Unrealized holding gains arising during the year for securities available-for-sale	399,565	1,738,090
Reclassification adjustment for losses (gains) included in net gains on sale of securities in net income	11,397	(266,434)
	410,962	1,471,656
INCOME TAX EFFECT RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME	(86,302)	(309,048)
OTHER COMPREHENSIVE INCOME, NET OF TAX	324,660	1,162,608
COMPREHENSIVE INCOME	$ 2,604,996	$ 3,380,473

The Notes to Consolidated Financial Statements are an integral part of these statements.

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2020 and 2019

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2018	$ 653,176	$ 653,176	$ 47,276,733	$ (783,644)	$ 47,799,441
Net income	-	-	2,217,865	-	2,217,865
Other comprehensive income, net of tax	-	-	-	1,162,608	1,162,608
Cash dividends declared ($1.84 per common share)	-	-	(1,201,844)	-	(1,201,844)
BALANCE, December 31, 2019	653,176	653,176	48,292,754	378,964	49,978,070
Net income	-	-	2,280,336	-	2,280,336
Other comprehensive income, net of tax	-	-	-	324,660	324,660
Cash dividends declared ($1.92 per common share)	-	-	(1,254,098)	-	(1,254,098)
BALANCE, December 31, 2020	$ 653,176	$ 653,176	$ 49,318,992	$ 703,624	$ 51,328,968

The Notes to Consolidated Financial Statements are an integral part of these statements.

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

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

	2020	2019
OPERATING ACTIVITIES		
Net income	$ 2,280,336	$ 2,217,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	175,000	50,000
Depreciation	546,071	501,090
Amortization of loan fees	(623,137)	-
Write down of foreclosed assets	37,353	50,920
(Gain) loss on sale of foreclosed assets	(8,335)	33,408
Net amortization of securities	61,960	116,215
Realized loss (gain) on sales of available-for-sale securities	11,397	(266,434)
Deferred income tax (benefit) expense	(159,441)	6,856
Bank owned life insurance income	(112,621)	(108,758)
Net change in:		
Income taxes receivable	115,452	276,750
Accrued interest receivable	8,019	(53,318)
Other assets	(90,243)	(3,012)
Accrued interest and other liabilities	412,172	11,997
Net cash provided by operating activities	2,653,983	2,833,579
INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Maturities, calls, and sales	7,605,030	17,737,638
Purchases	(1,579,339)	(711,524)
Net change in interest-bearing time deposits in banks	2,450,000	-
Loan originations and principal collections, net	(14,111,754)	(24,067,818)
Proceeds from sales of foreclosed assets	613,305	523,632
Additions to premises and equipment	(206,901)	(2,628,118)
Net change in Federal Home Loan Bank stock	(5,500)	405,300
Net cash used in investing activities	(5,235,159)	(8,740,890)
FINANCING ACTIVITIES		
Advances – Federal Home Loan Bank	15,000,000	-
Net increase in deposits	78,588,800	13,668,037
Repayments – Federal Home Loan Bank	(15,000,000)	(10,000,000)
Cash dividends paid on common stock	(1,254,098)	(1,201,844)
Net cash provided by financing activities	77,334,702	2,466,193
Net change in cash and cash equivalents	74,753,526	(3,441,118)
Cash and cash equivalents, beginning	27,629,408	31,070,526
Cash and cash equivalents, ending	$ 102,382,934	$ 27,629,408

(Continued)

The Notes to Consolidated Financial Statements are an integral part of these statements.

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

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

	2020	2019
NON-CASH TRANSACTIONS		
Transfer of loans to other real estate owned	$ 383,304	$ 785,460
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	$ 1,794,856	$ 2,117,934
Cash paid for income taxes, net of refunds	$ 469,678	$ 90,597
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Total change in gross unrealized gain (loss) on securities available-for-sale	$ 410,962	$ 1,471,656

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Powell Valley Bankshares, Inc. and Subsidiaries (collectively, the "Company") conform with accounting principles generally accepted in the United States of America (GAAP) and accepted accounting and reporting practices within the banking industry. The significant accounting policies are summarized as follows:

Principles of consolidation

The consolidated statements include the accounts of Powell Valley Bankshares (PVB), its wholly-owned subsidiary, Powell Valley National Bank (the "Bank"), and Powell Valley Service Corporation, a wholly-owned subsidiary of Powell Valley National Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations

PVB is a bank-holding company which owns all of the outstanding common stock of the Bank. The Bank provides a variety of financial services throughout locations within its primary lending areas of the Cities of Norton and Abingdon, and Lee, Scott, Washington, and Wise counties in Virginia, and the City of Kingsport and the surrounding counties of Sullivan and Hawkins in Tennessee. The Bank's primary deposit products are demand deposits, savings accounts, and certificates of deposit. Its primary lending products are real estate loans, consumer loans, and commercial loans. The Bank offers investment services to its customers through an investment service agreement with a third-party provider.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of foreclosed real estate, the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in other banks, and federal funds sold, all of which mature within 90 days. Accounts in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times, cash balances may exceed these limits; however, the Company does not believe it is subject to any significant credit risk as a result of these deposits. Excess cash reserves are held at the Federal Reserve Bank of Richmond.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Investment securities

The Company's investments in securities are classified and accounted for as follows:

Available-for-sale: Government and government agency bonds, notes, and certificates are classified as available-for-sale when the Bank anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in non-interest income and reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Trading: The securities in the Director's deferred compensation rabbi trust are recorded at fair value, with a corresponding liability for the plan obligation as described in Note 10. All changes in value are recognized in the current period.

Loans

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southwestern Virginia and upper northeast Tennessee. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any unearned discounts. Interest income is accrued on the unpaid principal balance. Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method. The Bank generally does not defer loan fees and related loan origination costs. Based on management's assessments, the difference between deferral and immediate recognition of such fees and related costs is not material. However, as discussed elsewhere, loan fees related to PPP loans in 2020 have been deferred and amortized over the life of the loans.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for loan losses

The allowance for loan losses represents the amount of earnings that have been set aside (reserved) to cover losses from loans. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are considered impaired, where an allowance is established if the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 considered 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 commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Off-balance sheet credit related financial instruments

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

Premises and equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed principally on the methods used for Federal income tax reporting purposes. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Premises and equipment are depreciated over the following lives:

Buildings and improvements	5-40 years
Furniture, equipment, and software	3-10 years

Bank owned life insurance

The Bank purchased single premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified in non-interest income.

Foreclosed assets

Foreclosed assets consist of other real estate owned (OREO) and at times an immaterial amount of repossessed automobiles. OREO represents real estate properties acquired through or in lieu of loan foreclosure. OREO is held for sale and is initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-down based on the asset's fair value at the time of transfer to OREO is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value, with charges to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Costs of significant property improvements are capitalized; whereas, costs relating to holding property are expensed. Foreclosed assets previously held by Powell Valley Service Corporation, the Bank's wholly owned subsidiary, were transferred to the Bank during 2019, and are no longer held by the subsidiary.

Goodwill

The Bank evaluates goodwill for impairment in accordance with Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other Intangibles*. Under the provisions of ASC 350, goodwill is evaluated for impairment through the assessment of certain qualitative factors to determine whether it is more likely than not that the carrying amount exceeds its fair market value. Based on the qualitative assessment, no impairment loss was recorded at December 31, 2020 or 2019.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

The Bank's policy is to expense advertising costs as the costs are incurred.

Income taxes

Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes.

Current income tax reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income or loss. Deferred taxes relate to differences between the tax and book bases of certain assets and liabilities. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated tax returns with its subsidiaries.

Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The Company has not identified any uncertain income tax provisions. In the event of an adjustment to previously filed income tax returns, interest is recognized in interest expense, and penalties, if any, are classified as other noninterest expense.

Compensated absences

Compensated absences for sick day and personal time have not been accrued since they cannot be reasonably estimated. The Bank's policy is to recognize these costs when actually paid.

Comprehensive income (loss)

Comprehensive income (loss) consists of the total of all components of comprehensive income (loss) including net income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains, and losses under GAAP that are included in comprehensive income (loss) but excluded from net income (loss). Currently, the Company's other comprehensive income (loss) consists of unrealized gains and losses on securities available-for-sale, net of deferred tax expense (benefit).

Earnings per common share

Earnings per common share amounts are computed by dividing net income by the weighted average number of common shares outstanding during each year.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent events

The Company has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 9, 2021, the date these consolidated financial statements were available for issue.

Reclassifications

Certain prior year amounts have been reclassified to conform to present year presentations.

Pending accounting pronouncements

In June 2016, ASU No. 2016-13 *Financial Instruments – Credit Losses (Topic 326)* was issued by the FASB. This standard is commonly referred to as "CECL" – because it employs the Current Expected Credit Loss model. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for the Company in the fiscal year ending December 31, 2023.

In February 2016, ASU 2016-02 *Leases* amended ASC Topic 842 to address several aspects of lease accounting with the most significant change being the recognition of lease assets and lease liabilities for leases previously classified as operating leases. This ASU has been the subject of several subsequent amendments and will currently be effective for the Company for the year ending December 31, 2022.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's financial statements.

CARES act and regulatory relief for loan modifications

Beginning in early 2020, the COVID-19 pandemic has negatively impacted the global economy. In response to this crisis, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provided an estimated $2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Some of the provisions applicable to the Company include, but are not limited to:

- Accounting for Loan Modifications – Section 4013 of the CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a troubled debt restructuring (TDR) and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes.

- Paycheck Protection Program – The CARES Act established the Paycheck Protection Program ("PPP"), an expansion of the Small Business Administration's ("SBA") 7(a) loan program and the Economic Injury Disaster Loan Program ("EIDL"), administered directly by the SBA.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

CARES act and regulatory relief for loan modifications (Continued)

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System ("FRB"), the FDIC, the National Credit Union Administration ("NCUA"), the Office of the Comptroller of the Currency ("OCC"), and the Consumer Financial Protection Bureau ("CFPB"), in consultation with the state financial regulators (collectively, the "agencies") issued a joint interagency statement in 2020, the provisions of which included:

- Accounting for Loan Modifications – Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR.

- Past Due Reporting – With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.

- Nonaccrual Status and Charge-offs – During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. These modifications generally involved principal and/or interest payment deferrals for up to three months. These modifications generally meet the criteria of both Section 4013 of the CARES Act and the joint interagency statement, and therefore, the Company does not account for such loan modifications as TDRs.

PPP loans

The CARES Act also established the PPP, administered directly by the SBA. The PPP provides loans of up to $10 million to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities, and interest on existing debt during the COVID-19 emergency. PPP loans carry an interest rate of one percent, and a maturity of two or five years. These loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. The SBA pays the Company fees for processing PPP loans in the following amounts: (1) five percent for loans of not more than $350,000; (2) three percent for loans of more than $350,000 and less than $2,000,000; and (3) one percent for loans of at least $2,000,000. These processing fees are accounted for as loan origination fees and recognized over the contractual loan term as a yield adjustment on the loans.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Uncertainties due to COVID-19

The COVID-19 pandemic and its broader implications to the economy continue to create uncertainty that could adversely affect the financial results of financial institutions, including the Company, both through the compression of interest rate margins and the potential for increased loan losses. Management has considered the effects of these uncertainties in estimating the allowance for loan losses at year end, but future results could differ from these estimates.

Note 2. Investment Securities

The amortized cost and fair value of available-for-sale securities are as follows:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. government agencies and corporations	$ 999,497	$ -	$ (172)	$ 999,325
State and political subdivisions	20,644,433	763,635	(2,067)	21,406,001
Mortgage-backed securities	4,980,634	159,093	(1,045)	5,138,682
Corporate debt and other securities	1,602,588	15,192	(43,970)	1,573,810
Total securities	$ 28,227,152	$ 937,920	$ (47,254)	$ 29,117,818

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. government agencies and corporations	$ 499,860	$ -	$ (185)	$ 499,675
State and political subdivisions	23,774,842	499,464	(2,755)	24,271,551
Mortgage-backed securities	7,670,377	48,230	(45,765)	7,672,842
Corporate debt and other securities	2,381,123	36,177	(55,464)	2,361,836
Total securities	$ 34,326,202	$ 583,871	$ (104,169)	$ 34,805,904

The amortized cost and fair value of debt securities as of December 31, 2020, by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or re-paid without any penalties. Therefore, these securities are not included in the maturity categories in the following summary.

(Continued)

Note 2. Investment Securities (Continued)

	Debt Securities Available-for-Sale	
	Amortized Cost	Fair Value
Available-for-sale securities		
One year or less	$ 8,219,107	$ 8,276,767
After one year through five years	9,960,997	10,375,594
After five years through ten years	4,366,414	4,666,075
After ten years	700,000	660,700
	23,246,518	23,979,136
Mortgage-backed securities	4,980,634	5,138,682
	$ 28,227,152	$ 29,117,818

The Company's unrealized losses on investments in federal agency, municipal, and mortgage backed securities were primarily the result of changes in market interest rates and not credit quality changes. Because the Company has the ability and intent to hold them for a period of time sufficient to allow for an anticipated recovery, they are not considered to be other than temporarily impaired.

Information pertaining to securities with gross unrealized losses as of December 31, 2020 and 2019, respectively, aggregated by investment category and length of time that individual securities have been in a continuous loss position is shown in the table below.

	2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Debt securities						
U.S. government agencies and corporations	$ 999,325	$ (172)	$ -	$ -	$ 999,325	$ (172)
State and political subdivisions	327,885	(2,067)	-	-	327,885	(2,067)
Mortgage-backed securities	65,260	(321)	175,613	(724)	240,873	(1,045)
Corporate debt securities and other securities	496,525	(3,475)	559,505	(40,495)	1,056,030	(43,970)
Total securities	$ 1,888,995	$ (6,035)	$ 735,118	$ (41,219)	$ 2,624,113	$ (47,254)

Note 2. Investment Securities (Continued)

	2019					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Debt securities						
U.S. government agencies and corporations	$ -	$ -	$ 499,675	$ (185)	$ 499,675	$ (185)
State and political subdivisions	264,761	(173)	383,666	(2,582)	648,427	(2,755)
Mortgage-backed securities	983,764	(4,193)	2,552,628	(41,572)	3,536,392	(45,765)
Corporate debt and other securities	992,290	(6,759)	801,295	(48,705)	1,793,585	(55,464)
Total securities	$ 2,240,815	$ (11,125)	$ 4,237,264	$ (93,044)	$ 6,478,079	$ (104,169)

The Company had 10 and 30 securities at December 31, 2020 and 2019, respectively, which were in a loss position. The Company did not recognize any other-than-temporary impairments in 2020 or 2019.

During 2020, sales and redemptions of securities available-for-sale resulted in gross realized gains of $7,480 and gross realized losses of $18,877 with a net realized loss of $11,397. During 2019, sales and redemptions of securities available-for-sale resulted in gross realized gains of $302,929 and gross realized losses of $36,495, with a net realized gain of $266,434.

Investment securities with a carrying amount of approximately $22,000,000 and $27,900,000 as of December 31, 2020 and 2019, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Investments, at cost

The Bank is required to hold a minimum number of shares of stock in the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). These are considered restricted investments and are carried at cost. Additional investments maintained by the Bank and also carried at cost include Virginia Bankers Insurance Center, LLC and Virginia Title Corporation stock. Such investments consist of the following:

	2020	2019
Federal Home Loan Bank	$ 273,100	$ 267,600
Federal Reserve Bank	48,000	48,000
Virginia Bankers Insurance Center, LLC	223,922	223,922
Virginia Title Corporation	98,950	98,950
	$ 643,972	$ 638,472

(Continued)

Note 2. Investment Securities (Continued)

Board of Directors deferred compensation plan

The investments held in the Board of Directors deferred compensation plan are held at fair value and consist of mutual fund investments. This plan is further discussed in Note 10.

Note 3. Loans

The Bank's loans consist of the following:

	2020	2019
Real estate loans		
Residential 1 – 4 family	$ 84,439,715	$ 73,589,032
Commercial	88,284,702	98,757,645
Total real estate loans	172,724,417	172,346,677
Commercial loans	46,248,585	32,490,390
Consumer loans, including overdrafts	13,310,711	12,630,532
Total loans	232,283,713	217,467,599
Less: allowance for loan losses	(3,042,583)	(2,899,301)
Less: unearned PPP fees	(496,245)	-
Loans, net	$ 228,744,885	$ 214,568,298

The Bank's consumer loans include $57,106 and $96,367 in overdrafts as of December 31, 2020 and 2019, respectively.

Impaired loans

Loan impairment and any valuation allowances are determined under the provisions established by ASC Topic 310, *Receivables*. Impaired loans without a valuation allowance represent loans for which management believes that the discounted cash flows, collateral value, or observable market price of the impaired loan is higher than the carrying value of the loan.

(Continued)

Note 3. Loans (Continued)

Impaired loans (Continued)

The following table presents impaired loans individually evaluated by class of loans.

	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1 – 4 family	$ 1,011,592	$ 1,011,592	$ -	$ 1,240,301	$ 68,059
Commercial real estate	685,528	685,528	-	690,023	33,870
Commercial	40,967	40,967	-	37,384	8,032
Consumer	-	-	-	-	-
With an allowance recorded:					
Residential 1 – 4 family	446,503	446,503	41,803	450,845	27,238
Commercial real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	12,189	12,189	12,189	13,518	1,328
Total:					
Residential 1 – 4 family	1,458,095	1,458,095	41,803	1,691,146	95,297
Commercial real estate	685,528	685,528	-	690,023	33,870
Commercial	40,967	40,967	-	37,384	8,032
Consumer	12,189	12,189	12,189	13,518	1,328
Total impaired loans, individually evaluated	$ 2,196,779	$ 2,196,779	$ 53,992	$ 2,432,071	$ 138,527

(Continued)

Note 3. Loans (Continued)

Impaired loans (Continued)

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1 – 4 family	$ 1,100,745	$ 1,100,745	$ -	$ 1,124,220	$ 11,964
Commercial real estate	1,359,350	1,359,350	-	1,413,483	60,614
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Residential 1 – 4 family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Residential 1 – 4 family	1,100,745	1,100,745	-	1,124,220	11,964
Commercial real estate	1,359,350	1,359,350	-	1,413,483	60,614
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans, individually evaluated	$ 2,460,095	$ 2,460,095	$ -	$ 2,537,703	$ 72,578

(Continued)

Note 3. Loans (Continued)

Allowance for loan loss

The following table outlines the changes in the allowance for loan losses by collateral type and purpose, the allowances for loans individually and collectively evaluated for impairment, and the amount of loans individually and collectively evaluated for impairment as of December 31, 2020 and 2019:

	December 31, 2020					
	Residential 1 – 4 Family	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance, January 1, 2020	$ 1,188,258	$ 931,984	$ 351,048	$ (32,810)	$ 460,821	$ 2,899,301
Charge-offs	(4,249)	(62,114)	(83,136)	(46,995)	(49,562)	(246,056)
Recoveries	8,945	1,000	136,777	67,616	-	214,338
Provision	77,347	59,437	13,885	12,189	12,142	175,000
Ending balance, December 31, 2020	$ 1,270,301	$ 930,307	$ 418,574	$ -	$ 423,401	$ 3,042,583
Portion of ending balance						
Individually evaluated for impairment	$ 41,803	$ -	$ -	$ 12,189	$ -	$ 53,992
Collectively evaluated for impairment	1,228,498	930,307	418,574	(12,189)	423,401	2,988,591
Total ALLL evaluated for impairment	$ 1,270,301	$ 930,307	$ 418,574	$ (47,629)	$ 423,401	$ 3,042,583
Loans receivable						
Ending balance, December 31, 2020	$ 84,439,715	$ 88,284,702	$ 46,248,585	$ 13,310,711	$ N/A	$ 232,283,713
Portion of ending balance						
Individually evaluated for impairment	$ 1,458,095	$ 685,528	$ 40,967	$ 12,189	$ N/A	$ 2,196,779
Collectively evaluated for impairment	82,981,620	87,599,174	46,207,618	13,298,522	N/A	230,086,934
Total loans evaluated for impairment	$ 84,439,715	$ 88,284,702	$ 46,248,585	$ 13,310,711	$ N/A	$ 232,283,713

(Continued)

Note 3. Loans (Continued)

Allowance for loan loss (Continued)

	December 31, 2019					
	Residential 1 – 4 Family	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance, January 1, 2019	$ 1,221,760	$ 1,009,742	$ 341,643	$ -	$ 450,239	$ 3,023,384
Charge-offs	(117,020)	(129,146)	(294)	(82,115)	-	(328,575)
Recoveries	61,419	34,406	5,732	46,042	6,893	154,492
Provision	22,099	16,982	3,967	3,263	3,689	50,000
Ending balance, December 31, 2019	$ 1,188,258	$ 931,984	$ 351,048	$ (32,810)	$ 460,821	$ 2,899,301
Portion of ending balance						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,188,258	931,984	351,048	(32,810)	460,821	2,899,301
Total ALLL evaluated for impairment	$ 1,188,258	$ 931,984	$ 351,048	$ (32,810)	$ 460,821	$ 2,899,301
Loans receivable						
Ending balance, December 31, 2019	$ 73,589,032	$ 98,757,645	$ 32,490,390	$ 12,630,532	$ N/A	$ 217,467,599
Portion of ending balance						
Individually evaluated for impairment	$ 1,100,745	$ 1,359,350	$ -	$ -	$ N/A	$ 2,460,095
Collectively evaluated for impairment	72,488,287	97,398,295	32,490,390	12,630,532	N/A	215,007,504
Total loans evaluated for impairment	$ 73,589,032	$ 98,757,645	$ 32,490,390	$ 12,630,532	$ N/A	$ 217,467,599

(Continued)

Note 3. Loans (Continued)

Past due loans

The following tables present an aged analysis of past due loans and loans on nonaccrual status by loan type as of December 31, 2020 and 2019:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90+ Day Past Due	Total Past Due	Total Loans Receivable	Non-Accrual Loans	Recorded Investment > 90 Days and Accruing
December 31, 2020								
Residential 1 – 4 family	$ 82,530,288	$ 863,024	$ 476,648	$ 569,755	$ 1,909,427	$ 84,439,715	$ 1,423,820	$ -
Commercial real estate	87,581,225	478,493	100,419	124,565	703,477	88,284,702	232,336	-
Commercial	46,153,016	35,137	55,432	5,000	95,569	46,248,585	30,594	-
Consumer	13,023,679	148,208	50,102	88,722	287,032	13,310,711	191,957	-
	$ 229,288,208	$ 1,524,862	$ 682,601	$ 788,042	$ 2,995,505	$ 232,283,713	$ 1,878,707	$ -
December 31, 2019								
Residential 1 – 4 family	$ 70,203,005	$ 2,029,997	$ 663,029	$ 693,001	$ 3,386,027	$ 73,589,032	$ 1,565,367	$ -
Commercial real estate	97,558,033	763,335	217,769	218,508	1,199,612	98,757,645	290,363	-
Commercial	32,133,424	180,367	30,000	146,599	356,966	32,490,390	146,599	-
Consumer	12,055,170	439,168	76,871	59,323	575,362	12,630,532	103,357	-
	$ 211,949,632	$ 3,412,867	$ 987,669	$ 1,117,431	$ 5,517,967	$ 217,467,599	$ 2,105,686	$ -

Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt or when the payment of principal or interest has become contractually 90 days past due unless the obligation is both well secured and in the process of collection.

Credit quality indicators

The Bank utilizes six classifications: pass, special mention, watch, substandard, doubtful, and loss. "Pass assets" have at least a reasonable credit risk. "Special mention assets" have weaknesses and warrant management's close attention. "Watch assets" have emerging problems and are showing early signs of weaknesses. "Substandard assets" have unsatisfactory characteristics that cause a more than acceptable level and risk and have one or more well-defined weaknesses that could jeopardize the repayment of the debt. "Doubtful assets" contain weaknesses that collection or liquidation in full is questionable. Doubtful loans are normally placed on the non-accrual list, regardless of past due status. "Loss assets" are considered uncollectible and of such little value that their continuance as an active bank asset is not warranted.

(Continued)

Note 3. Loans (Continued)

Credit quality indicators (Continued)

The following tables outline the amount of residential, commercial real estate, and commercial loans categorized into each risk rating class as of December 31, 2020 and 2019:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2020						
Residential 1 – 4 family	$ 80,957,141	$ 999,802	$ 2,482,772	$ -	$ -	$ 84,439,715
Commercial real estate	70,611,339	17,673,363	-	-	-	88,284,702
Commercial	45,946,306	229,032	73,247	-	-	46,248,585
	$ 197,514,786	$ 18,902,197	$ 2,556,019	$ -	$ -	$ 218,973,002
December 31, 2019						
Residential 1 – 4 family	$ 72,259,120	$ 470,075	$ 859,837	$ -	$ -	$ 73,589,032
Commercial real estate	97,028,635	1,197,063	531,947	-	-	98,757,645
Commercial	32,344,940	53,595	-	91,855	-	32,490,390
	$ 201,632,695	$ 1,720,733	$ 1,391,784	$ 91,855	$ -	$ 204,837,067

Consumer loans are not graded using the aforementioned system. The Bank uses the classifications of "performing" and "nonperforming" for consumer loans. "Performing loans" are current to 89 days past due. "Nonperforming" loans are 90 or more days past due. The following tables summarize the Bank's consumer loans based on performance as of December 31:

	2020	2019
Performing	$ 13,221,989	$ 12,571,209
Non-performing	88,722	59,323
	$ 13,310,711	$ 12,630,532

Troubled debt restructuring

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. By granting the concession, the Bank expects to increase the probability of collection by more than would be expected by not granting the concession. The Bank's determination of whether a modification is a TDR considers the facts and circumstances surrounding each respective modification. TDR loans are individually evaluated for impairment in the allowance for loan losses. There were no loans modified as TDR during 2020 or 2019.

(Continued)

Note 3. Loans (Continued)

Troubled debt restructuring (Continued)

The Company has offered short-term loan modifications to assist borrowers during the COVID-19 national emergency. These modifications generally involve principal and/or interest payment deferrals for up to a three months for commercial and consumer loans, and principal-only deferrals for up to an additional three months for selected commercial loans. The Company generally continues to accrue and recognize interest income during the forbearance period. The Company offers several repayment options such as immediate repayment, repayment over a designated time period or as a balloon payment at maturity, or by extending the loan term. These modifications generally do not involve forgiveness or interest rate reductions. The CARES Act, along with a joint agency statement issued by banking agencies, provide that these modifications made in response to COVID-19 are not required to be accounted for as a TDR. Accordingly, the Company does not account for such loan modifications as TDRs. As of December 31, 2020, COVID-19 related loan modifications totaled $21,236,200 (84 loans) for the commercial segment and $5,745,727 (45 loans) for the consumer segment.

The Company participated in PPP lending. PPP loans are included in the Commercial and Industrial loan class. As of December 31, 2020, the Company had 291 PPP loans outstanding, with an outstanding principal balance of $ 17,349,180.

Foreclosed properties

Foreclosed properties as of December 31, 2020 included four residential real estate properties with a carrying value of $127,881.

Residential real estate properties for which the foreclosure process had begun but had yet to be completed as of December 31, 2020 consisted of four properties with associated loan values totaling $280,507.

Note 4. Premises and Equipment

The major classes of premises and equipment and the total accumulated depreciation are as follows:

	2020	2019
Land	$ 3,330,702	$ 3,330,702
Bank buildings and improvements	10,580,422	10,516,907
Furniture and equipment	3,861,114	3,653,949
Construction in progress	3,998	67,777
Automobile	322,887	322,887
	18,099,123	17,892,222
Less: accumulated depreciation	(7,250,689)	(6,704,618)
	$ 10,848,434	$ 11,187,604

Depreciation expense in 2020 and 2019 was $546,071 and $501,090, respectively.

(Continued)

Note 5. Federal Home Loan Bank Advances

Pursuant to collateral agreements with the Federal Home Loan Bank (FHLB), advances are collateralized by the Bank's stock in the FHLB and a blanket pledge of qualifying first mortgage loans. The lendable collateral value of the loans as of December 31, 2020 and 2019 was $46,760,046 and $47,671,030, respectively.

The company had advances totaling $15,000,000 and $10,000,000 in 2020 and 2019, respectively. The advances subsequently paid off during the same year the advance took place.

Note 6. Deposits

Deposit account balances are summarized as follows:

	2020	2019
Non-interest bearing checking	$ 113,589,498	$ 74,219,232
Interest bearing checking	69,305,518	39,391,469
Savings	61,272,370	41,894,891
Individual retirement accounts	15,708,220	16,266,255
Certificates of deposit	69,400,786	78,915,745
	$ 329,276,392	$ 250,687,592

The aggregate amount of time deposits in denominations of $250,000 or more as of December 31, 2020 and 2019 was $11,782,904 and $21,658,221, respectively.

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

2021	$ 53,022,194
2022	10,752,178
2023	2,569,857
2024	2,254,212
2025	773,481
Thereafter	28,864
	$ 69,400,786

Note 7. Income Taxes

The provision for income taxes consists of the following:

	2020	2019
Current tax expense	$ 585,130	$ 380,420
Deferred tax (benefit) expense	(159,441)	6,856
	$ 425,689	$ 387,276

(Continued)

Note 7. Income Taxes (Continued)

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2020		2019	
	Amount	%	Amount	%
Expected tax provision at enacted rate	$ 568,265	21.00 %	$ 547,080	21.00 %
Tax effect of:				
Tax exempt income	(234,023)	(8.65)	(251,645)	(9.66)
Other items, net	91,447	3.38	91,841	3.53
Income taxes	$ 425,689	15.73 %	$ 387,276	14.87 %

The net deferred tax asset consists of the following components:

	2020	2019
Deferred tax assets		
Allowance for loan loss	$ 524,846	$ 494,722
Deferred compensation	302,650	302,650
Interest on non-accrual loans	18,065	21,885
Impaired assets – OREO	7,155	14,417
Deferred self-employment retirement plan	22,108	21,832
Pass-through investments and other	91,981	49,072
PPP fees	104,242	-
Total deferred tax assets	1,071,047	904,578
Deferred tax liabilities		
Accretion – investment securities	18,134	14,619
Amortization – intangibles	181,736	181,736
Unrealized gain on securities available-for-sale	187,040	100,737
Depreciation	161,813	158,301
Total deferred tax liabilities	548,723	455,393
Net deferred tax asset	$ 522,324	$ 449,185

(Continued)

Note 7. Income Taxes (Continued)

At December 31, the Company did not have a valuation allowance. Realization of deferred tax benefits is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

Powell Valley National Bank is exempt from state income taxes in Virginia as are all other banks in the state. Instead, banks are assessed a franchise tax based on an adjusted capital calculation. The Bank franchise tax expense was approximately $271,000 and $220,000 for 2020 and 2019, respectively. The Bank includes such accrued franchise tax payable in other liabilities, and the related expense is included in other operating expenses.

Note 8. Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer is 2.50% for both 2020 and 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Bank met all capital adequacy requirements to which it is subject. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain companies with assets under $1 billion.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

Note 8. Regulatory Capital Requirements (Continued)

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are as follows (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Total capital to risk weighted assets	$ 43,095	18.31 %	$ 18,830	8.00 %	$ 23,537	10.00 %
Consolidated	52,703	22.39	18,830	8.00	N/A	
Tier I capital to risk weighted assets	40,152	17.06	14,122	6.00	18,830	8.00
Consolidated	49,760	21.14	14,122	6.00	N/A	
Tier I leverage to average assets	40,152	10.69	15,020	4.00	18,776	5.00
Consolidated	49,760	12.93	15,388	4.00	N/A	
Common equity Tier I to risk weighted assets	40,152	17.06	10,592	4.50	15,299	6.50
Consolidated	49,760	21.14	10,592	4.50	N/A	
December 31, 2019						
Total capital to risk weighted assets	$ 42,801	19.39 %	$ 17,655	8.00 %	$ 22,068	10.00 %
Consolidated	51,640	23.40	17,655	8.00	N/A	
Tier I capital to risk weighted assets	40,041	18.14	13,241	6.00	17,655	8.00
Consolidated	48,880	22.15	13,241	6.00	N/A	
Tier I leverage to average assets	40,041	13.08	12,240	4.00	15,301	5.00
Consolidated	48,880	15.52	12,599	4.00	N/A	
Common equity Tier I to risk weighted assets	40,041	18.14	9,931	4.50	14,344	6.50
Consolidated	48,880	22.15	9,931	4.50	N/A	

(Continued)

Note 9. Restriction on Dividends

The payment of dividends by the Company depends to a great extent on the ability of the Bank to pay dividends to the Holding Company. The Bank, as a Virginia banking corporation, may pay dividends only out of its retained earnings. The payment of dividends by any bank is dependent upon its earnings and financial condition and is subject to the statutory power of certain federal and state regulatory agencies to act to prevent what they deem unsafe or unsound banking practices. Moreover, the Federal Reserve Board, the Comptroller of the Currency and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings. The approval of the regulatory agency is required if the dividends declared in any year exceed net income for that year combined with the retained net income of the two preceding years. The payment of dividends by the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. During 2020, the Bank paid $2,202,050 in dividends to the Company, which resulted in a balance of $308,568 available to be distributed without prior approval. During 2020 and 2019, the Company declared and issued $1,254,098 and $1,201,844, respectively, in dividends to shareholders.

Note 10. Employee Benefit Plans

401(k) and profit share plan

The Bank has a 401(k) Plan ("Plan") to provide retirement benefits for its employees. Employees may make elective contributions to the Plan, limited to a maximum annual amount as set by the Internal Revenue Service. The Bank matches employee contributions dollar for dollar up to a maximum of 2.50% per year per person plus a discretionary profit share contribution as determined by the board of directors. In 2020, the Bank elected to contribute an additional 2.50% of each employee's gross pay into the Plan for eligible employees. Expenses attributable to the Plan amounted to $225,892 and $182,512 for 2020 and 2019, respectively.

Board of Directors deferred compensation plan

In 2000, the Bank adopted a nonqualified deferred compensation plan for the Board of Directors, administered by the VBA Benefits Corporation. Under the plan, a rabbi trust was established as a source of funds to pay benefits under the plan. Each participant may make annual elective contributions to the Plan. The rabbi trust assets are subject to the general unsecured creditors of the Bank. As of December 31, 2020 and 2019, the accumulated fair value of the assets in the trust was $1,477,497, and has been reported in Other Assets on the Company's consolidated statement of financial condition. A corresponding liability of equal amount is reported in Accrued Interest and Other Liabilities.

Supplementary executive retirement plan

The Bank provides a non-qualified long-term incentive plan for certain executive officers of the Bank. The funds necessary to guarantee these payments are being provided through life insurance policies on the life of each officer. The Bank is the owner and beneficiary of each life insurance policy. In 2020 and 2019, $1,312 and $778 was charged to expense under this plan, respectively.

(Continued)

Note 11. Commitments and Contingencies

Financial instruments with off-balance-sheet risk

The Bank is 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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments. A summary of the Bank's commitments as of December 31 is as follows:

	2020	2019
Commitments to extend credit	$ 32,992,990	$ 27,573,366
Standby letters of credit	1,344,900	1,858,700
	$ 34,337,890	$ 29,432,066

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

Significant concentrations of credit risk

All of the Bank's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank's market area. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers.

(Continued)

Note 11. Commitments and Contingencies (Continued)

Significant concentrations of credit risk

The legal lending limit as of December 31, 2020 is approximately $6.4 million. The Bank as a matter of policy does not routinely extend credit to any single borrower or group of related borrowers in excess of one half of the legal lending limit. Any extension of credit in excess of one half of the legal lending limit must be expressly approved by the Board of Directors. Although the Bank has a diversified loan portfolio, loans are concentrated mainly in the Lee, Scott, and Wise County region with a concentration in residential and nonresidential rental properties and the heavy construction and mining industries.

Reserve requirements

Under agreements with correspondent banks, the Bank maintains deposit balances with the correspondents to cover various bank processing charges. In addition, the Bank is required to maintain average reserve balances on hand or with the Federal Reserve Bank based on customer deposit balances. As of December 31, 2020, the Bank had no reserve requirement. As of December 31, 2019, the reserve requirement was $2,670,000.

Legal contingencies

The Company from time to time is party to various legal actions normally associated with its bank subsidiary. In the opinion of management and counsel, liabilities, if any, arising from such proceedings presently pending would not have a material adverse effect on the financial position of the Company.

Note 12. Fair Value Disclosures

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value techniques or other valuation models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities, and third party information.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

(Continued)

Note 12. Fair Value Disclosures (Continued)

- Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The Bank uses fair value measurements to record certain assets and to determine fair value disclosures. The Bank does not have any liabilities that are measured at fair value. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time the Bank may be required to record at fair value other assets or liabilities on a non-recurring basis.

Assets measured at fair value on a recurring basis at December 31 are summarized below. In addition, the Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a non-recurring basis that were still held in the balance sheet at year end, the tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at December 31:

		Fair Value Measurement		
December 31, 2020	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets measured on a recurring basis				
Available-for-sale securities:				
U.S. government agencies and corporations	$ 999,325	$ -	$ 999,325	$ -
State and political subdivisions	21,406,001	-	21,406,001	-
Mortgage-backed securities	5,138,682	-	5,138,682	-
Corporate debt and other securities	1,573,810	-	1,573,810	-
	$ 29,117,818	$ -	$ 29,117,818	$ -
Trading securities:				
Mutual funds held in rabbi trust	$ 1,441,191	$ -	$ 1,441,191	$ -
Assets measured on a non-recurring basis				
Impaired loans, net	$ 3,646,779	$ -	$ -	$ 3,646,779
Foreclosed real estate and property repossessions	505,981	-	-	505,981
	$ 4,152,760	$ -	$ -	$ 4,152,760

(Continued)

Note 12. Fair Value Disclosures (Continued)

December 31, 2019	Fair Value	Fair Value Measurement Level 1	Level 2	Level 3
Assets measured on a recurring basis				
Available-for-sale securities:				
U.S. government agencies and corporations	$ 499,675	$ -	$ 499,675	$ -
State and political subdivisions	24,271,551	-	24,271,551	-
Mortgage-backed securities	7,672,842	-	7,672,842	-
Corporate debt and other securities	2,361,836	-	2,361,836	-
	$ 34,805,904	$ -	$ 34,805,904	$ -
Trading securities:				
Mutual funds held in rabbi trust	$ 1,477,497	$ -	$ 1,477,497	$ -
Assets measured on a non-recurring basis				
Impaired loans, net	$ 2,460,095	$ -	$ -	$ 2,460,095
Foreclosed real estate and	-	-	-	-
property repossessions	765,000	-	-	765,000
	$ 3,225,095	$ -	$ -	$ 3,225,095

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments, along with a description of the valuation methodologies used for those instruments measured at fair value.

Securities

The Bank obtains fair value measurement from an independent pricing service, using quoted prices if available. If quoted market prices are not available, then fair value is estimated by using quoted prices of securities with similar characteristics; quoted prices in markets that are not active; or, other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Impaired loans

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, its fair value is estimated using several methods including collateral value, observable market value, and discounted cash flows.

(Continued)

Note 12. Fair Value Disclosures (Continued)

Impaired loans (Continued)

As of December 31, 2020, substantially all of the total impaired loans were evaluated (or impaired loans were primarily evaluated) based on the fair value of collateral. When the fair value of the collateral is based on the observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as non-recurring Level 3. Most of the impaired loans at December 31, 2020 and 2019 were measured using an appraisal, with some discount applied, and are considered Level 3 measurements.

Note 13. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Directors and officers of the Bank and their affiliates were customers of the Bank in the ordinary course of business. The following table presents the activity of such loans for the years ended December 31:

	2020	2019
Balance, January 1	$ 1,273,896	$ 1,135,427
Borrowings	529,434	566,500
Repayments	(236,683)	(428,031)
Balance, December 31	$ 1,566,647	$ 1,273,896

Loan transactions with directors and officers were made on substantially the same terms as those prevailing at the time made for comparable loans to other persons and did not involve more than normal risk of collectability or present other unfavorable features.

The amount of deposits belonging to executive officers and directors of the Bank or indirectly by corporations, partnerships, or joint ventures in which these individuals have an interest were approximately $15.2 million and $9.5 million as of December 31, 2020 and 2019, respectively.

The Bank purchases insurance coverage from an insurance company that is majority-owned by a member of the Board of Directors. Competitive bids were obtained but none were found to be more favorable than the current policies obtained. During 2020 and 2019, the Bank paid the insurance agency $175,350 and $63,993, respectively.

(Continued)

Note 14. Revenue Recognition

The Company's revenue from contracts with customers in the scope of ASC Topic 606 is recognized within noninterest income with the exception of gains and losses on sales of OREO, which is located in noninterest expense.

A description of the Company's noninterest income is as follows:

Service charges on deposit accounts: The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. The Company also earns fees from its customers for transaction-based services. Such services include safe deposit box, ATM, stop payment, and wire transfer fees. In each case, these service charges and fees are recognized as income at the time or within the same period that the Company's performance obligation is satisfied.

Interchange fee income, net: The Company earns interchange fees from debit and credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Noninterest income: The following table illustrates the Company's total noninterest income segregated by revenues within the scope of Topic 606 and those which are within the scope of other ASC topics:

	2020	2019
Service charges on deposit accounts	$ 294,997	$ 395,212
Other customer service fees	738,181	676,295
Revenues from contracts with customers	1,033,178	1,071,507
Noninterest income within scope of other ASC topics	976,371	487,063
Total noninterest income	$ 2,009,549	$ 1,558,570

KIND WORDS FROM OUR PAYCHECK PROTECTION PROGRAM (PPP) RECIPIENTS

ABOVE: The team at Moving Forward Physical Therapy

"As a result of COVID-19, our small business suffered a significant decline with regard to revenue in the second quarter of 2020. Fortunately, we were able to secure paycheck protection program (PPP) funds through Powell Valley National Bank (PVNB). As a result, we were able to maintain our payroll and all employees were retained during this unprecedented time. Without the PPP funds and assistance provided by PVNB, our business may not have been able to survive. We were very blessed and thankful to have been able to weather the storm. Thank you to PVNB for working diligently for their small business customers in Lee County."

– Margaret Gibson, Vanessa Sutphin-Mayes, and Josh Terry
Moving Forward Physical Therapy, Inc.

"Mary Beth, Can't tell you how thankful I am for all the hard work you have done to get the second round approved. I and our staff thank you for this, it will will give Cornerstone long term financial stability now. From the bottom of my heart I thank you! GOD is good!"

– Steve Garrett
Cornerstone Physical Therapy

"The outbreak of the pandemic immediately caused a 70% decline in my business. Because of PPP funding, I have been able to keep all of our long term employees and was able to help them by providing some stability and security during very uncertain times. As a local business owner, it was important to me to stay open and without a PPP loan, I would not have been able to make it. I am grateful to still be in business and look forward to serving the community for many years to come!"

– Jackie Vaughn
Golden Corral Kingsport

ABOVE: Alexa Cleek - Intellithought

"The PVNB team provided outstanding service throughout the application, funding, and forgiveness process for our PPP loan. Many thanks to everyone who took part in this initiative!"

– Tammy Edwards
Intellithought, Inc.

Powell Valley National Bank and Chef's Pizzeria, Kingsport

In his 1981 inaugural address, President Ronald Reagan said, "Those who say that we're in a time when there are no heroes, they just don't know where to look." The Tennessee banking community found one hero in the midst of the Paycheck Protection Program chaos—Mary Beth Baker from Powell Valley National Bank. Through a display of passion for banking at its most fundamental level, Baker found the stamina to help her customers, inspire other bankers, and answer email after email with technical questions related to the "P3" from bankers across the state who she had never met.

Looking at the past few weeks, Baker feels "If there has ever been a time for community banks to step forward and be the resource we pride ourselves in being, it has been at no greater time than the present."

This was driven home to Baker early into the PPP rollout. She contacted her customer, Steve LaHair, by phone on Sunday, April 5, to let him know she had secured SBA approval and PPP funds for his company. LaHair expressed his sincere appreciation, saying his staff is his family and telling Baker she and her bank had just helped not only 26 employees, but 26 families.

Steve and Trida LaHair are the owners of Chef's Pizzeria, a mom-and-pop restaurant originally founded in 1991 serving the Tri-Cities area. For the pizzeria, the economic impact of the pandemic was felt immediately. In one week's time, sales dropped 30%, and they lost catering commitments for more than 2,000 people. The decline in revenue forced them to reduce their employees' hours and close their dining room. Seeking PPP assistance helped the owners meet their overall goal—continue to pay their team members. Steve and Trida realized that the restaurant not being open for normal operations would not change the fact that their employees' bills would still be due for payment and they would continue to have other financial needs to support their families. "Without keeping our employees employed, we would not be able to sustain our business through this crisis," they said.

As the team lead for Powell Valley National Bank, Baker shared the impact of the PPP with her team, highlighting what a special opportunity they had been given through the program and what a contribution it would allow them to make in their communities. From their efforts, they have helped more than 300 small businesses and 3,000 employees across East Tennessee and Southwest Virginia. But, Baker notes, "In addition, and most importantly, we have helped over 3,000 families."

ABOVE: Chef's Pizzeria co-owner Steve LaHair and his wife Trida.

LEFT: Mary Beth Baker of Powell Valley National Bank

"We have helped more than 300 small businesses and 3,000 employees across East Tennessee and Southwest Virginia. But most importantly, we have helped over 3,000 families."

WE ARE PROUD TO SUPPORT OUR LOCAL COMMUNITY

Powell Valley National Bank's PPP program gained national recognition for its PPP program efforts.

Mary Beth represented PVNB as a two-time presenter for the National Association for Business Economics, serving as a featured presenter on behalf of the Paycheck Protection Program, providing a banker's perspective. She was very active with the Tennessee Bankers Association, working to lead bankers across Tennessee with implementing their PPP programs, and she served on Governor Lee's advisory council representing the banking industry in working to help provide safe and prudent measures for operating throughout the pandemic.

Mary Beth Baker - Senior Vice President

Matthew Eades - Vice President

“In 2020, our team originated over $25.3 million in Paycheck Protection Loans, assisting over 450 small businesses, their employees, and families. Paula, Wayne, Matt, and myself made up the core PPP team, however this process has encompassed and embodied the assistance of so many others! The support of Karen, Aaron, Ashley H., Melody, Angie R., and Haley, along with the guidance of Lee and Leton, and Browning spent so many late nights with us in Jonesville.

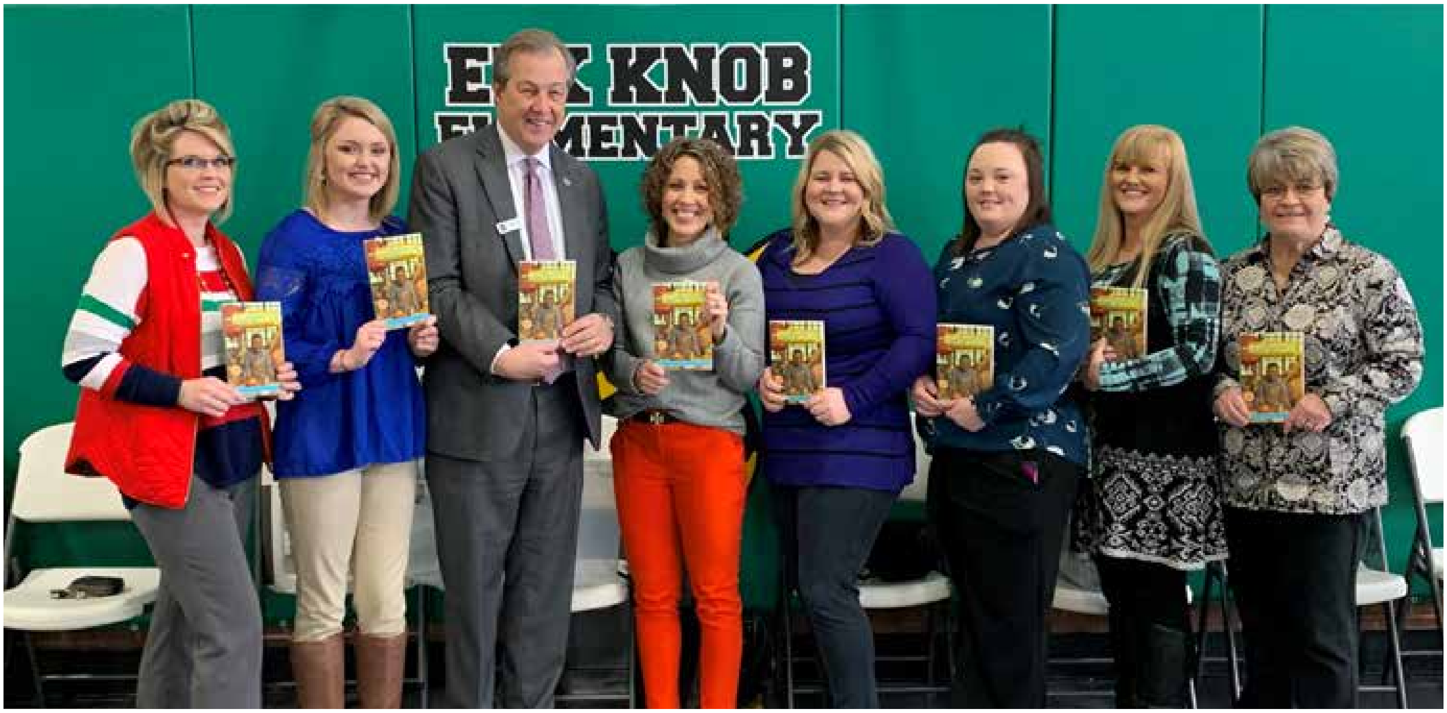
I wish we had documented in pictures how the past year has transpired. The resilience, the effort, the laughs, and sometimes tears. The thankfulness and gratefulness expressed by our customers. Words cannot express the emotion from this experience – one of the most rewarding of my career.

We have grown as a bank family; we have learned to lean on one another, support one another, & uplift one another.”

– Mary Beth Baker

Paula Lawson - Vice President

Wayne Largen - Assistant Vice President



Virginia Reads One Book at Elk Knob–March 2020

Honoring United Way of Greater Kingsport's Brent Mullins

The BMA honored Brent Mullins, Vice President and Office Manager of Powell Valley National Bank, who served as the 2020 Campaign Chair for United Way of Greater Kingsport. He led the Campaign Cabinet in raising over $2.83 million in cash and pledges to fund programs and initiatives that enable the community to make Greater Kingsport an even better place to live, work, and raise a family. He also led the community to provide total resources of nearly $3.11 million for United Way to deliver its mission of improving lives, inspiring hope and creating opportunities for a better life for all.

ABOVE: Mayor Pat Shull and Brent Mullins

"Brent served as the United Way of Greater Kingsport Campaign Chair for the 2020 fundraising year, helping to raise an incredible $3.1 Million despite an extremely tough environment. Brent's decade of experience and legacy of service to United Way has been an example to all. When Brent speaks, people immediately recognize the authenticity of his words and the stewardship he invests in his community."

– Danelle Glasscock
United Way Kingsport

ABOVE: Leton's zoom induction of Vice Chairman of the Virginia Bankers Association Board of Directors
BELOW: The team in Richmond visiting with legislators at VBA's Banker Day last January.


Hey
team
two
We
Miss
you...
MORE
Love,
team one,
April, 2020

ABOVE: Head Teller Zoom call | **BELOW:** Boss Appreciation Day

ABOVE: Susan Barber retired in June, and we celebrated with a fiesta. Susan, thank you for 40 years of service to our bank, and for playing such an important role with the Bank, Powell Valley Bankshares, and the Board.

BELOW: Congratulations and many thanks to Mary Ann Fannon and Jan Collins

BOARD OF DIRECTORS, OFFICERS, AND STAFF

DIRECTORS

Leton L. Harding, Jr.
Sarah Wynn
Roy E. Woodward, Jr.
F. Winston Witt, Jr.
Robert T. Estes
Browning Wynn, II
H. Fuller Cridlin

ADVISORY BOARD

Roger Audia
Bruce Robinette

OFFICERS

Leton L. Harding, Jr.	Chairman, President, and Chief Executive Officer
Roy E. Woodward, Jr.	Secretary of Corporation
Larry K. Presley	Executive Vice President, Finance and Investments
Lee Houston	Senior Vice President and Chief Credit Officer
Samuel L. Neese	Senior Vice President & Market Executive
Cory B. Dotson	Senior Vice President & Market Executive
Ted Fields	Senior Vice President & Market Executive
Samuel L. Neese	Senior Vice President & Market Executive
Browning Wynn, II	Senior Vice President & Market Executive
Charles L. Allen	Senior Vice President, Pennington Gap Office Manager, and CRA Officer
Mary Beth Baker	Senior Vice President, SBA and Retail Loan Administrator
Carol W. Hayes	Senior Vice President & Wise Office Manager
Aaron C. Hicks	Senior Vice President and Chief Financial Officer
Amy T. Mellinger	Senior Vice President, Human Resources and Marketing
Gary Richardson	Senior Vice President & Big Stone Gap Office Manager
Karen Wright	Senior Auditor
Kara Barrett	Vice President and Senior Credit Analyst
Tiffany Collier	Vice President, Director of Training and Retail Banking
Matthew Eades	Vice President, Loan Administration and Office Manager
Mark Farris	Vice President & Business Development Officer
Ross Hawkins	Vice President & Collections Officer
Jason Laster	Vice President & Director of Information Technology
Paula Lawson	Vice President & Loan Officer
Douglas McDonald	Vice President & Duffield Office Manager
Brent D. Mullins	Vice President & Kingsport Office Manager
Mike Sprinkle	Vice President & Loan Officer
James D. Swartz	Vice President & Loan Review Officer
Jeff Woodard	Vice President, Jonesville Office Manager, & Security Officer
Tonya Buchanan	Assistant Vice President
Angela Combs	Assistant Vice President
Melody Dale	Assistant Vice President
Cassie Dotson	Assistant Vice President
Ashley Hammonds	Assistant Vice President
Howard J. Jones	Assistant Vice President
Wayne Largen	Assistant Vice President
Sarah Moore	Assistant Vice President
Marsha Nickodam	Assistant Vice President
Roy Richmond	Assistant Vice President
Linda Thomas	Assistant Vice President
Tammy Large	Compliance Officer
T. Allen Poole	Investment Executive for Powell Valley Investment Services

STAFF

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Karen Ellison
Cameron Gill
Sharon Harber
Amanda Huff
Crystal Mahon
Julia Napier
Debra Qualls
Crissie Robinson
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Buffy Burgan
Lisa Christie
Savana Corbin
Sharon Garrett
Norma Grace
Brittney Nelson

WISE

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Angie Farmer
Rachel Houston
Sharon Jones
Betty Manis
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Sue Huff
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Margaret Hensley
Angela Provett-Ricker
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Catherine Musick
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