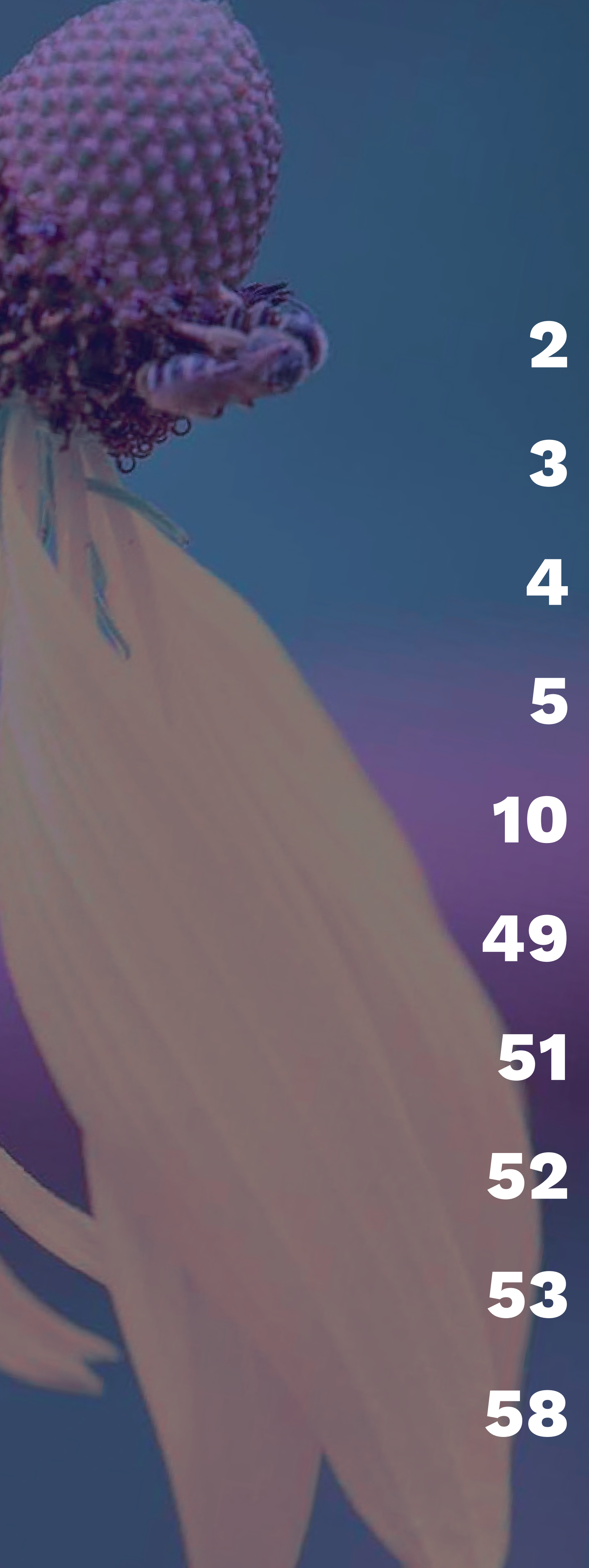
POWELL VALLEY
NATIONAL BANK

Powell Valley Bankshares, Inc.
2021 ANNUAL REPORT



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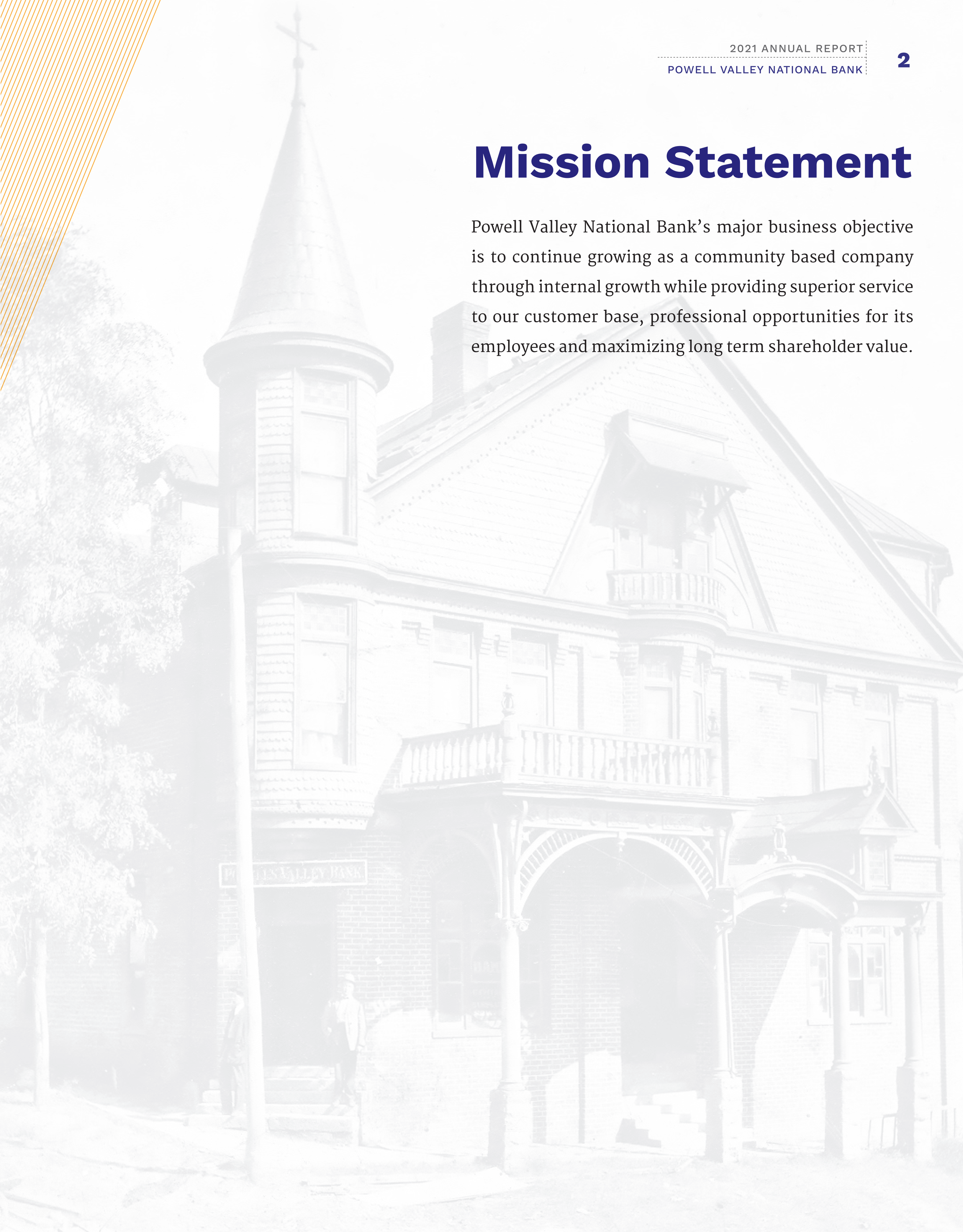
Mission Statement

Powell Valley National 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.



Board of Directors

Powell Valley Bankshares Inc. Board of Directors

Bottom Row Left to Right: Browning Wynn, II and Leton L. Harding, Jr., President and Chairman of the Board

Top Row Left to Right: F. Winston Witt, Jr., H. Fuller Cridlin, Sarah Wynn, Roy E. Woodward, Jr., and Robert T. Estes

LETON L. HARDING, JR.

President, CEO, and
Chairman of the Board

Letter to Our Shareholders

To Our Shareholders,

As we look back in reflection over the past year, and forward in anticipation of the future, we see the strength, resilience, and continued commitment to service that has been the mission of your Company for the past 134 years.

2021 was filled with the continued and prolonged presence of Covid-19, with vaccine development and distribution providing hope and optimism early in the year but pulling us back into murky waters with the spread of both the Delta and Omicron variants throughout the second half of the year.

Your Company continued to navigate through the changes, pivoting when necessary and adapting to the constantly changing landscape that delivered temporary lobby closures, extended hybrid work schedules, and accelerated the need to meet our customers where they are, providing zoom appointments and meetings for customer convenience, and the continued development of delivering all products and services across electronic banking channels.

The past couple years have been filled with great adversity; however, we have been reminded that adversity and challenges do not define your Company. Our response to those challenges, approach to adversity, and behavior to overcome those trials and hardships define us. The leadership of your Company has been displayed across our region in a manner which can only be characterized by the rich heritage and the essence of servanthood found within the people of the Appalachian Highlands.

PVNB's attitude of servant leadership was evidenced through numerous educational initiatives heightening the awareness and usage of technology delivered via trusted bank employees. Creating customer knowledge of the safety, security, and ease of managing their financial assets through online banking, direct deposit, debit cards, and remote deposit capture was a major achievement during these hard times.

After a very successful first round Paycheck Protection Program (PPP) effort led by our PPP Taskforce, a second round was announced in January 2021. Once again, your Company was ready to support the businesses across our communities. We were able to provide an additional $14.3 million in second round SBA PPP funding distributed to over 350 small businesses and local farmers affected by the lingering Covid-19 pandemic.

With a continued focus on promoting homeownership, your Company has participated in the Federal Home Loan Bank's First-Time Homebuyers and Community Partners Program, providing around 20 households across Southwest Virginia and Northeast Tennessee with down-payment assistance funds.

The consolidation of these efforts, combined with a pursuit for continued growth in commercial and agricultural lending has not only helped preserve our heritage, but it has also produced loan growth and sustainability that have propelled our total assets to over $435 million. Earnings for 2021 yielded approximately $2.9 million, while improving shareholder value by more than $3.81 per share.

In many ways, 2021 was longer and more arduous than 2020 as we were still carrying the burden of a pandemic on our shoulders. Our thoughts and prayers continue to be with our communities, friends, and neighbors, and our dedicated employees, who suffered during the grueling year from illness, loss, isolation, and mental and physical exhaustion.

Anticipating progress, an improved state of health, and a return to normalcy, may you find peace and assurance in knowing that your Bank is committed to displaying the spirit of leadership in expanding products and services which will benefit the communities in which we serve, increasing profitability, seeking additional talent, providing professional opportunities for our employees, and solidifying our position as a strong, regional community bank headquartered in Southwest Virginia.

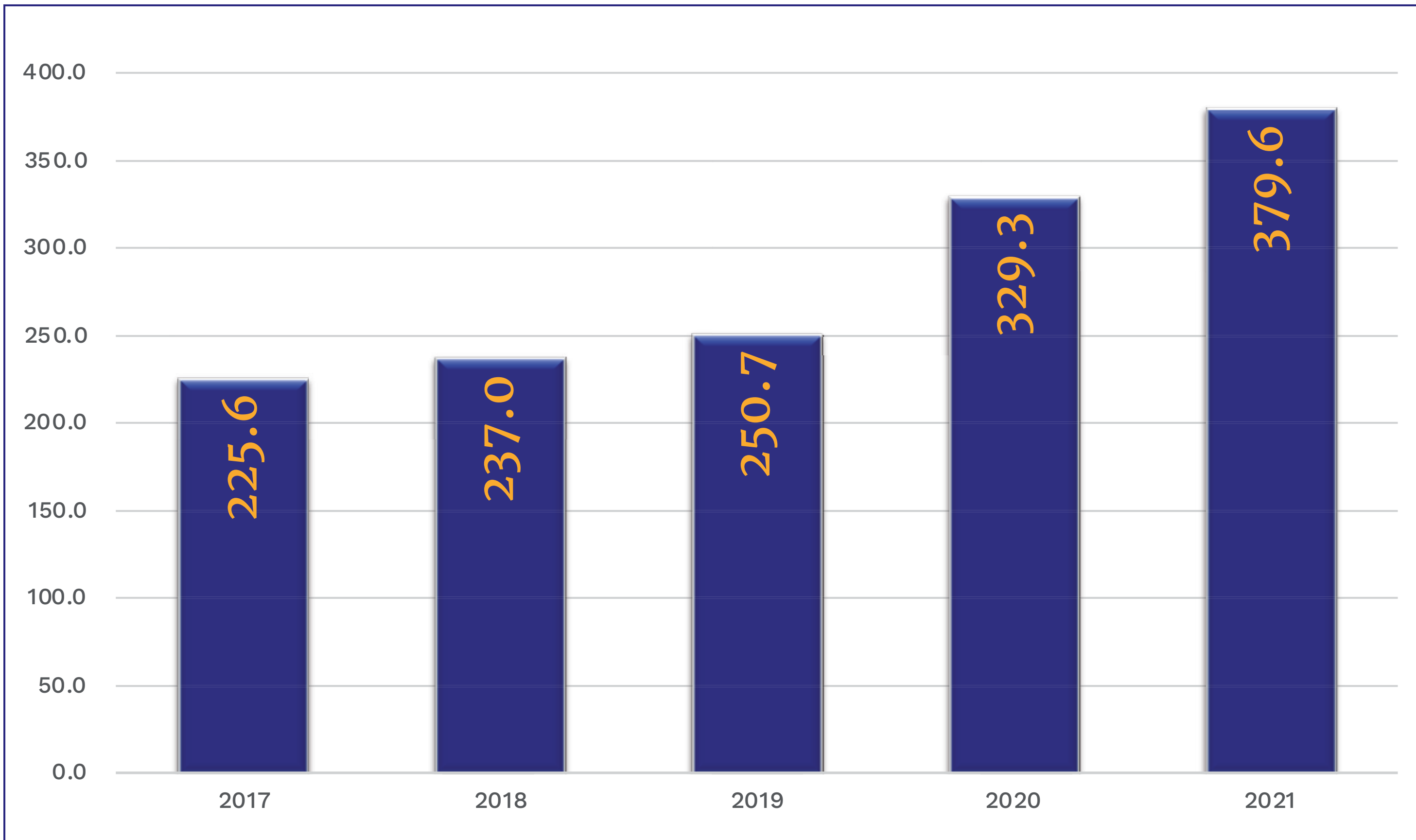
Stay Safe,
Leton L. Harding, Jr.
President, Chairman, and CEO

Financial Highlights - Five Year Summary

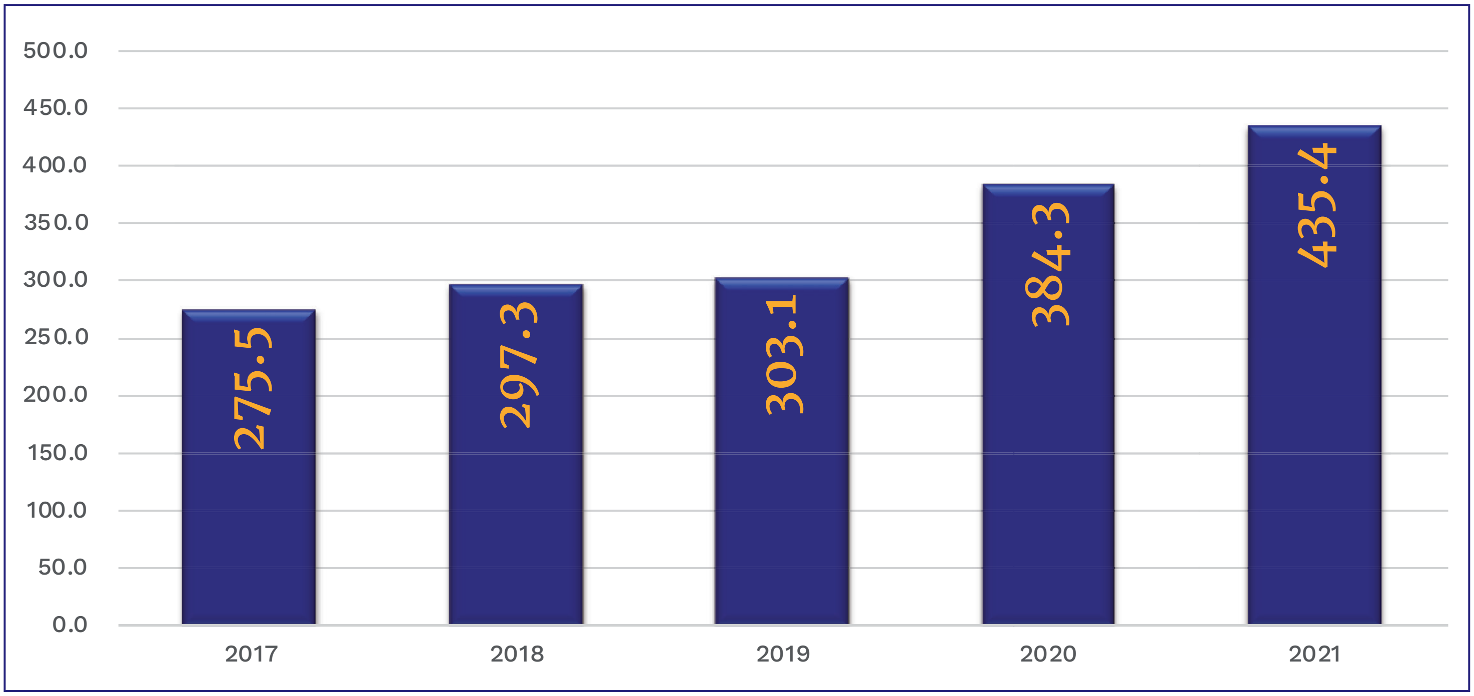
(In Thousands of Dollars)

	2021	2020	2019	2018	2017
Net Earnings After Taxes	2,951	2,280	2,218	2,465	2,165
Total Deposits	379,577	329,276	250,688	237,019	225,569
Net Loans	247,069	228,745	214,568	191,336	179,947
Total Assets	435,362	384,331	303,131	297,272	275,493
Capital	53,239	52,177	49,978	47,799	47,236
Total Dividends	1,306	1,254	1,202	1,150	1,097

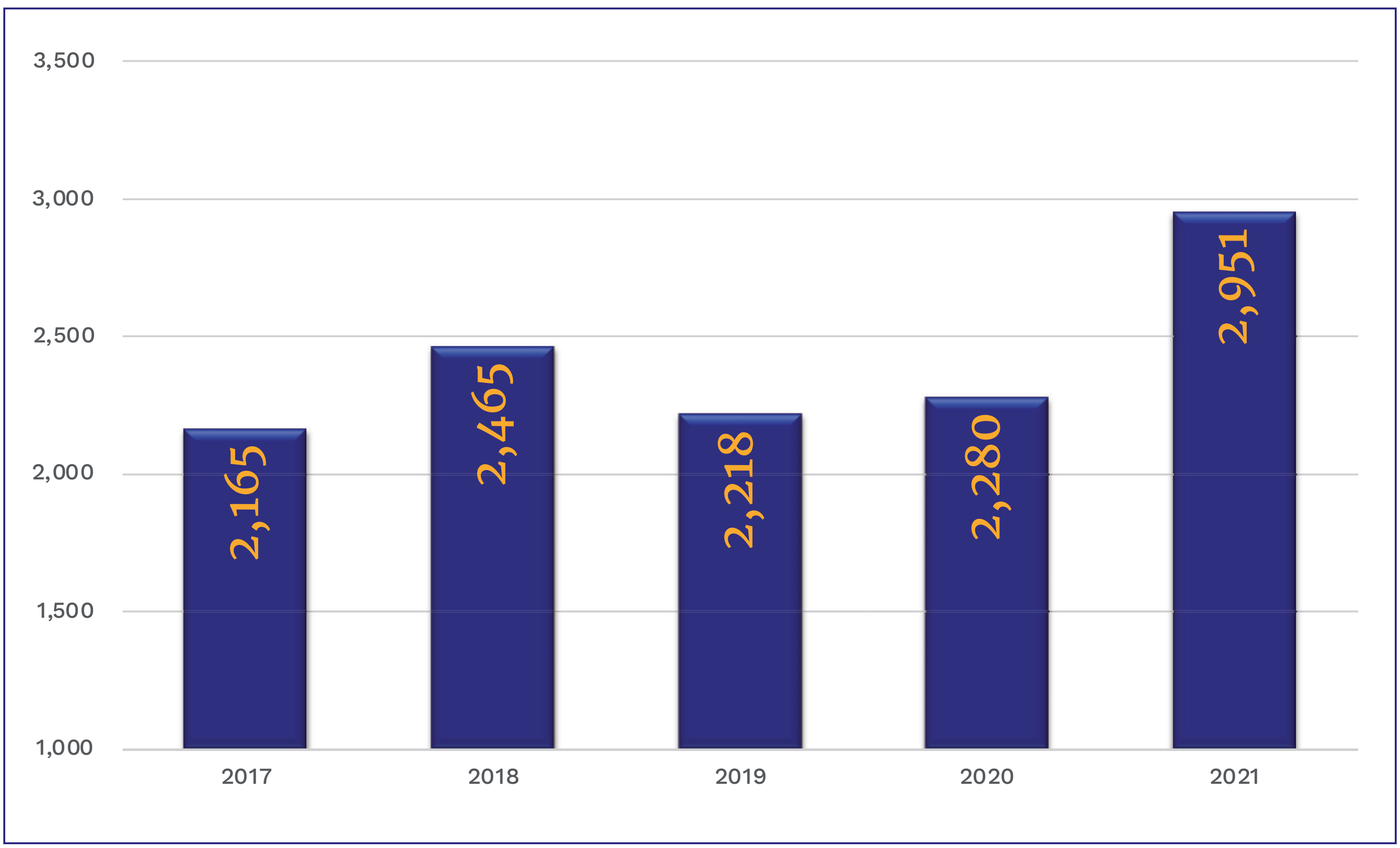
Total Deposits (Millions of Dollars)



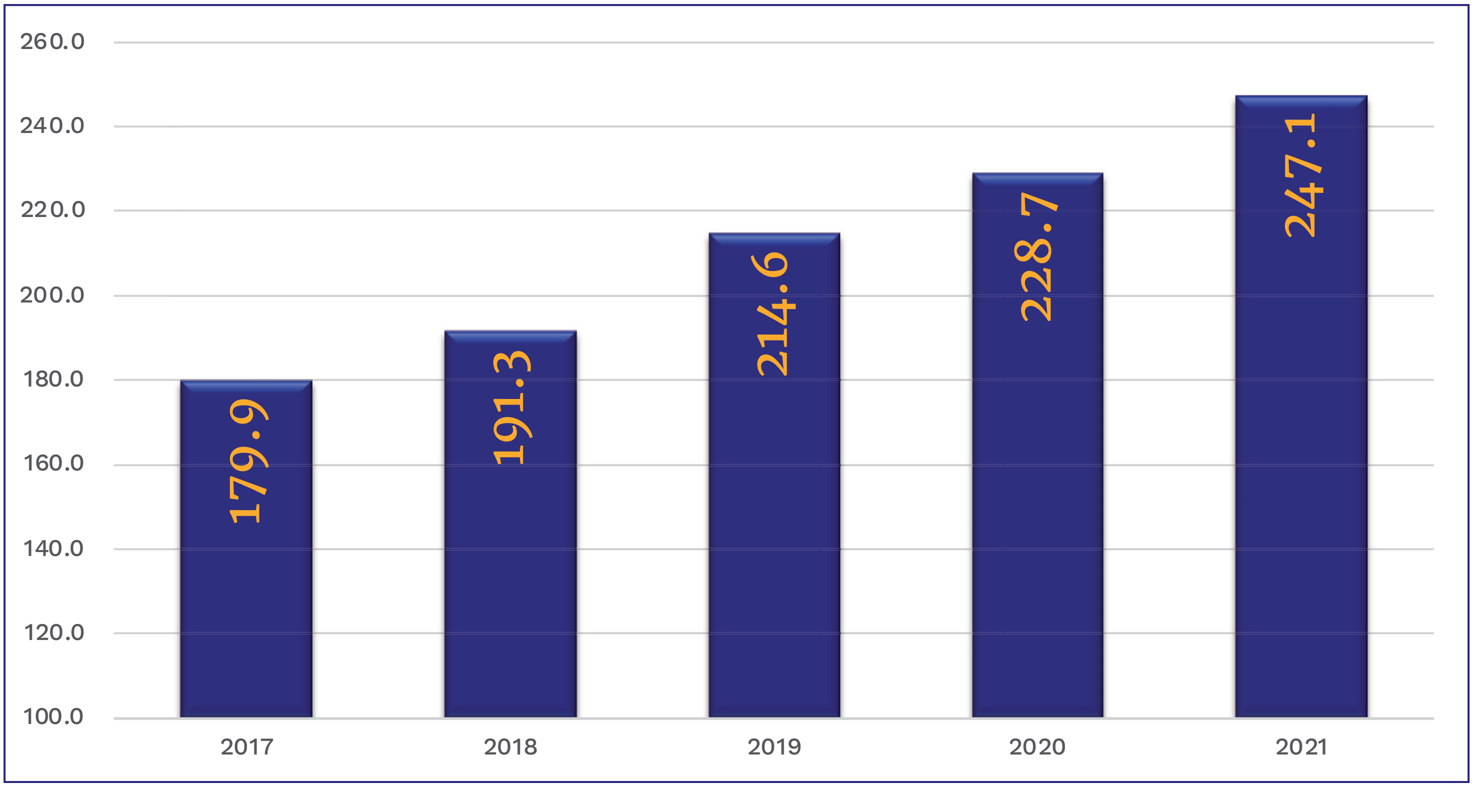
Total Assets (Millions of Dollars)



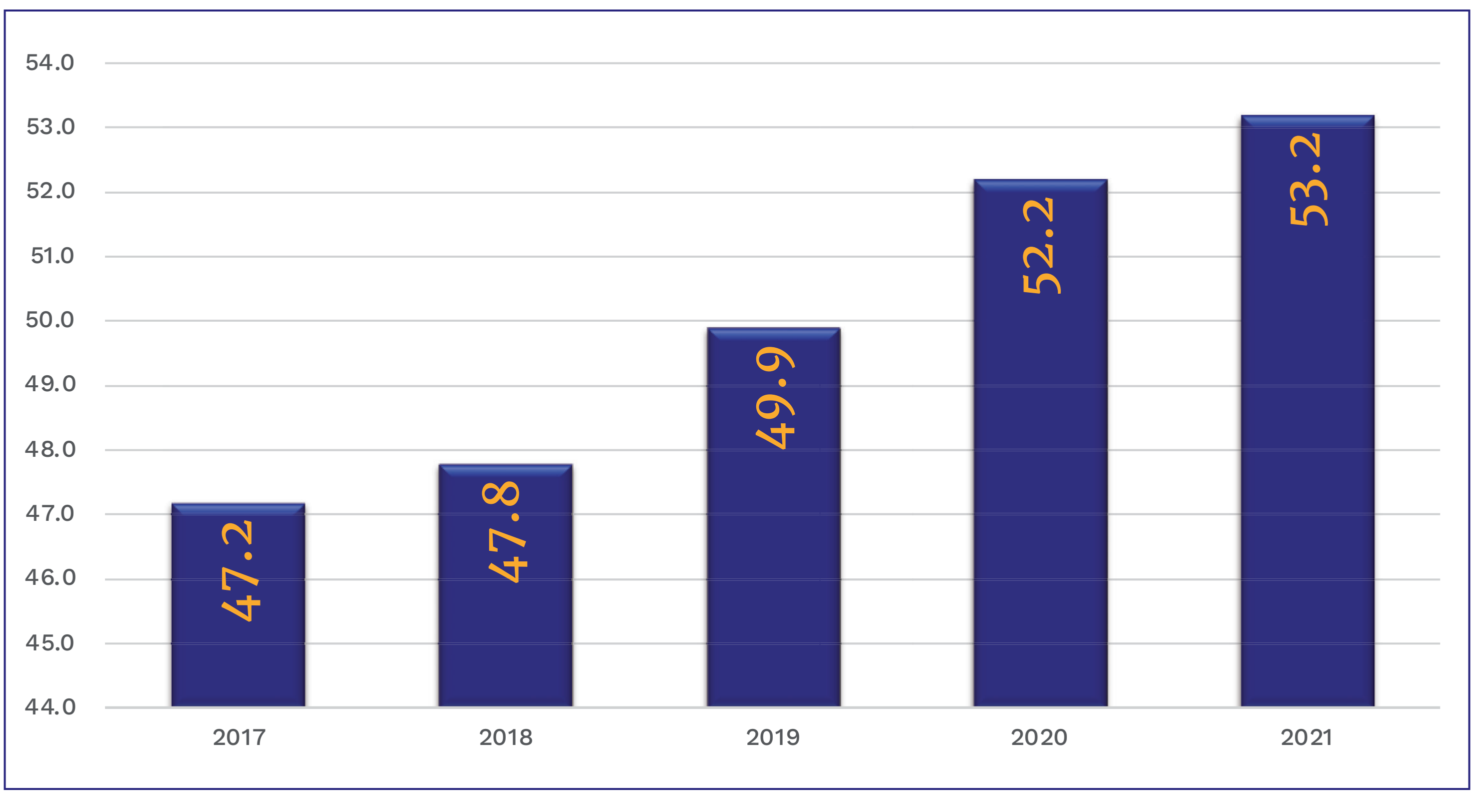
Net Income (Thousands of Dollars)



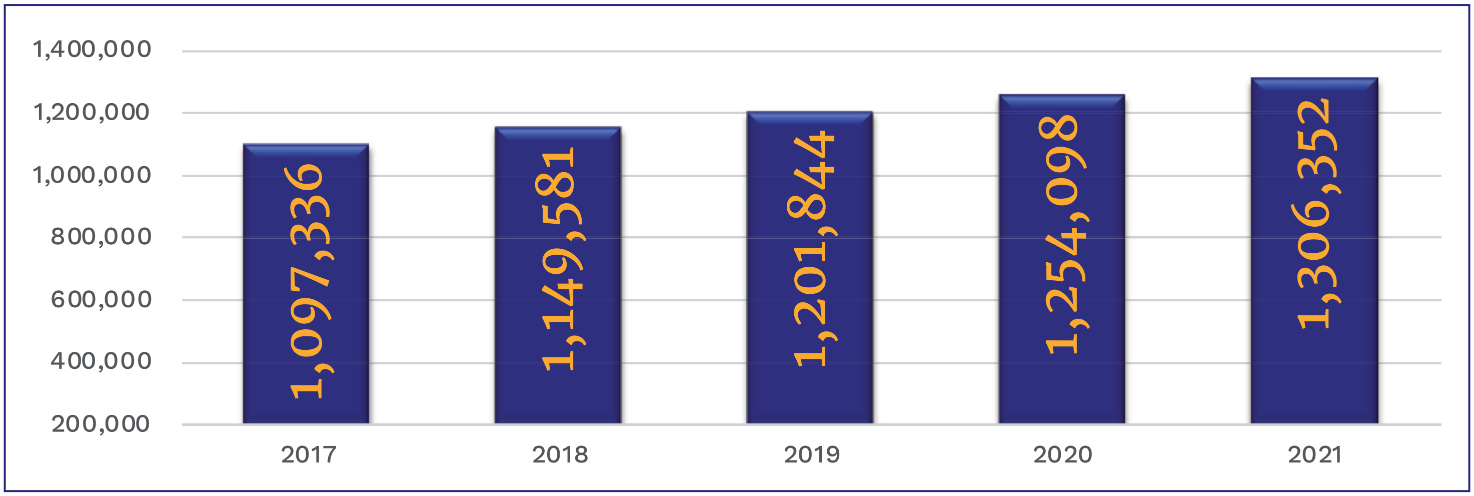
Total Loans (Millions of Dollars)



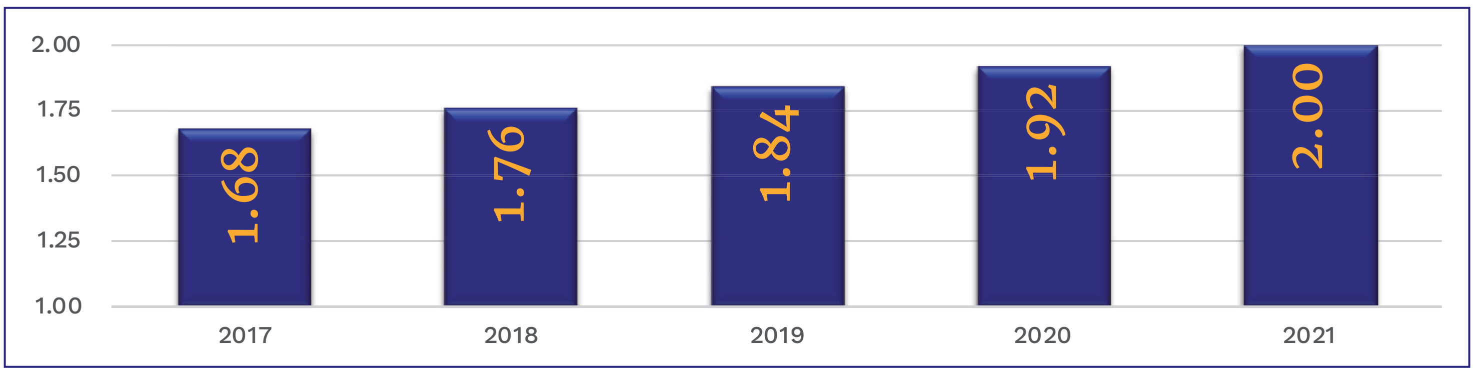
Capital (Millions of Dollars)



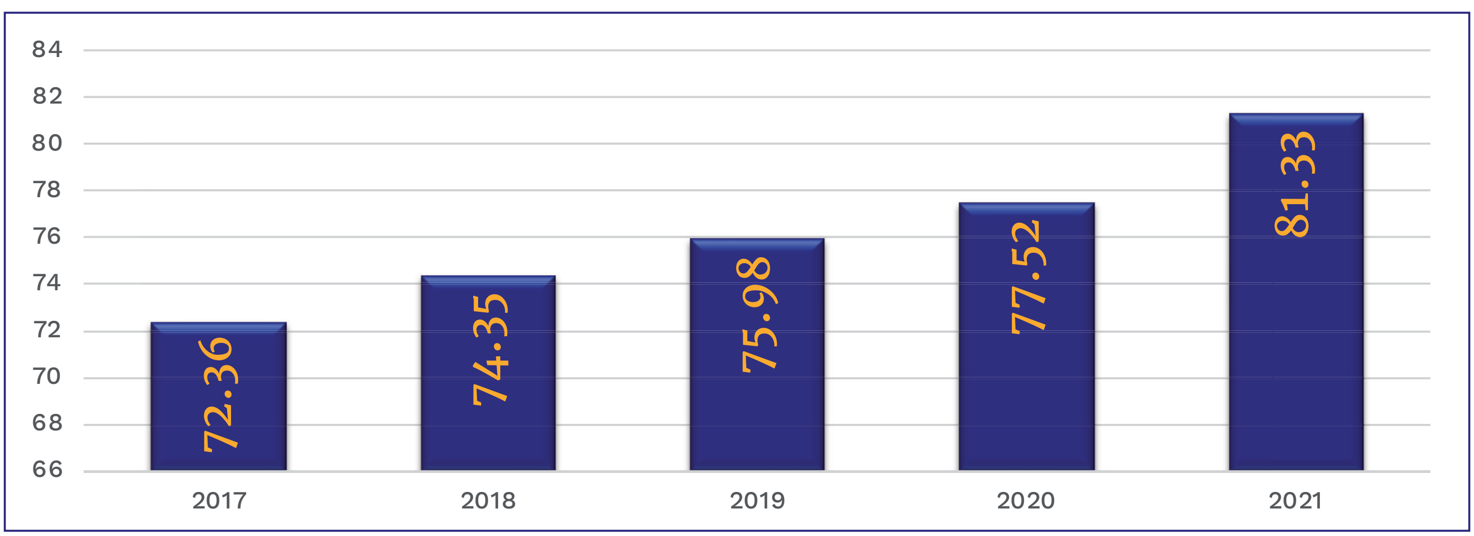
Total Dividends



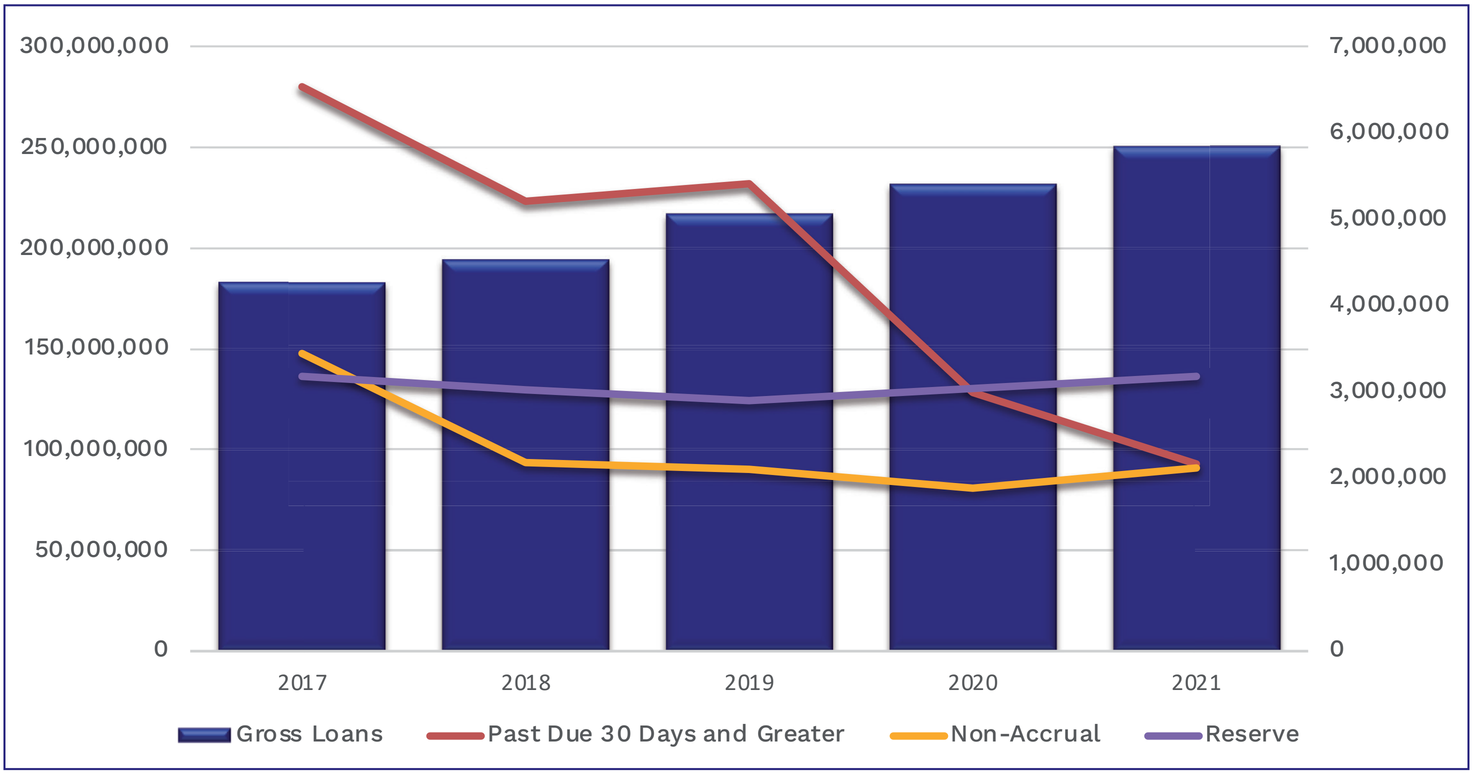
Total Dividends Paid Per Share Per Year



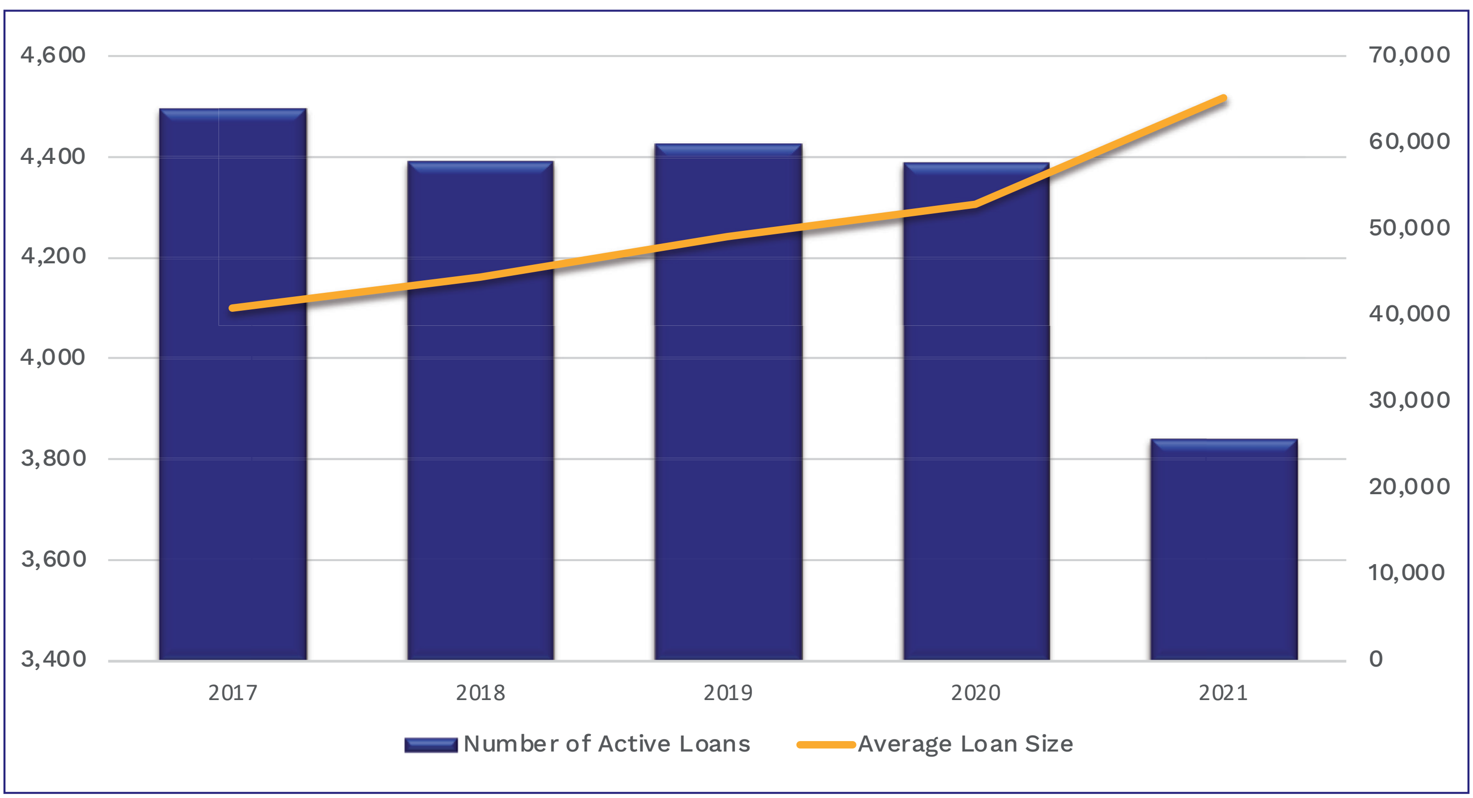
Book Value Per Share



Loan Growth And Asset Quality



Average Loan Size



POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Powell Valley Bankshares, Inc. and Subsidiaries (collectively, the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Company's Annual Report

Management is responsible for the other information included in the Company's Annual Report. The other information comprises other information and discussion provided by management, but it does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
February 28, 2022

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 118,374,812	$ 102,382,934
Interest bearing time deposits in banks	2,750,000	2,000,000
Investment securities – available-for-sale	45,533,719	29,117,818
Other investments	1,496,272	1,577,272
Loans, net	247,068,937	228,744,885
Foreclosed assets	250,000	505,981
Premises and equipment, net	10,625,186	10,848,434
Accrued interest receivable	995,855	1,095,675
Income taxes receivable	119,741	136,031
Deferred income tax asset, net	551,288	437,149
Goodwill	865,410	865,410
Bank owned life insurance	4,883,814	4,766,025
Other assets	1,847,049	1,853,485
Total assets	$ 435,362,083	$ 384,331,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest bearing	$ 154,170,627	$ 113,589,498
Interest bearing	225,405,996	215,686,894
Total deposits	379,576,623	329,276,392
Accrued interest and other liabilities	2,546,700	2,877,614
Total liabilities	382,123,323	332,154,006
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 2021 and 2020	653,176	653,176
Surplus	653,176	653,176
Retained earnings, as restated (Note 15)	51,812,162	50,167,117
Accumulated other comprehensive loss:		
Net unrealized gain on securities	120,246	703,624
Total stockholders' equity	53,238,760	52,177,093
Total liabilities and stockholders' equity	$ 435,362,083	$ 384,331,099

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, 2021 and 2020

	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 12,667,601	$ 12,395,354
Interest on excess reserves	118,543	102,954
Interest and dividends on equity securities	51,036	-
Interest on available-for-sale securities		
U.S. Treasury	243,083	219,778
U.S. Government agencies	232,104	252,435
States and political subdivisions	357,553	400,134
Other	24,733	42,962
Total interest income	13,694,653	13,413,617
INTEREST EXPENSE		
Interest on deposits	975,352	1,635,316
Interest on borrowings	74	108,410
Net interest income	12,719,227	11,669,891
Provision for loan losses	130,000	175,000
Net interest income after provision for loan losses	12,589,227	11,494,891
NONINTEREST INCOME		
Service charges on deposit accounts	351,931	294,997
Other customer service fees	902,036	738,181
Net gains (losses) on sale of available-for-sale securities	-	(11,397)
Unrealized gains on available-for-sale equity securities	248,457	-
Bank-owned life insurance income	117,789	112,621
Other income	236,887	252,010
Total noninterest income	1,857,100	1,386,412
NONINTEREST EXPENSES		
Salaries and wages	4,773,091	4,797,151
Employment benefits and taxes	1,172,676	1,200,087
Advertising and public relations	138,027	109,939
Occupancy expenses	774,491	725,520
Equipment rentals, depreciation, and maintenance	399,539	464,275
Director and committee fees	210,000	182,000
Correspondent bank services	647,966	471,728
Legal and professional	213,522	173,491
Stationery and supplies	100,472	153,837
Real estate and franchise tax	537,723	432,324
Data processing	500,660	428,390
Other operating expenses	1,388,776	1,036,536
Total noninterest expenses	10,856,943	10,175,278
INCOME BEFORE INCOME TAXES	3,589,384	2,706,025
Income tax provision	637,987	425,689
NET INCOME	$ 2,951,397	$ 2,280,336
EARNINGS PER COMMON SHARE		
Net income per common share	$ 4.52	$ 3.49

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, 2021 and 2020

	2021	2020
NET INCOME	$ 2,951,397	$ 2,280,336
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX		
Unrealized holding (losses) gains arising during the year for fixed-income securities available-for-sale	(738,453)	399,565
Reclassification adjustment for losses included in net gains on sale of securities in net income	-	11,397
	(738,453)	410,962
INCOME TAX EFFECT RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME	155,075	(86,302)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax	(583,378)	324,660
COMPREHENSIVE INCOME	$ 2,368,019	$ 2,604,996

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2021 and 2020

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2019 (as restated, Note 15)	$ 653,176	$ 653,176	$ 49,140,879	$ 378,964	$ 50,826,195
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	50,167,117	703,624	52,177,093
Net income	-	-	2,951,397	-	2,951,397
Other comprehensive loss, net of tax	-	-	-	(583,378)	(583,378)
Cash dividends declared ($2.00 per common share)	-	-	(1,306,352)	-	(1,306,352)
BALANCE, December 31, 2021	$ 653,176	$ 653,176	$ 51,812,162	$ 120,246	$ 53,238,760

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, 2021 and 2020

	2021	2020
OPERATING ACTIVITIES		
Net income	$ 2,951,397	$ 2,280,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	130,000	175,000
Depreciation	515,304	546,071
Amortization of loan fees	(202,682)	(623,137)
Write down of foreclosed assets	95,260	37,353
(Gain) loss on sale of foreclosed assets	(42,273)	(8,335)
Net amortization of securities	62,437	61,960
Realized loss (gain) on sales of available-for-sale securities	-	11,397
Deferred income tax (benefit) expense	40,936	(159,441)
Bank owned life insurance income	(117,789)	(112,621)
Unrealized gain on equity securities included in income	(248,457)	-
Net change in:		
Income taxes receivable	16,290	115,452
Accrued interest receivable	99,820	8,019
Other assets	6,436	(90,243)
Accrued interest and other liabilities	(330,914)	412,172
Net cash provided by operating activities	2,975,765	2,653,983
INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Maturities, calls, and sales	8,464,180	7,605,030
Purchases	(25,432,514)	(1,579,339)
Net change in interest-bearing time deposits in banks	(750,000)	2,450,000
Loan originations and principal collections, net	(18,297,370)	(14,111,754)
Proceeds from sales of foreclosed assets	248,994	613,305
Additions to premises and equipment	(292,056)	(206,901)
Net change in Federal Home Loan Bank stock	81,000	(5,500)
Net cash used in investing activities	(35,977,766)	(5,235,159)
FINANCING ACTIVITIES		
Advances – Federal Home Loan Bank	-	15,000,000
Net increase in deposits	50,300,231	78,588,800
Repayments – Federal Home Loan Bank	-	(15,000,000)
Cash dividends paid on common stock	(1,306,352)	(1,254,098)
Net cash provided by financing activities	48,993,879	77,334,702
Net change in cash and cash equivalents	15,991,878	74,753,526
CASH AND CASH EQUIVALENTS, beginning	102,382,934	27,629,408
CASH AND CASH EQUIVALENTS, ending	$ 118,374,812	$ 102,382,934

(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, 2021 and 2020

	2021	2020
NON-CASH TRANSACTIONS		
Transfer of loans to other real estate owned	$ 46,000	$ 383,304
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	$ 1,027,524	$ 1,794,856
Cash paid for income taxes, net of refunds	$ 580,762	$ 469,678
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Total change in gross unrealized gain (loss) on fixed income securities available-for-sale	$ (738,453)	$ 410,962

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:

<u>Principles of consolidation</u>

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.

<u>Nature of operations</u>

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.

<u>Use of estimates</u>

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.

<u>Cash and cash equivalents</u>

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 for 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.

The Company also holds a portfolio of equity securities classified as available-for-sale. Equity securities are carried at fair value with unrealized gains and losses reported in the Consolidated Statements of 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 receivable

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 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Loans receivable (Continued)

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.

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.

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, 2021 or 2020.

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 are historically immaterial in nature. 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.

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 February 28, 2022, 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.

The Company is currently evaluating the impact the new guidance will have on its consolidated financial statements. 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.

COVID-19

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. Some of the provisions applicable to financial institutions 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 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)

COVID-19 (Continued)

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (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 (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to financial institutions include, but are not limited to:

- 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.

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.

Note 2. Investment Securities

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

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. government agencies and corporations	$ 8,997,616	$ -	$ (183,961)	$ 8,813,655
State and political subdivisions	25,561,484	549,005	(206,682)	25,903,807
Mortgage-backed securities	5,116,974	77,739	(44,616)	5,150,097
Corporate debt and other securities	1,101,058	5,282	(44,553)	1,061,787
Equity securities	4,355,916	257,189	(8,732)	4,604,373
Total securities	$ 45,133,048	$ 889,215	$ (488,544)	$ 45,533,719

	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

The amortized cost and fair value of debt securities as of December 31, 2021, 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.

Note 2. Investment Securities (Continued)

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
Available-for-sale debt securities		
One year or less	$ 14,659,184	$ 14,504,955
After one year through five years	10,986,486	11,379,093
After five years through ten years	8,548,134	8,476,302
After ten years	1,466,354	1,418,898
	35,660,158	35,779,248
Mortgage-backed securities	5,116,974	5,150,098
Equity securities	4,355,916	4,604,373
	$ 45,133,048	$ 45,533,719

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, 2021 and 2020, 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.

	2021					
	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	$ 7,847,300	$ (150,756)	$ 966,355	$ (33,205)	$ 8,813,655	$ (183,961)
State and political subdivisions	7,673,700	(192,958)	312,114	(13,724)	7,985,814	(206,682)
Mortgage-backed securities	2,093,537	(44,071)	36,256	(545)	2,129,793	(44,616)
Corporate debt securities and other securities	498,945	(1,053)	56,500	(43,500)	555,445	(44,553)
Equity securities	494,296	(8,732)	-	-	494,296	(8,732)
Total securities	$ 18,607,778	$ (397,570)	$ 1,371,225	$ (90,974)	$ 19,979,003	$ (488,544)

(Continued)

Note 2. Investment Securities (Continued)

	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)

The Company had 55 and 10 securities at December 31, 2021 and 2020, respectively, which were in a loss position. The Company did not recognize any other-than-temporary impairments in 2021 or 2020.

During 2021, sales and redemptions of securities available-for-sale resulted in no gross realized gains or losses. 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 gain of $11,397.

Investment securities with a carrying amount of approximately $16,000,000 and $22,000,000 as of December 31, 2021 and 2020, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Other investments

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 accounted for using the equity method include Virginia Bankers Insurance Center, LLC and Virginia Title Corporation stock. Such investments consist of the following:

		2021		2020
Federal Home Loan Bank	$	192,100	$	273,100
Federal Reserve Bank		48,000		48,000
Virginia Bankers Insurance Center, LLC		1,157,222		1,157,222
Virginia Title Corporation		98,950		98,950
	$	1,496,272	$	1,577,272

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:

	2021	2020
Real estate loans		
Residential 1 – 4 family	$ 91,461,418	$ 84,439,715
Commercial	99,069,625	88,284,702
Total real estate loans	190,531,043	172,724,417
Commercial loans	46,243,242	46,248,585
Consumer loans, including overdrafts	13,768,079	13,310,711
Total loans	250,542,364	232,283,713
Less: allowance for loan losses	(3,179,719)	(3,042,583)
Less: unearned PPP fees	(293,708)	(496,245)
Loans, net	$ 247,068,937	$ 228,744,885

The Bank's consumer loans include $93,412 and $57,106 in overdrafts as of December 31, 2021 and 2020, 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.

Note 3. Loans (Continued)

Impaired loans (Continued)

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

	December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1 – 4 family	$ 531,583	$ 531,583	$ -	$ 482,404	$ 27,505
Commercial real estate	1,213,305	1,213,305	-	1,295,684	62,932
Commercial	46,474	46,474	-	60,595	2,937
Consumer	31,065	31,065	-	34,497	1,956
With an allowance recorded:					
Residential 1 – 4 family	183,646	183,646	8,296	185,944	10,342
Commercial real estate	-	-	-	-	-
Commercial	14,273	14,273	14,273	15,037	1,077
Consumer	-	-	-	-	-
Total:					
Residential 1 – 4 family	715,229	715,229	8,296	668,348	37,847
Commercial real estate	1,213,305	1,213,305	-	1,295,684	62,932
Commercial	60,747	60,747	14,273	75,632	4,014
Consumer	31,065	31,065	-	34,497	1,956
Total impaired loans, individually evaluated	$ 2,020,346	$ 2,020,346	$ 22,569	$ 2,074,161	$ 106,749

Note 3. Loans (Continued)

Impaired loans (Continued)

	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)

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, 2021 and 2020:

	December 31, 2021					
	Residential 1 – 4 Family	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance, January 1, 2021	$ 1,270,301	$ 930,307	$ 418,574	$ -	$ 423,401	$ 3,042,583
Charge-offs	(53)	(6,424)	(5,634)	(27,882)	-	(39,993)
Recoveries	433	556	7,444	38,696	-	47,129
Provision	57,200	44,200	10,400	9,100	9,100	130,000
Ending balance, December 31, 2021	$ 1,327,881	$ 968,639	$ 430,784	$ 19,914	$ 432,501	$ 3,179,719
Portion of ending balance						
Individually evaluated for impairment	$ 8,296	$ -	$ 14,273	$ -	$ -	$ 22,569
Collectively evaluated for impairment	1,319,585	968,639	416,511	19,914	432,501	3,157,150
Total ALLL evaluated for impairment	$ 1,327,881	$ 968,639	$ 430,784	$ 19,914	$ 432,501	$ 3,179,719
Loans receivable						
Ending balance, December 31, 2021	$ 91,461,418	$ 99,069,625	$ 46,243,242	$ 13,768,079	$ N/A	$ 250,542,364
Portion of ending balance						
Individually evaluated for impairment	$ 715,229	$ 1,213,305	$ 60,747	$ 31,065	$ N/A	$ 2,020,346
Collectively evaluated for impairment	90,746,189	97,856,320	46,182,495	13,737,014	N/A	248,522,018
Total loans evaluated for impairment	$ 91,461,418	$ 99,069,625	$ 46,243,242	$ 13,768,079	$ N/A	$ 250,542,364

Note 3. Loans (Continued)

Allowance for loan loss (Continued)

	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	$ -	$ 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

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, 2021 and 2020:

	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, 2021								
Residential 1 – 4 family	$ 89,885,281	$ 1,068,685	$ 403,769	$ 103,683	$ 1,576,137	$ 91,461,418	$ 1,453,219	$ -
Commercial real estate	98,756,154	283,106	30,365	-	313,471	99,069,625	468,380	-
Commercial	46,121,153	112,913	9,176	-	122,089	46,243,242	128,277	-
Consumer	13,610,428	81,825	51,019	24,807	157,651	13,768,079	67,482	-
	$ 248,373,016	$ 1,546,529	$ 494,329	$ 128,490	$ 2,169,348	$ 250,542,364	$ 2,117,358	$ -
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	$ -

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.

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, 2021 and 2020:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2021						
Residential 1 – 4 family	$ 89,313,938	$ 737,355	$ 1,410,125	$ -	$ -	$ 91,461,418
Commercial real estate	89,787,004	8,017,370	1,265,251	-	-	99,069,625
Commercial	45,915,209	150,772	177,261	-	-	46,243,242
	$ 225,016,151	$ 8,905,497	$ 2,852,637	$ -	$ -	$ 236,774,285
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

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:

	2021	2020
Performing	$ 13,674,667	$ 13,221,989
Non-performing	93,412	88,722
	$ 13,768,079	$ 13,310,711

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 2021 or 2020.

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 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, 2021, all COVID-19 related loan modifications had returned to abiding by the terms of the original loan terms. 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, 2021, the Company had 91 PPP loans outstanding, with an outstanding principal balance of $4,467,819. As of December 31, 2020, the Company had 291 PPP loans outstanding, with an outstanding principle balance of $17,349,180.

Foreclosed properties

As of December 31, 2021, no residential real estate properties were included in foreclosed properties.

Residential real estate properties for which the foreclosure process had begun but had yet to be completed as of December 31, 2021 consisted of two properties with associated loan values totaling $78,206.

Note 4. Premises and Equipment

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

	2021	2020
Land	$ 3,330,702	$ 3,330,702
Bank buildings and improvements	10,660,758	10,580,422
Furniture and equipment	3,989,863	3,861,114
Construction in progress	-	3,998
Automobile	409,856	322,887
	18,391,179	18,099,123
Less: accumulated depreciation	(7,765,993)	(7,250,689)
	$ 10,625,186	$ 10,848,434

Depreciation expense in 2021 and 2020 was $515,304 and $546,071, 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, 2021 and 2020 was $57,834,344 and $46,760,046, respectively.

Apart from the annual overnight account test, the Company did not have any advances during 2021. The Company had advances totaling $15,000,000 in 2020 that were subsequently paid off during the same year the advance took place.

Note 6. Deposits

Deposit account balances are summarized as follows:

	2021	2020
Non-interest bearing checking	$ 154,170,627	$ 113,589,498
Interest bearing checking	68,957,055	69,305,518
Savings	70,151,736	61,272,370
Individual retirement accounts	14,894,194	15,708,220
Certificates of deposit	71,403,011	69,400,786
	$ 379,576,623	$ 329,276,392

The aggregate amount of time deposits in denominations of $250,000 or more as of December 31, 2021 and 2020 was $26,745,090 and $11,782,904, respectively.

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	$ 60,640,324
2023	5,742,338
2024	3,209,725
2025	1,102,223
2026	708,401
	$ 71,403,011

Note 7. Income Taxes

The provision for income taxes consists of the following:

	2021	2020
Current tax expense	$ 597,051	$ 585,131
Deferred tax (benefit) expense	40,936	(159,442)
	$ 637,987	$ 425,689

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:

	2021		2020	
	Amount	%	Amount	%
Expected tax provision at enacted rate	$ 753,771	21.00 %	$ 568,265	21.00 %
Tax effect of:				
Tax exempt income	(212,862)	(5.93)	(234,023)	(8.65)
Other items, net	97,078	2.70	91,447	3.38
Income taxes	$ 637,987	17.77 %	$ 425,689	15.73 %

The net deferred tax asset consists of the following components:

	2021	2020
Deferred tax assets		
Allowance for loan loss	$ 553,645	$ 524,846
Deferred compensation	302,650	302,650
Interest on non-accrual loans	17,333	18,065
Impaired assets – OREO	21,000	7,155
Deferred self-employment retirement plan	21,359	22,108
Pass-through investments and other	18,208	6,806
PPP fees	61,679	104,242
Total deferred tax assets	995,874	985,872
Deferred tax liabilities		
Accretion – investment securities	21,877	18,134
Amortization – intangibles	181,736	181,736
Gain on securities	40,255	-
Unrealized gain on securities available-for-sale	31,965	187,040
Depreciation	168,753	161,813
Total deferred tax liabilities	444,586	548,723
Net deferred tax asset	$ 551,288	$ 437,149

Note 7. Income Taxes (Continued)

At December 31, 2021 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 $260,000 and $271,000 for 2021 and 2020, 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 net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, 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 $3 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 2021 and 2020, 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, 2021 and 2020 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, 2021						
Total risk based capital to risk weighted assets	$ 44,481	17.80 %	$ 19,991	8.00 %	$ 24,989	10.00 %
Consolidated	55,129	22.06	19,991	8.00	N/A	
Tier I capital to risk weighted assets	41,357	16.55	14,993	6.00	19,991	8.00
Consolidated	52,005	20.81	14,993	6.00	N/A	
Tier I leverage to average assets	41,357	9.81	16,868	4.00	21,086	5.00
Consolidated	52,005	12.04	17,272	4.00	N/A	
Common equity Tier I to risk weighted assets	41,357	16.55	11,245	4.50	16,243	6.50
Consolidated	52,005	20.81	11,245	4.50	N/A	
December 31, 2020						
Total risk based 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	

(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 2021, the Bank paid $2,300,000 in dividends to the Holding Company, which resulted in a balance of $1,240,332 available to be distributed without prior approval. During 2021 and 2020, the Holding Company declared and issued $1,306,352 and $1,254,098, respectively, in dividends to shareholders.

Note 10. Employee Benefit Plans

401(k) and profit share plan

The Bank has a 401(k) Plan (the "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 2021, 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 $221,645 and $225,892 for 2021 and 2020, 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, 2021 and 2020, the accumulated fair value of the assets in the trust was $1,416,983, 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. There was no charge to expense in 2021. $1,312 was charged to expense under this plan during 2020.

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:

	2021	2020
Commitments to extend credit	$ 35,341,412	$ 32,992,990
Standby letters of credit	1,502,347	1,344,900
	$ 36,843,759	$ 34,337,890

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.

Note 11. Commitments and Contingencies (Continued)

Significant concentrations of credit risk

The legal lending limit as of December 31, 2021 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.

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.

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, 2021	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets measured on a recurring basis				
Available-for-sale securities:				
U.S. government agencies and corporations	$ 8,813,655	$ -	$ 8,813,655	$ -
State and political subdivisions	25,903,807	-	25,903,807	-
Mortgage-backed securities	5,150,097	-	5,150,097	-
Corporate debt and other securities	1,061,787	-	1,061,787	-
Equity securities	4,604,373	-	4,604,373	-
	$ 45,533,719	$ -	$ 45,533,719	$ -
Trading securities:				
Mutual funds held in rabbi trust	$ 1,416,983	$ -	$ 1,416,983	$ -
Assets measured on a non-recurring basis				
Impaired loans, net	$ 1,997,777	$ -	$ -	$ 1,997,777
Foreclosed real estate and property repossessions	250,000	-	-	250,000
	$ 2,247,777	$ -	$ -	$ 2,247,777

Note 12. Fair Value Disclosures (Continued)

		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	$ 2,142,787	$ -	$ -	$ 2,142,787
Foreclosed real estate and	-	-	-	-
property repossessions	505,981	-	-	505,981
	$ 2,648,768	$ -	$ -	$ 2,648,768

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.

Note 12. Fair Value Disclosures (Continued)

Impaired loans (Continued)

As of December 31, 2021, 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, 2021 and 2020 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:

	2021	2020
Balance, January 1	$ 1,556,647	$ 1,273,896
Borrowings	710,000	529,434
Repayments	(777,817)	(236,683)
Balance, December 31	$ 1,488,830	$ 1,566,647

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 $18.2 million and $15.2 million as of December 31, 2021 and 2020, 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 2021 and 2020, the Bank paid the insurance agency $70,107 and $175,350, respectively.

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:

	2021	2020
Service charges on deposit accounts	$ 351,931	$ 294,997
Other customer service fees	902,036	738,181
Revenues from contracts with customers	1,253,967	1,033,178
Noninterest income within scope of other ASC topics	603,133	353,234
Total noninterest income	$ 1,857,100	$ 1,386,412

Note 15. Restatement of Prior Period

In 2021 the Company changed its method of accounting for Bankers Insurance, LLC, from the cost method to the equity method of accounting. The effect of the change was to increase other investments by $933,300 and reduce deferred income tax assets by $85,175 as of January 1, 2020 and December 31, 2020. The restatement had no effect on net income, comprehensive income, or cash flows for 2020 from that which was previously reported.

F. Winston Witt, Jr. Retires from the Board of Directors

F. Winston Witt, Jr. was elected to the Powell Valley National Bank (PVNB) Board of Directors in May 2000.

During his tenure, PVNB experienced many technological advances, structural progress, expansion across the region, and company growth that has contributed to the continued success of a bank established in 1888.

His expertise in the fields of risk management and audit have been most valuable to the company in his position as chairman of the bank's Audit Committee since 2013.

Winston and the board navigated the company through the September 11, 2001 attacks that introduced new legislation and significant banking regulation changes across the industry. The Great Recession and global financial crisis of 2008 brought banking reform to the board table once again with far reaching implications. The global COVID-19 Pandemic has accelerated the way banking is conducted presenting its own opportunities and challenges.

He has been a part of building 3 new offices, opening 2 loan production offices, and the creation of Powell Valley Investment Services, Inc.

When he joined the board in 2000, the bank's total assets were $158 million. Assets grew significantly during his tenure, now totaling $435 million, an increase of 175 percent. Net loans totaled $91 million in 2000 and have grown to $247 million, an increase of 171 percent.

Thank you, Winston, for your service and contributions to Powell Valley National Bank in your 22-year tenure on the board of directors. You have provided invaluable knowledge, direction, and insight to the board and management during your time.

We are grateful for your friendship, leadership, and guidance.

We wish you the very best!


POWELL VALLEY NATIONAL BANK
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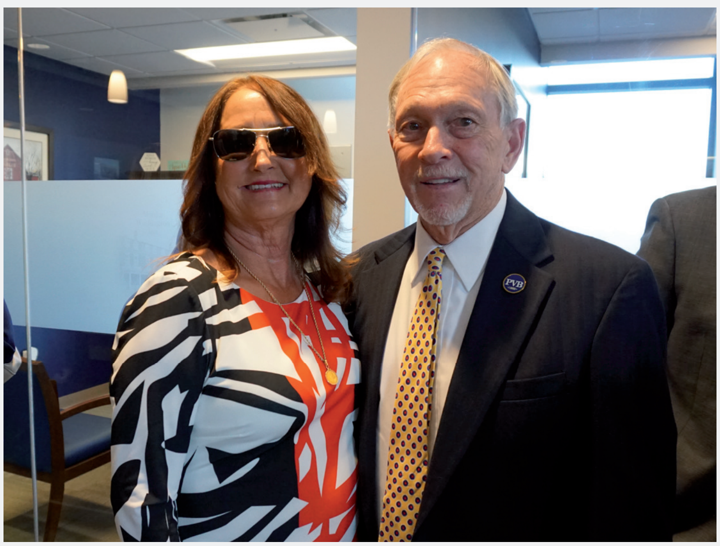
POWELL VALLEY NATIONAL BANK



Leton Harding Appointed as VBA Chairman

In June 2021, the Virginia Bankers Association announced that Leton L. Harding, Jr. was elected to serve as Chairman of the Virginia Bankers Association's board of directors for 2021-2022. While many events were moved to a virtual format, here's a glimpse into the first half of Leton's term.

"Leton— On behalf of the Board of Directors, Officers, and Staff of Powell Valley National Bank, we are proud to have you representing and advocating for banks across the Commonwealth as you serve our industry in this role. Since your first job in the computer department at Wise County National Bank at 19 years old, and many roles, duties, and responsibilities along the way, your dedication to our industry is truly unmatched. We are honored to be part of your journey."

Virtual Financial Forecast


Leton's first job at Wise County National Bank


Leton and Tammie - Chairman Installation 2021

CEO Panel at VBA's Leadership Conference in Harrisonburg, VA October 2021

Fuller Cridlin Featured in 40 Under Forty

From The Business Journal Of Tri-Cities TN/VA

With Maturity beyond his years, Fuller Cridlin had already distinguished himself as a great legal mind by the time he turned 30. Cridlin was elected as the Commonwealth's Attorney for Lee County for the first time as a 30-year-old in 2015 and won reelection in 2019, and he did this running as a Democrat in one of the most Republican counties in Virginia.

Fuller is a strong believer in public service, so much so that he funds a pair of scholarships given each year to students at Lee High School and Thomas Walker High School who intend to pursue a career in public service. Fuller also serves on the board of directors at Powell Valley National Bank - the fourth generation of his family to do so - and is heavily commited to the future of the county he calls home.

While many young professionals have five-year plans, being in an elected position requires Cridlin to think in four-year increments. He'd like to continue in the role he is in, but that is up to the voters. In the same respect, Cridlin said he might like to become a judge, which would allow him to follow in his grandfather Joseph's footsteps, but that is also out of his control as appointments are made in the general assembly.

No matter where his professional journey takes him, Cridlin is intent on staying home in Lee County, and finding as many ways as he can to help those around him.

PVNB In The Community

In August, Tiffany Collier and Brent Mullins graduated from the Virginia Bankers Association's School of Bank Management in Charlottesville, VA. Congratulations, Brent and Tiffany! We are so proud of you!

The morning of June 24, 2021 we held an inaugural flag raising ceremony at our Jonesville office. Jonesville office head teller, Debra Qualls, has been working on this initiative for her office for quite some time. That day her vision came to life as she raised the flag for the first time! Thank you Deb and Charlie Allen for making it happen!

Madison Smith with KOSBE and Ted Fields, a KOSBE Advisory Council member and Senior Vice President and Market Executive for Powell Valley Bank spoke with WJHL about funding options for small businesses and how KOSBE can help connect them with resources

Our Abingdon team participated in United Way of Southwest Virginia's celebrity bagging event to raise funds to benefit our region. Thank you for your service to our communities!

McKenna at the PVNB Holliday Classic at UVA Wise in front of the display she helped her mother, Amy Mellinger, assemble.

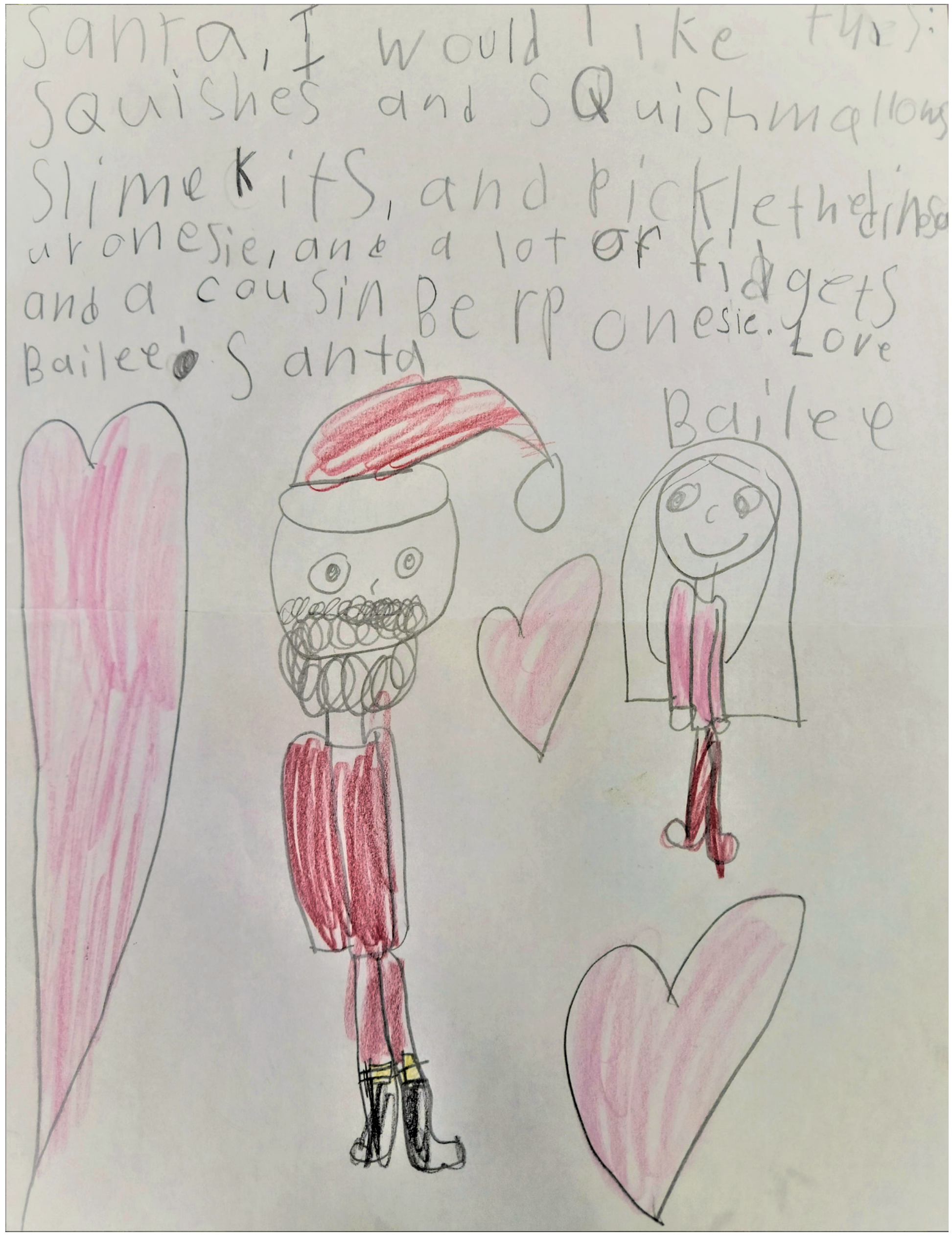
Sarah Wynn's daughters, Wynne, Millie, and Ruby Anne stopped by to see Santa when he visited our Pennington Gap office.

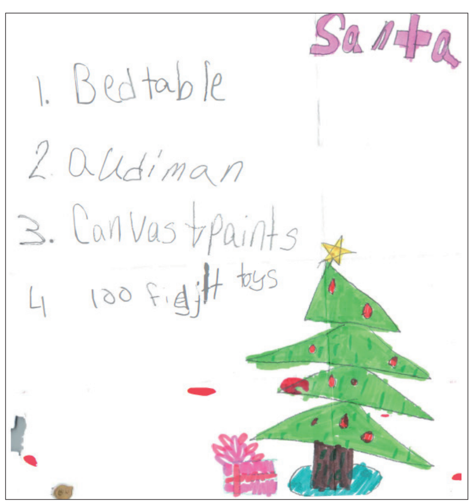
Letters to Santa

In 2018 the Town of Big Stone Gap, and its citizens, created The Greenbelt in Lights. Our Big Stone Gap office is located right on The Greenbelt and decorated for the event, including the addition of the Santa mailbox on the bank's front steps. We created a Facebook post announcing the addition of the mailbox and a return letter from Santa. That post reached over 17,000 people and a tradition was born! In 2020, Wise and Pennington Gap joined the tradition, with Jonesville adding a mailbox to their front steps in 2021. Every year kids across these communities, and even stuffed animals owned by Wise Primary School students, visit the mailboxes each year to drop off their letters to Santa and check their mailboxes for a return letter.

This past year we mailed over 350 Santa letters to kids across our communities! Thank you to all our employees for your hard work on our Santa letter project and for giving back to your communities!


Santa Mail

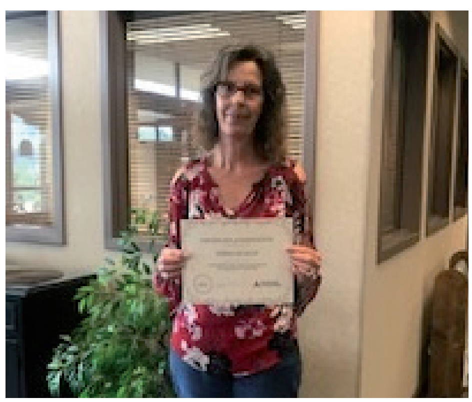

Santa, I would like fur,
Squishes and SQuishmallows
Slime kits, and pickle the dinosa
ur onesie, and a lot of fidgets
and a cousin Berp onesie. Love
Bailee Santa
Bailee


Santa
1. Bedtable
2. alldiman
3. Canvas+paints
4 100 fidgit toys


RETURN ADDRESS
SO THAT SANTA
CAN WRITE YOU

PVNB is as proud as ever to be a supporter of the Lee High Generals! We commend these young folks for doing their part to help keep our community healthy by wearing masks.

Congratulations to Deb Qualls, Gina Cothron, Terri Smith-Perry, Norma Grace, and Cassie Dotson on completing the leadership and customer service program offered by MECC! This course was a great opportunity to learn more about moral leadership, motivation, empowerment, communication and diversity.



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