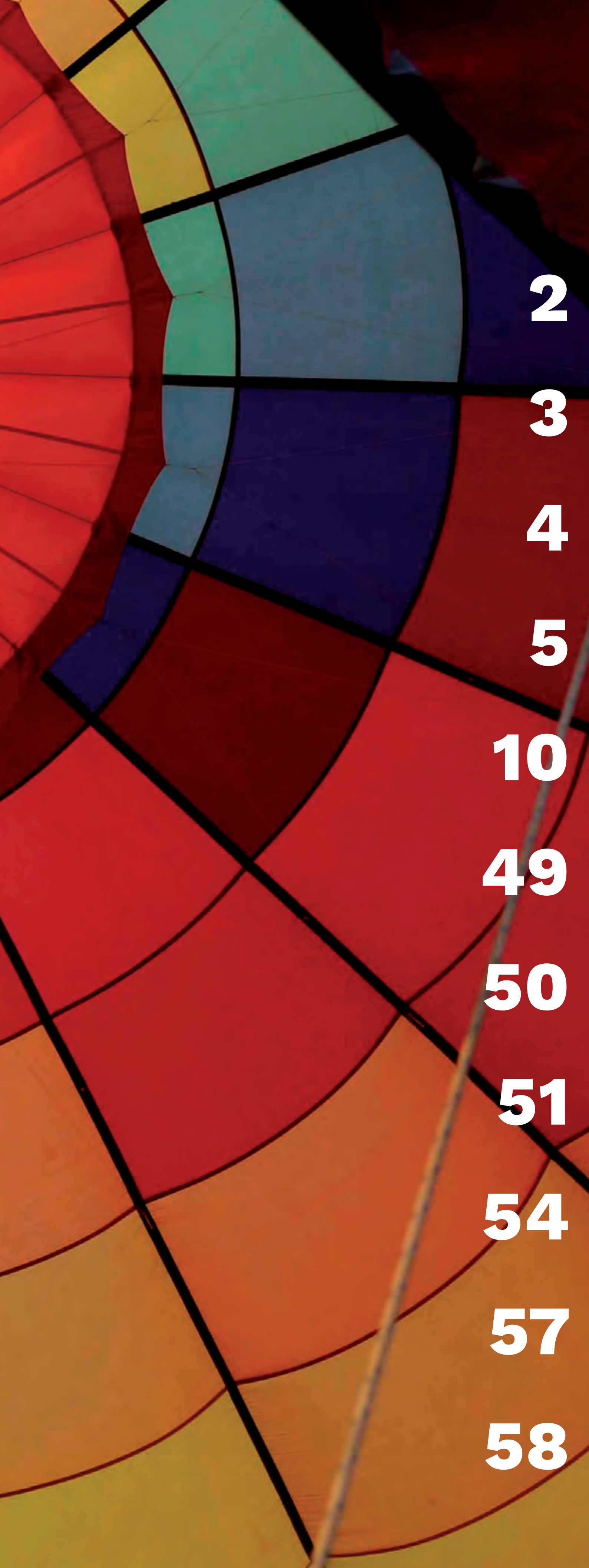
POWELL VALLEY
NATIONAL BANK

Powell Valley Bankshares, Inc.

2022 ANNUAL REPORT



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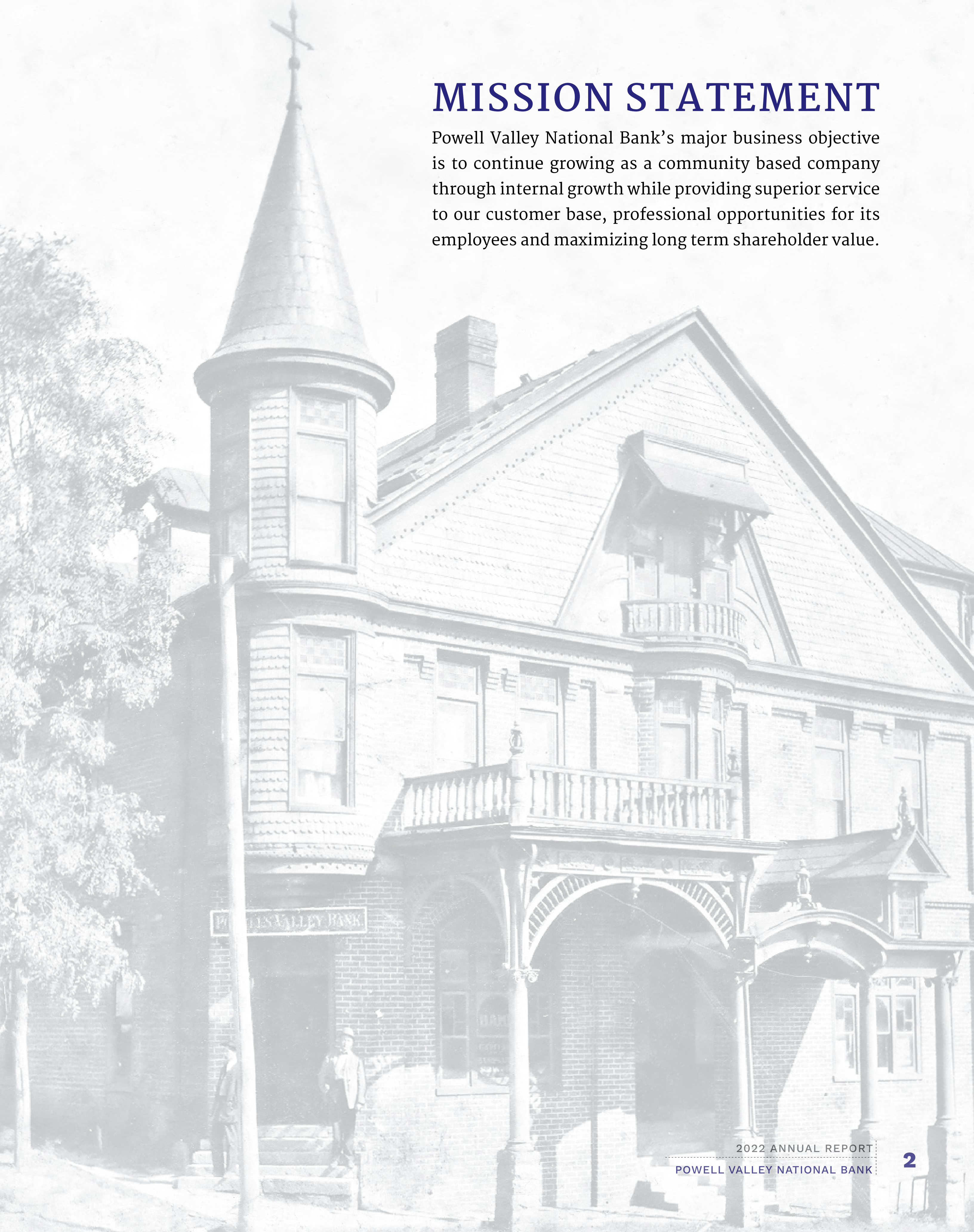
MISSION STATEMENT

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: H. Fuller Cridlin, Sarah Wynn, Roy E. Woodward, Jr., and Robert T. Estes

Leton L. Harding, Jr.

President, CEO, and Chairman of the Board

TO OUR SHAREHOLDERS,

Powell Valley Bankshares, Inc. (PVB) and its subsidiary, Powell Valley National Bank (PVNB), has endured innumerable economic conditions during its storied 134-year history. As we embark on our 135th anniversary and look back, much like years past, there were multiple economic impactors in 2022: record high inflation, volatile energy prices, geopolitical instability, a rising interest rate environment, crypto crashes, a bear market, supply change disruptions, labor shortages, and continued lingering effects of COVID-19.

As Powell Valley National Bank has historically persevered through challenges, 2022 was no exception. Through the hard work and dedication of our employees, your company continued to make positive and lasting impacts to the communities which we serve. These efforts resulted in PVB experiencing several record level outcomes.

It is my pleasure to share with you that Powell Valley Bankshares, Inc. ended 2022 with a net profit of $3.144 million, resulting in an earnings per share of $5.85, a 44 percent year-over-year improvement. The hike in profitability was primarily the result of substantial loan growth, the largest on record, meaning significant investment and support to the local economies of Southwest Virginia and Northeast Tennessee.

In 2022, PVNB extended $152 million in new loans throughout our footprint, resulting in net loan growth of $59 million, with the loan portfolio totaling $305 million at year end 2022, an increase of 24 percent over 2021. The other side of the balance sheet saw supporting net deposit balances grow by $18 million, totaling $372 million at year-end 2022, an uptick of 5 percent growth over 2021.

The financial numbers highlighted above, along with maintaining excellent asset quality, ending 2022 with a Tier 1 Capital Ratio of 14.21 percent, and prolonging a 5-Star Rating designation by Bauer Financial Inc., for 60 consecutive quarters. Book value climbed from $81.33 in 2021 to $84.07 in 2022. As we are approaching our 135th year of continuous operation, you can feel comfort in the fact that PVB has never missed paying a dividend, which speaks to the financial proficiency of your Company.

As our pioneers moved west seeking opportunity, in a similar vein, many Lee County natives have relocated back east to the Kingsport and Abingdon markets. The foresight of the Board of Directors and Management to expand into Kingsport and Abingdon has proven to be a bright spot and sound investment for the bank, not only providing convenient locations for our customers, but also bringing new jobs and investments across a larger footprint. This past year, the respective markets accounted for 90 percent of the bank's overall loan growth and 89 percent of the total deposit growth.

It is often said, "The one thing that is constant is change." This is not only applicable to life, but the banking industry as well. Who would have thought at the start of the new millennium that we would be conducting banking transactions on our phones, or the "Watch Phone" as envisioned by the 1940's comic book, Dick Tracy, and later by Maxwell Smart on the 1960's television show, Get Smart, would be an everyday household item. In this spirit, and in an effort to remain competitive and provide our customers with the most convenient products and services, your bank continues to invest heavily in technology.

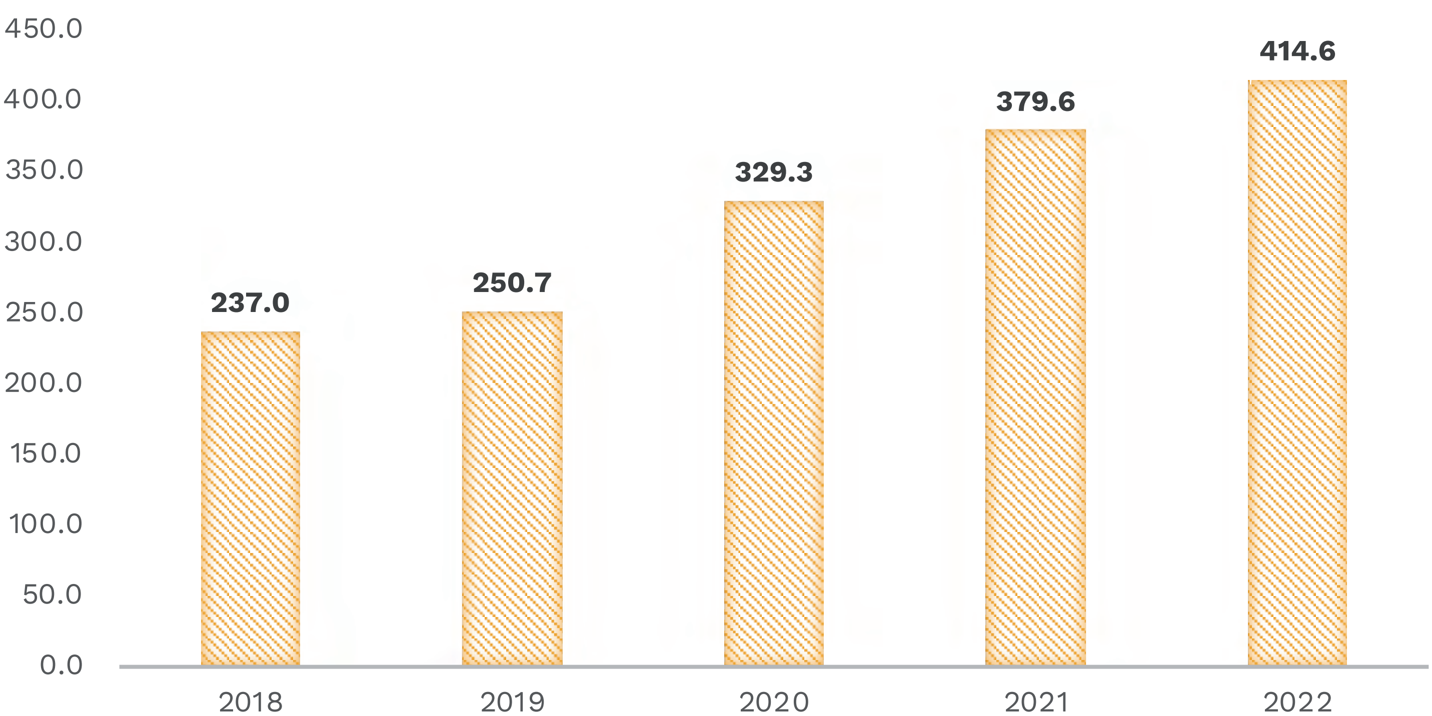
I am so proud to represent and work for such a wonderful organization, and as always, on behalf of our Board of Directors and employees, thank you, our shareholders, for your continued support of Powell Valley National Bank. We are extremely grateful for the tremendous success of 2022, and I look forward to celebrating the major accomplishments of 2023, our 135th year of continuous operation, with you!

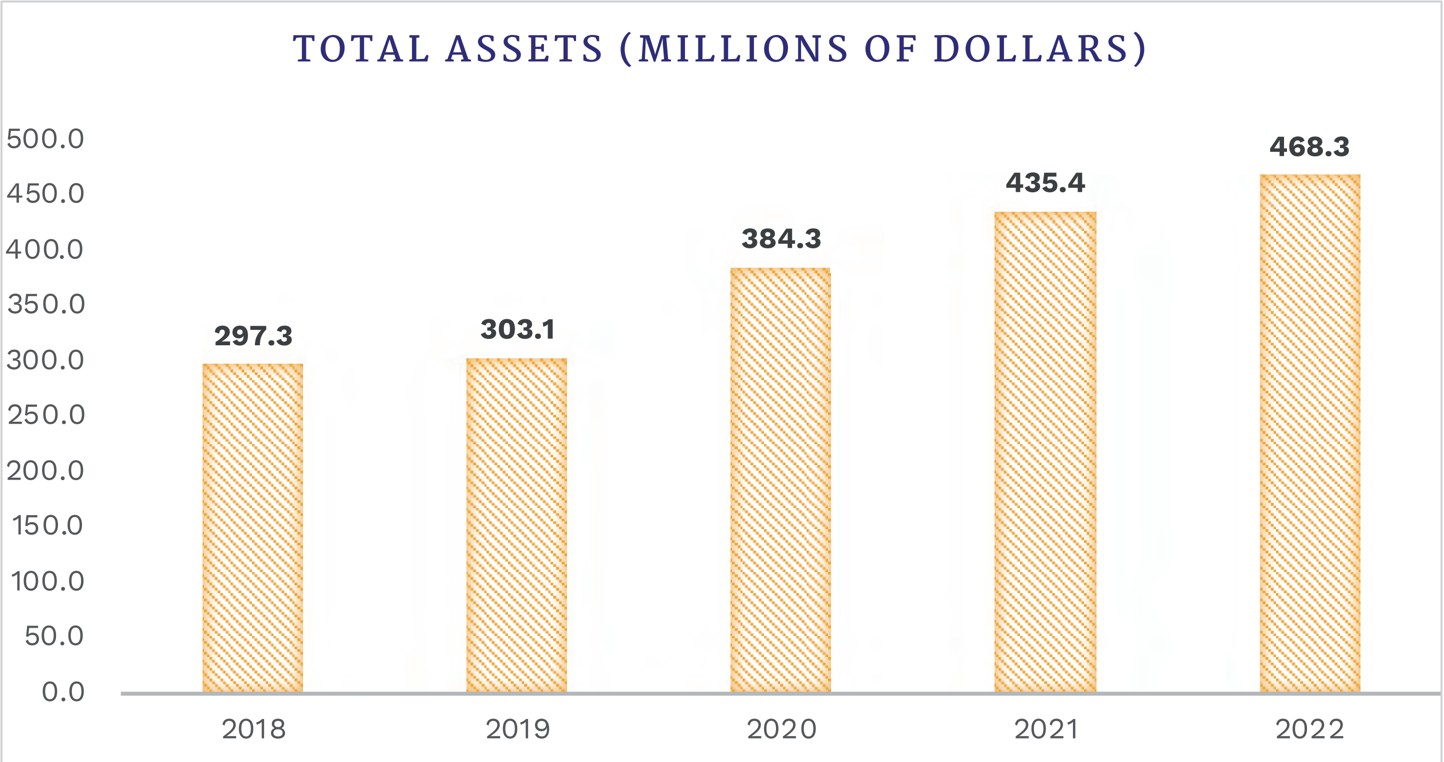
Stay safe and God Bless,
Leton L. Harding, Jr.
President, Chairman, and CEO

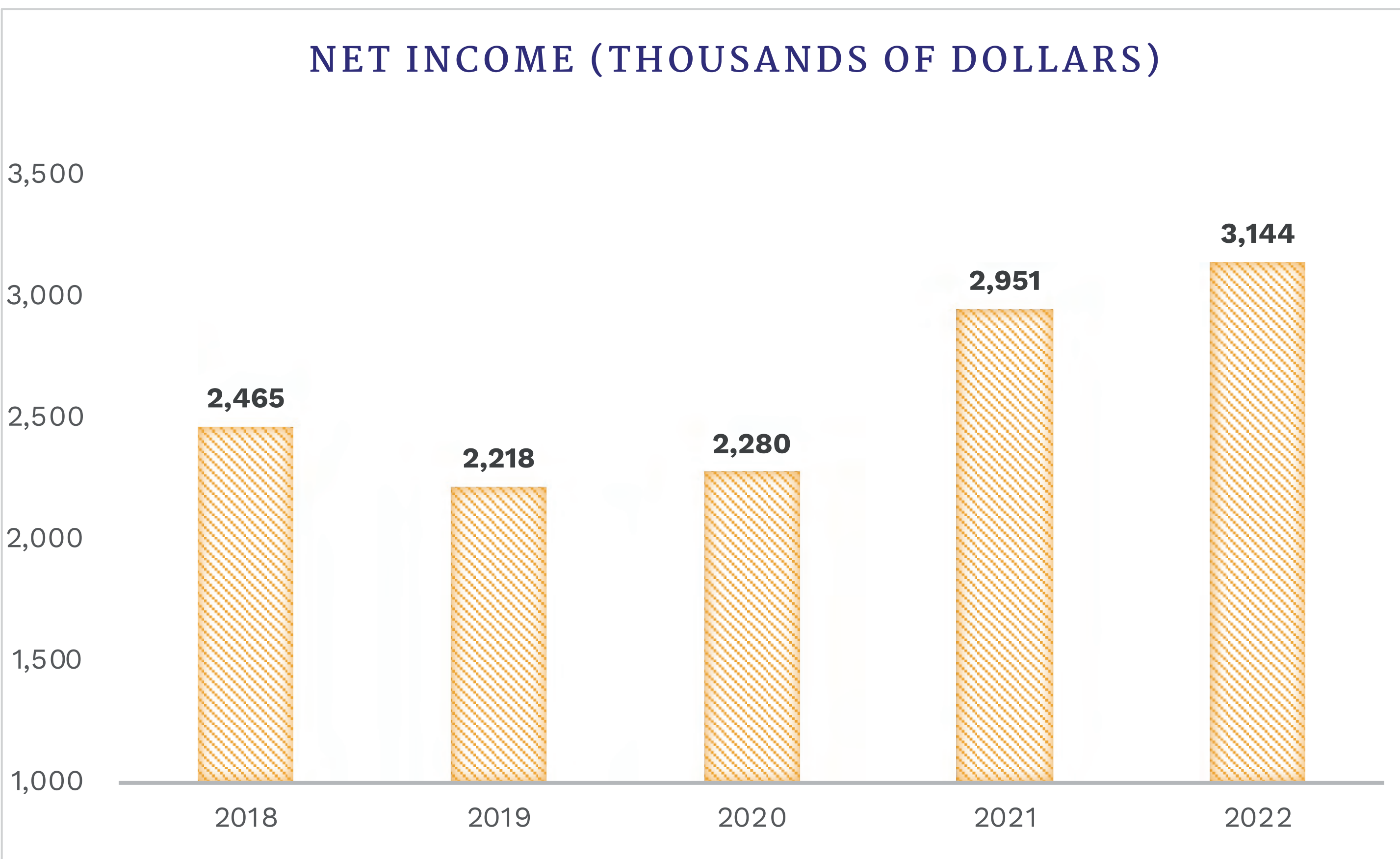
FINANCIAL HIGHLIGHTS – 5 YEAR SUMMARY (IN THOUSANDS OF DOLLARS)

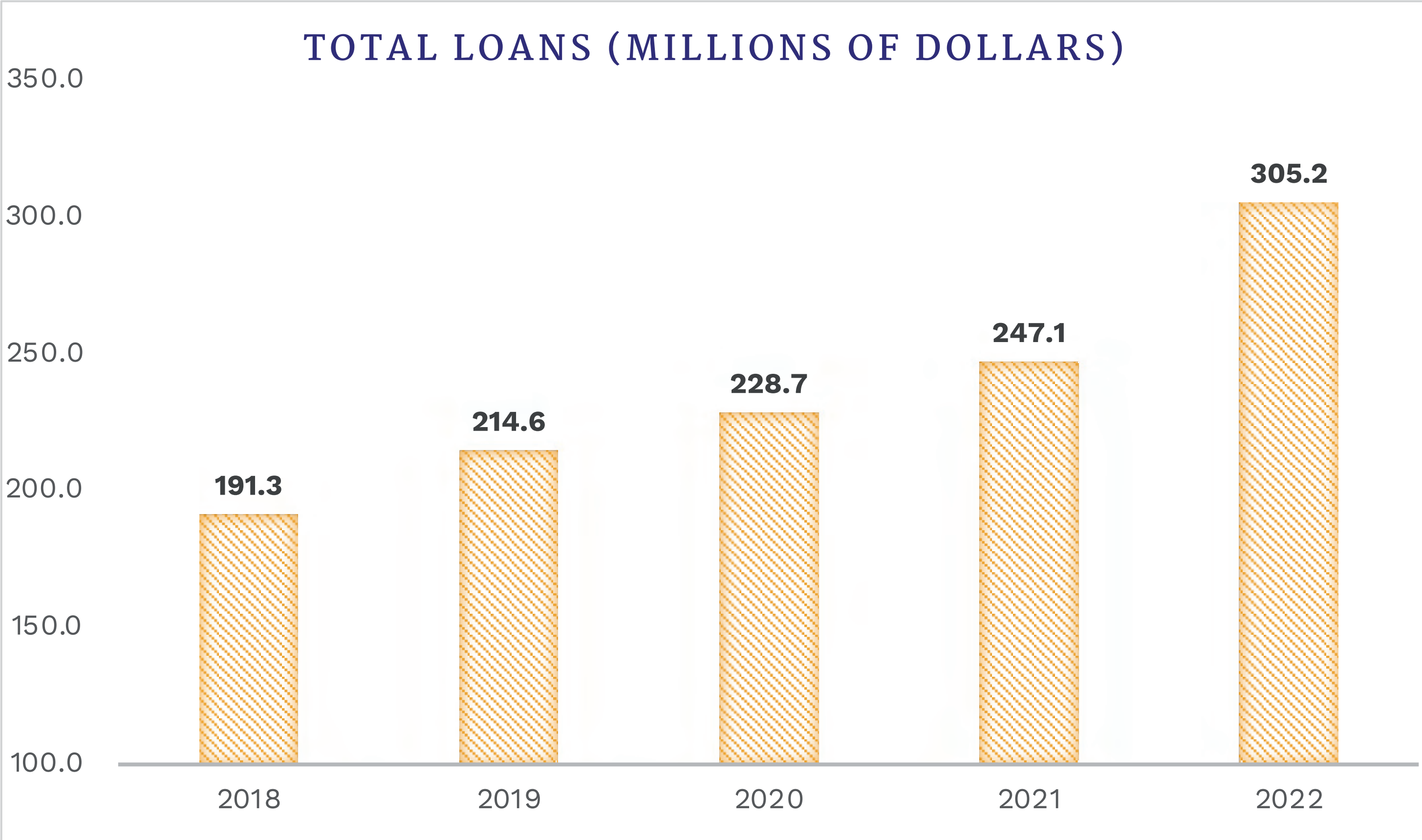
	2022	2021	2020	2019	2018
Net Earnings After Taxes	**3,144**	2,951	2,280	2,218	2,465
Total Deposits	**414,594**	379,577	329,276	250,688	237,019
Net Loans	**305,232**	247,069	228,745	214,568	191,336
Total Assets	**468,283**	435,362	384,331	303,131	297,272
Capital	**50,961**	53,239	52,177	49,978	47,799
Total Dividends	**1,358**	1,306	1,254	1,202	1,150

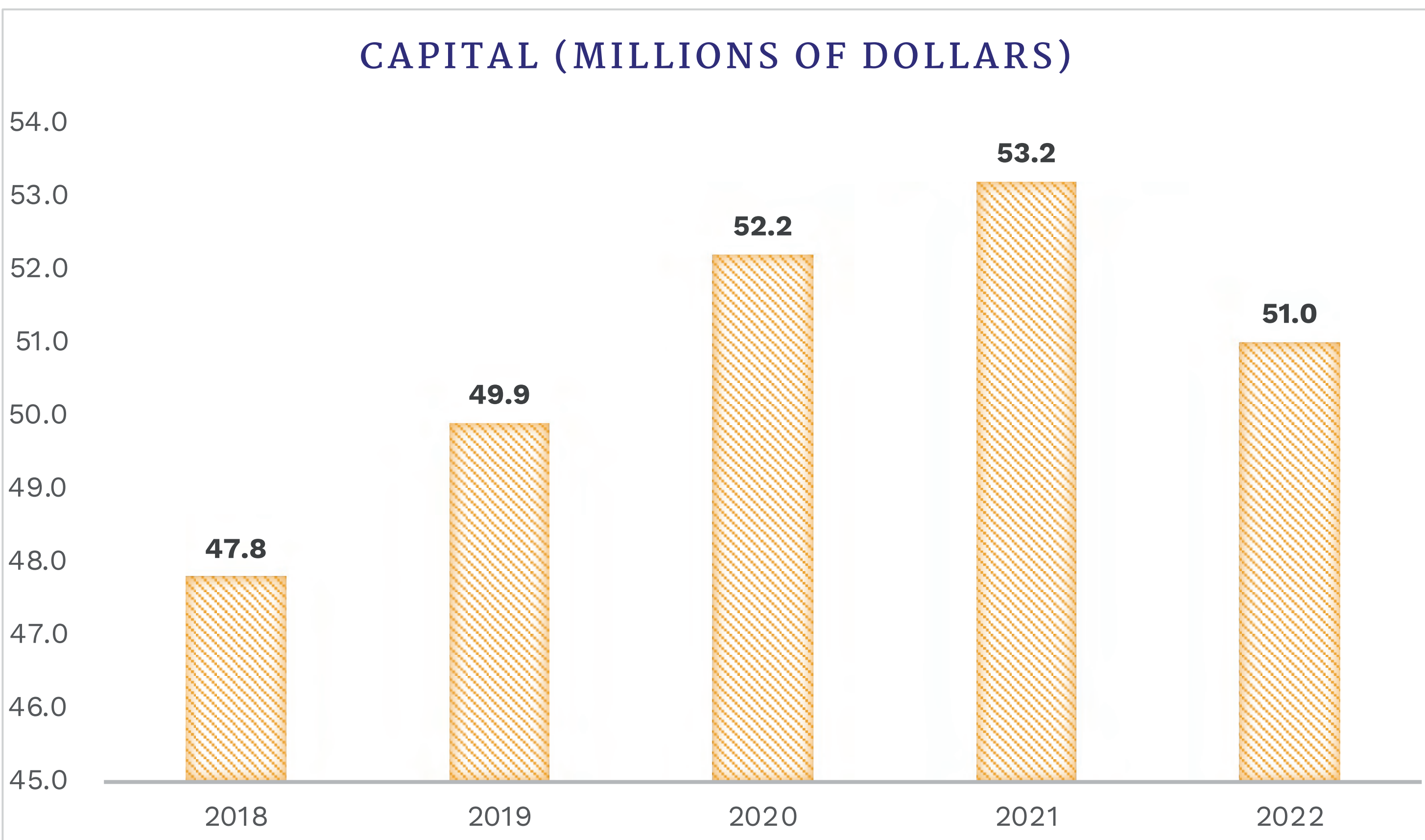
TOTAL DEPOSITS (MILLIONS OF DOLLARS)

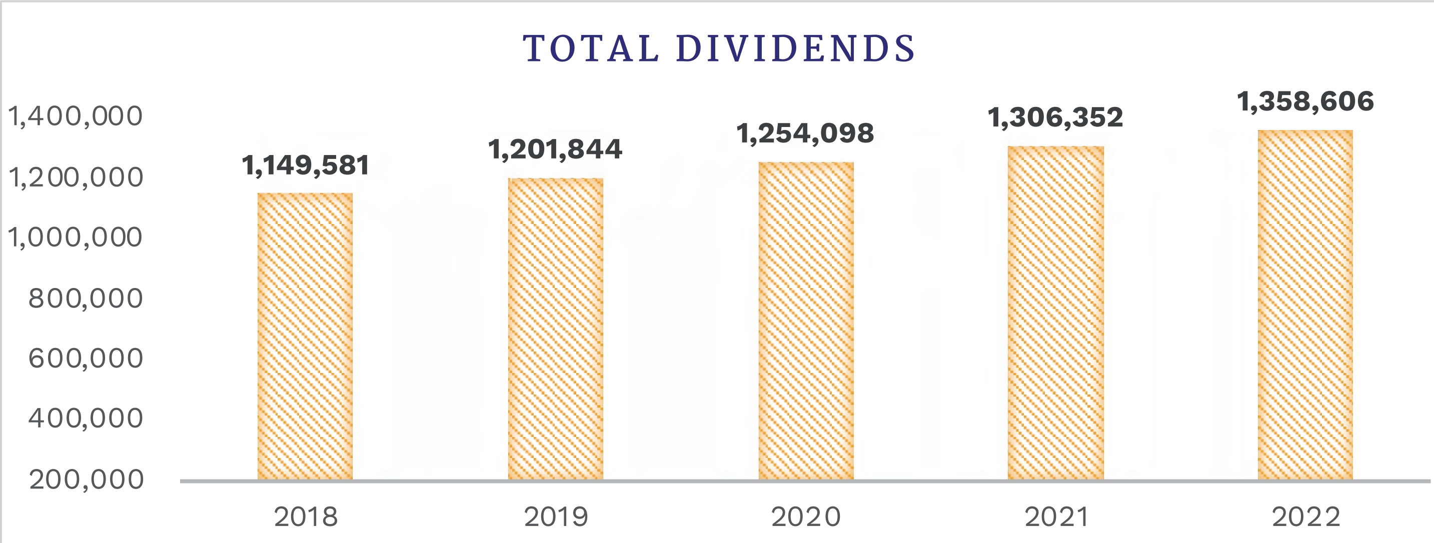


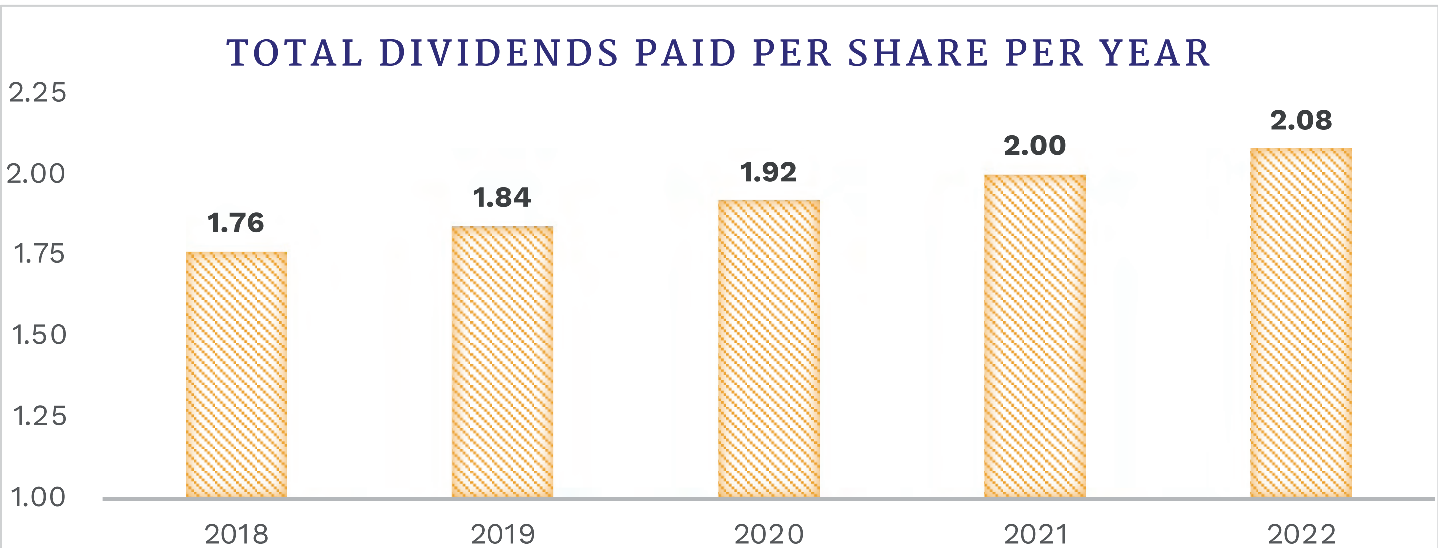

TOTAL ASSETS (MILLIONS OF DOLLARS)
500.0
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
297.3
303.1
384.3
435.4
468.3
2018
2019
2020
2021
2022

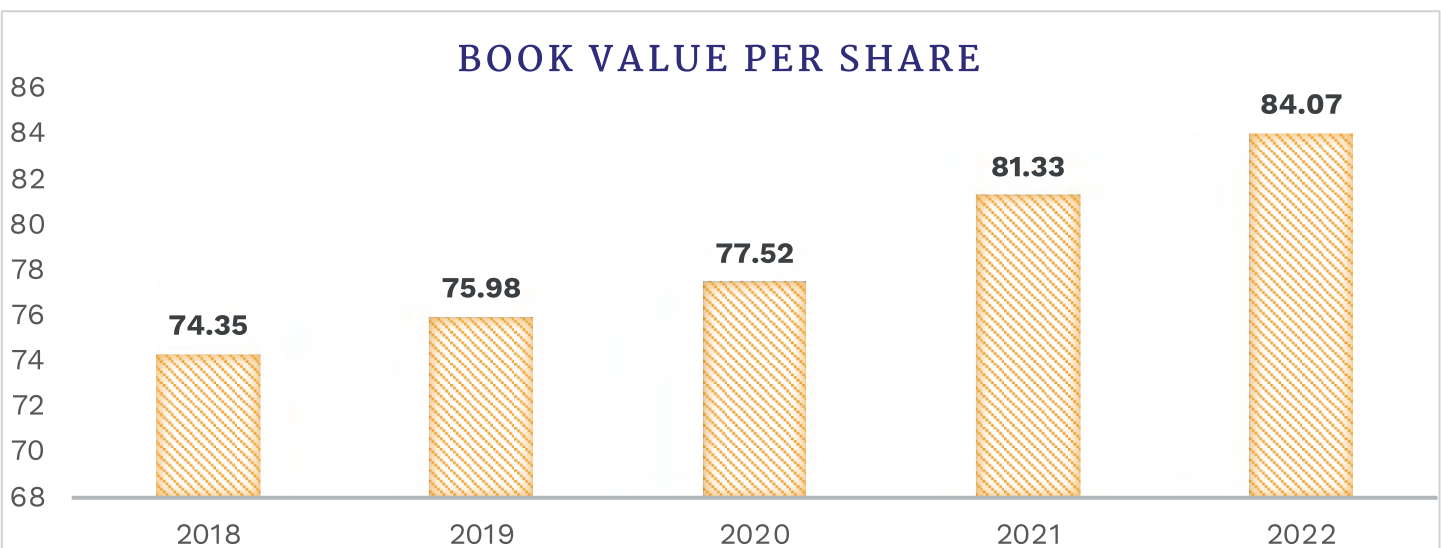

NET INCOME (THOUSANDS OF DOLLARS)
3,500
3,000
2,500
2,000
1,500
1,000
2,465
2,218
2,280
2,951
3,144
2018
2019
2020
2021
2022

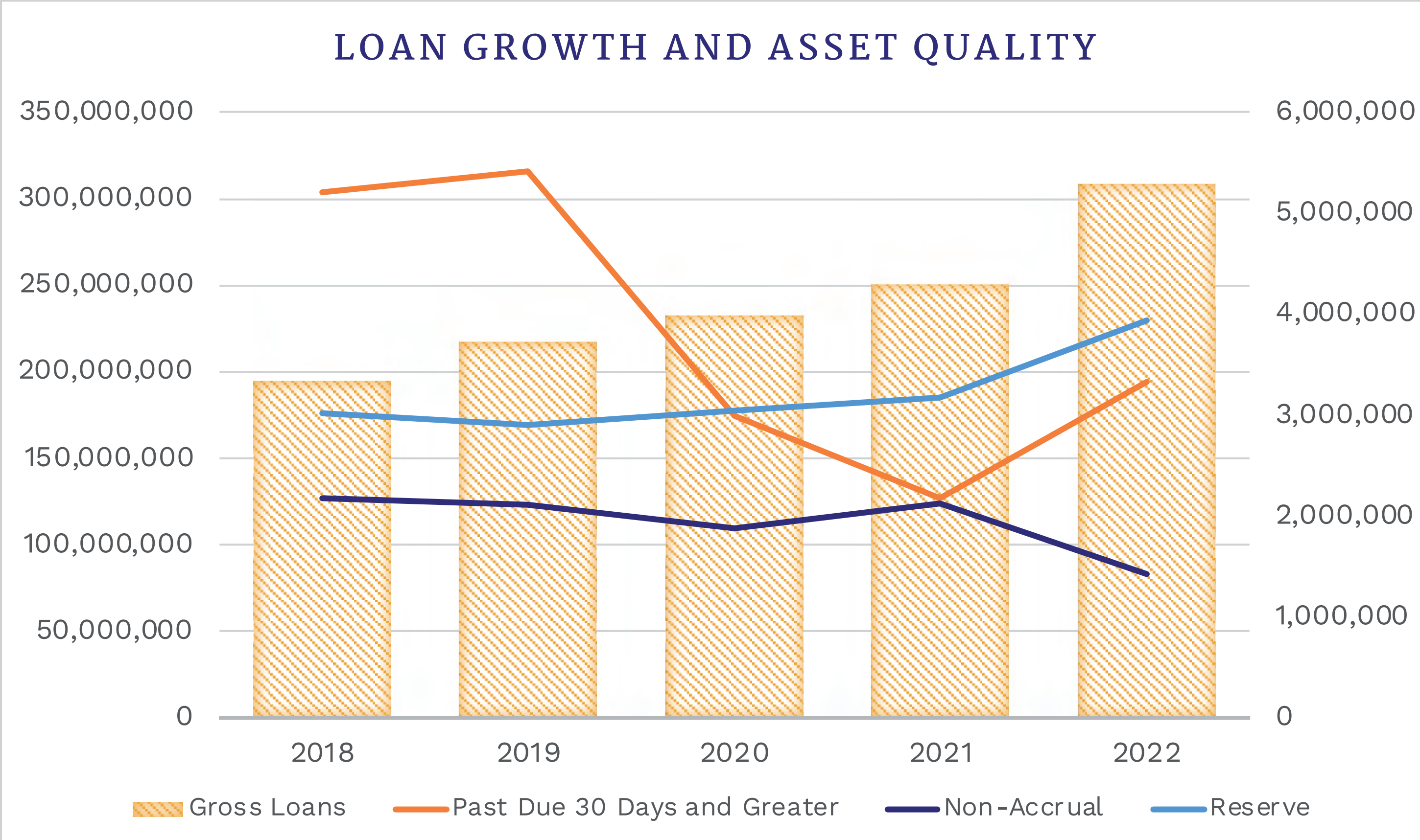

TOTAL LOANS (MILLIONS OF DOLLARS)
350.0
300.0
250.0
200.0
150.0
100.0
191.3
214.6
228.7
247.1
305.2
2018
2019
2020
2021
2022

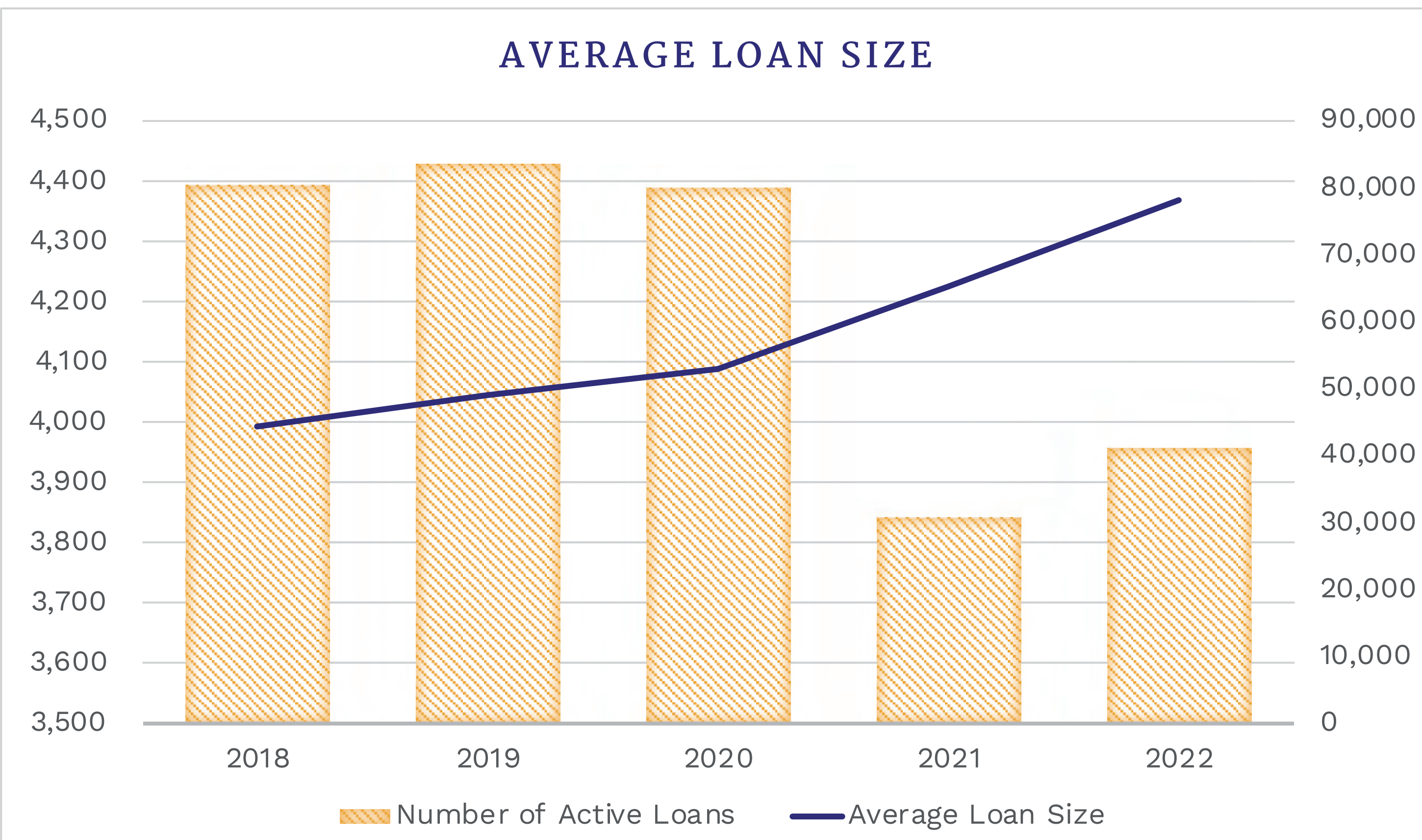

CAPITAL (MILLIONS OF DOLLARS)
54.0
53.0
52.0
51.0
50.0
49.0
48.0
47.0
46.0
45.0
47.8
49.9
52.2
53.2
51.0
2018
2019
2020
2021
2022


TOTAL DIVIDENDS
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
1,149,581
1,201,844
1,254,098
1,306,352
1,358,606
2018
2019
2020
2021
2022


TOTAL DIVIDENDS PAID PER SHARE PER YEAR
2.25
2.00
1.75
1.50
1.25
1.00
1.76
1.84
1.92
2.00
2.08
2018
2019
2020
2021
2022


BOOK VALUE PER SHARE
86
84
82
80
78
76
74
72
70
68
74.35
75.98
77.52
81.33
84.07
2018
2019
2020
2021
2022


LOAN GROWTH AND ASSET QUALITY
350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
0
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
2018
2019
2020
2021
2022
Gross Loans
Past Due 30 Days and Greater
Non-Accrual
Reserve


AVERAGE LOAN SIZE
4,500
4,400
4,300
4,200
4,100
4,000
3,900
3,800
3,700
3,600
3,500
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2018
2019
2020
2021
2022
Number of Active Loans
Average Loan Size

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

December 31, 2022

CONTENTS

BROWNEDWARDS
certified public accountants

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, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), 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, 2022 and 2021, 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.

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

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, 2023

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 63,689,975	$ 118,374,812
Interest bearing time deposits in banks	1,000,000	2,750,000
Investment securities	75,742,254	45,533,719
Other investments	1,700,067	1,496,272
Loans, net	305,232,262	247,068,937
Foreclosed assets	-	250,000
Premises and equipment, net	10,459,214	10,625,186
Accrued interest receivable	1,355,638	995,855
Income taxes receivable	185,481	119,741
Deferred income tax asset, net	1,850,330	551,288
Goodwill	865,410	865,410
Bank owned life insurance	4,791,310	4,883,814
Other assets	1,411,082	1,847,049
Total assets	$ 468,283,023	$ 435,362,083
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest bearing	$ 159,606,075	$ 154,170,627
Interest bearing	254,987,611	225,405,996
Total deposits	414,593,686	379,576,623
Accrued interest and other liabilities	2,728,774	2,546,700
Total liabilities	417,322,460	382,123,323
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 2022 and 2021	653,176	653,176
Surplus	653,176	653,176
Retained earnings	53,597,996	51,812,162
Accumulated other comprehensive income (loss)	(3,943,785)	120,246
Total stockholders' equity	50,960,563	53,238,760
Total liabilities and stockholders' equity	$ 468,283,023	$ 435,362,083

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, 2022 and 2021**

	2022	2021
INTEREST INCOME		
Interest and fees on loans	$ 13,123,416	$ 12,667,601
Interest on excess reserves	858,297	118,543
Interest and dividends on equity securities	130,094	51,036
Interest on available-for-sale securities		
U.S. Treasury	687,731	243,083
U.S. Government agencies	286,247	232,104
States and political subdivisions	304,468	357,553
Other	49,071	24,733
Total interest income	15,439,324	13,694,653
INTEREST EXPENSE		
Interest on deposits	1,338,644	975,352
Interest on borrowings	-	74
Net interest income	14,100,680	12,719,227
Provision for loan losses	759,466	130,000
Net interest income after provision for loan losses	13,341,214	12,589,227
NONINTEREST INCOME		
Service charges on deposit accounts	323,037	351,931
Other customer service fees	1,089,497	902,036
Net gains on sale of available-for-sale securities	1,867	-
Unrealized gains on equity securities	-	248,457
Bank-owned life insurance income	767,835	117,789
Other income	142,660	236,887
Total noninterest income	2,324,896	1,857,100
NONINTEREST EXPENSES		
Salaries and wages	5,116,056	4,773,091
Employment benefits and taxes	1,276,402	1,172,676
Advertising and public relations	168,611	138,027
Occupancy expenses	719,524	774,491
Equipment rentals, depreciation, and maintenance	361,757	399,539
Director and committee fees	192,500	210,000
Correspondent bank services	731,240	647,966
Legal and professional	280,600	213,522
Stationery and supplies	151,913	100,472
Real estate and franchise tax	464,759	537,723
Data processing	385,586	500,660
Unrealized losses on equity securities	800,237	-
Other operating expenses	1,379,981	1,388,776
Total noninterest expenses	12,029,166	10,856,943
INCOME BEFORE INCOME TAXES	3,636,944	3,589,384
Income tax provision	492,504	637,987
NET INCOME	$ 3,144,440	$ 2,951,397
EARNINGS PER COMMON SHARE		
Net income per common share	$ 4.81	$ 4.52

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

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2022 and 2021

	2022	2021
NET INCOME	$ 3,144,440	$ 2,951,397
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX		
Unrealized holding (losses) gains arising during the year for securities available-for-sale	(5,142,476)	(738,453)
Reclassification adjustment for gains included in net gains on sale of securities in net income	(1,867)	-
	(5,144,343)	(738,453)
INCOME TAX EFFECT RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME (LOSS)	1,080,312	155,075
OTHER COMPREHENSIVE INCOME (LOSS), net of tax	(4,064,031)	(583,378)
COMPREHENSIVE INCOME (LOSS)	$ (919,591)	$ 2,368,019

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

POWELL VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Net income	-	-	3,144,440	-	3,144,440
Other comprehensive loss, net of tax	-	-	-	(4,064,031)	(4,064,031)
Cash dividends declared ($2.08 per common share)	-	-	(1,358,606)	-	(1,358,606)
BALANCE, December 31, 2022	$ 653,176	$ 653,176	$ 53,597,996	$ (3,943,785)	$ 50,960,563

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, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Net income	$ 3,144,440	$ 2,951,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	759,466	130,000
Depreciation	521,805	515,304
Amortization of loan fees	-	(202,682)
Write down of foreclosed assets	-	95,260
(Gain) loss on sale of foreclosed assets	14,719	(42,273)
Net (accretion) amortization of securities	(117,137)	62,437
Realized (gain) loss on sales of available-for-sale securities	(1,867)	-
Deferred income tax (benefit) expense	(218,730)	40,936
Bank owned life insurance income	(767,835)	(117,789)
Unrealized loss (gain) on equity securities included in income	800,237	(248,457)
Net change in:		
Income taxes receivable	(65,740)	16,290
Bank owned life insurance	226,637	-
Accrued interest receivable	(359,783)	99,820
Other assets	435,967	6,436
Accrued interest and other liabilities	182,074	(330,914)
Net cash provided by operating activities	4,554,253	2,975,765
INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Maturities, calls, and sales	4,194,436	8,464,180
Purchases	(40,228,547)	(25,432,514)
Net change in interest-bearing time deposits in banks	1,750,000	(750,000)
Loan originations and principal collections, net	(58,922,791)	(18,297,370)
Proceeds from sales of foreclosed assets	235,281	248,994
Additions to premises and equipment	(355,833)	(292,056)
Net change in other investments	(203,795)	81,000
Net proceeds from Bank owned life insurance	633,702	-
Net cash used in investing activities	(92,897,547)	(35,977,766)
FINANCING ACTIVITIES		
Net increase in deposits	35,017,063	50,300,231
Cash dividends paid on common stock	(1,358,606)	(1,306,352)
Net cash provided by financing activities	33,658,457	48,993,879
Net change in cash and cash equivalents	(54,684,837)	15,991,878
CASH AND CASH EQUIVALENTS, beginning	118,374,812	102,382,934
CASH AND CASH EQUIVALENTS, ending	$ 63,689,975	$ 118,374,812

(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, 2022 and 2021

	2022	2021
NON-CASH TRANSACTIONS		
Transfer of loans to other real estate owned	$ -	$ 46,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	$ 1,205,528	$ 1,027,524
Cash paid for income taxes, net of refunds	$ 763,034	$ 580,762
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Total change in gross unrealized (loss) on fixed income securities available-for-sale	$ (5,144,343)	$ (738,453)

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

Note 1. Summary of Significant Accounting Policies

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

Principles of consolidation

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

Nature of operations

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

Use of estimates

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

Cash and cash equivalents

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Investment securities

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

Available-for-sale: Government and government agency bonds, notes, and certificates are classified as available-for-sale 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. 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.

(Continued)

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 using the straight-line method. 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, 2022 or 2021.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

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

Income taxes

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

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

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

Compensated absences

Compensated absences for sick day and personal time have not been accrued since they 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.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent events

The Company has evaluated the accompanying consolidated financial statements for subsequent events and transactions through February 28, 2023, the date these consolidated financial statements were available for issue.

Reclassifications

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

Leases

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. The adoption of the lease standard did not have a significant effect on the financial statements.

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 beginning January 1, 2023. The adoption of CECL by the Bank is expected to have an immaterial effect on the Bank's financials.

COVID-19

In early 2020, the COVID-19 pandemic began negatively impacting 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 of that same year. 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)

Since the onset of the pandemic, business operations have to a great extent returned to normal. However, the pandemic does continue to affect areas of the economy, and as a result, the Company continues to monitor evolving economic and general business conditions as well as the actual and potential impacts on the financial position, results of operations, and cash flows of the Company.

Note 2. Investment Securities

The amortized cost and fair value of securities are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities – available-for-sale				
U.S. government agencies and corporations	$ 45,202,336	$ -	$ (2,109,096)	$ 43,093,240
State and political subdivisions	23,861,792	9,824	(2,145,911)	21,725,705
Mortgage-backed securities	7,266,125	704	(768,797)	6,498,032
Corporate debt and other securities	599,996	23,400	(2,255)	621,141
Total debt securities – available-for-sale	76,930,249	33,928	(5,026,059)	71,938,118
Equity securities	4,355,916	-	(551,780)	3,804,136
Total securities	$ 81,286,165	$ 33,928	$ (5,577,839)	$ 75,742,254

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities – available-for-sale				
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
Total debt securities – available-for-sale	40,777,132	632,026	(479,812)	40,929,346
Equity securities	4,355,916	257,189	(8,732)	4,604,373
Total securities	$ 45,133,048	$ 889,215	$ (488,544)	$ 45,533,719

(Continued)

Note 2. Investment Securities (Continued)

The amortized cost and fair value of debt securities as of December 31, 2022, 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.

	Securities Available-for-Sale	
	Amortized Cost	**Fair Value**
Available-for-sale debt securities		
One year or less	$ 13,789,485	$ 13,706,949
After one year through five years	35,657,660	33,912,320
After five years through ten years	16,961,031	14,853,852
After ten years	3,255,948	2,966,965
	69,664,124	65,440,086
Mortgage-backed securities	7,266,125	6,498,032
Equity securities	4,355,916	3,804,136
	$ 81,286,165	$ 75,742,254

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, 2022 and 2021, 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.

	2022					
	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	$ 35,396,530	$ (807,820)	$ 7,696,710	$ (1,301,276)	$ 43,093,240	$ (2,109,096)
State and political subdivisions	13,237,983	(678,491)	6,692,898	(1,467,420)	19,930,881	(2,145,911)
Mortgage-backed securities	5,082,817	(386,987)	1,327,723	(381,810)	6,410,540	(768,797)
Corporate debt securities and other securities	-	-	597,742	(2,255)	597,742	(2,255)
Equity securities	3,804,186	(551,780)	-	-	3,804,186	(551,780)
Total securities	$ 57,521,516	$ (2,425,078)	$ 16,315,073	$ (3,152,761)	$ 73,836,589	$ (5,577,839)

(Continued)

Note 2. Investment Securities (Continued)

	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)

The Company had 149 and 55 securities at December 31, 2022 and 2021, respectively, which were in a loss position. The Company did not recognize any other-than-temporary impairments in 2022 or 2021.

During 2022, sales and redemptions of securities available-for-sale resulted in gross realized gains of $1,867 and no gross realized losses. During 2021, sales and redemptions of securities available-for-sale resulted in no gross realized gains or losses.

Investment securities with a carrying amount of approximately $38,000,000 and $16,000,000 as of December 31, 2022 and 2021, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

<u>Other investments</u>

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:

	2022	2021
Federal Home Loan Bank	$ 264,400	$ 192,100
Federal Reserve Bank	48,000	48,000
Virginia Bankers Insurance Center, LLC	1,288,717	1,157,222
Virginia Title Corporation	98,950	98,950
	$ 1,700,067	$ 1,496,272

(Continued)

Note 2. Investment Securities (Continued)

Board of Directors deferred compensation plan

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

Note 3. Loans

The Bank's loans consist of the following:

	2022	2021
Real estate loans		
Residential 1 – 4 family	$ 128,225,867	$ 91,461,418
Commercial	120,769,446	99,069,625
Total real estate loans	248,995,313	190,531,043
Commercial loans	43,888,592	46,243,242
Consumer loans, including overdrafts	16,286,788	13,768,079
Total loans	309,170,693	250,542,364
Less: allowance for loan losses	(3,938,431)	(3,179,719)
Less: unearned PPP fees	-	(293,708)
Loans, net	$ 305,232,262	$ 247,068,937

The Bank's consumer loans include $204,615 and $93,412 in overdrafts as of December 31, 2022 and 2021, 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, 2022				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1 – 4 family	$ 701,034	$ 701,034	$ -	$ 722,648	$ 37,519
Commercial real estate	1,467,096	1,467,096	-	1,749,875	78,687
Commercial	100,095	100,095	-	93,830	5,958
Consumer	23,682	23,682	-	27,464	1,753
With an allowance recorded:					
Residential 1 – 4 family	260,220	260,220	23,598	263,865	14,778
Commercial real estate	424,422	424,422	42,795	431,158	20,560
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Residential 1 – 4 family	961,254	961,254	23,598	986,513	52,297
Commercial real estate	1,891,518	1,891,518	42,795	2,181,033	99,247
Commercial	100,095	100,095	-	93,830	5,958
Consumer	23,682	23,682	-	27,464	1,753
Total impaired loans, individually evaluated	$ 2,976,549	$ 2,976,549	$ 66,393	$ 3,288,840	$ 159,255

(Continued)

Note 3. Loans (Continued)

Impaired loans (Continued)

	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

(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, 2022 and 2021:

	December 31, 2022					
	Residential 1 – 4 Family	Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance, January 1, 2022	$ 1,327,881	$ 968,639	$ 430,784	$ 19,914	$ 432,500	$ 3,179,718
Charge-offs	-	-	(29,727)	(31,835)	-	(61,562)
Recoveries	500	6,424	17,524	36,361	-	60,809
Provision	317,343	299,190	102,908	40,025	-	759,466
Ending balance, December 31, 2022	$ 1,645,724	$ 1,274,253	$ 521,489	$ 64,465	$ 432,500	$ 3,938,431
Portion of ending balance						
Individually evaluated for impairment	$ 23,598	$ 42,795	$ -	$ -	$ -	$ 66,393
Collectively evaluated for impairment	1,622,126	1,231,458	521,489	64,465	432,500	3,872,038
Total ALLL evaluated for impairment	$ 1,645,724	$ 1,274,253	$ 521,489	$ 64,465	$ 432,500	$ 3,938,431
Loans receivable						
Ending balance, December 31, 2022	$ 128,225,867	$ 120,769,446	$ 43,888,592	$ 16,286,788	$ N/A	$ 309,170,693
Portion of ending balance						
Individually evaluated for Impairment	$ 961,254	$ 1,891,518	$ 100,095	$ 23,682	$ N/A	$ 2,976,549
Collectively evaluated for Impairment	127,264,613	118,877,928	43,788,497	16,263,106	N/A	306,194,144
Total loans evaluated for Impairment	$ 128,225,867	$ 120,769,446	$ 43,888,592	$ 16,286,788	$ N/A	$ 309,170,693

(Continued)

Note 3. Loans (Continued)

Allowance for loan loss (Continued)

	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

(Continued)

Note 3. Loans (Continued)

Past due loans

The following tables present an aged analysis of past due loans and loans on nonaccrual status by loan type as of December 31, 2022 and 2021:

	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, 2022								
Residential 1 – 4 family	$ 126,780,912	$ 1,024,531	$ 281,775	$ 138,649	$ 1,444,955	$ 128,225,867	$ 860,469	$ 138,649
Commercial real estate	119,537,490	1,028,152	-	203,804	1,231,956	120,769,446	399,636	-
Commercial	43,433,965	419,318	35,309	-	454,627	43,888,592	105,390	-
Consumer	16,087,310	103,712	62,861	32,905	199,478	16,286,788	63,123	28,561
	$ 305,839,677	$ 2,575,713	$ 379,945	$ 375,358	$ 3,331,016	$ 309,170,693	$ 1,428,618	$ 167,210
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	$ -

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, 2022 and 2021:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2022						
Residential 1 – 4 family	$ 126,617,101	$ 387,850	$ 1,220,916	$ -	$ -	$ 128,225,867
Commercial real estate	114,378,847	4,980,862	1,409,737	-	-	120,769,446
Commercial	43,504,280	253,798	130,514	-	-	43,888,592
	$ 284,500,228	$ 5,622,510	$ 2,761,167	$ -	$ -	$ 292,883,905
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

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, as well as any overdrawn accounts. The following tables summarize the Bank’s consumer loans based on performance as of December 31:

	2022	2021
Performing	$ 16,049,268	$ 13,649,860
Non-performing	237,520	118,219
	$ 16,286,788	$ 13,768,079

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.

(Continued)

Note 3. Loans (Continued)

Troubled debt restructuring (Continued)

The following presents information related to loans modified as a TDR during the year ended December 31, 2022.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential 1-4 Family	1	$ 83,311	$ 81,238

The loan modification completed in 2022 was related to a single borrower to extend the maturity date for the loan. There was no change in the interest rate or forgiveness of debt.

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.

The Company participated in PPP lending. PPP loans are included in the Commercial and Industrial loan class. As of December 31, 2022, all PPP loans have been paid off. As of December 31, 2021, the Company had 91 PPP loans outstanding, with an outstanding principal balance of $4,467,819.

Foreclosed properties

As of December 31, 2022, no residential real estate properties were included in foreclosed properties. There were no foreclosures in process on residential real estate properties as of December 31, 2022.

Note 4. Premises and Equipment

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

	2022	2021
Land	$ 3,330,702	$ 3,330,702
Bank buildings and improvements	10,750,180	10,660,758
Furniture and equipment	4,217,333	3,989,863
Construction in progress	5,228	-
Automobile	443,568	409,856
	18,747,011	18,391,179
Less: accumulated depreciation	(8,287,797)	(7,765,993)
	$ 10,459,214	$ 10,625,186

Depreciation expense in 2022 and 2021 was $521,805 and $515,304, respectively.

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, 2022 and 2021 was $72,202,371 and $57,834,344, respectively.

Apart from the annual overnight account test, the Company did not have any advances during 2022. The Company had advances totaling $15,000,000 in 2021 that were subsequently paid off during the same year the advance took place.

Note 6. Deposits

Deposit account balances are summarized as follows:

	2022	2021
Non-interest bearing checking	$ 159,606,075	$ 154,170,627
Interest bearing checking	92,119,045	68,957,055
Savings	79,139,446	70,151,736
Individual retirement accounts	14,711,393	14,894,194
Certificates of deposit	69,017,727	71,403,011
	$ 414,593,686	$ 379,576,623

The aggregate amount of time deposits in denominations of $250,000 or more as of December 31, 2022 and 2021 was $20,221,150 and $26,745,090, respectively.

(Continued)

Note 6. Deposits (Continued)

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 53,487,865
2024	10,970,292
2025	3,316,989
2026	586,192
2027	656,389
	$ 69,017,727

Note 7. Income Taxes

The provision for income taxes consists of the following:

	2022	2021
Current tax expense	$ 711,234	$ 597,051
Deferred tax (benefit) expense	(218,730)	40,936
	$ 492,504	$ 637,987

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:

	2022		2021	
	Amount	%	Amount	%
Expected tax provision at enacted rate	$ 763,758	21.00 %	$ 753,771	21.00 %
Tax effect of:				
Tax exempt income	(345,296)	(9.50)	(212,862)	(5.93)
Other items, net	74,042	2.04	97,078	2.70
Income taxes	$ 492,504	13.54 %	$ 637,987	17.77 %

(Continued)

Note 7. Income Taxes (Continued)

The net deferred tax asset consists of the following components:

	2022	2021
Deferred tax assets		
Allowance for loan loss	$ 712,975	$ 553,645
Deferred compensation	245,954	302,650
Interest on non-accrual loans	17,368	17,333
Impaired assets – OREO	-	21,000
Deferred self-employment retirement plan	-	21,359
Pass-through investments and other	59,024	18,208
Loss on securities	132,275	-
Unrealized loss on securities available-for-sale	1,048,347	-
PPP fees	-	61,679
Total deferred tax assets	2,215,943	995,874
Deferred tax liabilities		
Accretion – investment securities	45,886	21,877
Amortization – intangibles	181,736	181,736
Gain on securities	-	40,255
Unrealized gain on securities available-for-sale	-	31,965
Depreciation	137,991	168,753
Total deferred tax liabilities	365,613	444,586
Net deferred tax asset	$ 1,850,330	$ 551,288

At December 31, 2022 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 $251,000 and $260,000 for 2022 and 2021, 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, 2022, 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.

(Continued)

Note 8. Regulatory Capital Requirements (Continued)

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 2022 and 2021, 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.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 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, 2022						
Total risk based capital to risk weighted assets	$ 46,859	15.46 %	$ 24,243	8.00 %	$ 30,303	10.00 %
Consolidated	58,381	19.27	24,243	8.00	N/A	
Tier I capital to risk weighted assets	43,070	14.21	18,182	6.00	24,243	8.00
Consolidated	54,592	18.02	18,182	6.00	N/A	
Tier I leverage to average assets	43,070	9.62	17,909	4.00	22,386	5.00
Consolidated	54,592	11.90	18,352	4.00	N/A	
Common equity Tier I to risk weighted assets	43,070	14.21	13,636	4.50	19,697	6.50
Consolidated	54,592	18.02	13,636	4.50	N/A	
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	

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 2022, the Bank paid $2,108,608 in dividends to the Holding Company, which resulted in approximately $2,100,000 available to distribute by the Bank without prior approval. During 2022 and 2021, the Holding Company declared and issued $1,358,606 and $1,306,352, respectively, in dividends to shareholders.

Note 10. Employee Benefit Plans

<u>401(k) and profit share plan</u>

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 2022, 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 $254,516 and $221,645 for 2022 and 2021, respectively.

<u>Board of Directors deferred compensation plan</u>

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, 2022 and 2021, the accumulated fair value of the assets in the trust was $1,069,967, 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.

<u>Supplementary executive retirement plan</u>

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 2022 or 2021.

(Continued)

Note 11. Commitments and Contingencies

Financial instruments with off-balance-sheet risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

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

	2022	2021
Commitments to extend credit	$ 57,822,767	$ 35,341,412
Standby letters of credit	1,382,719	1,502,347
	$ 59,205,486	$ 36,843,759

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

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

Significant concentrations of credit risk

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

(Continued)

Note 11. Commitments and Contingencies (Continued)

Significant concentrations of credit risk

The legal lending limit as of December 31, 2022 is approximately six 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.

(Continued)

Note 12. Fair Value Disclosures (Continued)

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

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

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

		Fair Value Measurement		
December 31, 2022	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets measured on a recurring basis				
Available-for-sale securities:				
U.S. government agencies and corporations	$ 43,093,240	$ -	$ 43,093,240	$ -
State and political subdivisions	21,725,705	-	21,725,705	-
Mortgage-backed securities	6,498,032	-	6,498,032	-
Corporate debt and other securities	621,141	-	621,141	-
Equity securities	3,804,136	-	3,804,136	-
	$ 75,742,254	$ -	$ 75,742,254	$ -
Trading securities:				
Mutual funds held in rabbi trust	$ 1,069,967	$ -	$ 1,069,967	$ -
Assets measured on a non-recurring basis				
Impaired loans, net	$ 2,910,156	$ -	$ -	$ 2,910,156
	$ 2,910,156	$ -	$ -	$ 2,910,156

(Continued)

Note 12. Fair Value Disclosures (Continued)

December 31, 2021	Fair Value	Fair Value Measurement Level 1	Level 2	Level 3
Assets measured on a recurring basis				
Available-for-sale securities:				
U.S. government agencies and corporations	$ 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

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

Securities

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

Impaired loans

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

(Continued)

Note 12. Fair Value Disclosures (Continued)

Impaired loans (Continued)

As of December 31, 2022, 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, 2022 and 2021 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:

	2022	2021
Balance, January 1	$ 1,488,830	$ 1,556,647
Borrowings	183,000	710,000
Repayments	(913,523)	(777,817)
Balance, December 31	$ 758,307	$ 1,488,830

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 $21.2 million and $18.2 million as of December 31, 2022 and 2021, 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 2022 and 2021, the Bank paid the insurance agency $59,211 and $70,107, respectively.

(Continued)

Note 14. Revenue Recognition

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

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

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

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

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

	2022	2021
Service charges on deposit accounts	$ 323,037	$ 351,931
Other customer service fees	1,089,497	902,036
Revenues from contracts with customers	1,412,534	1,253,967
Noninterest income within scope of other ASC topics	912,362	603,133
Total noninterest income	$ 2,324,896	$ 1,857,100

PVNB IN THE COMMUNITY

LETON CONCLUDES VBA CHAIRMAN TERM

In June 2021, Leton Harding, President and CEO, was elected as the 2021-2022 Chairman for the Virginia Bankers Association. Leton was the first former VBA staff member to be elected as VBA Chairman in VBA history. In late July 2021, he attended the American Bankers Association's Summer Leadership Meeting in Austin, TX representing banks across Virginia. In August 2021, he gave the commencement speech at the VBA's School of Bank Management and as an added bonus he was able to present diplomas to PVNB graduates, Tiffany Collier and Brent Mullins. In October 2021, Leton served on a banking leadership panel at the Leadership Conference where he discussed his leadership style. He shared the importance of always being curious and encouraged the emerging bank leaders across the Commonwealth to keep learning. He even demonstrated that curiosity to attendees in the room during the cryptocurrency session! In November 2021, he visited Baltimore for the American Bankers Association's Mid Atlantic CEO Forum and also joined VBA legislative meetings virtually across the Commonwealth.

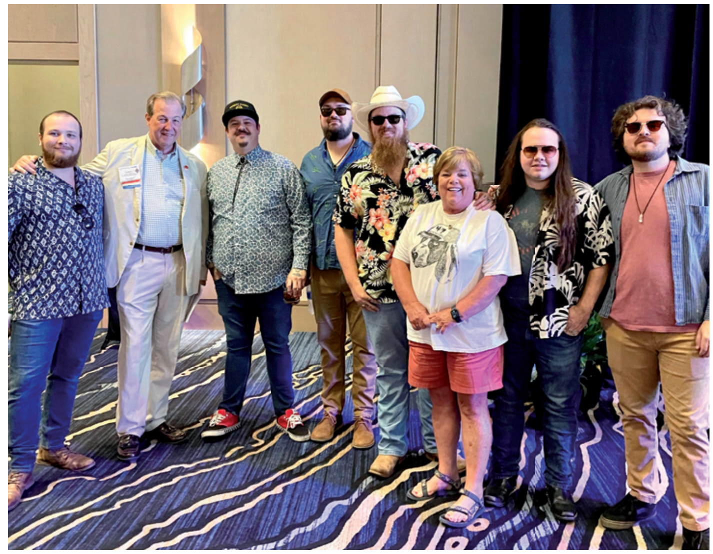
In January 2022, the VBA made the tough decision to cancel Banker Day in Richmond due to a surge of COVID-19 cases, but by March 2022, things began to settle down and Leton was able to attend the Washington Summit where he and bankers across the entire United States advocated for our industry on Capitol Hill. In the same month, he joined other Virginia bankers in Southwest Virginia for a lunch with Congressman Morgan Griffith.


Leton at the TED Conference in Atlanta

In June 2022, Leton's term concluded as he presided over the VBA's 129th Annual Convention in Virginia Beach, VA where his family, board members, and senior management joined him. He brought Southwest Virginia to Virginia Beach. Bankers across the Commonwealth had the opportunity to join New York Times Bestselling Author and Big Stone Gap native, Adriana Trigiani, for a conversation and luncheon about her new book. Musical entertainment for the convention was provided by The Birthplace of Country Music, including Monday night's reception which featured Castlewood native band, 49 Winchester. During his Chairman remarks, Leton discussed his “43-year term” at the VBA, which began when he was invited to participate in the VBA's Young Bankers Section 43 years ago. He talked about change in our industry and how the VBA keeps our industry on the forefront of change, not fearful of it. He stated, "Change is always happening. It is how we embrace change that determines success or failure." In his chairman interview at the beginning of his term he stated that his role was to continue to beat the drum for our industry, and over the course of the year there's no doubt that he did exactly that.

Leton, congratulations on completing your chairman term. Your dedication to our industry is truly unmatched and we are honored to have been a part of your journey!

VBA ANNUAL CONVENTION - 2022



BANK FAMILY PICNIC


NATIONAL BANK
TEAM NORTON





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! By 2022, Jonesville, Pennington Gap, Wise, Duffield and Abingdon added mailboxes to their offices. Every year kids across these communities, and even stuffed animals owned by Wise Primary School and Union Primary School students, visit the mailboxes each year to drop off their letters to Santa and check their mailboxes for a return letter.

By starting an exciting photo competition on social media where people voted for their favorite pictures of kids dropping off their letters, we were able to expand on the spirit of community giving. Each photo winner selected a charity and we made a donation on their behalf. The winners selected a $100 donation to PAWS of SWVA and $700 to St. Jude Children's Hospital. We are excited to see even more community engagement next year.

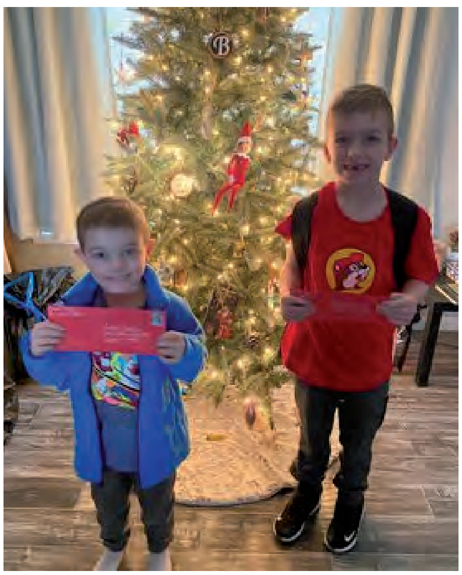
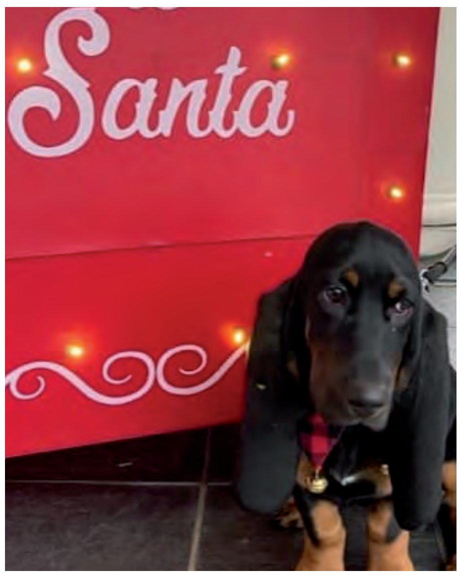
This past year we mailed over 450 Santa letters to kids across our communities! Thank you to all our employees for giving back to your communities by helping with this impactful project!


2022
2021
2020
Letters to Santa


Letters to Santa


Letters to Santa


Letters
to
Santa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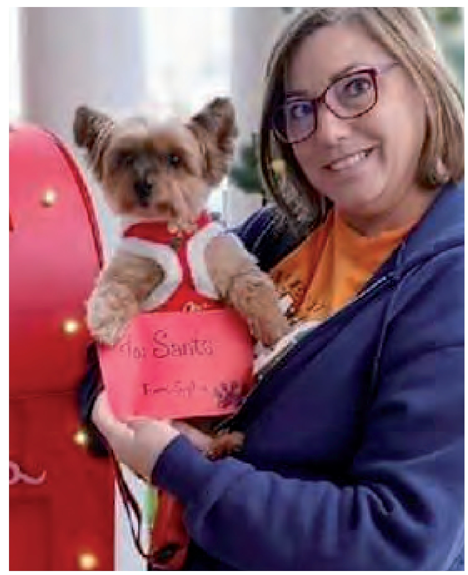


Letters
to
Santa

IN LOVING MEMORY OF SAMUEL L. NEESE

1950–2022

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Sarah H. Wynn
Browning Wynn, II
Roy E. Woodward, Jr.
H. Fuller Cridlin

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Roger Audia
Bruce Robinette

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Cory B. Dotson .... Senior Vice President & Market Executive
Mark Farris .... Senior Vice President & Market Executive
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James D. Swartz .... Vice President & Loan Review Officer
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Cassie Dotson .... Assistant Vice President
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Haley Hillman .... Assistant Vice President and Loan Officer
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Sarah Moore .... Assistant Vice President
Marsha Nickodam .... Assistant Vice President
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Linda Thomas .... Assistant Vice President
Tammy Large .... CRA & Compliance Officer

T. Allen Poole .... Investment Executive for Powell Valley Investment Services

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Madison Combs
Karen Ellison
Cameron Gill
Sharon Harber
Amanda Hensley
Julia Napier
Brittney Nelson
Debra Qualls

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Lisa Bailey
Buffy Burgan
Sharon Garrett
Norma Grace
Crissie Robinson

WISE
Kasi Clifton
Kelsey Fleming
Ashley Hamilton
Sharon Jones
Brittany Kelly
Pamela Rose

BIG STONE GAP
Gina Cothron
Sue Huff
Mary Oakes
Courtney Robinson
Tiffany Stacy
Jamie Stapleton

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Cindy Baker

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Terri Smith-Perry
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