Together
We All Succeed.

PCB
Pendleton Community Bank

ABI
Allegheny Bancshares Inc

2020

Annual Report

INSIDE

OUR MISSION

Pendleton Community Bank, an Independent Community Bank, is dedicated to providing products and services that facilitate financial success of our customers, encouraging professional success for our team members, and stimulating economic growth in our communities, thereby enhancing the value of "YourBank".

Letter to our Shareholders

Dear Shareholder

Together. This one word has such significance, but is truly a word that has been used and relied upon to get us through many challenging situations. 2020 was one of those "situations" and a year that tested our resolve as individuals, a society, and even a company. Almost overnight we were forced to evaluate and embrace a new way of life. While we originally hoped the pandemic would be short lived, as you are reading this letter, we just passed the one-year anniversary.

"Together we all succeed"

2020 was clearly a year for the record books for many reasons. As the year started to unfold, there were many questions on how it would end financially. Despite the many challenges, however, I am pleased to report we were able to accomplish many milestones and record earnings this year. One milestone was passing the $500 Million threshold and ending the year at $515 Million in total assets. This 16.51% increase was attributable to the 17.43% increase in total deposits and a reflection of our customers' success and organic expansion of our footprint. I am confident that our investments over the years paved the way for the year's success in terms of growth. This was further illustrated by year-end profitability, as despite the many obstacles we faced, we have reflected record levels of net income ($4.572 Million) and earnings per common share ($5.49). This equates to increases of $1.159 Million (33.96%) in net income and per common share income of $1.42 or 34.89%. These results, as in the past, would not have been possible without the support of our dedicated team members, Board of Directors, customers, and you our shareholders, truly exemplifying…. *"Together we all succeed."*

I firmly believe that if our customers are successful, we will be successful. This notion is more fully articulated in our Mission Statement where it states: *"Dedicated to providing products and services that facilitate the financial success of our customers"*. As you continue your review of this report, I believe another measure of this year's success is demonstrated by the customer comments and appreciation for the level of support and assistance we provided to them, not only during the "pandemic", but even before our world was turned upside down. This attention to detail and customer focus is not only a "core value" that we have reduced to writing, but one we act out each and every day. Another demonstration of…. *"Together we all succeed."*

As we reflect on the year, we are pleased to report record earnings and it is the first time in company history that our assets topped $500 million, reflecting a truly stellar performance given the challenges we faced this year.

William A. Loving, Jr., CLBB
President/CEO

While I have mainly touched on "togetherness" as related to success, "togetherness" is also critical and needed at times of distress and sorrow. Such is the case in 2020. Many lost loved ones, and quite possibly you were directly impacted. We, as an "Allegheny" family, were affected as well. I noted in the annual dividend letter that we lost one of our beloved directors, Dr. John Glover, in September 2020; then in January of this year, we lost another director, Joseph Brennskag. Dr. John joined the board in 1999 and Joe's service began in 2019. Collectively, their years of service to the board were very instrumental in our past success, as well as in charting the course for tomorrow's success. I know that as you review the Special Tribute section of this report honoring both "John" and "Joe", you will share in our appreciation of their support; and "together" offer our collective thoughts of sympathy to their respective families. These two individuals will be sorely missed.

Looking ahead, we are hopeful that the three-branch acquisition announced earlier this year will be regulatorily approved and closed by the end of May 2021, which will expand our market presence and bring our service facilities to a total of 14. As we continue to see positive trends relating to the pandemic and increased rollout of the vaccine, we will also move towards a more normal lifestyle and business environment. I am confident that with this improved operating environment, we will further see the fruits of our investment in people and market expansion.

In closing, I want to thank you for your continued support, and as you complete your review of the accompanying information, I trust you will share in our excitement with this year's results and agree that. . . .***"Together we all succeed."***

Best Regards,

William A. Loving, Jr., CLBB
President & CEO

One thing we quickly learned in 2020 is that the key to adapting was realizing that. . .

Together We All Succeed.

March 2020 changed our world and way of operations due to the COVID-19 pandemic. Immediately, we had to address the remote working capabilities of our team members and act quickly to make changes to how we provide services to customers. Soon after, we introduced Curbside Banking, increased services available through our Drive Thru Windows, and launched Virtual Appointments. Our team members also worked many, many hours to provide much-needed assistance to numerous small businesses across our market through the Paycheck Protection Program.

"In the summer of 2020, we acquired a loan during the worst of the COVID-19 pandemic. PCB went above and beyond to accommodate us during the loan process. We were even granted an unsecured loan which really helped with expenses, as we operate on a small budget."

- Linda Clifton
Edray United Church
Marlinton, WV

PCB
Pendleton Community Bank

PCB walked us through our PPP loan to make sure our business and our employees were taken care of to the best of their ability. We worked together on Lines of Credit to keep our cash flow stable during an unstable time. The year 2020 was a year of uncertainties for many. As a customer with PCB, we were continually updated on any mandated changes or opportunities for our small business. Not only was PCB a security net during such uncertainty, but they also partnered with us as we continued to grow our business despite the many challenges during the pandemic.

- Darla Young
Young's Mechanical Solutions, LLC
Franklin, WV

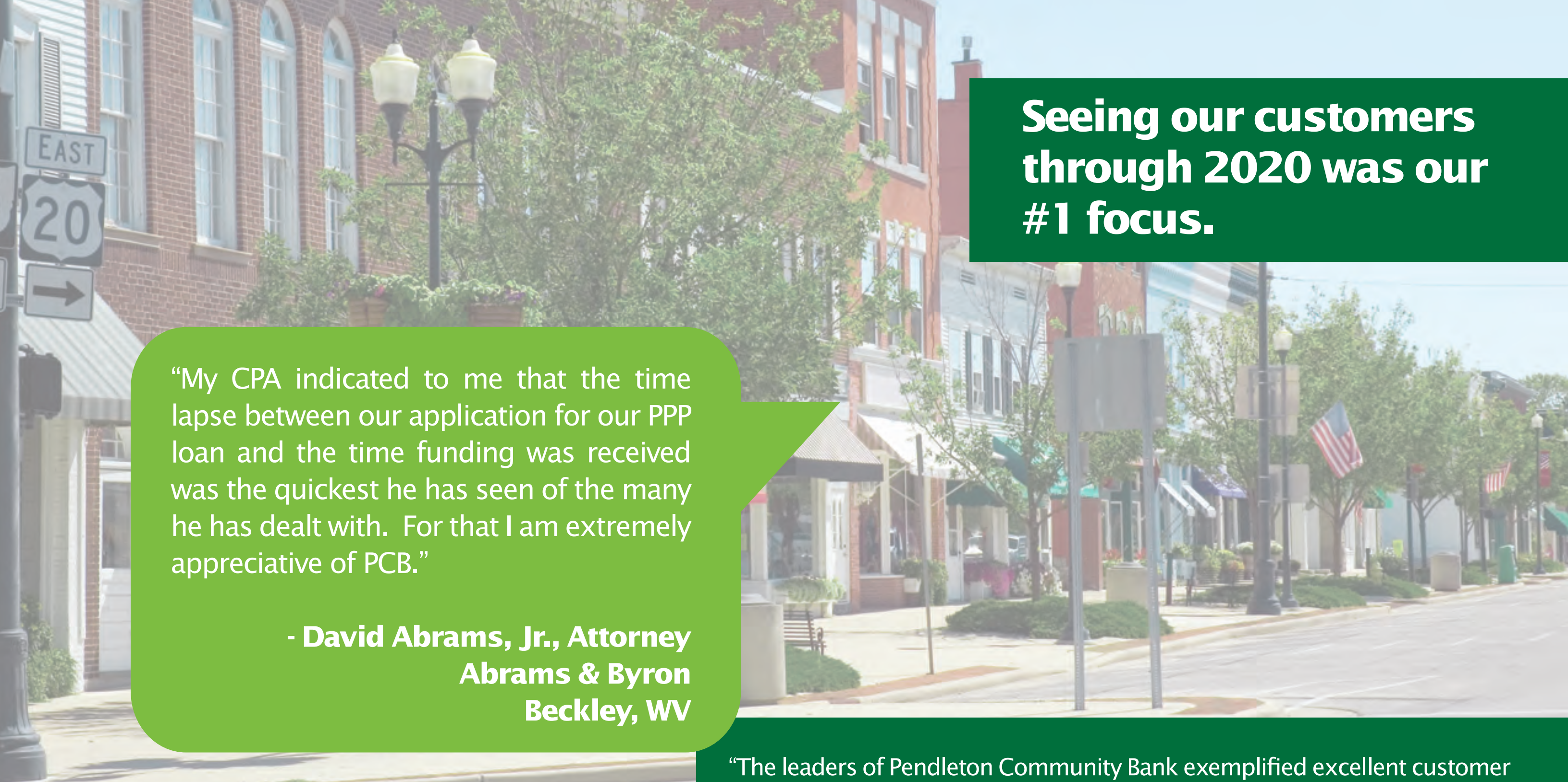
Our business switched to Pendleton Community Bank soon after they opened a branch in one of our beautiful historic buildings downtown. Their team knew me and my staff by name right away. They were always ready and able to answer our questions and make banking easy for our organization. On the community partner side – Pendleton is always a yes for everything! They always want to participate in our events, sponsor our programs, and even sell our downtown certificates to help bring an economic boost to our small businesses. They take care of their customers, and they also take care of their community.

They definitely helped us get through one of our hardest years in 2020. When PPP was announced, we knew we wanted to apply for a forgivable loan, but there was so much confusion around the program. Pendleton was one of the first bank portals to open, and they made the entire process so easy! If we had a problem or a question, our loan officer was always available. Knowing that this was going to be handled smoothly by our bank made at least one thing easier last year!

-Andrea Dono, Executive Director
Harrisonburg Downtown Renaissance
Harrisonburg, VA

"I recommend PCB to all my business friends, as well as family. I like the feel of a smaller bank. They make you feel like family and not just an account. Especially during 2020, they always went above and beyond to help with my PPP loan issues and they served my needs very well."

- Dale E. Wenger
Rebar Solutions LLC
Mount Crawford, VA



Seeing our customers through 2020 was our #1 focus.

"My CPA indicated to me that the time lapse between our application for our PPP loan and the time funding was received was the quickest he has seen of the many he has dealt with. For that I am extremely appreciative of PCB."

- David Abrams, Jr., Attorney
Abrams & Byron
Beckley, WV

"PCB was super helpful to us in navigating through the waters of the pandemic due to our business being shut down. They worked with us on deferring/modifying payments, and were a huge help with the PPP application, to where we didn't feel alone in the process. After completing the application, the bank reviewed it and called to tell me that we may be shorting ourselves, making us aware of potential extra benefits. They specifically said even though they may not have all of the answers, we would get through it together and were even willing to go the extra mile to find out what we needed to do."

- Hunter & Peggy Williams
Misty Mountain Event Barn
Fisher, WV

"PCB not only helped us with our loan for our office expansion, but helped us secure PPP loans for both Rocktown Realty and Valley Maintenance Services. This was in addition to the day-to-day banking services PCB helps us with for all our businesses. 2020 had so much uncertainty for everyone, but PCB helped us navigate the PPP application process, and kept us fully informed all the way through. There is no way we would have received this treatment from a large national bank. There is such a focus on customer service, and all of the staff make an effort to know who you are, and try to understand your business and your business's needs. There is no way we could operate the way we do without the help of a local bank like PCB."

Bernard Hamann
Rocktown Realty,
Downtown Harrisonburg, VA

"The leaders of Pendleton Community Bank exemplified excellent customer service during the process of applying for Paycheck Protection Program. Navigating the maize of regulations governing the pay-check protection program was simplified by their team, who worked tirelessly to make sure that ELR presented a package of information that conformed to the regulations allowing us to be successful. We sincerely appreciate the time, effort, and professional manner in which they handled this whole process. Your company is and will always be successful because of its focus on customer service."

- Randall Lewis, Vice President-E. L. Robinson Engineering Co.,
West Charleston, WV

"I have been a business and personal customer of Pendleton Community Bank for over 14 years. They have helped me with all of my banking needs, and I have been completely satisfied. They have a great team of professionals that are easy to work with and very invested in the community and the success of the people that live here."

- Mel Anderson, Medicap Pharmacy
Harrisonburg, VA

"When making a decision on a banking relationship for our new business, we knew we wanted a bank that had all the capabilities and expertise we needed for our company's growth, along with a highly responsive and knowledgeable staff. Pendleton Community Bank checks all of those boxes for us. The high level of service truly is a differentiator, and the bank genuinely cares about and participates in the communities in which they do business."

- Brooke Glover, President-Swilled Dog/Vice-President-ACA
Upper Tract, WV

"During this pandemic, everything about business as usual has been turned upside down. PCB is always a rock for us, but this year they have gone above and beyond helping us navigate the complicated and formidable PPP loan process. With PCB's support, we not only have confidence that we will be able to keep our doors open as a community non-profit, but that we will continue to thrive and grow to meet our community's evolving needs."

- Sarah Riley, Executive Director-High Rocks
Marlinton, WV

BOARD OF
Directors

WILLIAM LOVING, JR., CLBB
President / CEO

CAROLE HARTMAN
Chair / Farmer

ROGER CHAMP
Secretary / Contractor



WILLIAM BEARD, JR.
Farmer

WILLIAM BOSLEY, OD
Doctor of Optometry


CHAD BRANSON
Associate Broker –
Old Dominion Realty

MIKE LIVELY
Vice President –
Commercial Insurance,
Jim Lively Insurance, Inc.


LAURA SIMPSON EVICK
Partner – Hoover Penrod, PLC

DENNIS WENGER
President – Skyline Roofing
Vice President – Stone Hill Construction, Inc.


HARRISONBURG
Advisory Board

Pendleton Community Bank
Allegheny Bancshares Inc

Bernard Hamann
Owner, Chief Marketing Officer
Rocktown Realty

Oren Heatwole
Owner
Poultry Specialties Inc.

Hahns Kanode
Agronomy Consultant-Houff Corporation
Business Owner

Frank Oncken
Vice President, Administration / Finance
A&J Development and Excavation Inc.

Chris Rooker
Realtor,
Harrisonburg Homes Team

Dr. Catherine Slusher
OB/GYN Provider
Harrisonburg OB-GYN Association P.C.

Troy Suter
President & CEO
LD&B Insurance and Financial Services

We would not have been able to accomplish this success had it not been for the continued support of you, our Shareholder, our talented and dedicated Team, and a Board of Directors that acknowledged the uniqueness of the year and provided the much needed advice as we maneuvered uncharted waters.

William A. Loving, Jr., CLBB
President/CEO

Special TRIBUTE

The Board of Directors would like to extend their deepest appreciation for the dedication and service of Dr. John Glover, who passed away on September 13, 2020. The loss of our friend will be felt not just in banking, but in all walks of life. John tirelessly served with distinction and dedication on the board and was instrumental in the success of this institution and the betterment of the community. John began serving on the Board of Directors of Pendleton Community Bank in 1999 and tirelessly worked to support the goals and objectives of the bank. The Board of Directors want to express their deepest appreciation for the dedication and service he demonstrated over the years.

DR. JOHN GLOVER

Director from 1999 to 2020

OBITUARY: Doc Glover, age 78, was born on September 9, 1942, the son of James Edward Glover and Martha Maxine Shobe Glover both of whom preceded him in death. He was also preceded in death by an infant brother. Dr. Glover is survived by his wife, Rosanne Harper Glover and daughter, Dr. Anne Glover Posey and husband Kevin, two very special grandsons, Cameron Franklin Posey and Chase Oliver Posey. Also surviving are a sister-in-law, two nephews and their families and several cousins.

Dr. Glover graduated Valedictorian of the Petersburg High School Class of 1960 and continued his education at West Virginia University where he received his Bachelor of Science and Doctor of Dental Surgery degrees. He was a member of Kappa Alpha Fraternity. He worked in private practice in Petersburg for 46 years and was an adjunct Professor at the West Virginia University School of Dentistry in the Department of Prosthodontics for several years.

In 1969 he was selected to serve on the Grant County Board of Health, a position he continued until the present time. He also served as the Grant County Coroner for many years. He was active in the Potomac Valley Dental Association, served West Virginia as an alternate delegate to the American Dental Association meeting in San Francisco, California in 1998 and was elected to the position of President of the West Virginia Dental Association in 1999. Dr. Glover had served as a member of the Board of Directors of the Pendleton Community Bank since 1999 and did not want to ever miss a meeting. He was currently serving as its Vice Chairman.

He served four terms on the Grant Memorial Hospital Board of Trustees, was a member of the Board of Directors of the Grant County Housing Authority and had served as Treasurer for the Grant County Convention and Visitors Bureau.

He was a life-long member of the Main Street United Methodist Church. Dr. Glover was a 50 year member of Joseph W. Summers Lodge, #173, AF & AM, Morgantown, WV and also a 50 year member of Petersburg Chapter #146, Order of the Eastern Star.

He had a sense of humor and was viewed as a very jovial person. He took all of his community positions very seriously and wanted all the boards on which he served to be productive, progressive and successful.

Special TRIBUTE

The Board of Directors would like to extend their deepest appreciation for the dedication and service of Joseph Brennskag, who passed away on January 29, 2021. Our PCB family would like to take this moment to honor the life and legacy of our director, who faithfully served on our bank board since 2019. Our deepest sympathies to his family and all those who knew and loved him. His impact on our bank and PCB family will live on and he will be greatly missed by everyone. The Board of Directors want to express their deepest appreciation for the dedication and service Joe demonstrated during his service to the bank and the community in which he lived and worked and gave back so generously.

OBITUARY: Joseph Richard Brennskag, 61, of Rio, WV was born on November 14, 1959 in Baltimore, MD, the son of Peder Hansen & Anna Catherine (Pierce) Brennskag.

After holding various positions within the federal government, including at the Social Security Administration, the Internal Revenue Service, and the United States Naval Academy, Joe left his childhood home to live in the mountains he loved. Soon after he arrived, he met his beloved wife Aleta and they were happily married on April 4, 1987. Drawing on his experience and spirit of entrepreneurship, Joe started his business, Mountain State Tax Service, which he owned and operated the last 33 years.

Joe loved his work but his passion was photography. He took any opportunity to get behind his camera and capture stunning nature and landscape photos for which he won multiple awards and was frequently published. In Joe's memory an online gallery has been set up at www.joebrennskagphotography.com to view his work.

Aside from the business, Joe was a proud board member of the Pendleton Community Bank, an adviser for the Merwin Ludwig Scholarship, held various positions on his church council, and had previously taught Sunday School.

Joe is survived by his wife of 34 years, Aleta Smith Brennskag and their three children John Joseph, Justin Lee, and Mary Anna. Along with his immediate family, he is survived by a brother Bernard Brennskag (Gloria) and a sister Cynthia Shultz, both of Baltimore; numerous nieces and nephews; and aunts, uncles, & cousins in Norway.

JOSEPH BRENNSKAG
Director from 2019 to 2020

OUR Team

> *Even though each element was foreign to us, I am so proud of our dedicated team and Board of Directors for how they stepped up and did what was necessary to fulfill our Mission Statement. I am confident that we addressed the needs of everyone included in this statement – Customers, Team Members, Community, and Shareholders.*

William A. Loving, Jr., CLBB
President/CEO

William A Loving, Jr., CLBB, *President/CEO*
Neil Hayslett, *Chief Banking Officer*
Sheldon Arbaugh, *SR VP West Virginia Area Executive*
JT Bishop, *SR VP Commercial Relationship Manager*
Josh Byers, *SR VP Chief Credit Officer*
Aaron Green, *SR VP Market Leader*
Tammy Kesner, *SR VP CFO*
Jonah Pence, *SR VP Virginia Area Executive*
Danielle Sisson, *SR VP COO/CIO*
Tim Cash, *VP Business Development Officer*
Tammy Clutter, *VP Loan Operations*
Monika Eckard, CPA, *VP Human Resources/Affirmative Action Officer*
Kristan Foster, *VP Special Projects*
Mark Gunter, *VP Business Development Officer*
Kathy Parker, *VP Executive Assistant/Investor Relations/Ethics Officer*
Sarah Prusak, *VP Business Development Officer*
Cindy Rader, *VP Mortgage*
Erin Sites, CPA, *VP Assistant CFO*
Amanda Smith, *VP Retail Administrator*
Rhonda Tredway, *VP Business Development Officer*
Bradley Wartella, *VP Business Development Officer*
Mark Williams, *VP Director of Compliance*
Kelsey Dean, *AVP Marketing Director*
Tammy Smith, *AVP Digital Banking*
Debra Terry, *AVP Admin Support*
Darla Jones, *Collections Officer*
Stephanie Kile, *Operations Manager*
Selina King, *Credit Analyst*
Brittany Mitters, *Credit Analyst*
Clay Richardson, *Digital Banking Associate*
Laura Roadcap, *Internal Auditor*
Lori Nelson-Roberson, *Loan Review/Compliance Assistant*
Evelyn Simmons, *Accounting Assistant/BSA Auditor*
Natasha Simmons, *BSA Assistant*

Holly Bailey
Holly Beachler
Sarah Burns
Tammy Davis
Samantha Farley
Kim Fox
Jessica Hedrick
Joy Hersey
Emily Hull
Debbie Propst
Samantha Puchany
Kimberly Reyes
Casey Simmons
Judy Snyder
Lisa Sponaugle
Diana Williams

PCB *Your bank for generations...*
Pendleton Community Bank

Beckley
FINANCIAL CENTER
Tyler Ingram, *AVP-Business Development Officer*
Caleb Elswick
Rita Lawhorne
Christopher Mabes
Donna Miller
Tiffany Prince

Franklin
FINANCIAL CENTER
Jessica Basagic, *Financial Center Manager*
Dayne Davis, *AVP-Business Development Officer*
Jessica Alt
Missy Bennett
Reyenne Colaw
Doreen D'Alberti
Trish Flynn
Teresa Heavner, *Mortgage Specialist*
Nancy Mallow
Nicole Marsh
Darla Ruddle
Katelyn Scott
Chelsey Simmons, *Universal Banker*
Jamie Varner

Harrisonburg West
FINANCIAL CENTER
Katie Jackson, *AVP-Financial Center Manager*
Allison Bowser
Emily Daggett
Grace Hernandez - Salva
Craig Orndorff, *Universal Banker*
Dialys Salva
Sharon Stickley

Harrisonburg Downtown
FINANCIAL CENTER
Katie Sinnett, *Regional Retail Manager / Financial Center Manager*
Melissa Elliott
Madison Evick
Faith Anderson Harper
Teri Janes
Carly Knicely
Charles Miller
Susan Payne, *Universal Banker*

Marlinton
FINANCIAL CENTER
Lauren Dunbrack- *Regional Retail Manager / Financial Center Manager*
Kendall Beverage, *AVP Business Development Officer/Security Officer*
Rebekah Friel
Steven Gravely
Brianna Neilsen
Alexandra Plate
Monica Roush

Moorefield
FINANCIAL CENTER
Caitlin Galatic, *Financial Center Manager*
Joey Vetter, *AVP–Business Development Officer*
Cassidy Bosley
Brionna Hartman
Diana Hernandez
Margaret Shriver, *Universal Banker*
Lana Watson
Savanna Wilson
Meghan Wright
Kelcy Young

Mount Hope
FINANCIAL CENTER
Leigh Richardson, *Financial Center Manager*
Rebekah Byers
Brenda Kirby
Susan Mullins
Duwan Romage
Stacey Stowers
Trina Whitt, *Universal Banker*

Oak Hill
FINANCIAL CENTER
Linda Walker, *Financial Center Manager*
Michelle Bickford
Yvette Britt-Boggess
Kimberly Butner
Brittany Raynes
Melissa Smith

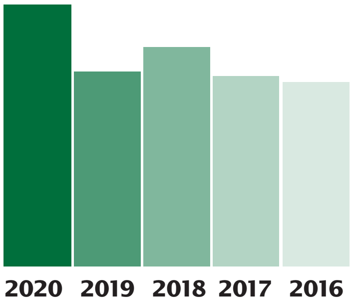
Petersburg
FINANCIAL CENTER
Christina Branham, *Regional Retail Manager / Financial Center Manager*
Tony Calhoun
Casey Goldizen
Donna Idleman
Crystal Merrick
Misty Taylor

Wardensville
FINANCIAL CENTER
Luke Kesner, *AVP Financial Center Manager*
Carolyn Hefner
Joan Mathias
Emilee Miller
Nick Yoder, *Universal Banker*

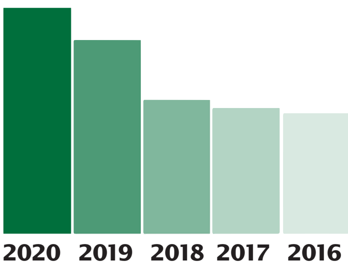
Staunton
LOAN PRODUCTION OFFICE
Courtney Martiny

FINANCIAL **Highlights**

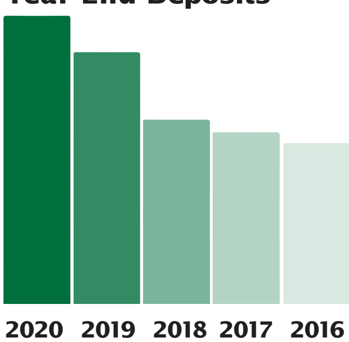
Net Income



Year End Assets



Year End Deposits



	Years ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands except per share data)				
RESULTS OF OPERATIONS					
Interest income	$ 19,972	$ 16,452	$ 13,896	$ 12,730	$ 12,238
Interest expense	(2,554)	(2,540)	(1,672)	(1,062)	(996)
Net Interest Income	17,418	13,912	12,224	11,668	11,242
Provisions for loan losses	(860)	(540)	(370)	(450)	(720)
Noninterest income	3,440	2,961	2,441	2,350	2,407
Noninterest expenses	(14,366)	(12,079)	(9,608)	(8,759)	(8,400)
Income taxes	(1,060)	(841)	(862)	(1,493)	(1,312)
Net Income	$ 4,572	$ 3,413	$ 3,825	$ 3,316	$ 3,217
PROFITABILITY RATIOS					
Return on Average Assets	0.94%	1.08%	1.27%	1.16%	1.17%
Return on Average Equity	10.63%	8.55%	10.10%	9.05%	8.93%
PER COMMON SHARE					
Net Income	$5.49	$4.07	$4.54	$3.90	$3.74
Cash Dividends Declared	2.20	2.12	2.00	1.88	1.80
Book Value	53.35	48.10	45.51	43.33	41.40
Last Reported Market Price	72.00	70.00	70.00	72.00	72.00
AT YEAR END					
Assets	$515,138	$442,126	$307,530	$288,858	$276,381
Deposits	457,657	389,730	263,655	245,880	236,542
Loans, Net	370,548	325,233	241,353	225,636	212,396
Long-term Debt	7,734	7,944	2,144	2,334	2,515
Stockholders' Equity	43,732	39,984	38,008	36,360	35,109
Equity to Assets Ratio	8.49%	9.04%	12.36%	12.59%	12.70%

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Annual Report 2020

2020 **FINANCIALS**

Allegheny Bancshares Inc

Pendleton Community Bank

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Allegheny Bancshares, Inc.
Franklin, West Virginia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Allegheny Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 (collectively, the financial statements).

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
February 26, 2021

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 12,306,271	$ 8,922,607
Fed funds sold	5,642,273	9,498,246
Interest bearing deposits in banks	36,053,649	6,063,476
Cash and cash equivalents	54,002,193	24,484,329
Investment securities available for sale, at fair value	64,497,041	67,493,032
Restricted equity securities, at cost	271,295	280,895
Loans held for sale, at fair value	29,065,446	- -
Loans held for investment	344,657,014	327,919,437
Less: Allowance for loan losses	(3,174,065)	(2,685,984)
Net loans held for investment	341,482,949	325,233,453
Bank premises and equipment, net	7,136,679	7,073,899
Interest receivable	2,155,166	1,797,304
Goodwill	4,479,823	4,479,823
Core deposit intangible, net	1,032,500	1,150,500
Bank owned life insurance	9,129,541	8,926,911
Other real estate owned, net of valuation allowance of $0 in 2020 and $207,500 in 2019	1,181,175	687,175
Other assets	703,858	518,814
Total Assets	$ 515,137,666	$ 442,126,135
LIABILITIES		
Deposits		
Noninterest bearing	$ 133,545,846	$ 96,860,614
Interest bearing		
Demand	68,360,405	57,234,143
Savings	144,225,147	121,353,091
Time deposits over $250,000	18,817,335	17,424,560
Other time deposits	92,708,545	96,857,816
Total Deposits	457,657,278	389,730,224
Securities sold under agreements to repurchase	1,677,484	1,457,799
Subordinated debt	6,000,000	6,000,000
Long-term debt	1,734,106	1,944,274
Accrued expenses and other liabilities	4,336,472	3,009,857
Total Liabilities	471,405,340	402,142,154
STOCKHOLDERS' EQUITY		
Common stock; $1 par value, 2,000,000 shares authorized, 784,554 shares issued in 2020 and 2019	784,554	784,554
Class A Common stock; $1 par value, 2,000,000 shares authorized, 108,872 shares issued in 2020 and 2019	108,872	108,872
Class B Common stock, $1 par value, 2,000,000 shares authorized, 6,574 shares issued in 2020 and 2019	6,574	6,574
Additional paid in capital	900,000	900,000
Retained earnings	44,372,757	41,617,602
Accumulated other comprehensive income	2,241,316	553,026
Common Treasury stock (at cost, 76,487 shares and 65,502 shares, respectively)	(4,453,627)	(3,794,527)
Class A Treasury stock (at cost, 3,785 shares and 3,185 shares, respectively)	(227,100)	(191,100)
Class B Treasury stock (at cost, 17 shares)	(1,020)	(1,020)
Total Stockholders' Equity	43,732,326	39,983,981
Total Liabilities and Stockholders' Equity	$ 515,137,666	$ 442,126,135

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest Income:		
Loans and fees	$ 18,246,426	$ 15,095,824
Interest bearing deposits in banks	165,768	241,475
Investment securities – taxable	878,690	548,429
Investment securities – nontaxable	681,533	566,095
Total Interest Income	19,972,417	16,451,823
Interest Expense:		
Interest on deposits	2,104,716	2,323,943
Interest on borrowings	449,431	215,930
Total Interest Expense	2,554,147	2,539,873
Net Interest Income	17,418,270	13,911,950
Provision for loan losses	860,000	540,000
Net Interest Income After Provision for Loan Losses	16,558,270	13,371,950
Noninterest Income:		
Service charges, fees and commissions	1,390,076	1,357,287
Increase in cash value of bank owned life insurance	202,630	215,617
Gain (Loss) on sale of available for sale securities, net	(22,536)	48,036
Other income	1,869,736	1,339,976
Total Noninterest Income	3,439,906	2,960,916
Noninterest Expense:		
Salaries and benefits	7,593,569	5,992,050
Occupancy expenses	901,607	734,884
Equipment expenses	1,707,203	1,418,260
Director's fees	444,940	379,310
Core deposit intangible amortization	118,000	35,411
Losses on sale and writedowns of other real estate owned, net	20,114	46,496
Merger related expenses	639,754	953,871
Other expenses	2,940,732	2,518,550
Total Noninterest Expenses	14,365,919	12,078,832
Income before Income Taxes	5,632,257	4,254,034
Income Tax Expense	1,060,736	840,585
Net Income	$ 4,571,521	$ 3,413,449
Net Income per share of Common, basic and diluted	$ 5.49	$ 4.07
Net Income per share of Common Class A, basic and diluted	$ 5.77	$ 4.28
Net Income per share of Common Class B, basic and diluted	$ 6.04	$ 4.48
Cash dividends paid per share of Common	$ 2.20	$ 2.12
Cash dividends paid per share of Common Class A	$ 2.31	$ 2.23
Cash dividends paid per share of Common Class B	$ 2.42	$ 2.33
Weighted Average Shares Outstanding, Common	712,552	720,444
Weighted Average Shares Outstanding, Common Class A	105,087	105,687
Weighted Average Shares Outstanding, Common Class B	6,557	6,557

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities:		
Net Income	$ 4,571,521	$ 3,413,449
Adjustment to reconcile net income to net cash provided by operating activities		
Provision for loan losses	860,000	540,000
Depreciation and amortization	675,040	573,022
Core deposit intangible amortization	118,000	35,411
Net amortization of securities	408,256	290,675
(Gain) Loss on sale of available for sale securities, net	22,536	(48,036)
Loss on sale of bank premises and equipment	14,576	(1,606)
Deferred income tax benefit	(62,204)	(125,472)
Increase in bank owned life insurance	(202,630)	(215,617)
Loss on sale and writedowns of other real estate owned	20,114	46,496
Net change in interest receivable	(357,862)	(21,827)
Net change in other assets	(1,599,855)	632,290
Net change in accrued expense and other liabilities	1,326,615	(202,687)
Net Cash Provided by Operating Activities	5,794,107	4,916,098
Cash Flows from Investing Activities:		
Net change in Fed Funds sold	3,855,973	(8,732,246)
Net change in interest bearing deposits in banks	(29,990,173)	(1,727,044)
Proceeds from sales, calls, maturities of available for sale securities	26,866,290	23,451,960
Purchase of available for sale securities	(22,164,014)	(11,865,066)
Purchase of restricted investments	9,600	---
Proceeds from redemption of restricted investments	---	600
Proceeds from sale bank property	---	178,512
Proceeds from sale of other real estate owned	514,114	415,639
Purchase of bank premises and equipment	(752,396)	(1,330,910)
Net changes in loans	(46,174,942)	(19,966,733)
Cash paid in bank acquisition	---	(21,775,520)
Cash acquired in bank acquisition	---	16,071,037
Net Cash (Used in) Investing Activities	(67,835,548)	(25,279,771)
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	70,683,550	21,144,298
Net change in time deposits	(2,756,496)	(1,038,484)
Net change in securities sold under agreements to repurchase	219,685	(550,692)
Proceeds of issuance of subordinated debt	---	6,000,000
Curtailments of long-term borrowings	(210,168)	(199,911)
Purchase of treasury stock	(695,100)	(226,740)
Cash dividends paid	(1,816,366)	(1,776,622)
Net Cash Provided by Financing Activities	65,425,105	23,351,849
Cash and Cash Equivalents:		
Net increase in cash and cash equivalents	3,383,664	2,988,176
Cash and cash equivalents, January 1	8,922,607	5,934,431
Cash and cash equivalents, December 31	$ 12,306,271	$ 8,922,607
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 2,627,779	$ 2,247,955
Income taxes	$ 1,267,250	$ 932,627
Supplemental Schedule of Noncash Investing and Financing Activities:		
Other real estate acquired in settlement of loans	$ 821,000	$ 467,810
Unrealized gains (losses) gains on securities available for sale	$ 2,137,077	$ 716,487

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Total	Common Stock	Class A Common Stock	Class B Common Stock
Balance December 31, 2018	$ 38,007,869	$ 784,554	$ 108,872	$ 6,574
Net Income	3,413,449	---	---	---
Other Comprehensive Loss	566,025	---	---	---
Purchase of Treasury Stock	(226,740)	---	---	---
Dividends Paid	(1,776,622)	--	---	---
Balance December 31, 2019	$ 39,983,981	$ 784,554	$ 108,872	$ 6,574
Net Income	4,571,521	---	---	---
Other Comprehensive Income	1,688,290	---	---	---
Purchase of Treasury Stock	(695,100)	---	---	---
Dividends Paid	(1,816,366)	---	---	---
Balance December 31, 2020	$ 43,732,326	$ 784,554	$ 108,872	$ 6,574

Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Treasury Stock	Class A Treasury Stock	Class B Treasury Stock
$ 900,000	$ 9,980,775	$ (12,999)	$ 3,567,787)	$ (191,100)	$ (1,020)
---	3,413,449	---	---	---	---
---	---	566,025	---	---	---
---	---	---	(226,740)	---	---
---	(1,776,622)	---	---	---	---
$ 900,000	$ 41,617,602	$ 553,026	$ (3,794,527)	$ (191,100)	$ (1,020)
---	4,571,521	---	---	---	---
---	---	1,688,290	---	---	---
---	---	---	(659,100)	(36,000)	---
---	(1,816,366)	---	---	---	---
$ 900,000	$ 44,372,757	$ 2,241,316	$ (4,453,627)	$ (227,100)	$ (1,020)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net Income	$ 4,571,521	$ 3,413,449
Other Comprehensive Income		
Unrealized gains arising during the period on available for sale securities	2,114,541	764,523.00
Adjustments for income tax expense	(444,054)	(160,550.00)
	1,670,487	603,973.00
Reclassification adjustment for net (gains) loss included in net income	22,536	(48,036.00)
Adjustment for income tax expense (benefit)	(4,733)	10,088.00
	17,803	(37,948.00)
Total other comprehensive income	1,688,290	566,025
Total comprehensive income	$ 6,259,811	$ 3,979,474

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Allegheny Bancshares ("Company") is a bank holding company and operates under a charter issued by the state of West Virginia. The Company owns all of the outstanding stock of Pendleton Community Bank ("Bank"), which operates under a charter issued by the State of West Virginia and provides commercial banking services to customers located primarily in Pendleton County, West Virginia and adjacent counties. As a state-chartered bank, the Bank is subject to regulation by the Department of Banking for the State of West Virginia and the Federal Deposit Insurance Corporation. The Bank is engaged in the general commercial banking business offering a full range of banking services focused primarily towards serving individuals, small businesses, the agricultural industry, local government entities, and the professional community.

The Bank's primary trade area includes the West Virginia localities of Pendleton, Grant, Hardy and Pocahontas counties, including the towns of Franklin, Marlinton, Moorefield, Petersburg, and in January 2020 our newest full-service branch opened in Wardensville. In Virginia, the Bank has two full-service offices, one in downtown Harrisonburg, Virginia and one just outside the city of Harrisonburg.

On October 1st, 2019, the Company completed its acquisition of Mount Hope Bankshares, Inc. ("Mount Hope") pursuant to the terms and conditions of the Agreement and Plan of Merger, dated May 9, 2019 between the Company and Mount Hope ("Merger Agreement"). Immediately after the merger of Mount Hope into the Company, Allegheny Bancshares, Inc., Mount Hope's wholly owned bank subsidiary ("Bank of Mount Hope"), merged with and into the Bank. Pendleton Community Bank provided banking services to its customers from three banking offices located in Mount Hope, Oak Hill, and Beckley, West Virginia. Refer to Note 2 for further details on the merger.

The accounting and reporting policies of the Company and its' subsidiary conform to the U.S. generally accepted accounting principles and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Classes of Commons Stock –The Company has three classes of common stock as follows: Common Stock, Class A Common Stock and Class B Common Stock. Common Stock has full voting rights on any and all matters that come before a vote of the Company's shareholders.

Class A Common Stock shareholders receive a 5% premium over the dividend paid on Common Stock, and Class A shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class A Common Stock will have a liquidation preference over Common Stock and Class B Common Stock.

Class B Common Stock shareholders receive a 10% premium over the dividend paid on Common Stock, and Class B shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class B Common Stock will have a liquidation preference over Common Stock, but after Class A Common Stock.

Consolidation Policy – The consolidated financial statements include Allegheny Bancshares, Inc. and Pendleton Community Bank. All significant intercompany balances and transactions have been eliminated.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported 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 loan losses and the valuation of real estate in connection with foreclosures or in satisfaction of loans. In connection with the determination for the allowances for loan loss and foreclosed real estate, management obtains independent appraisals for significant properties.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

While management uses available information to recognize loan losses, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

Cash and Cash Equivalents – Cash and cash equivalents as used in the consolidated balance sheets and consolidated cash flow statements is defined as cash on hand and noninterest bearing funds at correspondent institutions. The Company is required by the Federal Reserve to maintain a reserve balance based upon a percentage of deposits. The Company can meet this requirement through cash on hand, balances held with its correspondent bank, and cash held on reserve with Federal Reserve Bank. As of December 31, 2020 and 2019, no balance was required to be on reserve with the Federal Reserve Bank.

Investment Securities – Investment securities which the Company intends to hold for indefinite periods of time, including investment securities used as part of the Company's asset/liability management strategy, are classified as available for sale. These investment securities are carried at fair value.

Interest and dividends on securities and amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains and losses on the sale of investment securities are determined using the specific identification method.

Declines in the fair value of available-for-sale securities below their cost that are determined to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent of the Bank to sell the security, (2) whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and (3) whether the Bank expects to recover the security's entire amortized cost basis regardless of the Bank's intent to sell the security. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale – The Bank participates in a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation. Pursuant to the terms of a participation agreement, the Bank purchases participation interests in loans made by Northpointe related to fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage loan originators located throughout the United States. A maximum threshold is in place at the time the loans are purchased. The Bank utilizes this program as a higher yielding alternative to federal funds sold or investment securities. These loans are residential real estate secured loans that are on a part of our portfolio for approximately two weeks. The Bank holds these loans during the period of time between loan closing and when the loan is paid off by the permanent secondary market purchaser.

Loans Held for Investment – Loans are intended to be held until maturity and are shown on the consolidated balance sheets net of the allowance for loan losses. Interest is computed by using an effective interest method which generally results in level rates of return on principal. Interest income generally is not recognized on loans classified as nonaccrual loans. Payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received. Loans will remain in nonaccrual status unless the loans are brought current per the loan contract and financial conditions have improved to a point that the likelihood of further loss is remote.

In the normal course of business, to meet the credit needs of its customers, the Company has made commitments to extend credit. These commitments represent a credit risk, which is not recognized in the Company's consolidated balance sheets. The Company uses the same credit policies in making commitments as it does for other loans. Commitments to extend credit are generally made for a period of one year or less and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements. See Note 21 for lending commitments as of December 31, 2020 and 2019.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The accrual of interest on all loans is discontinued when in management's opinion the borrower may be unable to meet payments as they become due. These loans are considered nonaccrual loans, and all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

With the passage of the Paycheck Protection Program ("PPP"), administered by the Small Business Administration ("SBA"), the Company is actively participating in assisting its customers through the program. Most of the PPP loans the Company made have a two-year term and earn interest at 1%. Guidance issued by the SBA during the second wave of funding provided terms of up to five years. If borrowers request a change from 2 years to 5 years, the Company will likely grant the request. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Bank holds $30,539,367 in PPP loans representing 334 loans. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for loan loss through provision for loan loss charged to earnings.

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the non-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.

During these evaluations, particular characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial loans not secured by real estate, carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor is unable to finish the project as planned due to financial pressures unrelated to the project.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Nonprofit and tax-exempt loans are predominately loans made either to municipalities, or to emergency service organizations such as rescue squads or fire departments. These organizations rely on tax collections in the case of municipalities and often contributions for the rescue organizations. These loans are typically secured by equipment and sometimes real estate. The inherent risk is economic downturn that can hurt contributions or tax receipts.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are either demonstrating signs of becoming problematic or currently considered problem loans. Changes to the report must have the concurrence of the Chief Credit Officer and the Chief Executive Officer.

Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.

- Loans classified as substandard, doubtful or loss by bank examiners, external auditors or loan review based upon financial trends.
- Loans on nonaccrual status.
- Loans more than 90 days delinquent.
- Loans judgmentally selected by executive management or the Board of Directors, due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

When a loan is added to the watch list report, the Chief Credit Officer and the Chief Executive Officer will assess the need for updated valuations. Upon receipt of current value updates, if necessary, these individuals along with the Chief Financial Officer will estimate the need for a specific loss to be allocated in the Bank's loan loss allowance.

The following guidance has been given as an aid to loan officers in detecting problem loans.

- Financial Statement Analysis – As customer financial statements are received, they should be immediately analyzed to see if there are any significant changes in financial position or operating results.
- Delayed Financial Statements – If we are having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. We carefully review each loan as soon as it becomes past due.
- Marital Difficulties – Marital difficulties often cause businesses financial stress and are a major cause of problem loans.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.
- Other Red Flags – The following are additional red flags which could mean a problem situation is developing: more than two extension payments within the past 12 months, illness or death of a principal or key employee, overdrafts, unexpected renewals or unanticipated new borrowing, deteriorating financial ratios, irresponsible behavior on the part of a borrower or cancellation of insurance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful or substandard or loans exceeding 90 days past due that exceed $50,000. For such loans, that are also classified as impaired, an allowance is established when the collateral value less estimated costs to sell, or observable market price (or discounted cash flows) of the impaired loan is lower than that carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors including current economic conditions and volume and mix of the existing loan portfolio.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. Credits are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

Risk Grades 1 through 4 (Pass): There are five different risk grades considered to be "Pass" grades. The first four grades are considered those performing credits that presently are considered lesser risk to the Bank. Credits in the Risk Grade 1 category are virtually risk-free and are well-collateralized by deposit accounts held by the Bank. The repayment program is well-defined and achievable and repayment sources are numerous. Risk Grade 2 is reserved for loans secured by readily marketable collateral, or loans within guidelines to borrowers with liquid financial statements with excellent sources of repayment, no significant identifiable risk of collection, and conformity in all respects to Bank policy guidelines, underwriting standards, and Federal and State regulations. A Risk Grade of 3 is reserved for the Bank's loans that are considered average credit risk, meet all the loan policy guidelines, and with no apparent weakness. These loans have no significant identifiable risk of collection. Generally, loans assigned this grade have documented historical cash flow that meets or exceeds required minimum Bank guidelines or that can be supplemented with verifiable cash flow from other sources as well as adequate secondary sources to liquidate debt.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Finally, debts with a Risk Grade of 4 are loans considered to be slightly more than average credit risk. They meet the credit guidelines; however, they have certain characteristics which call into question the borrower's financial well-being. It may be elevated debt to income ratio, high loan to value ratio, balance sheet weakness or a cash flow weakness that is deemed to be temporary in nature. These are credits that may require more frequent monitoring.

Risk Grade 5 – Special Mention: The fifth and lowest pass grade is given to this level of risk. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. These loans are not adversely classified and do not expose the Bank to a sufficient risk to warrant adverse classification. Failure to properly monitor such loans or to correct deficiencies could result in greater credit risk in the future.

Risk Grade 6 – Substandard: A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the possibility that the institution may sustain some loss if the deficiencies are not corrected. Loans in this category are characterized by deterioration in the quality exhibited by any number of well-defined weaknesses requiring corrective action.

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and renewals.

Risk Grade 7 – Doubtful: Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of current existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as a loss because certain events may occur which would salvage the debt.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Risk Grade 8 – Loss: Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

All classes of loans are 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 classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate, residential real estate and construction loans by either the fair value of the collateral less estimated costs to sell, or present value of expected future cash flows discounted at the loan's effective interest rate.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are in excess of $100,000.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

In connection with the evaluation of the collectability of all classes of loans which are greater than 90 days past due as to principal or interest for nonaccrual status, any amounts not deemed well secured or otherwise collectible shall be recommended for charge-off at that time. Additionally, charge-off consideration shall be given to loans evaluated in connection with the Bank's loan review policy and procedures and loans identified for repossession or foreclosure. In any event, it shall be the policy of the Bank to charge-off amounts deemed uncollectible in the periods when identified. All charge-off amounts are approved by the Board of Directors.

Troubled Debt Restructuring – In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider. The related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

In accordance with regulatory guidance and provisions in the CARES Act to provide relief during the COVID-19 pandemic, the Company has provided short-term concessions to borrowers who request assistance. Through December 31, 2020, the Company provided principal and/or interest extensions, interest only periods or rate reductions on 107 loans with balances totaling $20,752,256 for COVID-19 related hardship. As of December 31, 2020, $43,655 in loans were on deferral under CARES Act provisions. Loans that qualified for COVID-19 related modifications were not more than 30 days past due as of December 31, 2019. As such, they were not considered TDRs based on the relief provisions of the CARES Act and recent interagency regulatory guidance.

The Company is monitoring loans with COVID-19 related modifications. If loans within this population require subsequent modifications, including payment extensions beyond six months, the Company will consider the borrower's financial status at the time of the request and the effect of all modifications, past and requested, on the loan. If the borrower is deemed to be in financial difficulty that is not short-term and the impact of all modifications is considered to amount to a concession under U.S. GAAP, the loan will be designated TDR. The Company is also monitoring the population to determine whether other credit-related action should be taken, possibly including downgrading credit risk ratings, designating as nonaccrual or charge-off.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned – Asset acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Physical possession of residential real estate collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of a foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar loan agreement. Subsequent to foreclosure, management periodically performs valuations, and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in valuation allowance are included in other operating expenses.

Bank Premises and Equipment – Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets principally on a straight-line method.

For buildings and improvements, the estimated useful lives are between 10 and 50 years, the estimated lives for furniture and equipment are 5 to 10 years.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other amounts due that are probable at settlement.

Goodwill – The Company follows FASB ASC 350-20*, Intangibles-Goodwill and Other* which gives the Company the option to qualitatively determine whether they can bypass the two-step goodwill impairment test. The Company continues to perform the two-step process under ASC 350-20. Provisions within this statement require at least annual impairment review or more often if certain impairment conditions exist. The Goodwill resulted from a branch acquisition in 2009 in addition to the acquisition of the Mount Hope Bankshares in 2019.

Income Taxes – Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with the unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2020 and 2019, the Company has not identified and recorded any uncertain tax positions.

Net Income per Share – Basic earnings per common share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Company had no potential common shares during the calendar years 2020 and 2019. Earnings per common share is computed using the two-class method. The Class A Common shares carry a 5% dividend preference over common shares, and Class B shares carry a 10% dividend preference over Common shares.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumption or in market conditions significantly affect the estimates.

Advertising – The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2020 and 2019 was $311,334 and $322,978, respectively.

Mergers and Acquisitions – Business combinations are accounted for under ASC 805, "Business Combinations", using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company relies on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Under the acquisition method of accounting, the Company identifies the acquirer and the closing date and applies applicable recognition principles and conditions. Acquisition –related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants, and advertising costs. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. These acquisition related costs have been and will be included within the Consolidated Statements of Income classified within the noninterest expense caption.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Comprehensive Income – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

Recent Accounting Pronouncements
During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The ASU was initially effective for non-public business entities' financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. In June 2020, the FASB issued ASU 2020-05. Under ASU 2020-05, private companies may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this ASU are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

During November 2019, the FASB issued ASU 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) – Effective Dates." This ASU finalizes various effective date delays for standards on current expected credit losses (CECL), leases, and hedging for private companies, not-for-profit organizations, and certain smaller reporting companies. The effective dates for each of the standards for non-public business entities are now as follows:

- CECL (ASU No. 2016-13): Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Earlier application is permitted.
- Leases (ASU No. 2016-02): Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Earlier application is permitted. In June 2020, the FASB issued ASU 2020-05. Under ASU 2020-05, private companies may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- Derivatives and Hedging (ASU No. 2017-12): Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption, including adoption in an interim period, is permitted.

During November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The effective date and transition methodology for the amendments in ASU 2019-11 are the same as in ASU 2016-13. The Company does not expect the adoption of ASU 2019-11 to have a material impact on its consolidated financial statements.

During December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company does not expect the adoption of ASU 2019-12to have a material impact on its consolidated financial statements.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Adoption of New Accounting Standards:

In March 2020 (Revised in April 2020), various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. In August 2020, a joint statement on additional loan modifications was issued. Among other things, the Interagency Statement addresses accounting and regulatory reporting considerations for loan modifications, including those accounted for under Section 4013 of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The CARES Act was signed into law on March 27, 2020 to help support individuals and businesses through loans, grants, tax changes and other types of relief. The most significant impacts of the Act related to accounting for loan modifications and establishment of the Paycheck Protection Program ("PPP"). On December 21, 2020, the Consolidated Appropriates Act of 2021 ("CAA") was passed. The CAA extends or modifies many of the relief programs first created by the CARES Act, including the PPP and treatment of certain loan modifications related to the COVID-19 pandemic. See discussion of CARES ACT in Note 1. This interagency guidance is expected to have a material impact on the Company's financial statements; however, this impact cannot be quantified at this time.

Subsequent Events:

The Company evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 1, 2021; the date financial statements were available to be issued. Based on the evaluation, the Company identified one non recognized event. Subsequent to December 31, 2020, Allegheny Bancshares, Inc. entered into a purchase and assumption agreement with Carter Bank and Trust for the purchase of branches located in Harrisonburg, Bridgewater, and Staunton, VA. The company anticipates completion of the transaction to acquire the three (3) branches during 2021.

NOTE 2 ACQUISITION OF MOUNT HOPE BANKSHARES, INC.

On October 1, 2019, the Company completed its acquisition of Mount Hope with and into the Company was affected pursuant to the terms and conditions of the Merger Agreement. Immediately after the merger, Bank of Mount Hope, Mount Hope's wholly owned bank subsidiary, merged with and into the Bank. Pursuant to the Merger Agreement, holders of shares of Mount Hope received $58.00 in cash for each share of Mount Hope's common stock. Each share of the Company's common stock outstanding immediately prior to the merger remained outstanding and was unaffected by the merger. The cash paid to the shareholders of Mount Hope ($21,775,520) was paid for by the Bank from its own funds and from a $6,000,000 capital contribution from the Company. The Company issued $6,000,000 in subordinated debt to facilitate this transaction. See note 14 for information regarding this debt.

The transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, and liabilities assumed, were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

In connection with the acquisition, the consideration paid, and the fair value of identifiable assets acquired, and liabilities assumed as of the merger date are summarized in the following table (dollar in thousands):

Consideration Paid:		
Cash paid to Shareholders	$	21,776
Assets acquired:		
Cash and cash equivalents		16,071
Fed Funds Sold		766
Investment securities		41,511
Loans Receivable		64,453
Premises and equipment		943
Core deposit intangible		1,180
Interest receivable		485
Other assets		780
Total assets		126,189
Liabilities assumed:		
Deposits		105,969
Deferred taxes		340
Accrued interest payable and other liabilities		1,497
Total liabilities		107,806
Net assets acquired		18,383
Goodwill resulting from merger with Mount Hope	$	3,393

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at approximate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The Company acquired the $64,877,000 loan portfolio at a fair value discount of $424,000. The estimated fair value of the performing portion of the portfolio was $63,247,000. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification ("ASC") 310-20.

NOTE 2 ACQUISITION OF MOUNT HOPE BANKSHARES, INC. (CONTINUED):

The estimated fair value of the purchased credit impaired portfolio was $1,128,553. The total fair value mark of $179 consists of a credit discount of $21,254 and other fair value adjustments premium of $21,433. Contractual payments on these loans were $2,128,374 at time of acquisition. Purchased credit impaired loans are accounted for in accordance with FASB ASC 310-30.

In accordance with GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Mount Hope.

In connection with the acquisition of Mount Hope, the Company acquired an investment portfolio with a fair value of $41,511,000. The fair value of the investment portfolio was determined by considering market prices obtained from independent valuation sources.

In connection with the acquisition of Mount Hope, the Company recorded a deferred income tax asset of $339,668 related to tax attributes of Mount Hope, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

In connection with the acquisition of Mount Hope, the Company acquired premises and equipment with a fair value of $943,309. Leases assumed were determined to be at fair value and required no acquisition related adjustment.

The fair value of savings and transaction deposit accounts acquired from Mount Hope was assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on segments: retail, individual retirement accounts, and brokered.

For each segment, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each segment is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment of $146,292 will be accreted to reduce interest expense over the life of the portfolio of these deposits which is 60 months.

A core deposit intangible of $1,180,000 was recognized in connection with the acquisition of Mount Hope. This intangible will be amortized over a 10-year period on a straight-line basis.

Direct costs related to the acquisition were expensed as incurred. During 2019, the Company incurred $953,871 acquisition related expenses.

NOTE 3 INVESTMENT SECURITIES:

The amortized cost and fair values of securities are as follows (in thousands):

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Mortgage-backed obligations of federal agencies	$ 18,549	$ 886	$ 18	$ 19,417
Government sponsored enterprises	1,750	36	---	1,786
SBA guaranteed loan pool certificates	3,305	1	10	3,296
Obligations of states and political subdivisions	38,053	1,969	24	39,998
Total	$ 61,657	$ 2,892	$ 52	$ 64,497

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasury securities	$ 2,001	$ 4	$ ---	$ 2,005
Mortgage-backed obligations of federal agencies	23,378	159	93	23,444
Government sponsored enterprises	3,273	27	---	3,300
SBA guaranteed loan pool certificates	7,174	7	38	7,143
Obligations of states and political subdivisions	30,963	672	34	31,601
Total	$ 66,789	$ 869	$ 165	$ 67,493

For the years ended December 31, 2020 and 2019, proceeds from sales, calls and maturities of securities available for sale amounted to $26,866,290 and $23,451,960, respectively. Gross gains on sale of investment securities totaled $21,398 in 2020 and $100,130 in 2019. Gross losses on sale of securities totaled $43,934 in 2020 and $52,094 in 2019.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position as of December 31. The unrealized losses on the Company's investment securities were caused primarily by increase in interest rates, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and believes it is more likely than not that it will hold those investments until a recovery of fair value, which may be maturity, the Company feels that unrealized losses are temporary. The Company has 19 investments that have unrealized losses as of December 31, 2020 and it considers them to be temporarily impaired.

NOTE 3 INVESTMENT SECURITIES (CONTINUED):

	Less than 12 Months		12 Months or Greater	
December 31, 2020	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:				
Mortgage-backed obligations of federal agencies	$ 1,972	$ 13	$ 627	$ 5
SBA guaranteed loan pool certificates	1,911	3	930	7
Obligations of states and political subdivisions	2,315	24	---	---
Total	$ 6,198	$ 40	$ 1,557	$ 12

	Less than 12 Months		12 Months or Greater	
December 31, 2019	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of Securities:				
U.S. Treasury securities	$ ---	$ ---	$ ---	$ ---
Mortgage-backed obligations of federal agencies	10,264	87	719	6
Government sponsored enterprises	---	---	500	---
SBA guaranteed loan pool certificates	4,050	38	---	---
Obligations of states and political subdivisions	8,309	34	---	---
Total	$ 22,623	$ 159	$ 1,219	$ 6

A maturity schedule of securities in thousands as of December 31, 2020, by contractual maturity, is shown below. Actual maturities may differ because borrowers may have the right to call or prepay obligations.

Securities Available for Sale:	**Amortized Cost**	**Fair Value**
In one year or less	$ 1,295	$ 1,308
After one year through five years	7,096	7,360
After five years through ten years	23,579	24,856
Over ten years	29,687	30,973
	$ 61,657	$ 64,497

The carrying value of securities pledged by the Company to secure deposits, repurchase agreements and for other purposes amounted to $43,253,786 and $36,411,549 as of December 31, 2020 and 2019, respectively.

NOTE 4 RESTRICTED EQUITY SECURITIES:

Restricted equity securities are considered restricted due to lack of marketability. They consist of stock in the Federal Home Loan Bank (FHLB), stock in Federal Agricultural Mortgage Corporation (Farmer Mac) and stock in ICBA Reinsurance Company, LTD. Investment in the FHLB stock is determined by the level of the Bank's participation with FHLB's various products and is collateral against outstanding borrowings from that institution. The FHLB stock is carried at cost of $254,800 as of December 31, 2020. The Farmer Mac stock and the ICBA Reinsurance Company stock is the level of stock required to participate in their programs. The Farmer Mac stock is carried at its cost of $14,000 and the ICBA Reinsurance Company stock is carried at its cost of $2,495 as of December 31, 2020. Management evaluates these restricted securities for other-than-temporary impairment on an annual basis, and more often when conditions warrant.

NOTE 5 LOANS RECEIVABLE:

Loans receivable outstanding as of December 31, 2020 and 2019 are summarized in the table below (in thousands):

	2020	2019
Real Estate:		
Commercial:		
Construction and land development	$ 21,007	$ 29,411
Agriculture	25,274	27,420
Other commercial	64,317	48,525
Residential:		
Construction	6,470	9,883
Consumer residential	158,245	138,028
Non-Real Estate:		
Commercial and industrial	66,356	40,049
Consumer	17,291	18,778
Nonprofit and tax-exempt loans	14,762	16,129
Total Loans	373,722	328,223
Less Allowance for Loan Losses	3,174	2,990
Loans Receivable	$ 370,548	$ 325,233

Demand deposit accounts that are overdrawn have been reclassified as a loan since they represent an amount owed to the Bank. Overdrawn deposit accounts included in the loan balance are $172,153 and $295,047 as of December 31, 2020 and 2019, respectively, and are included in the non-real estate consumer loan balance above.

Substantially all of our 1-4 family mortgages, as well as our multi-family residential mortgages, are covered under a blanket lien with the Federal Home Loan Bank for borrowings.

Loans on a nonaccrual basis were $312,583 and $2,859,063 as of December 31, 2020 and 2019 (0.08% and 0.87% of total loans), respectively. Accruing loans which are contractually past due 90 days or more as to principal or interest totaled $456,000 and $1,396,401 as of December 31, 2020 and 2019 (0.12% and 0.43% of total loans, respectively). Past due status is determined based on the contractual terms of the loan agreement.

NOTE 5 LOANS RECEIVABLE (CONTINUED):

The past due and nonaccrual status of loans as of year-end were as follows (in thousands):

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded investment >90 Days and Accruing
Real Estate:								
Commercial:								
Construction and Land Development	$ 3	$ 105	$ ---	$ 108	$ 20,899	$ 21,007	$ ---	$ ---
Agriculture	---	---	---	---	25,274	25,274	---	---
Other commercial	---	191	---	191	64,126	64,317	---	---
Residential:								
Construction	---	---	---	---	6,470	6,470	---	---
Consumer residential	747	429	280	1,456	156,789	158,245	25	256
Non-Real Estate:								
Commercial and industrial	283	9	420	712	65,644	66,356	288	132
Consumer	79	6	68	153	17,138	17,291	---	68
Nonprofit and tax-exempt loans	49	144	---	193	14,569	14,762	---	---
Total	$ 1,161	$ 884	$ 768	$ 2,813	$ 370,909	$ 373,722	$ 313	$ 456

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded investment >90 Days and Accruing
Real Estate:								
Commercial:								
Construction and Land Development	$ 109	$ 7	$ 2,007	$ 2,123	$ 27,288	$ 29,411	$ 2,781	$ 532
Agriculture	211	---	---	211	27,209	27,420	---	---
Other commercial	214	---	---	214	48,311	48,525	---	---
Residential:								
Construction	---	---	---	---	9,883	9,883	---	---
Consumer residential	1,672	533	804	3,009	135,019	138,028	---	804
Non-Real Estate:								
Commercial and industrial	133	78	117	328	39,721	40,049	78	39
Consumer	86	6	21	113	18,665	18,778	---	21
Nonprofit and tax-exempt loans	190	---	---	190	15,939	16,129	---	---
Total	$ 2,615	$ 624	$ 2,949	$ 6,188	$ 322,035	$ 328,223	$ 2,859	$ 1,396

NOTE 5 LOANS RECEIVABLE (CONTINUED):

Impaired loans, which include TDRs of $7,738,557 and $7,669,906 as of December 31, 2020 and 2019 respectively, were as follows (in thousands):

December 31, 2020	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
***With no related allowance*:**					
Commercial:					
Construction and Land Development	$ 544	$ 544	$ ---	$ 551	$ 32
Agriculture	314	314	---	318	19
Other Commercial	2,916	2,916	---	3,013	199
Residential:					
Construction	---	---	---	---	---
Consumer Residential	1,188	1,188	---	1,265	67
Non-Real Estate:					
Commercial and Industrial	344	344	---	370	19
Consumer	---	---	---	---	---
Non-profit and Tax-exempt Loans	---	---	---	---	---
Total	$ 5,306	$ 5,306	$ ---	$ 5,517	$ 336

December 31, 2019	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
With no related allowance:					
Commercial:					
Construction and Land Development	$ 3,025	$ 3,025	$ ---	$ 3,126	$ 44
Agriculture	358	358	---	346	21
Other Commercial	2,031	2,031	---	2,286	128
Residential:					
Construction	---	---	---	---	---
Consumer Residential	1,811	1,811	---	2,140	117
Non-Real Estate:					
Commercial and Industrial	372	372	---	389	22
Consumer	---	---	---	---	---
Non-profit and Tax-exempt Loans	---	---	---	---	---
Total	$ 7,597	$ 7,597	$ ---	$ 8,287	$ 332

NOTE 5 LOANS RECEIVABLE (CONTINUED):

December 31, 2020	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
With an allowance recorded:					
Commercial:					
Construction and Land Development	$ ---	$ ---	$ ---	$ ---	$ ---
Agriculture	---	---	---	---	---
Other Commercial	1,388	1,388	290	1,397	80
Residential:					
Construction	---	---	---	---	---
Consumer Residential	581	581	263	586	33
Non-Real Estate:					
Commercial and Industrial	903	903	368	1,068	15
Consumer	131	131	87	134	7
Non-profit and Tax-exempt Loans	---	---	---	---	---
Total	$ 3,003	$ 3,003	$ 1,008	$ 3,185	$ 135

December 31, 2019	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
With an allowance recorded:					
Commercial:					
Construction and Land Development	$ 898	$ 898	$ 292	$ 889	$ 2
Agriculture	---	---	---	---	---
Other Commercial	1,261	1,261	107	1,278	70
Residential:					
Construction	183	183	24	183	10
Consumer Residential	907	907	325	653	25
Non-Real Estate:					
Commercial and Industrial	229	229	61	204	9
Consumer	78	78	78	80	5
Non-profit and Tax-exempt Loans	---	---	---	---	---
Total	$ 3,556	$ 3,556	$ 887	$ 3,287	$ 121

The recorded investment is defined as the principal balance, less principal payments on nonaccrual loans and charge-offs.

Troubled Debt Restructurings

Included in certain loan categories in the impaired loans table above are troubled debt restructurings ("TDRs") that were classified as impaired. TDRs as of December 31, 2020 are comprised of 26 loans totaling $7,738,557. A restructured loan is considered in default when it becomes 90 days past due. One of these 26 loans, a residential real estate loan in the amount of $84,701, was considered in default as of December 31, 2020. The remaining TDRs were performing in accordance with their restructured terms and are not on nonaccrual status. This compares with 27 loans totaling $7,669,906 in restructured loans as of December 31, 2019. The amount of the valuation allowance related to total TDRs was $344,841 and $478,269 as of December 31, 2020 and December 31, 2019, respectively. There were no charge-offs of restructured loans during 2020 or 2019.

NOTE 5 LOANS RECEIVABLE (CONTINUED):

The 26 loans totaling $7,738,557 in TDRs as of December 31, 2020 are represented by one commercial construction and development loan, two agricultural land loans, six commercial real estate loans, thirteen consumer real estate loans, three commercial and industrial loans and one consumer loan.

During the year 2020, no previously restructured loans went into default. During 2019, one previously restructured loan went into default. The following table shows this loan that subsequently defaulted during 2019 in thousands:

		For the Year Ended December 31, 2019	
Class of Loan	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	---	$ ---	$ ---
Agriculture	---	---	---
Other commercial	---	---	---
Residential Real Estate:			
Construction	---	---	---
Consumer Residential	1	116	116
Non-Real Estate:			
Commercial and industrial	---	---	---
Consumer	---	---	---
Nonprofit and tax-exempt entities	---	---	---
Total	1	$ 116	$ 116

During 2020 the bank did not restructure any loans that were considered to be troubled debt restructurings.

During 2019 the bank restructured 5 loans that were considered to be troubled debt restructurings. These loans totaled $759,932 one of which was an agricultural land loan, two that were residential real estate loans, and two that were commercial real estate loans. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following table presents by class of loan, information related to loans modified in a TDR during 2019 in thousands:

		For the Year Ended December 31, 2019	
Class of Loan	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	---	$ ---	$ ---
Agriculture	1	37	37
Other commercial	2	361	361
Residential Real Estate:			
Construction	---	---	---
Consumer Residential	2	362	362
Non-Real Estate:			
Commercial and industrial	---	---	---
Consumer	---	---	---
Nonprofit and tax-exempt entities	---	---	---
Total	5	$ 760	$ 760

NOTE 5 LOANS RECEIVABLE (CONTINUED):

Management considers troubled debt restructurings and subsequent defaults in restructured loans in the determination of the adequacy of the Company's allowance for loan losses. When identified as a TDR, a loan is evaluated for potential loss based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs if the loan is collateral dependent. Loans identified as TDRs frequently are on non-accrual status at the time of the restructuring and, in some cases, partial charge-offs may have already been taken against the loan and a specific allowance may have already been established for the loan. As a result of any modification as a TDR, the specific reserve associated with the loan may be increased. Additionally, loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future defaults. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. As a result, any specific allowance may be increased, adjustments may be made in the allocation of the total allowance balance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Management exercises significant judgment in developing estimates for potential losses associated with TDRs.

NOTE 6 ALLOWANCE FOR LOAN LOSSES:

The following table presents, as of December 31, 2020 and 2019, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) in thousands:

December 31, 2020

	Real Estate Secured					Non-Real Estate			
	Commercial			Residential					
	Construction & Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non-Profit & Tax Exempt	Total
Beginning Balance	$ 919	$ 13	$ 907	$ 46	$ 714	$ 88	$ 275	$ 28	$ 2,990
Charge-offs	(404)	---	---	---	(39)	(152)	(179)	---	(774)
Recoveries	2	20	---	---	---	---	76	---	98
Provision	(127)	111	(302)	(8)	544	594	8	40	860
Ending Balance	$ 390	$ 144	$ 605	$ 38	$ 1,219	$ 530	$ 180	$ 68	$ 3,174
Ending Balance individually valued for impairment	---	---	290	---	263	368	87	---	1,008
Ending balance collectively evaluated for impairment	390	144	315	38	956	162	93	68	2,166
Loans:									
Ending Balance individually evaluated for impairment	544	314	4,304	---	1,769	1,247	131	---	8,309
Ending balance collectively evaluated for impairment	20,463	24,960	60,013	6,470	156,476	65,109	17,160	14,762	365,413
Total Loans	$ 21,007	$ 25,274	$ 64,317	$ 6,470	$158,245	$ 66,356	$17,291	$14,762	$373,722

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

December 31, 2019

	Real Estate Secured					Non-Real Estate			
	Commercial			Residential					
	Construction & Land Development	Agricultural	Other Commercial	Construction	Consumer Residential	Commercial & Industrial	Consumer	Non-Profit & Tax Exempt	Total
Beginning Balance	$ 1,325	$ 31	$ 501	$ 31	$ 637	$ 29	$ 120	$ 12	$ 2,686
Charge-offs	(75)	---	---	---	(61)	---	(162)	---	(298)
Recoveries	---	---	---	---	---	---	62	---	62
Provision	(331)	(18)	406	15	138	59	255	16	540
Ending Balance	$ 919	$ 13	$ 907	$ 46	$ 714	$ 88	$ 275	$ 28	$ 2,990
Ending Balance individually valued for impairment	292	---	107	24	325	61	78	---	887
Ending balance collectively evaluated for impairment	627	13	800	22	389	27	197	28	2,103
Loans:									
Ending Balance individually evaluated for impairment	3,923	358	3,292	183	2,718	601	78	---	11,153
Ending balance collectively evaluated for impairment	25,488	27,062	45,233	9,700	135,310	39,448	18,700	16,129	317,070
Total Loans	$ 29,411	$ 27,420	$ 48,525	$ 9,883	$138,028	$ 40,049	$18,778	$16,129	$328,223

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Loans by credit quality indicators as of December 31, 2020 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 19,941	$ 1,066	$ ---	$ ---	$ 21,007
Agriculture	24,496	778	---	---	25,274
Other commercial	56,613	4,565	3,139	---	64,317
Residential Real Estate:					
Construction	6,470	---	---	---	6,470
Consumer Residential	152,692	4,441	1,112	---	158,245
Non-Real Estate:					
Commercial and industrial	65,070	169	1,115	2	66,356
Consumer	16,594	696	1	---	17,291
Non-Profit and Tax-Exempt Entities	14,762	---	---	---	14,762
Total	$ 356,638	$ 11,715	$ 5,367	$ 2	$ 373,722

Loans by credit quality indicators as of December 31, 2019 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	$ 24,895	$ 1,256	$ 3,260	$ ---	$ 29,411
Agriculture	27,062	358	---	---	27,420
Other commercial	44,836	2,137	1,552	---	48,525
Residential Real Estate:					
Construction	9,700	---	183	---	9,883
Consumer Residential	131,741	4,444	1,843	---	138,028
Non-Real Estate:					
Commercial and industrial	39,168	265	610	6	40,049
Consumer	18,658	120	---	---	18,778
Non-Profit and Tax-Exempt Entities	16,129	---	---	---	16,129
Total	$ 312,189	$ 8,580	$ 7,448	$ 6	$ 328,223

NOTE 7 OTHER REAL ESTATE OWNED:

Changes in other real estate owned for 2020 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 895	$ (208)	$ 687
Additions	821	---	821
Loss on sales and writedowns, net	(20)	---	(20)
Sales	(515)	208	(307)
Balance at the end of the year	$ 1,181	$ ---	$ 1,181

Changes in other real estate owned for 2019 were as follows (in thousands):

	Other Real Estate Owned	Valuation Allowance	Net
Balance at the beginning of the year	$ 896	$ (214)	$ 682
Additions	468	---	468
Loss on sales and writedowns, net	(19)	(28)	(47)
Sales	(450)	34	(416)
Balance at the end of the year	$ 895	$ (208)	$ 687

The major classifications of other real estate owned in the consolidated balance sheets as of December 31, 2020 and December 31, 2019 were as follows (in thousands):

	2020	2019
Commercial Real Estate:		
Construction and land development	$ 815	$ 585
Other commercial	---	---
Residential Real Estate:		
Residential	366	102
	$ 1,181	$ 687

NOTE 8 BANK PREMISES AND EQUIPMENT:

Bank premises and equipment as of December 31, 2020 and December 31, 2019 are summarized as follows (in thousands):

	2020	2019
Bank buildings and improvements	$ 8,870	$ 8,853
Furniture and equipment	5,058	4,785
	13,928	13,638
Less accumulated depreciation	6,791	6,564
Bank premises and equipment	$ 7,137	$ 7,074

Depreciation expense on these premises and equipment totaled $675,040 and $573,022 for the years ended December 31, 2020 and 2019, respectively.

NOTE 9 GOODWILL AND OTHER INTANGIBLES:

The Company follows FASB ASC 350-20 *Goodwill and Other Intangible Assets,* which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within ASC 350-20 require the Company to discontinue any amortization of goodwill and intangible assets with indefinite lives and require at least annual impairment review or more often if certain impairment conditions exist. With the purchase in 2009 of two Citizens National Bank branches there was $1,086,732 of goodwill recorded. And as shown in Note 2, the acquisition of Bank of Mount Hope, we recorded an additional $3,393,091 of Goodwill. Goodwill was evaluated for impairment as of December 31, 2020 and it was determined that no impairment existed.

Core deposit intangibles of $1,180,00 resulting from the Bank of Mount Hope acquisition in October of 2019 is being amortized over 10 years.

The changes in the carrying amount of goodwill and intangibles for the Twelve months ended December 31, 2020, are as follows (dollars in thousands):

	Goodwill		Intangibles	
Balance December 31, 2019	$	4,480	$	1,151
Additions		---		---
Amortization		---		(118)
Impairment		---		---
Balance, December 31, 2020	$	4,480	$	1,033

Goodwill and intangible assets as of December 31, 2020 and December 31, 2019 are as follows (in thousands):

December 31, 2020	Gross Carrying Value		Accumulated Amortization		Net Carrying Value	
Core deposit intangibles	$	1,180	$	(147)	$	1,033
Goodwill		4,480		---		4,480
December 31, 2019						
Core deposit intangibles	$	1,473	$	(322)	$	1,151
Goodwill		4,480		---		4,480

NOTE 9 GOODWILL AND OTHER INTANGIBLES (CONTINUED):

Amortization expense of core deposit intangibles for the years ended December 31, 2020 and 2019 were $118,000 and $35,411, respectively. As of December 31, 2020, the estimated future amortization expense of core deposit intangibles is as follows (in thousands):

Year	Amount	
2021	$	118
2022		118
2023		118
2024		118
2025		118
Thereafter		443
Total	$	1,033

NOTE 10 BANK OWNED LIFE INSURANCE:

The Bank, in an effort to attract and retain employees, offers a variety of benefits to full time employees. The costs of these benefits continue to grow faster than inflation. To offset some of these costs and to offer other benefits, the Bank has invested in a Bank Owned Life Insurance (BOLI) contract. Earnings on these contracts are tax exempt.

NOTE 11 TIME DEPOSITS:

As of December 31, 2020, the scheduled maturities of time deposits are as follows (in thousands):

Year	Amount
2021	$ 66,073
2022	21,530
2023	13,046
2024	6,687
2025	3,667
Thereafter	523
Total	$ 111,526

NOTE 12 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

Securities sold under agreements to repurchase generally mature within one day from the transaction date, unless classified as a term repurchase agreement. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company has a total of $2,378,433 and $2,451,123, as of December 31, 2020 and 2019, respectively, in market value of securities pledged to secure these agreements. The weighted average interest rate on these agreements was 0.37% during 2020 and 0.89% during 2019. The highest month end balance during 2020 was $2,537,243. For 2019, the highest month end balance was $1,725,172 and the average interest rate was 1.04%.

NOTE 13 LINES OF CREDIT:

The Bank has lines of credit with correspondent banks totaling $15,400,000. As of December 31, 2020, and 2019, the Bank had no outstanding balances on these lines. These lines of credit are unsecured. The lenders may withdraw these lines at their discretion and without notice.

NOTE 14 LONG-TERM DEBT:

The Company has borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB). The interest rates on all of the notes payable as of December 31, 2020 and December 31, 2019 were fixed at the time of the advance and ranged from 4.58% to 5.61%. The FHLB notes are secured by FHLB Stock, as well as investment securities and mortgage loans. The weighted average interest rate is 5.33% as of December 31, 2020. The Company has additional available borrowing capacity from the FHLB of $140,600,344.

The Company borrowed $6,000,000 during 2019 to facilitate the acquisition of the Bank of Mount Hope. This debt is payable to two different banks, interest rate is fixed at 5.75% and will be paid back with quarterly payments of interest only for the first 39 months, and then beginning on April 1, 2023, quarterly principal payments of $400,000 will be due in addition to the interest payments. This debt is subordinated to all "Senior Indebtedness" which means obligations to its general creditors or other indebtedness of the company for money borrowed arising from off-balance sheet guarantees and obligations associated with derivative products such as interest rate contracts.

NOTE 14 LONG-TERM DEBT (CONTINUED):

Repayments of long-term debt are due monthly. Interest expense of $442,166 and $201,117 was incurred on these debts in 2020 and 2019, respectively. The maturities of long-term debt as of December 31, 2020 are as follows:

Year	FHLB	Subordinated Debt	Total
2021	$ 183,760	$ ---	$ 183,760
2022	180,308	---	180,308
2023	189,360	1,200,000	1,389,360
2024	198,670	1,600,000	1,798,670
2025	137,652	1,600,000	1,737,652
Thereafter	844,356	1,600,000	2,444,356
Total	$ 1,734,106	$ 6,000,000	$ 7,734,106

NOTE 15 DIVIDEND LIMITATIONS:

The principal source of funds of Allegheny Bancshares, Inc., is dividends paid by its subsidiary bank. The Code of West Virginia imposes certain restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits of the current year and the combined retained profits of the previous two years. As of January 1, 2021, the Bank could pay dividends of up to $5,327,298 without permission of the authorities. Dividends paid by the Bank to the Company totaled $2,516,366 in 2020 and $3,276,622 in 2019.

NOTE 16 INCOME TAXES:

The current and deferred components of income tax expense as of December 21, 2020 and December 31, 2019 are as follows (in thousands):

	2020	**2019**
Current component of income tax expense	$ 1,123	$ 627
Deferred income tax (benefit) expense	(62)	214
Income tax expense	$ 1,061	$ 841

A reconciliation between the provision for income taxes and the amount computed by multiplying income by the statutory federal income tax rate is as follows (in thousands):

	2020	**2019**
Income taxes computed at the applicable		
Federal income tax rate	$ 1,183	$ 893
Increase (decrease) resulting from:		
Tax exempt interest income	(305)	(264)
Non-deductible interest expense	8	7
State tax expense, net of federal taxes	171	132
Non-deductible expenses associated with merger	---	55
Other	4	18
Income tax expense	$ 1,061	$ 841

NOTE 16 INCOME TAXES (CONTINUED):

The net deferred tax asset arising from temporary differences in thousands as of December 31 is summarized as follows:

	2020	2019
Deferred Tax Asset:		
Provision for loan losses	$ 495	$ 458
Accrued expenses on long term benefits	565	514
Allowance for other real estate owned	---	51
Net unamortized CD premium	27	34
Interest on nonaccrual loans	155	181
Other	122	---
Total Assets	1,364	1,238
Deferred Tax Liabilities:		
Unrealized gain on securities available for sale	596	147
Depreciation	576	488
Intangible amortization	471	471
Other	22	46
Total Liabilities	1,665	1,152
Net Deferred Tax Asset	$ (301)	$ 86

NOTE 17 EMPLOYEE BENEFITS:

Defined Contribution Plan: The Bank has a defined contribution plan with 401(k) provisions that is funded with discretionary contributions by the bank that covers substantially all full-time employees at the bank. There is a one year waiting period prior for admission to the plan. Contributions to the plan are based on a percentage of each employee's salary plus matching contributions. Investment of employee balances is done through the direction of each employee. Plan contributions by the employer are fully invested in the year of contribution. Contributions by the Company into employees' accounts in the plan were $326,616 and $285,554 for the years ending December 31, 2020 and 2019, respectively.

Supplemental Retirement Agreement: The Bank has a non-qualified Supplemental Retirement Agreement (*"SERP"*) with the CEO, that provides for the payment of a monthly supplemental executive retirement benefit equal to annual payments of $105,051 for a 15-year period. Such benefit shall be payable for a period of fifteen years, or under certain circumstances prior to age 65. For each full calendar year, the CEO completes with the Bank without separation of service, the CEO shall be credited with 8.33% of this benefit, toward 100% after 12 years. The SERP assumes a 6.25% discount rate. The Company has incurred an employee benefit expense of $15,870 and $140,177 during 2020 and 2019 respectively for this plan. As of December 31, 2020 and 2019, the total amount accrued for this obligation was $1,026,313 and $1,040,443 respectively. The plan is unfunded. However, life insurance has been acquired on the life of the CEO in amounts sufficient to discharge the obligations of this agreement.

Director Deferred Fee Plan: The Bank adopted a Deferred Fee Plan (DFP) for its directors beginning February 13, 2013. This plan allows the directors to defer any or all of their director fees into this DFP where it will earn interest at a rate as set forth in the plan document. Currently this rate is 6%. In addition to the amounts contributed by the directors, the Bank can also contribute each year on behalf of the directors, the total expense for the bank including discretionary contributions and accrued interest on the deferred account balances totaled $84,050 and $66,203 for 2020 and 2019, respectively. Liability recorded under this plan at yearend totaled $926,508 for 2020 and $781,556 for 2019.

NOTE 17 EMPLOYEE BENEFITS (CONTINUED):

Survivor Income Plan: The Bank adopted a Survivor Income Agreement with certain key management employees in January 2008. The bank will provide death benefits to the employee's beneficiary in the amount ranging from $150,000 to $550,000 for pre separation of duty death benefit and an amount half of that for post separation of duty death benefit. There is a vesting schedule based upon employee reaching normal retirement age (age 62) combined with ten 10 years of service. Expense to the bank totaled $799 and $24,457 for 2020 and 2019, respectively. Liability recorded under this plan at yearend totaled $193,968 for 2020 and $193,169 for 2019.

NOTE 18 RELATED PARTY TRANSACTIONS:

During the year, officers, directors, principal stockholders, and their affiliates (related parties) were customers of and had transactions with the Company in the ordinary course of business. In management's opinion, these transactions were made on substantially the same terms as those prevailing for other customers for comparable transactions and did not involve more than normal risks.

Deposits of related parties including directors, executive officers, and their related interests of the Company totaled $6,756,463 and $2,428,404 for year end 2020 and 2019, respectively.

Changes to balances of loans and to unused commitments to related parties during the years ended 2020 and 2019 is as follows (in thousands):

	2020	2019
Beginning of Year	$ 7,607	$ 6,148
Additional borrowings	11,049	1,912
Repayments	(7,762)	(453)
End of Year	$ 10,894	$ 7,607

NOTE 19 FAIR VALUE:

FASB ASC 820-10, *Fair Value Measurements,* provides a definition of fair value for accounting purposes, establishes a framework for measuring fair value and expands related financial disclosures. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This statement establishes a hierarchy that prioritizes the use of fair value inputs used in valuation methodologies into the following three levels.

Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 – Valuation is based upon significant inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

As of December 31, 2020, and 2019, the Company had no liabilities subject to fair value. The following is a description of valuation methodologies used for assets recorded at fair values.

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, when available. If quoted prices are not available, fair values are measured using independent pricing models. Level 1 securities include those traded by dealers or brokers in an active market.

The Company has no Level 1 securities as of December 31, 2020 or 2019. For the Company, our Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities issued by government sponsored entities, municipal bonds, and corporate debt securities. Securities classified as Level 3 include other equities that do not have an active market.

NOTE 19 FAIR VALUE (CONTINUED):

Impaired Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made when due in accordance with the contractual terms of the loan agreement are considered impaired. If a loan is considered impaired, an allowance for loan loss is established in accordance with FASB ASC 310-10 *Accounting by Creditors for Impairment of a Loan,* by utilizing market price (if available), or at the fair value of the loans' collateral less selling costs (if the loan is collateral dependent). The fair value is determined by the measurement of the fair value of the underlying collateral less estimated costs to sell. Typically, the collateral value is determined by applying a discount to an appraisal that was performed at or about the date of the loan. Due to the age of appraisals, the age of the related comparative property sales used for appraisals and the changing market conditions of real estate, the Company considers its impaired loans to be Level 3 assets which are measured on a nonrecurring basis.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at the lower of carrying value or fair value less estimated holding costs and cost to sell. We believe that the fair value component in its valuation follows the provisions of FASB ASC 820-10. Due to age of some appraisals, the age of the related comparative property sales used for appraisals and changing real estate market conditions, the Company considers its OREO to be Level 3 assets and is measured on a nonrecurring basis.

The following table presents the recorded amount of assets measured at fair value (in thousands of dollars):

	Level 1	Level 2	Level 3	Balance 2020
Assets recorded at fair value on a recurring basis:				
U.S. Treasury Securities	$ ---	$ ---	$ ---	$ ---
Mortgage-backed obligations of federal agencies	---	19,417	---	19,417
Government sponsored enterprises	---	1,786	---	1,786
SBA guaranteed loan pool certificates	---	3,296	---	3,296
Obligations of states and political subdivisions	---	39,998	---	39,998
Total	$ ---	$ 64,497	$ ---	$ 64,497
Assets recorded at fair value on a nonrecurring basis:				
Impaired loans	$ ---	$ ---	$ 1,995	$ 1,995
Other real estate owned	---	---	1,181	1,181
Total	$ ---	$ ---	$ 3,176	$ 3,176

	Level 1	Level 2	Level 3	Balance 2019
Assets recorded at fair value on a recurring basis:				
U.S. Treasury Securities	$ ---	$ 2,005	$ ---	$ 2,005
Mortgage-backed obligations of federal agencies	---	23,444	---	23,444
Government sponsored enterprises	---	3,300	---	3,300
SBA guaranteed loan pool certificates	---	7,143	---	7,143
Obligations of states and political subdivisions	---	31,601	---	31,601
Total	$ ---	$ 67,493	$ ---	$ 67,493
Assets recorded at fair value on a nonrecurring basis:				
Impaired loans	$ ---	$ ---	$ 2,669	$,669
Other real estate owned	---	---	687	687
Total	$ ---	$ ---	$ 3,356	$ 3,356

NOTE 19 FAIR VALUE (CONTINUED):

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2020 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired Loans	$ 1,995	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ 1,181	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-60% (39%)

Qualitative Information About Level 3 Fair Value Measurements for December 31, 2019 (in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets				
Impaired Loans	$ 2,669	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-40% (14%)
Other Real Estate Owned	$ 687	Discounted appraised value	Selling Cost	5%-10% (6%)
			Discount for lack of marketability and age of appraisal	10%-46% (24%)

NOTE 20 REGULATORY MATTERS:

In August 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (“the Statement”), in compliance with The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (“EGRRCPA”). The Statement, among other things, exempts bank holding companies that fall below a certain asset threshold from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. The interim final rule expands the exemption to bank holding companies with consolidated total assets of less than $3 billion. Prior to August 2018, the statement exempted bank holding companies with consolidated total assets of less than $1 billion. As a result of the interim final rule, the Company qualifies as of August 2018 as a small bank holding company and is not subject to regulatory capital requirements on a consolidated basis.

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

NOTE 20 REGULATORY MATTERS (CONTINUED):

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective on January 1, 2015 (subject to a phase-in period continuing through January 1, 2019 for certain provisions). Basel III Capital Rules established quantitative measures to ensure capital adequacy. The rules set forth minimum amounts and ratios for Common Equity Tier 1 capital ("CET1"), Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined). Management believes as of December 31, 2020, the Bank meets all capital adequacy requirements to which it is subject.

The actual and required capital amounts and ratios of the Company as of December 31, 2020 and 2019 are shown in the table below (in thousands):

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total Capital Risk Weighted Assets	$ 45,010	13.51%	$ 26,653	8.00%	$ 33,316	10.00%
Tier I Capital Risk Weighted Assets	41,836	12.56%	19,985	6.00%	26,647	8.00%
Tier I Common Equity	41,836	12.56%	14,989	4.50%	21,651	6.50%
Tier I Capital Average Assets	41,836	8.28%	20,211	4.00%	25,263	5.00%

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital Risk Weighted Assets	$ 42,323	13.50%	$ 25,073	8.000%	$ 31,341	10.00%
Tier I Capital Risk Weighted Assets	39,333	12.55%	18,805	6.000%	25,073	8.00%
Tier I Common Equity	39,333	12.55%	14,104	4.500%	20,372	6.50%
Tier I Capital Average Assets	39,333	8.86%	17,753	4.000%	22,191	5.00%

NOTE 21 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK:

The Company makes commitments to extend credit in the normal course of business and issue standby letters of credit to meet the financing needs of their customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the consolidated balance sheet.

The Company uses the same credit policies in making commitments and issuing letters of credit as used for the loans reflected on the consolidated balance sheet. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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 creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

NOTE 21 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK (CONTINUED):

As of December 31, 2020, and 2019, the Company had outstanding the following commitments (in thousands):

	2020	2019
Home equity lines of credit	$ 17,018	$ 16,231
Commitments to fund commercial real estate and construction	11,675	11,600
Other unused commitments	32,056	25,007
Performance standby letters of credit	292	317
Total	$ 61,041	$ 53,155

NOTE 22 CONCENTRATIONS:

The Bank operates as a community bank in the areas that it serves. As such, the loan portfolio consists of commercial, residential real estate and consumer loans to individuals and businesses located primarily in the areas surrounding our ten offices. In addition, the collateral for our loans is secured primarily by real estate and personal property located in this same area.

NOTE 23 PARENT CORPORATION ONLY CONDENSED FINANCIAL STATEMENTS:

ABI PARENT COMPANY

BALANCE SHEET

(In thousands of dollars)

	December 31,	
	2020	2019
ASSETS		
Cash	$ 64,955	$ 283,812
Investment in subsidiary	49,589,531	45,515,589
Other assets	105,172	276,579
Total Assets	$ 49,759,658	$ 46,075,980
LIABILITIES		
Other Liabilities	$ 27,332	$ 91,999
Subordinated Debt	6,000,000	6,000,000
Total Liabilities	$ 6,027,332	$ 6,091,999
STOCKHOLDERS' EQUITY	43,732,326	39,983,981
Total Liabilities and Stockholders' Equity	$ 49,759,658	$ 39,983,981

NOTE 23 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ABI PARENT COMPANY
STATEMENTS OF INCOME
FOR THE YEARS ENED DECEMBER 31, 2020 AND 2019

	2020	2019
INCOME		
Dividends from subsidiary	$ 2,516,366	$ 3,276,622
Gain on sale of securities	---	---
Total Income	2,516,366	3,276,622
EXPENSES		
Merger expenses	2,666	953,871
Professional fees	68,176	62,854
Annual shareholder meeting	15,554	16,998
Interest expense	345,000	86,250
Other expenses	4,273	5,308
Total Expenses	435,669	1,125,281
INCOME BEFORE INCOME TAX BENEFIT AND UNDISTRIBUTED INCOME OF SUBSIDIARY	2,080,697	2,151,341
Income tax benefit	105,172	272,581
UNDISTRIBUTED INCOME OF SUBSIDIARY	2,385,652	989,527
NET INCOME	$ 4,571,521	$ 3,413,449
COMPREHENSIVE INCOME	$ 6,259,811	$ 3,979,472

NOTE 23 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

ABI PARENT COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Net income	$ 4,571,521	$ 3,413,449
Adjustments:		
Undistributed subsidiary income	(2,385,652)	(989,527)
Increase (Decrease) in other liabilities	(64,667)	91,999
Decrease (Increase) in other assets	171,407	(258,769)
Net Cash Provided by Operating Activities	2,292,609	2,257,152
INVESTING ACTIVITIES		
Capital invested in subsidiary bank	---	(6,000,000)
Net (Used in) Investing Activities	---	(6,000,000)
FINANCING ACTIVITIES		
Purchase of treasury stock	(695,100)	(226,740)
Issuing subordinated Debt	---	6,000,000
Cash dividends paid	(1,816,366)	(1,776,622)
Net Cash Provided by (used in) Financing Activities	(2,511,466)	3,996,638
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(218,857)	253,790
Cash and equivalents, January 1	283,812	30,022
Cash and equivalents, December 31	$ 64,955	$ 283,812

ALLEGHENY BANCSHARES, INC.
ANNUAL DISCLOSURE STATEMENT

December 31, 2020

This **ANNUAL DISCLOSURE STATEMENT** is being provided by the management of the bank. The information is the representation of management and is correct in all material respects to the best of management's knowledge.

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Sincerely,

W.A. "Bill" Loving, Jr., CLBB
President / CEO

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2020 **FINANCIALS**

Allegheny Bancshares Inc

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