

**FEBRUARY 2, 1908**

Middletown Savings Bank opens for business located where the Middletown Municipal Center is currently.



**GEORGE GAVER**  
1908-1919



**PETER E. BUSSARD**  
1919-1936

Middletown Valley Bank's primary mission is to deliver **Absolutely Exceptional Experiences** through a team of dedicated, enthusiastic banking professionals. By building on our history of sound banking practices and forging lasting relationships, MVB will enhance long term shareholder value and retain its status as an independent community bank.

**DEAR FELLOW SHAREHOLDERS**

It is both a privilege and honor to be writing you as President and CEO of our bank. Being locally born and raised, my admiration for Middletown Valley Bank began long before joining the bank in September. MVB has always had a reputation as one of the strongest banks in the state thanks to the strength of the markets we serve and the conservative guidance by both the Board of Directors and Senior Management preceding me.

Before discussing the ongoing transition at MVB, the 2012 results, and the challenges that lie before us, I would be remiss in not honoring the leadership of two incredible people that retired in the last year. Thomas M. Wiles gave 50 years to the bank in service to our community, 30 of those as President & CEO. Kathy L. Miss was with us for 35 years, retiring as Vice President and Cashier. Together, Tom and Kathy oversaw the growth of the bank's branches and assets while moving the bank into the digital age. Thousands of customers' lives have been touched by their efforts. We truly thank them for all they have done for the bank and wish them well in their new endeavors.

2012 was obviously a year of transition for our bank with a tremendous effort put into building the proper framework for the Bank to meet the needs of our shareholders, customers, and communities for many years to come. The bank invested in professional consulting in order to ensure the transition was orderly, effective as to the bank's mission, and respectful of the legacy of those leaving. To that end, there were a considerable amount of one-time expenses throughout the year in honoring the former leadership, clarifying the bank's mission going forward, and implementing strategic changes to meet the challenges of the current banking environment.



**JOHN L. ROUTZAHN**  
1936-1952

**AUGUST 2, 1937**

The Middletown Savings Bank buys out and purchases the property of Valley Bank.

We expect 2013 to be a year of building the structure and culture identified during our 2012 strategic planning effort. Tremendous effort will be put into building our commercial lending and business banking units. We also plan to introduce new and enhanced products throughout the year and to clarify our mission, strategic goals, and service standards. Our culture will be built around personal empowerment and accountability to 'make it happen' for our customers. Ingenuity and initiative will be rewarded in order to promote our desired culture.

The key to our 2013 will be people. You will notice a number of new faces as we right-size the staffing levels to meet our goals and expand our product line to better serve our customers. You will also see many familiar faces in new places. There are a number of employees who have stepped up during the transition into new levels of leadership and responsibility. This is truly a tremendous opportunity for the employee and a positive sign for the future leadership of the bank. Ongoing, our bank will be making investments in training and education in order to remain up to date in our knowledge of regulations and current trends in banking to ensure the continual development of our associates.

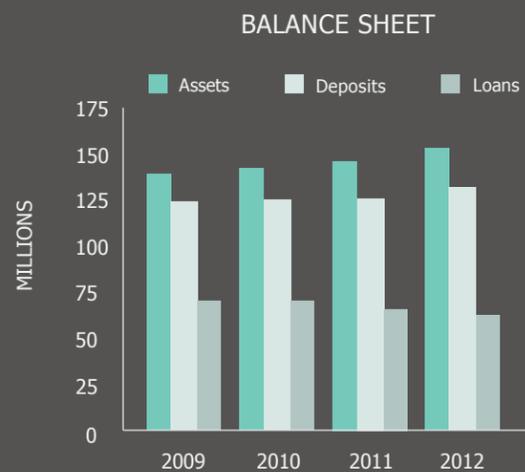
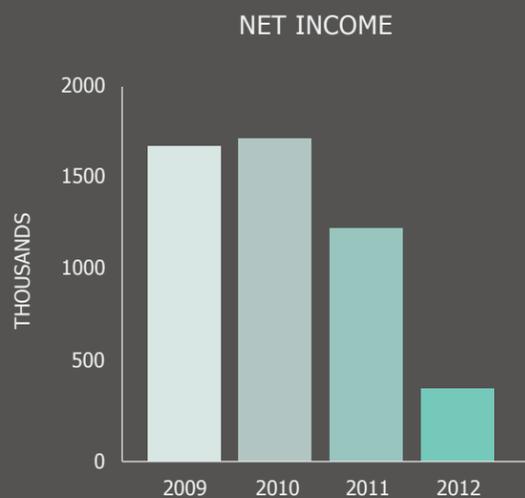
Another group of people to be acknowledged are the Board of Directors who have been extremely active during the transition and ongoing. A new committee structure has been implemented, which allows topics the proper amount of governance by the Board.

Lastly, you, the shareholder, are essential to our efforts. I have had the pleasure of meeting many of you at our December meet and greet event, at one of our customer appreciation days, or at some other place or time. It is imperative that we maintain strong communications with all shareholders so that the bank may benefit from your support during this period of opportunity and transition.

While the future of Middletown Valley Bank shows great promise, the results for 2012 and those anticipated in 2013 reflect the Board of Director's commitment to investing in the future. Plans are in place to return the bank to its' historical profitability with strong risk management in place. To this end, we have established measurable specific goals for 2013. While the actions of 2012 were a positive for the future of MVB, the plan for 2013 is to continue that substantial investment designed to move us forward toward a renewal of superior financial performance.

**CORE DEPOSIT GROWTH**

Core transaction deposits are the lifeblood of our company and an important component of our overall franchise value. 2012 was favorable in this regard.



Our deposits grew more than \$6 million or 4.75%. The majority of the growth was in savings and interest-bearing demand accounts. The goal of our 2013 product enhancement efforts is to increase the percentage of deposit growth in non-interest-bearing accounts, providing a low-cost funding source which is key to maximizing our net interest margin. These accounts also provide a great opportunity to cross-sell other products and services.

**LOAN GROWTH**

Achieving quality loan growth is a significant challenge in the current economy. There is intense competition for the smaller pool of attractive lending opportunities. Much of our future loan growth will come from customers moving their business – both loans and deposits – to Middletown Valley Bank because of personal relationships being developed today. Our 2013 strategic goals are built around giving customers good reasons to move their business to MVB: business solutions, competitive consumer products, experienced people, and our renowned service.

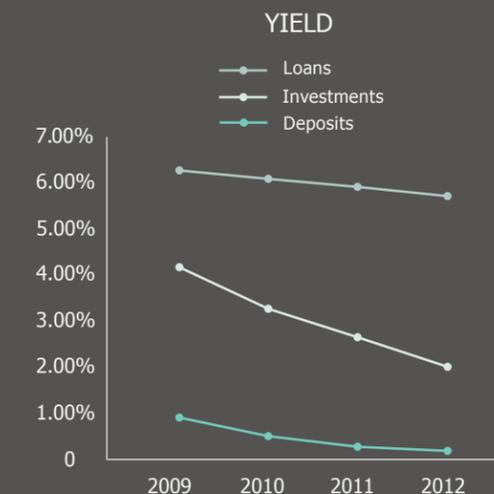
In the fourth quarter of 2012, MVB successfully recruited an experienced commercial credit administrator who has begun the process of building the commercial credit infrastructure required going forward. In 2013, we will be adding commercial relationship managers who can add significant loan and deposit relationships in the markets we serve. In addition, we will strengthen our competitive position with enhanced loan products and business solutions.

MVB successfully stemmed the tide of decreasing loans in the fourth quarter, 2012, but ended the year down \$2.4 million or 3.63%.

**LOAN DIVERSIFICATION**

For many years, the bank has relied upon niche residential mortgage lending which carries with it long-term interest rate risk and for which demand has decreased with the loss of home equity in recent years. As a result, MVB's percentage of earning assets in loans has been decreasing over time. The result is a larger than desired, lower-yielding investment portfolio.

Growth and diversification of our loan portfolio is critical to improving our risk profile and achieving a more profitable mix of loans to earning assets. Going forward, we will focus on reducing our residential fixed-rate mortgage portfolio while increasing loans to small businesses in a range of industries. Our introduction of a secondary market mortgage product in early 2013 will allow us to continue to serve the full spectrum of our communities' credit needs while creating a more



**ROBERT H. ROUTZAHN**  
1953-1974

**AUGUST 20, 1965**  
At a Board of Directors meeting, it is decided to change the name to Middletown Valley Bank.



**CHARLES H. GOUKER**  
1974-1983

**FEBRUARY 24, 1978**  
Board of Directors vote to purchase 60,000 square feet of property at the proposed Middletown Valley Center.

**JUNE 16, 1980**  
The Middletown Branch opens for business.

balanced portfolio of consumer and small business loans.

**CREDIT**

We have committed ourselves to aggressively managing our challenging credits. Tremendous effort was made during the fourth quarter, 2012 to bring our non-performing assets in line. By year-end, past due loans as a percentage of loans had decreased to 2.76% from a high of 7.00%. The Allowance for Loan Loss ended 2012 \$618,428 less than at the start due to a combination of low loan demand and more aggressive charge-offs. The Allowance as a percentage of loans remained strong at 2.41% as of December 31, 2012. While we are pleased the bank could remain profitable even with the 2012 charge-offs and the transition investment, make no mistake, we still have more work to do in this area. The credit administration investment mentioned earlier is expected to be the basis for putting in place the appropriate infrastructure to manage our credit risk going forward.

**MARGIN**

Our net interest margin has been hurt by the prolonged period of low rates. Assets continue to re-price at lower yields (including a majority portion of our investment portfolio during 2012 due to call options being exercised), while deposit rates, which have led to MVB's historically low cost of funds, have had less room to decrease. Thus margins have been compressed. Additionally the reduction of home values and therefore equity on the part of homeowners has combined with the sluggish employment picture to reduce loan demand. More assets have been deployed in lower yielding investments than loans as a result. The 2012 net interest margin was 3.44% versus 3.88% in 2011.

The bank has taken steps in 2012 to restructure the investment portfolio to strategically prepare for a rising rate environment and to fund commercial loan demand. The bank will also be considering non-core funding sources in 2013 to reduce interest rate risk in a rising rate environment.

**NON-INTEREST INCOME**

The bank has felt the impact of numerous challenges to fee revenue in recent years. New regulations regarding overdrawn accounts with approved debit card transactions as well as "opt-in" requirements for courtesy overdraft services have reduced fee revenue. In 2012, the bank invested in Bank Owned Life Insurance

in order to fund certain benefits and increase non-interest income. For the year, non-interest income was up \$122,046 or 20%. In 2013, the bank expects to see new revenues from the gains on mortgages held for sale, merchant services income, and commercial loan fees. Protecting and growing fee revenue will remain challenging for all banks going forward.

**NON INTEREST EXPENSE**

For many years, MVB enjoyed a superb efficiency ratio buoyed by high residential mortgage demand and higher than market yields relative to overhead costs. Non-interest expense in 2012 reflects the deferred investment in areas such as commercial lending and both business and consumer products. For the year ending December 31, 2012, non-interest expense was 33% higher than 2011, however a number of one-time expenses were included. The investment in these areas will continue in 2013 with related revenues expected to begin in late 2013. In addition, the commitment to standards of service and to building commercial lending and administration structures increase the payroll expenses in current periods with the loan interest income payoff to be realized in future periods. Finally, occupancy expense is expected to increase in the near term with the performance of deferred maintenance, particularly at our 80 year old main office. We will be evaluating the functionality and efficiency of the main office as our personnel numbers grow.

**CUSTOMER SERVICE**

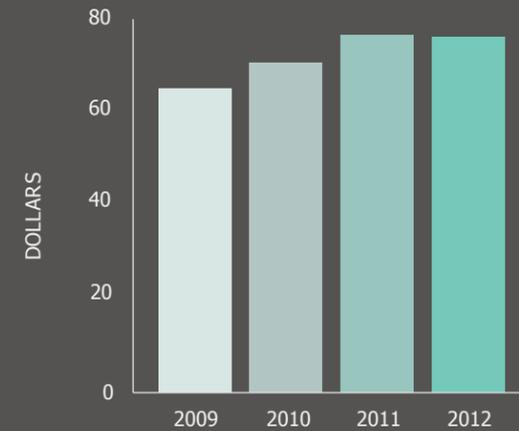
The new leadership of your bank has spent a great deal of time and effort identifying the kind of interaction we want people to have with Middletown Valley Bank personnel. We have made it our mission to make every interaction an Absolutely Exceptional Experience. We have established a set of core values and service standards to which we hold ourselves accountable. Our future will be built on the relationships we establish and our success will be directly tied to our performance in this area.

**PROFITABILITY**

All of our 2012 planning/actions and 2013 goals will lead to the restoration of profitability in the tradition of Middletown Valley Bank. The bank is being restructured in a manner so as to operate with the full knowledge and management of all risks faced and with an eye on sustained profitable operations.

**“Our future will be built on the relationships we establish”**

**BOOK VALUE PER SHARE**



Before I close, I want to recognize the consulting firm that has been instrumental in the transition period during 2012.

The staff of Garland McPherson & Associates have been instrumental in guiding the Board of Directors and Senior Management through the transition from President Wiles to me. Their experience and professionalism each step of the process has been, educational, supportive, and uplifting. The firm provided leadership that has been instrumental in walking us, the organization and it's employees, through the strategic planning process and development of an organization designed to retain its independence now and in the future. They have worked closely with the Board of Directors on their new committee structure and governance functions. Middletown Valley Bank will be forever grateful for the efforts of this partner over the last eighteen months.

Our goal is to provide Middletown Valley Bank with the right infrastructure, culture, leadership, and team of professional bankers that will allow us to maintain our independence and provide everyone that comes into contact with us to have an Absolutely Exceptional Experience.

In closing, I want to recognize another group of people who have been integral to our progress to date. These are the dedicated employees of Middletown Valley Bank.

Within a few short weeks of my arrival I learned of the dedication and persistence of the long-time staff. I found a tremendous number of talents among the younger workforce which have been relied upon throughout the process. I found a staff that takes pride in the product we produce and that will tackle any challenge to improve that product. Mostly I found a staff welcoming to a new leader as well as eager to communicate and contribute to future success. Together we will meet our 2013 goals and much, much more.

To you, the shareholder, I want to express my gratitude for your welcoming me so kindly, for your patience through this transition, and for your support through the rebuilding process. 2013 will continue the investment and transition, which will be the turning point toward continuing the trend of sustained profitability and constantly increasing shareholder value.

Kindest regards,

Robert E. Goetz, Jr.  
PRESIDENT & CEO



THOMAS M. WILES  
1984-2013

**NOVEMBER 17, 1987**

MVB acquired the Jefferson Branch from Maryland National Bank with total assets of \$9,000,000

**JULY 18, 1992**

Grand opening of the reconstructed Jefferson Branch.

**JUNE 6, 1998**

MVB purchases property on Ventrie Court in Myersville for a fourth branch.

**MARCH 1, 1999**

Grand opening of the Myersville Branch.

**OCTOBER 1, 2007**

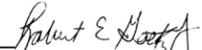
MVB proudly opens their 5th branch located in Boonsboro, MD

STATEMENTS OF CONDITION

	2012	2011
<b>ASSETS</b>		
Cash and due from banks	\$ 5,852,021	\$ 7,360,205
Federal funds sold	8,929,856	10,341,106
Securities available for sale, at fair value	62,940,878	54,304,344
Loans, net of allowance for loan losses of \$1,583,354 and \$2,201,782, respectively	64,064,777	66,485,469
Bank premises and equipment, net	4,720,739	4,722,838
Accrued interest receivable	337,448	536,949
Refundable income taxes	263,937	398,333
Deferred taxes	399,217	318,161
Other real estate, net of valuation allowance of \$17,600	612,904	715,154
Bank owned life insurance	3,073,402	-
Other assets	1,225,805	750,752
<b>TOTAL ASSETS</b>	<b>\$ 152,420,984</b>	<b>\$ 145,933,311</b>
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 42,628,397	\$ 42,220,701
Interest-bearing demand	36,094,059	33,322,681
Savings	37,041,432	33,463,677
IRA savings accounts	5,062,450	5,700,449
Time and IRA, \$100,000 and over	2,658,065	2,029,397
Other time and IRA	9,841,778	10,542,518
Total deposits	\$ 133,326,181	\$ 127,279,423
Accrued interest payable	2,859	3,512
Other liabilities	792,734	225,589
<b>TOTAL LIABILITIES</b>	<b>\$ 134,121,774</b>	<b>\$ 127,508,524</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$10 par value; 240,000 shares authorized and outstanding	\$ 2,400,000	\$ 2,400,000
Treasury Stock, 93 shares	(8,370)	-
Surplus	2,600,000	2,600,000
Retained earnings	13,034,623	13,070,966
Accumulated other comprehensive income/(loss), net	272,957	353,821
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 18,299,210</b>	<b>\$ 18,424,787</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 152,420,984</b>	<b>\$ 145,933,311</b>

April 19, 2013

I, Robert E. Goetz, Jr. President and CEO of Middletown Valley Bank, do hereby declare that the accompanying schedules have been prepared in conformance with the instructions issued by the federal and state banking authorities, and are true to the best of my knowledge and belief.

  
**Robert E. Goetz, Jr. President & CEO**

Additional detailed information is available upon written request by contacting any of the officers of Middletown Valley Bank. This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation (FDIC).

STATEMENTS OF INCOME

	2012	2011
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 3,912,641	\$ 4,255,405
Interest on investment securities:		
U.S. government	926,051	1,397,077
Mortgage backed	244,920	-
Municipal	9,623	-
Interest - other	11,795	15,082
<b>TOTAL INTEREST INCOME</b>	<b>\$ 5,105,030</b>	<b>\$ 5,667,564</b>
<b>INTEREST EXPENSE</b>		
Interest on deposits:		
Savings	\$ 17,449	\$ 16,117
Interest-bearing demand accounts	98,144	150,874
Time	64,297	114,021
<b>TOTAL INTEREST EXPENSE</b>	<b>\$ 179,890</b>	<b>\$ 281,012</b>
<b>NET INTEREST INCOME</b>	<b>\$ 4,925,140</b>	<b>\$ 5,386,552</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>92,200</b>	<b>163,753</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>\$ 4,832,940</b>	<b>\$ 5,222,799</b>
<b>OTHER INCOME</b>		
Service charges on deposit accounts	\$ 505,675	\$ 542,083
VISA check card income	212,772	212,700
Gain on calls of securities, available for sale	937	(11,558)
Bank owned life insurance income	73,402	-
Other operating income	29,982	(2,773)
	<b>\$ 822,768</b>	<b>\$ 740,452</b>
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	\$ 2,223,124	\$ 2,010,753
Supplemental employee retirement plan expense	560,679	-
Occupancy expense	333,845	320,845
Equipment expense	181,623	200,596
Loss on sale of other real estate	102,538	142,268
Data & item processing expense	749,006	589,916
FDIC Insurance expense	110,621	127,619
Other operating expense	872,807	533,451
	<b>\$ 5,134,243</b>	<b>\$ 3,925,448</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 521,465</b>	<b>\$ 2,037,803</b>
<b>INCOME TAXES</b>	<b>173,808</b>	<b>792,053</b>
<b>NET INCOME</b>	<b>\$ 347,657</b>	<b>\$ 1,245,750</b>
<b>Earnings per share</b>	<b>\$ 1.45</b>	<b>\$ 5.19</b>

## ADDITIONAL SCHEDULES

	2012	2011
<b>CHANGES IN EQUITY CAPITAL</b>		
Total equity capital as of December 31, prior year	\$ 18,424,787	\$ 17,141,613
Net Income (Loss)	347,657	1,245,750
Less: Purchase of treasury stock	(8,370)	0
Less: Cash dividends declared on common stock	(384,000)	(384,000)
Change in Unrealized Gain/(Loss) on AFS Securities	(80,864)	421,424
<b>Total Equity capital end of current period</b>	<b>\$ 18,299,210</b>	<b>\$ 18,424,787</b>
<b>PAST DUE AND NONACCRUAL LOANS, LEASES AND OTHER ASSETS</b>		
Past due 90 days or more and still accruing:		
Real Estate Loans	\$ 94,409	\$ 0
Installment Loans	0	0
Commercial (time and demand) and all other loans	0	0
<b>Total</b>	<b>\$ 94,409</b>	<b>\$ 0</b>
Nonaccrual:		
Real Estate Loans	\$ 1,350,992	\$ 2,931,930
Installment Loans	0	152,767
Commercial (time and demand) and all other loans	0	0
<b>Total</b>	<b>\$ 1,350,992</b>	<b>\$ 3,084,697</b>
<b>Total Debt Restructure Loans (TDR's)</b>	<b>\$ 2,144,884</b>	<b>\$ 2,370,957</b>
<b>TOTAL NON-PERFORMING LOANS</b>	<b>\$ 3,590,285</b>	<b>\$ 5,455,654</b>
<b>Non Performing Loans to Total Loans</b>	<b>5.46%</b>	<b>7.93%</b>
<b>CHANGES IN ALLOWANCE FOR LOAN AND LEASE LOSSES</b>		
Balance as of December 31, prior year*	\$ 2,201,782	\$ 2,236,512
Recoveries	179,630	4,361
Less: Charge-offs	(890,258)	(202,844)
Provision for Loan and Lease Losses	92,200	163,753
Balance as of December 31, year end*	<b>\$ 1,583,354</b>	<b>\$ 2,201,782</b>

\* Includes Loan Loss Allowance for Off Balance Sheet Commitments

## BOARD OF DIRECTORS

**Chairman of the Board-** James H. Clapp

**Vice Chair-** John T. Routzahn, III

**President & CEO-** Robert E. Goetz, Jr.

**Governance Committee**

James H. Clapp (Chair)  
A. Dennis Remsburg  
J. Thomas Routzahn, Jr.

**Audit Committee**

John T. Routzahn, III (Chair)  
James H. Clapp  
J. Thomas Routzahn, Jr.

**Loan Committee**

Richard L. Kefauver (Chair)  
Robert E. Goetz, Jr.  
J. Thomas Routzahn, Jr.  
John J. Rudy

**Personal & Compensation Committee**

A. Dennis Remsburg (Chair)  
Richard L. Kefauver  
John J. Rudy

**Board Asset Liability Committee**

John T. Routzahn, III (Chair)  
Robert E. Goetz, Jr.  
Richard L. Kefauver

**Community Reinvestment Act Committee**

John J. Rudy



From top left : Robert E. Goetz, Jr., John J. Rudy, A. Dennis Remsburg, Richard L. Kefauver, J. Thomas Routzahn, Jr.  
From bottom left: John T. Routzahn, III, James H. Clapp

## EXECUTIVE OFFICERS

Robert E. Goetz, Jr.  
J. Michael Hill  
Dawn Woods

President and Chief Executive Officer  
Treasurer and Chief Operating Officer  
Corporate Secretary

## CORPORATE OFFICERS

Harold Hoffman  
M. Scott Durant  
Chad M. Tasker  
Linda Kinslow  
Dustin A. Watson  
Paul E. Fink  
Kevin M. Delauter  
Kevin L. Stonesifer  
Cathleen Miner  
Loretta Kay Moser  
Georgie Poffenberger  
Becky Auldridge  
Melissa F. Delauter  
Whitney Dangerfield  
Tina McDonald

Senior Vice President- Chief Lending Officer  
Assistant Vice President- Retail Sales and Branch Administration  
Assistant Vice President- IT and Bank Network Support  
Assistant Vice President- Deposit and Loan Operations  
Assistant Vice President- Credit and Loan Administration  
Assistant Vice President- Security Officer/Compliance/BSA/Privacy Officer  
Assistant Vice President- Assistant Corporate Secretary  
Assistant Vice President- Branch Manager  
Banking Officer- Information Systems Manager  
Banking Officer- Loan Servicing  
Banking Officer- Loan Administration  
Banking Officer- Branch Manager  
Banking Officer- Branch Manager  
Banking Officer- Branch Manager  
Banking Officer- Branch Manager

