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FRB RICHMOND

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Richard J. Morris
Name of the Holding Company Director and Official

Director / Vice Chairman
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

X [signature]
Signature of Holding Company Director and Official

3/23/18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1357046
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
12/31/17
Month / Day / Year

No LEI
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Calhoun Bankshares Inc.
Legal Title of Holding Company

PO Box 430
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Grantsville	WV	26147

362 Main St Grantsville WV 26147
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Christopher Arden	CFO

304-354-6116
Area Code / Phone Number / Extension

304-354-7855
Area Code / FAX Number

carden@calhounbanks.com
E-mail Address

www.calhounbanks.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City | State | Zip Code

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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City | State | Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

Calhoun Bankshares, Inc.
P.O. Box 430
362 Main St
Grantsville, WV 26147

Fiscal Year Ended December 31, 2017

Report Item:

1. The bank holding company prepares an annual report for its securities holders. Two copies will be mailed under separate cover when they are completed.

2a. Organization Chart:

Calhoun Bankshares, Inc.
No LEI
P.O. Box 430
362 Main St
Grantsville, WV 26147
Incorporated in WV

100% owner of:

Calhoun County Bank, Inc.
LEI – 54930001GYIWKBD35H65
P.O. Box 430
362 Main St
Grantsville, WV 26147
Incorporated in WV

2b. Domestic Branch Listing
Submitted via email on March 22, 2018.

Results: A list of branches for your depository institution: CALHOUN COUNTY BANK, INC. (ID_RSSD: 498625).
This depository institution is held by CALHOUN BANKSHARES, INC. (1357046) of GRANTSVILLE, WV.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required; enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	498625	CALHOUN COUNTY BANK, INC.	362 MAIN STREET	GRANTSVILLE	WV	26147	CALHOUN	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	1162660	ARNOLDSBURG BRANCH	860 ARNOLDSBURG ROAD	ARNOLDSBURG	WV	25234	CALHOUN	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	2529895	ELIZABETH BRANCH	ROUTE 14	ELIZABETH	WV	26143	WIRT	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	
OK		Full Service	2639646	GLENVILLE BRANCH	904 NORTH LEWIS STREET	GLENVILLE	WV	26351	GILMER	UNITED STATES	Not Required	Not Required	CALHOUN COUNTY BANK, INC.	498625	

Form FR Y-6
Calhoun Bankshares Inc
December 31, 2017

Report Item 3: Shareholders

(1)(a)(b)(c) and (2)(a)(b)(c)

Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/17			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/17		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) # and % of each class of voting securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) # and % of each class of voting securities
Francis Cain Big Bend, WV USA	USA	31678 shares - 10.82% Common Stock	None		
Donald Gunn Mount Zion, WV USA	USA	16111 shares - 5.50% Common Stock			

Form FR Y-6
Calhoun Bankshares, Inc
December 31, 2017

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name & Address	(2) Principal Occupation	(3)(a) Title & Position with Bank Holding Co.	(3)(b) Title & Position with Subsidiaries	(3c) Title & Position with other businesses	(4)(a) % voting shares in Bank Holding Co.	(4)(b) % voting shares in Subsidiaries	(4c) 25% or more voting securities other Co.
David Cain Big Bend, WV USA	Employee : Cain Oil & Gas	Director	None	Employee - Cain Oil & Gas	1.110%	None	N/A
Roy Henderson Glenville, WV USA	Vice President - Appalachian Timber Services	Director	None	Vice President - Appalachian Timber Services	0.710%	None	N/A
Richard Morris Grantsville, WV USA	Self Employed: Oil & Gas / Farming	Vice President & Director	None	President, Morris Oil & Gas / Partner - Hilltop Farms	1.260%	None	100% - Morris Oil & Gas
James L. Bennett Grantsville, WV USA	Retired	President, Director & Chairman of the Board	None	N/A	0.300%	None	N/A
Larry Chapman Glenville, WV USA	Store Owner	Director	None	Owner, Glenville Western Auto	0.940%	None	100% Glenville Western Auto
Leslie Maze Elizabeth, WV USA	Attorney	Director	None	Owner, Leslie Maze Attorney At Law	0.200%	None	100% Leslie Maze Attorney At Law
Francis Cain Big Bend, WV USA	Self Employed: Oil & Gas and Farming	None	None	Owner, Cain Oil & Gas	10.820%	None	100% - Cain Oil & Gas

CALHOUN BANKSHARES, INC. AND SUBSIDIARY

GRANTSVILLE, WEST VIRGINIA

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

Suttle & Stalnaker PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Calhoun Bankshares, Inc. and Subsidiary
Grantsville, West Virginia

We have audited the accompanying consolidated financial statements of Calhoun Bankshares, Inc. and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102
Phone (304) 485-6584 • Fax (304) 485-0971
The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008
Wharf District • 68 Clay Street • Suite C • Morgantown, WV 26501
Phone (304) 554-3371 • Fax (304) 554-3410
www.suttlecpas.com • E-mail: cpa@suttlecpas.com
A Professional Limited Liability Company

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calhoun Bankshares, Inc. and its Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Suttle & Stalnaker, PLLC

Parkersburg, West Virginia
March 13, 2018

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and due from banks	$ 6,539,604	$ 5,182,978
Interest-earning deposits in other banks	1,689,925	1,414,577
Federal funds sold	1,208,000	531,000
Cash and cash equivalents	9,437,529	7,128,555
Time deposits	3,237,000	3,486,000
Investment securities		
Securities available-for-sale, at fair value	10,677,190	13,836,056
Other securities	254,300	297,700
Loans	104,278,325	98,321,845
Less: allowance for loan losses	(1,265,063)	(1,288,063)
Loans - net	103,013,262	97,033,782
Accrued interest receivable	400,654	419,630
Premises and equipment - net	1,911,410	1,924,349
Other real estate owned	145,000	115,000
Cash surrender value - bank owned life insurance	3,276,471	3,271,157
Deferred income taxes	881,464	1,221,380
Other assets	154,440	183,683
Total assets	**$ 133,388,720**	**$ 128,917,292**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand - noninterest-bearing	$ 36,244,175	$ 30,771,585
Demand - interest-bearing	9,079,046	8,409,031
Savings	37,217,798	35,041,966
Time	31,341,124	34,828,504
Total deposits	113,882,143	109,051,086
Federal Home Loan Bank advances	3,000,000	4,000,000
Accrued interest payable	34,539	39,108
Other liabilities	2,198,464	1,833,420
Total liabilities	119,115,146	114,923,614
Shareholders' equity		
Common stock (par value $1; 3,000,000 shares authorized; 306,850 shares issued; 292,861 and 292,351 shares outstanding as of December 31, 2017 and 2016, respectively)	306,850	306,850
Additional paid in capital	549,740	550,486
Retained earnings	14,784,256	14,260,960
Less: treasury stock, at cost (13,989 and 14,499 shares as of December 31, 2017 and 2016, respectively)	(402,456)	(420,972)
Accumulated other comprehensive income (loss)	(964,816)	(703,646)
Total shareholders' equity	14,273,574	13,993,678
Total liabilities and shareholders' equity	**$ 133,388,720**	**$ 128,917,292**

The accompanying notes are an integral part of these financial statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017

	2017	2016	2015
Interest income			
Interest and fees on loans	$ 5,543,881	$ 5,556,483	$ 5,523,982
Interest on deposits in other banks	63,317	50,732	44,204
Interest on federal funds sold	11,250	2,496	12,314
Interest and dividends on investment securities	243,138	293,632	285,752
Total interest income	5,861,586	5,903,343	5,866,252
Interest expense			
Interest on deposits	386,620	491,029	585,746
Interest on borrowings	36,402	27,058	2,879
Total interest expense	423,022	518,087	588,625
Net interest income	5,438,564	5,385,256	5,277,627
Provision for loan losses	120,000	225,000	240,000
Net interest income after provision for loan losses	5,318,564	5,160,256	5,037,627
Noninterest income			
Service charges and fees on deposits	428,783	473,943	413,837
Other service charges, commissions and fees	376,269	348,653	344,700
Increase in cash surrender value - bank owned life insurance	109,245	105,593	103,984
Net realized gain from sales of investment securities available-for-sale	17,716	-	33,802
Other income	57,897	114,177	118,780
Total noninterest income	989,910	1,042,366	1,015,103
Noninterest expense			
General and administrative			
Compensation and benefits	2,772,330	2,551,686	2,553,391
Occupancy and equipment	356,883	450,396	459,470
Data processing	335,393	311,136	359,766
Director and committee fees	99,900	97,294	92,841
Equipment, software, and network maintenance	147,679	167,496	127,827
Regulatory fees	157,521	208,501	271,412
Postage and courier	69,529	77,429	68,892
Other expenses	777,100	921,419	924,227
Total noninterest expense	4,716,335	4,785,357	4,857,826
Income before income tax expense	1,592,139	1,417,265	1,194,904
Income tax expense	963,162	437,996	347,248
Net income	**$ 628,977**	**$ 979,269**	**$ 847,656**
Net income available for common shareholders	$ 628,977	$ 979,269	$ 847,656
Per common share data			
Net income	2.15	3.46	3.02
Cash dividend	0.95	0.85	0.80
Average common shares outstanding	292,346	283,243	280,411

The accompanying notes are an integral part of these financial statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017

	2017	2016	2015
Net income	$ 628,977	$ 979,269	$ 847,656
Other comprehensive income			
Change in unrecognized actuarial gain (loss) of the pension plan	(184,158)	204,141	(64,323)
Adjustment for income tax (expense) benefit	73,663	(81,657)	25,730
	(110,495)	122,484	(38,593)
Unrealized gains (losses) on investment securities available-for-sale arising during the period	52,952	(259,783)	224,333
Adjustment for income tax expense (benefit)	(21,181)	103,913	(89,734)
	31,771	(155,870)	134,599
Reclassification adjustment for (gains) losses on investment securities available-for-sale included in net income	(17,716)	-	(33,802)
Adjustment for income tax expense (benefit)	7,087	-	13,521
	(10,629)	-	(20,281)
Other comprehensive income (loss), net of income tax	(89,353)	(33,386)	75,725
Comprehensive income	**$ 539,624**	**$ 945,883**	**$ 923,381**

The accompanying notes are an integral part of these financial statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017

	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as of December 31, 2014	$ 306,850	$ 556,037	$ 12,902,057	$ (952,215)	$ (745,985)	$ 12,066,744
Comprehensive income	-	-	847,656	-	75,725	923,381
Purchases of treasury stock (3,616 shares)	-	-	-	(115,150)	-	(115,150)
Sales of treasury stock (6,236 shares)	-	-	-	196,732	-	196,732
Cash dividends declared ($0.80 per share)	-	-	(224,534)	-	-	(224,534)
Balance as of December 31, 2015	306,850	556,037	13,525,179	(870,633)	(670,260)	12,847,173
Comprehensive income	-	-	979,269	-	(33,386)	945,883
Purchases of treasury stock (822 shares)	-	-	-	(28,770)	-	(28,770)
Sales of treasury stock (13,564 shares)	-	(5,551)	-	478,431	-	472,880
Cash dividends declared ($0.85 per share)	-	-	(243,488)	-	-	(243,488)
Balance as of December 31, 2016	306,850	550,486	14,260,960	(420,972)	(703,646)	13,993,678
Comprehensive income	-	-	628,977	-	(89,353)	539,624
Reclassification of certain tax effects from accumulated other comprehensive income	-	-	171,817	-	(171,817)	-
Purchases of treasury stock (3,125 shares)	-	-	-	(116,877)	-	(116,877)
Sales of treasury stock (3,635 shares)	-	(746)	-	135,393	-	134,647
Cash dividends declared ($0.95 per share)	-	-	(277,498)	-	-	(277,498)
Balance as of December 31, 2017	**$ 306,850**	**$ 549,740**	**$ 14,784,256**	**$ (402,456)**	**$ (964,816)**	**$ 14,273,574**

The accompanying notes are an integral part of these financial statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017

	2017	2016	2015
Cash flows from operating activities			
Net income	$ 628,977	$ 979,269	$ 847,656
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation	158,492	229,667	254,761
Provision for loan losses	120,000	225,000	240,000
Provision for deferred income tax	399,485	(89,668)	(159,876)
Amortizations (accretions) on investments - net	50,934	12,025	22,249
Net realized (gain) loss from sales of investment securities available-for-sale	(17,716)	-	(33,802)
Net realized (gain) loss from disposal of premises and equipment	-	-	3,425
Net realized (gain) loss from sales of other real estate owned	(1,559)	2,741	14,387
Other real estate owned impairment loss	2,000	36,500	80,000
(Increase) decrease in accrued interest receivable	18,976	24,090	(13,673)
(Increase) decrease in cash surrender value - bank owned life insurance	(109,245)	(105,593)	(103,984)
(Increase) decrease in other assets	29,243	120,143	(9,674)
Increase (decrease) in accrued interest payable	(4,569)	(11,375)	(26,471)
Increase (decrease) in other liabilities	180,886	14,605	10,312
Total adjustments	826,927	458,135	277,654
Net cash flows provided (used) by operating activities	1,455,904	1,437,404	1,125,310
Cash flows from investing activities			
Net (increase) decrease in time deposits	249,000	-	249,000
Purchases of investment securities available-for-sale	(516,509)	(10,280,965)	(7,749,849)
Proceeds from maturities and calls of investment securities available-for-sale	1,000,000	13,813,953	4,250,000
Proceeds from principal payments on mortgage-backed securities available-for-sale	842,256	892,987	536,814
Proceeds from sales of investment securities available-for-sale	1,835,137	-	3,030,000
Purchases of other investment securities	(120,000)	(163,700)	(149,800)
Redemption of other investment securities	163,400	80,000	-
Loan originations and principal payment on loans	(6,133,230)	(1,578,693)	(3,851,069)
Proceeds from sales of other real estate owned	3,309	300,016	76,310
Proceeds from bank owned life insurance death benefit	103,931	-	-
Capital expenditures	(145,553)	(188,115)	(85,402)
Net cash flows provided (used) by investing activities	(2,718,259)	2,875,483	(3,693,996)
Cash flows from financing activities			
Net increase (decrease) in total deposits	4,831,057	(7,750,947)	(408,382)
Net increase (decrease) in Federal Home Loan Bank advances	(1,000,000)	2,000,000	2,000,000
Purchases of treasury stock	(116,877)	(28,770)	(115,150)
Proceeds from sales of treasury stock	134,647	472,880	196,732
Cash dividends paid	(277,498)	(243,488)	(224,534)
Net cash flows provided (used) by financing activities	3,571,329	(5,550,325)	1,448,666
Net increase (decrease) in cash and cash equivalents	2,308,974	(1,237,438)	(1,120,020)
Cash and cash equivalents at beginning of year	7,128,555	8,365,993	9,486,013
Cash and cash equivalents at end of year	**$ 9,437,529**	**$ 7,128,555**	**$ 8,365,993**

The accompanying notes are an integral part of these financial statements.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(Continued)

	2017		2016		2015	
Supplemental schedule of noncash investing and financing activities						
Loans transferred to other real estate owned	$	45,000	$	174,757	$	54,058
Sales of other real estate owned financed through loans	$	11,250	$	37,000	$	10,000
Supplemental disclosure of cash flows information						
Cash paid during the year for						
Interest	$	427,591	$	529,462	$	615,096
Income taxes	$	490,677	$	496,164	$	568,000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of operations - Calhoun Bankshares, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned Subsidiary, Calhoun County Bank, Inc. (the Bank). The Bank provides banking services to domestic markets with the primary market areas being Calhoun, Gilmer, and Wirt counties, and the secondary market area being all of the contiguous counties. To a large extent, the operations of the Company and its Subsidiary Bank, such as loan portfolio management and deposit growth, are directly affected by the market area economy.

Basis of financial statement presentation - The accounting and reporting policies of the Company and its Subsidiary conform with accounting principles generally accepted in the United States of America and with general practices followed within the banking industry.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Subsidiary, Calhoun County Bank, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates - The preparation of financial statements 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 amounts of revenues and expenses during the reporting period. Estimates, such as the allowance for loan losses, are based on known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. In addition, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other-than-temporary impairment on investments. Actual results could differ from those estimates.

Presentation of cash flows - For the purpose of reporting cash flows, the Company and its Subsidiary have defined cash and cash equivalents as those amounts included in the consolidated balance sheets captions “Cash and due from banks” and “Interest-earning deposits in other banks,” which have original maturities of ninety (90) days or less, and “Federal funds sold.” Generally, federal funds are sold for one-day periods.

Investment securities - It is the policy of the Bank to prohibit the use of their respective investment accounts to maintain a trading account or to speculate in securities that would demonstrate management’s intent to profit from short-term price movements.

Debt securities are classified as held-to-maturity when management has both the intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts computed by the interest method from purchase date to maturity. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Securities not classified as held-to-maturity or as trading are classified as available-for-sale. Securities available-for-sale are carried at estimated fair value based on information provided by a third party pricing service, with unrealized gains and losses, net of the deferred income tax effect, reported in accumulated other comprehensive income. Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of income tax, in other comprehensive income. The cost of securities sold is determined on the specific-identification method. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the contractual terms of the securities.

Declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and allowance for loan losses - Loans are stated at the amount of unpaid principal, less the allowance for loan losses. Interest on loans is accrued daily based on principal amounts outstanding. Accrual of interest is discontinued on an impaired loan when management believes, after consideration of economic and business conditions and collections efforts, the borrowers' financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent of cash payments received.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb possible losses on existing loans that may become uncollectable based on evaluations of the collectability of loans and prior loan loss experience.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able 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 delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Troubled debt restructurings (TDRs) - A restructuring of debt constitutes a 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 determination of whether a concession has been granted includes an evaluation of the debtor's ability to access funds at a market rate for debt with similar risk characteristics and among other things, the significance of the modification relative to unpaid principal or collateral value of the debt, and/or the significance of a delay in the timing of payments relative to the frequency of payments, original maturity date or the expected duration of the loan. The most common concessions granted generally include one or more modifications to the terms of the debt such as a reduction in the interest rate for the remaining life of the debt, an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reduction of the unpaid principal or interest. All TDRs are considered impaired loans.

Premises and equipment - Land is carried at cost. Bank buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using straight-line or a declining-balance method for financial reporting purposes over the estimated useful lives of the respective assets. Useful lives are revised when a change in life expectancy becomes apparent.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations as realized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Other real estate owned - Real estate acquired through, or in lieu of, loan foreclosure is held-for-sale and is initially recorded at the lower of the Bank's cost (book value) or fair value less estimated selling costs at the date of foreclosure. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower new fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed.

Advertising - It is the policy to expense advertising costs as incurred. Advertising expense for the years ended December 31, 2017, 2016, and 2015 were $72,886, $55,110, and $50,915, respectively.

Income taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of securities available-for-sale, unrecognized actuarial loss of the pension plan, supplemental employee benefit plans, subsequent loss writedowns on other real estate owned, the allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation limitation reserves are established, as deemed necessary, and adjusted periodically on certain deferred tax assets to reflect estimated recoverability of the asset in a reasonable time period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and its Subsidiary file consolidated federal and state tax returns. Tax allocation arrangements between the Company and its Subsidiary follow the policy of determining federal and state income taxes as if the Subsidiary filed separate federal and state income tax returns with consolidation surtax eliminations at the Company's level.

Comprehensive income - Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and the unrecognized actuarial loss of the pension plan, are reported as a separate component of the shareholders' equity section of the balance sheets. Such items, along with net income, are components of comprehensive income.

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. Early adoption is permitted and as a result, the Company and its Subsidiary reclassified $171,817 from accumulated other comprehensive income to retained earnings as of December 31, 2017.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The accumulated other comprehensive income component of shareholders' equity results from the following:

	December 31, 2017	December 31, 2016
Unrecognized actuarial loss of the pension plan	$ (1,052,376)	$ (868,218)
Effect of income tax expense	420,950	347,287
Reclassification of certain tax effects from accumulated other comprehensive income	(136,809)	-
	(768,235)	(520,931)
Unrealized (gains) losses on available for sale securities	(269,289)	(304,525)
Effect of income tax expense	107,716	121,810
Reclassification of certain tax effects from accumulated other comprehensive income	(35,008)	-
	(196,581)	(182,715)
Total accumulated other comprehensive income	$ (964,816)	$ (703,646)

Net income per common share - Net income per common share amounts are computed based on the weighted average number of common shares outstanding during the period.

Reclassification of prior years' statements - Certain amounts in the consolidated financial statements for 2016 and 2015, as previously presented, have been reclassified to conform with the 2017 financial statement presentation. The reclassifications had no effect on net income, comprehensive income, or shareholders' equity.

Date of management's review of subsequent events - Management has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 13, 2018, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Subsidiary Bank met the requirement to maintain reserve funds by either cash on hand or cash on deposit with the Federal Reserve Bank as of December 31, 2017 and 2016.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities available-for-sale as of December 31, 2017 and 2016 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
December 31, 2017				
U.S. government and federal agencies	$ 6,681,352	$ -	$ (171,104)	$ 6,510,248
Mortgage backed	4,265,127	-	(98,185)	4,166,942
Total	$ 10,946,479	$ -	$ (269,289)	$ 10,677,190
December 31, 2016				
U.S. government and federal agencies	$ 8,678,512	$ 5,824	$ (172,862)	$ 8,511,474
Mortgage backed	5,462,069	6,315	(143,802)	5,324,582
Total	$ 14,140,581	$ 12,139	$ (316,664)	$ 13,836,056

The caption "Other securities" in the consolidated balance sheets consists of CBB Financial Corporation stock and Federal Home Loan Bank of Pittsburgh stock, which are restricted equity securities carried at cost because no ready market exists since it is restricted as to their marketability.

Other securities consist of the following:

	December 31, 2017	December 31, 2016
CBB Financial Corporation	$ 66,000	$ 66,000
Federal Home Loan Bank of Pittsburgh	188,300	231,700
Total	$ 254,300	$ 297,700

The amortized cost and fair value of securities as of December 31, 2017, are summarized by contractual maturity as follows:

	Amortized Costs	Fair Value
Due within one year or less	$ 999,689	$ 995,671
Due after one year through five years	3,682,839	3,582,634
Due after five years through ten years	2,740,620	2,666,763
Due after ten years	3,523,331	3,432,122
	$ 10,946,479	$ 10,677,190

NOTE 3 - INVESTMENT SECURITIES (Continued)

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. The amortized cost and fair value of mortgage-backed securities are presented in the available-for-sale category by contractual maturity in the preceding table.

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The following is a summary of the proceeds from the sales or calls of investment securities available-for-sale, which resulted in realized gains and losses:

	Proceeds	Gross Realized Gains	Gross Realized Losses
For the year ended December 31,			
2017	$ 1,835,137	$ 17,822	$ (106)
2016	$ -	$ -	$ -
2015	$ 3,030,000	$ 33,802	$ -

Investment securities with a carrying amount of $3,277,535 and $3,895,756 at December 31, 2017 and 2016, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to investment securities available-for-sale with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in continuous loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
U.S. government and federal agencies	$ 2,148,874	$ (33,965)	$ 4,361,374	$ (137,139)	$ 6,510,248	$ (171,104)
Mortgage backed	1,233,839	(11,752)	2,933,103	(86,433)	4,166,942	(98,185)
Total	$ 3,382,713	$ (45,717)	$ 7,294,477	$ (223,572)	$10,677,190	$ (269,289)
December 31, 2016						
U.S. government and federal agencies	$ 6,507,001	$ (172,862)	$ -	$ -	$ 6,507,001	$ (172,862)
Mortgage backed	4,607,113	(143,802)	-	-	4,607,113	(143,802)
Total	$11,114,114	$ (316,664)	$ -	$ -	$11,114,114	$ (316,664)

NOTE 3 - INVESTMENT SECURITIES (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is evaluated considering numerous factors and their relative significance varies from case to case. Factors considered include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in fair value.

As of December 31, 2017, the sixteen (16) debt securities with unrealized losses have depreciated approximately 2.46% from the Bank's amortized cost basis. These debt securities are predominately rated investment grade securities (A3 or better) and the unrealized losses are due to the current interest rate environment and not due to any underlying credit concerns of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of recorded investment in loans by segment is as follows:

	December 31,	
	2017	2016
Commercial	$ 7,871,358	$ 8,480,935
Commercial real estate	15,922,730	16,756,570
Residential real estate	68,181,285	64,052,884
Consumer and other	12,302,952	9,031,456
Total loans	104,278,325	98,321,845
Less: allowance for loan losses	(1,265,063)	(1,288,063)
Loans - net	$ 103,013,262	$ 97,033,782

As of December 31, 2017 and 2016, overdrafts from deposit accounts of $16,161 and $18,506, respectively, are included within the appropriate loan segment above.

Loans and loan commitments, which are comprised primarily of loans to borrowers in Calhoun, Gilmer, and Wirt counties, and all contiguous counties, are in oil and gas, residential real estate, health care, and retail/service industries.

Management monitors the credit quality of loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of the loan.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest, unless the loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days). When interest accruals are discontinued, unpaid interest is reversed against interest income. The Bank's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Bank's age analysis of the past due loans, segregated by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
December 31, 2017							
Secured by real estate							
Construction and land development	$ -	$ -	$ -	$ -	$ 161,997	$ 161,997	$ -
Residential	790,076	664,769	139,198	1,594,043	65,697,124	67,291,167	139,198
Commercial	320,264	202,377	153,207	675,848	14,871,423	15,547,271	18,315
Commercial and industry	52,129	-	14,760	66,889	8,624,305	8,691,194	14,760
Consumer and other	111,648	42,335	3,843	157,826	12,428,870	12,586,696	3,843
Total	$ 1,274,117	$ 909,481	$ 311,008	$ 2,494,606	$ 101,783,719	$ 104,278,325	$ 176,116
December 31, 2016							
Secured by real estate							
Construction and land development	$ -	$ -	$ -	$ -	$ 693,559	$ 693,559	$ -
Residential	1,587,390	490,088	373,117	2,450,595	60,072,419	62,523,014	249,504
Commercial	161,641	342,502	139,691	643,834	15,769,769	16,413,603	-
Commercial and industry	115,931	30,346	123,699	269,976	9,299,697	9,569,673	55,584
Consumer and other	125,431	98,749	27,230	251,410	8,870,586	9,121,996	27,230
Total	$ 1,990,393	$ 961,685	$ 663,737	$ 3,615,815	$ 94,706,030	$ 98,321,845	$ 332,318

Loans are placed on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, or part of the principal balance has been charged off and no restructuring has occurred.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

When a loan is placed on nonaccrual status, accrued unpaid interest receivable is reversed against interest income and future interest is recognized on the cash method until the loan qualifies for return to accrual status. Generally, a loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectibility is no longer in doubt.

The following table sets forth the Bank's nonaccrual loans, segregated by class loans:

	December 31,	
	2017	2016
Secured by real estate		
Construction and land development	$ -	$ -
Residential	120,689	190,748
Commercial	214,768	239,735
Commercial and industry	-	68,115
Consumer and other	-	-
Total	$ 335,457	$ 498,598

Information on troubled debt restructuring (TDRs) modified during December 31, 2017 and 2016 is as follows:

	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2017			
Real estate residential	3	$ 267,628	$ 277,344
Consumer and other	1	13,534	30,333
	4	$ 281,162	$ 307,677
December 31, 2016			
Commercial and industry	1	$ 129,439	$ 129,644
Consumer and other	2	46,579	47,228
	3	$ 176,018	$ 176,872

During 2017 and 2016, the TDRs shown in the above table were modified by capitalizing the accrued interest to the loan balance and extending the term.

There have been no loans modified as TDRs within the previous twelve months that have subsequently re-defaulted as of December 31, 2017.

As of December 31, 2017, there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The use of creditworthiness categories to grade loans permits management to assess individual risk categories separately to estimate the respective portion of credit risk. The Bank's internal creditworthiness grading system is based on experience with similarly graded loans. Category ratings are reviewed each quarter, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration from one loan risk rating to another. Loans that trend upward toward better ratings generally have a lower risk factor associated; whereas, loans that migrate toward a poorer rating generally will result in a higher risk factor being applied to those related loan balances. Loans are graded on a scale of 1 through 9 with a grade of 5 or above classified as "Pass" rated credits. The following is a description of the general characteristics of risk grades 6 through 9:

6 - Special mention – This is an early warning assessment reserved for loans currently adequately protected, but portraying one or more deficiencies that may not be tolerable over the intermediate to long term. These loans may possess deteriorating financial characteristics, significant legal or documentation exceptions as measured by the loan policy, and any other items noted which are worthy of immediate attention and/or correction.

7 - Substandard – These loans have well defined weaknesses, which could lead to impairment of the loan. These loans have had serious deterioration of borrower or guarantor financial condition, which could result in the Bank not collecting all principal and interest in a timely manner as defined by the loan agreement.

8 - Doubtful – These loans have characteristics such that collection of principal is highly unlikely. While the possibility of loss is high, sufficient contingencies exist to warrant deferral of charge off pending the outcome of the contingency. Possibilities still exist which may strengthen or enhance the collection process. Generally, these loans are on nonaccrual status.

9 - Loss – These loans are judged to be uncollectible and of such value that carrying the loan as an asset is not warranted. Loans in this category may still have recoverability of some or all principal, however it is not practical or desirable to defer such a charge off pending recovery.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table sets forth the Bank's credit quality indicators information, segregated by class of loans:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2017						
Secured by real estate						
Construction and land development	$ 161,997	$ -	$ -	$ -	$ -	$ 161,997
Residential	66,078,288	706,996	390,171	115,712	-	67,291,167
Commercial	13,645,172	1,204,568	382,783	314,748	-	15,547,271
Commercial and industry	6,833,653	1,756,678	95,962	4,901	-	8,691,194
Consumer and other	12,494,365	71,394	12,896	8,041	-	12,586,696
Total	$ 99,213,475	$ 3,739,636	$ 881,812	$ 443,402	$ -	$104,278,325
December 31, 2016						
Secured by real estate						
Construction and land development	$ 693,559	$ -	$ -	$ -	$ -	$ 693,559
Residential	61,168,506	826,985	381,734	145,789	-	62,523,014
Commercial	14,544,270	1,071,364	466,556	331,413	-	16,413,603
Commercial and industry	8,090,896	1,257,191	205,211	16,375	-	9,569,673
Consumer and other	8,996,590	86,308	39,098	-	-	9,121,996
Total	$ 93,493,821	$ 3,241,848	$ 1,092,599	$ 493,577	$ -	$ 98,321,845

The Bank considers a loan to be impaired when, based on current information and events, management determines that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Bank identifies a loan as impaired, the Bank measures the impairment based primarily on the estimated net liquidation value of the collateral. In these cases, the Bank uses the current fair value of the collateral, less estimated selling cost. If the estimated value of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectibility of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal. When the ultimate collectibility of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table sets forth the recorded investment and unpaid principal balances for impaired loans by class of loans. Also presented is the average recorded investment of the impaired loans and related amount of interest recognized during the time period that the impaired loans were impaired. The average balances are calculated based on month-end balances of the loans for the period reported.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017					
With no related allowance recorded					
Secured by real estate					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Residential	612,842	612,842	-	447,513	28,058
Commercial	398,323	398,323	-	406,428	11,333
Commercial and industry	30,536	30,536	-	12,677	1,679
Consumer and other	14,009	14,009	-	8,611	1,678
With an allowance recorded					
Secured by real estate					
Construction and land development	-	-	-	-	-
Residential	454,398	454,398	97,329	330,508	16,653
Commercial	431,771	431,771	73,704	402,615	29,330
Commercial and industry	125,417	125,417	45,000	116,014	7,360
Consumer and other	40,863	40,863	2,690	17,701	2,245
Total	$ 2,108,159	$ 2,108,159	$ 218,723	$ 1,742,067	$ 98,336
December 31, 2016					
With no related allowance recorded					
Secured by real estate					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Residential	267,965	267,965	-	97,713	8,337
Commercial	239,735	239,735	-	327,473	-
Commercial and industry	39,209	39,209	-	44,832	5,205
Consumer and other	26,933	26,933	-	12,285	3,128
With an allowance recorded					
Secured by real estate					
Construction and land development	-	-	-	-	-
Residential	411,668	411,668	153,607	268,285	17,704
Commercial	352,636	352,636	89,561	305,687	24,126
Commercial and industry	205,044	205,044	64,990	100,038	6,391
Consumer and other	-	-	-	-	-
Total	$ 1,543,190	$ 1,543,190	$ 308,158	$ 1,156,313	$ 64,891

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following is an analysis of the allowance for loan losses for the years ended:

	December 31,		
	2017	2016	2015
Balance at beginning of year	$ 1,288,063	$ 1,208,939	$ 1,093,054
Loans charged off	(190,082)	(215,376)	(170,299)
Recoveries of loans previously charged off	47,082	69,500	46,184
Provision for loan losses	120,000	225,000	240,000
Balance at end of year	$ 1,265,063	$ 1,288,063	$ 1,208,939

The Bank has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank segments certain loans in its portfolio by product type. The loans are segmented into the following pools: commercial, commercial real estate, residential real estate, and consumer and other loans. Each segment of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of the portfolio segment. The Bank uses internally developed financial models in this process. Management must use judgment in establishing additional input matrix for the estimation process. The following are the factors management uses to determine the balance of the allowance account for each segment of loans.

Management maintains a watch list for all loan segments, which identifies non-performing loans for which there is a possible current or future impairment. This list is updated quarterly and is considered in the quarterly loan loss reserve review.

Commercial and commercial real estate loans - Quarterly, the Bank contracts an independent third party to assist management in performing a detail loan review. The quarterly loan review is scheduled so that all commercial borrower relationships in excess of $175,000 are reviewed at least annually.

The loan review process includes the following:

- Verifying the individual risk rating assigned by the Bank's loan officers.
- Reviewing and verifying the Bank's documentation control system.
- Preparing a detail assessment of loan quality, adequacy of loan documentation, and compliance with bank policy.
- Verifying the loan officers are identifying and reporting problem loans so that adequate measures can be taken to avoid (or reduce) future loan losses.

Performing commercial loans are pooled and a historical loss percentage is applied to the loan pool.

Residential real estate - Performing residential real estate and home equity loans are pooled and a historical loss percentage is applied to the pool.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Consumer and other loans - Performing consumer and other loans are pooled and a historical loss percentage is applied to the pool.

In addition to the historical loss percentages applied to the homogeneous loan pools, an additional loss percentage is applied for a number of qualitative factors. Factors considered include the following:

- Levels / trends in past due loans
- Levels / trends in charge-offs and recoveries
- Trends in volumes and terms of loans
- Changes in lending policies, procedures, and practices
- Experience, ability, and depth of lending management and staff
- Regional and local economic trends and conditions
- Industry trends and conditions
- Changes in credit concentrations

The required additions to the reserve for loan loss is determined on a quarterly basis based on all of the information gathered by the individual loan review, assessment of potential losses based on borrower financial strength, loan collateral, and qualitative and quantitative factors. Management's recommendation relating to changes in the allowance for loan losses is approved quarterly by the Board of Directors.

The total allowance reflects management's estimate of the loan loss inherent in the loan portfolio at the balance sheet date. Management considers the allowance for loan losses adequate to cover the loan losses in the loan portfolio as of December 31, 2017 and 2016.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
December 31, 2017						
Allowance for loan losses						
Beginning balance	$ 90,111	$ 162,592	$ 231,415	$ 95,553	$ 708,392	$ 1,288,063
Charge-offs	(16,375)	-	(119,102)	(54,605)	-	(190,082)
Recoveries	15,600	-	-	31,482	-	47,082
Provision	(20,510)	(98,550)	158,894	35,487	44,679	120,000
Ending balance	68,826	64,042	271,207	107,917	753,071	1,265,063
Ending balance - individually evaluated for impairment	45,000	64,042	106,991	2,690	-	218,723
Ending balance - collectively evaluated for impairment	23,826	-	164,216	105,227	753,071	1,046,340
Financing receivables						
Ending balance	7,871,358	15,922,730	68,181,285	12,302,952		104,278,325
Ending balance - individually evaluated for impairment	100,863	793,432	1,083,436	48,904		2,026,635
Ending balance - collectively evaluated for impairment	$ 7,770,495	$ 15,129,298	$ 67,097,849	$ 12,254,048		$102,251,690
December 31, 2016						
Allowance for loan losses						
Beginning balance	$ 106,216	$ 332,681	$ 146,428	$ 72,159	$ 551,455	$ 1,208,939
Charge-offs	-	-	(101,641)	(113,735)	-	(215,376)
Recoveries	40,000	-	-	29,500	-	69,500
Provision	(56,105)	(170,089)	186,628	107,629	156,937	225,000
Ending balance	90,111	162,592	231,415	95,553	708,392	1,288,063
Ending balance - individually evaluated for impairment	64,990	89,561	153,607	-	-	308,158
Ending balance - collectively evaluated for impairment	25,121	73,031	77,808	95,553	708,392	979,905
Financing receivables						
Ending balance	8,480,935	16,756,570	64,052,884	9,031,456		98,321,845
Ending balance - individually evaluated for impairment	205,044	352,636	411,668	-		969,348
Ending balance - collectively evaluated for impairment	$ 8,275,891	$ 16,403,934	$ 63,641,216	$ 9,031,456		$ 97,352,497

NOTE 5 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company and its Subsidiary have and expect to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers and did not involve more than a normal credit risk of collectibility or present any other unfavorable features to the Company and its Subsidiary. Loans to such borrowers are summarized as follows:

	December 31,	
	2017	2016
Balance at beginning of year	$ 1,374,370	$ 2,093,490
Repayments	(208,005)	(133,515)
Borrowings	190,196	901,915
Change in status	-	(1,487,520)
Balance at end of year	$ 1,356,561	$ 1,374,370

NOTE 6 - ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

	December 31,	
	2017	2016
Time deposits	$ 11,990	$ 12,607
Investment securities	35,149	41,027
Loans	353,515	365,996
Total	$ 400,654	$ 419,630

NOTE 7 - PREMISES AND EQUIPMENT

The major categories of premises and equipment are as follows:

	December 31,	
	2017	2016
Bank premises	$ 4,071,133	$ 4,070,232
Equipment, furniture, and fixtures	2,089,057	2,167,470
Construction in progress	59,963	8,088
	6,220,153	6,245,790
Allowance for depreciation	(4,308,743)	(4,321,441)
Total	$ 1,911,410	$ 1,924,349

NOTE 7 - PREMISES AND EQUIPMENT (Continued)

Depreciation expense for the years ended December 31, 2017, 2016, and 2015 included in the "Occupancy and equipment" caption on the consolidated statements of income totaled $158,492, $229,667, and $254,761, respectively.

NOTE 8 - OTHER REAL ESTATE OWNED

The following is a summary of activity of other real estate owned, expected to be disposed of in the near term, for the years ended:

	December 31,	
	2017	2016
Balance at beginning of year	$ 115,000	$ 316,500
Loan foreclosures and in lieu of foreclosures	74,727	262,785
Adjustment to carrying value		
At date of foreclosed or repossession	(29,727)	(79,785)
Additional valuation adjustments	(2,000)	(36,500)
Insurance reimbursement	-	(8,243)
Total foreclosed properties for disposition	158,000	454,757
Proceeds from sales of other real estate owned	14,559	337,016
Net realized (gains) losses on sales	(1,559)	2,741
Total basis of other real estate owned sold	13,000	339,757
Balance at end of year	$ 145,000	$ 115,000

Subsequent writedowns and realized gains and losses on the sales of other real estate owned are recognized in the "Other expense" caption on the consolidated statements of income.

NOTE 9 - DEPOSITS

Time deposits issued in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 or more totaled $7,598,517 and $8,690,064 as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, the maturity distribution of time deposits is as follows:

2018	$ 16,619,201
2019	4,576,531
2020	2,851,266
2021	5,130,514
2022 and thereafter	2,163,612
	$ 31,341,124

NOTE 9 - DEPOSITS (Continued)

The Bank held related party deposits of approximately $784,000 and $322,000 as of December 31, 2017 and 2016, respectively.

NOTE 10 - SHORT - TERM BORROWING

The Bank has obtained an unsecured, uncommitted, borrowing facility for the purchase of federal funds in the amount of $2,000,000 from Community Bankers Bank. Any borrowings bear an interest rate which is determined at the time of each advance. Request for advances under the facility is subject to Community Bankers Bank's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2017 and 2016, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available short-term borrowings from collateralized advances. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and may be subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 to 4 family mortgages made by the Bank and other eligible collateral. As of December 31, 2017, no loans were pledged for collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately $49,109,900 based on qualifying loan collateral. The borrowings outstanding are as follows:

	Amount	Interest Rate	Maturity Date
December 31, 2017			
Advance	$ 2,000,000	1.04700%	February 9, 2018
Advance	1,000,000	1.47000%	May 24, 2018
Balance at end of year	$ 3,000,000		
December 31, 2016			
Advance	$ 2,000,000	0.75600%	February 13, 2017
Advance	2,000,000	0.90867%	May 15, 2017
Balance at end of year	$ 4,000,000		

NOTE 11 - OTHER NONINTEREST EXPENSE

The following items of other noninterest expense exceeded one percent of total revenue for the years indicated:

	December 31, 2017	2016	2015
Other noninterest expense			
Advertising and public relations	$ 72,886	$ N/A	$ N/A
ATM expenses	149,681	282,185	232,495
Insurance and bonds	N/A	N/A	72,408
Losses from OREO	N/A	N/A	94,387
Management service fees	96,304	100,111	120,875
Meetings and travel	71,761	N/A	N/A
Stationary, supplies, and printing	75,679	N/A	N/A
Telephone	70,223	73,057	N/A

NOTE 12 - INCOME TAXES

The consolidated provision for income taxes consists of the following for the years ended:

	December 31, 2017	2016	2015
Current			
Federal	$ 519,852	$ 485,164	$ 476,250
State	43,825	42,500	30,874
	563,677	527,664	507,124
Deferred (benefit)			
Federal	403,223	(76,215)	(135,898)
State	(3,738)	(13,453)	(23,978)
	399,485	(89,668)	(159,876)
Total income tax expense	$ 963,162	$ 437,996	$ 347,248

NOTE 12 - INCOME TAXES (Continued)

The consolidated provision for income taxes differs from the amounts computed by applying the U.S. federal statutory income tax rates to income before income tax expense as a result of the following:

	December 31,					
	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Federal statutory tax rate	$ 527,698	34.0%	$ 471,994	34.0%	$ 403,923	34.0%
Tax effect of						
Tax exempt income	(44,877)	(3.0)	(44,950)	(3.7)	(41,800)	(3.6)
State income taxes, net of federal tax benefit	26,456	1.0	19,170	1.3	4,550	0.4
Other items	29,475	2.0	(8,218)	(0.7)	(19,425)	(1.7)
Adjustment of deferred taxes for change in federal tax rate	424,410	26.5	-	-	-	-
Reported effective tax rate	$ 963,162	60.5%	$ 437,996	30.9%	$ 347,248	29.1%

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the need for a valuation allowance and will recognize tax benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was enacted. As a result, the adjustment of deferred taxes in the amount of $424,410, due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate of 21%, is required to be included in income from continuing operations.

NOTE 12 - INCOME TAXES (Continued)

The tax effects of temporary differences which give rise to the Company's deferred tax assets and liabilities are as follows:

	December 31, 2017	December 31, 2016
Deferred tax assets		
Allowance for loan losses	$ 251,545	$ 381,862
Defined benefit plan – minimum pension liability	284,141	347,287
Supplemental executives and directors benefit plan	194,870	280,890
Nonaccrual loan interest	37,810	45,914
Accumulated depreciation	40,900	44,885
Unrealized losses on investment securities available-for-sale	72,708	121,810
Total deferred tax assets	881,974	1,222,648
Deferred tax liabilities		
Other items	(510)	(1,268)
Total deferred tax liabilities	(510)	(1,268)
Net deferred tax assets	$ 881,464	$ 1,221,380

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and its Subsidiary and recognize a tax liability (or asset) if the Company and its Subsidiary have taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Company and its Subsidiary, and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Company files income tax returns in the United States federal jurisdiction and West Virginia state jurisdiction, and is subject to examination of those filings by the authorities representing those jurisdictions. There are no current examinations in process for any filings, and management believes that the Company is not subject to audit for any years prior to 2014.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined benefit pension plan - The Company has a defined benefit plan covering full-time employees hired before March 14, 2013. Benefits are based on final average earnings and years of service. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of Employee Retirement Income Security Act of 1974 (ERISA) and that is tax deductible under the Internal Revenue Code. Plan assets are held by a trust and are mostly invested in a variety of equity-based and fixed income-based mutual funds.

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Generally Accepted Accounting Principles (GAAP) requires an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Total recorded pension liability included in other liabilities as of December 31, 2017 and 2016 is $1,039,840 and $806,389, respectively.

Information regarding the Company's pension benefits is presented below:

The weighted average assumptions used to develop the net periodic pension cost and the calculation of plan liabilities are as follows:

	December 31,	
	2017	2016
Discount rate	3.75%	4.25%
Long term rate of return	6.50%	6.50%
Rate of compensation increase	3.00%	3.00%

The assumed long term rate of return is based on the approximate historical performance of plan assets.

Net periodic pension cost includes the following components:

	December 31,	
	2017	2016
Service cost - benefit earned during the period	$ 113,282	$ 142,746
Interest cost on projected benefit obligation	107,600	117,033
Expected return on plan assets	(119,333)	(106,531)
Recognized net actuarial loss	35,492	48,095
Net periodic pension cost	137,041	201,343
Settlement loss recognized	209,012	-
Total pension costs	$ 346,053	$ 201,343

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The following table sets forth the pension plan's funded status as of the latest available actuarial valuations with measurement dates of December 31:

	December 31, 2017	December 31, 2016
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $1,725,552 - 2017 and $1,791,977 - 2016	$ 1,859,240	$ 1,942,078
Projected benefits obligation for service rendered to date	(2,667,295)	(2,559,891)
Plan assets at fair value	1,627,455	1,753,502
Projected benefit obligation in excess of plan assets	$ (1,039,840)	$ (806,389)

Asset allocations for the plan assets by asset categories are as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	20%	16%
Preferred stocks	1	1
Mutual funds	79	83
Total assets	100%	100%

Management's investment policy provides for a balanced risk approach which results in an approximate equal allocation between equity-based mutual funds and fixed income-based mutual funds. It is management's policy not to acquire common stock of Calhoun Bankshares, Inc. for investment by the pension plan.

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the Company's pension plan assets by asset categories is as follows:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Cash and cash equivalents	$ 328,001	$ 328,001	$ -	$ -
Preferred stock	8,990	8,990	-	-
Mutual funds	1,290,464	-	1,290,464	-
	$ 1,627,455	$ 336,991	$ 1,290,464	$ -
December 31, 2016				
Cash and cash equivalents	$ 276,277	$ 276,277	$ -	$ -
Preferred stock	8,065	8,065	-	-
Mutual funds	1,469,160	-	1,469,160	-
	$ 1,753,502	$ 284,342	$ 1,469,160	$ -

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The change in benefit obligation and change in plan assets are as follows:

	December 31, 2017	December 31, 2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,559,891	$ 2,610,873
Service cost	113,282	142,746
Interest cost	107,600	117,033
Settlement (gain) loss	(18,904)	-
Benefits paid	(18,347)	(106,617)
Settlement payments	(529,832)	-
Actuarial (gain) loss	453,605	(204,144)
Benefit obligation at end of year	$ 2,667,295	$ 2,559,891
Change in plan assets		
Fair value of plan assets at beginning of year	$ 1,753,502	$ 1,538,514
Actual return on plan assets	137,595	95,991
Employer contribution	296,760	240,000
Benefits paid	(18,347)	(106,617)
Administrative expenses	(12,223)	(14,386)
Settlement payments	(529,832)	-
Fair value of plan assets at end of year	$ 1,627,455	$ 1,753,502

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid in the years:

2018	$ 18,856
2019	18,014
2020	17,073
2021	35,971
2022	41,800
2023-2027	411,732
Total	$ 543,446

The Company expects to contribute $240,000 to the pension plan in 2018. The net periodic pension cost for 2018 is expected to be $173,632.

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Defined contributions pension plan - In addition to the above pension plan, the Company has adopted a contributory 401(k) retirement plan, whereby eligible participants may make contributions, up to fifteen percent of compensation, and the Company will match up to six percent of this limit during the plan year for eligible employees hired after March 13, 2013 and will match thirty-five cents on the dollar up to six percent of compensation for eligible employees who were hired prior to March 13, 2013. The Company may make additional discretionary contributions to eligible participants unrelated to participant contributions. During 2017, 2016, and 2015, the Company made approximately $35,280, $36,075, and $34,000, respectively, of matching contributions in each year to eligible participants.

Executive and director retirement - In prior years, the Board of Directors instituted an executive and director supplemental retirement and life insurance plan for the benefit of an executive and certain directors of the Subsidiary Bank. Under the terms of the plans, benefits are paid to the covered individuals based on an index as defined in the plan, over a period of fifteen years for the executive and ten years for certain directors after retirement with additional death benefits paid at death. The Company's obligations under the retirement benefit portion of these plans are unfunded; however, the Bank has purchased life insurance policies on the participants that are actuarially designed to offset the annual expenses associated with the plans and will, given reasonable actuarial assumptions, offset all of the plan costs during the lives of the participants and will provide a complete recovery of all plan costs at the deaths of the participants. The investment in the remaining life insurance contracts of the plan was funded by premiums of $2,307,837. The total cash surrender value of these contracts was $3,276,471 and $3,271,157 as of December 31, 2017 and 2016, respectively. Cash surrender value increases to the carrying amounts of the life insurance contracts are recognized as income of $109,245, $105,593, and $103,984 for 2017, 2016, and 2015, respectively. During the year ended December 31, 2017, the Bank received proceeds for a death benefit in the amount of $103,931. The liability of this plan amounted to $721,736 and $702,223 as of December 31, 2017 and 2016, respectively. Expense associated with these benefits amounted to $81,513, $69,792, and $66,732 for the years ended December 31, 2017, 2016, and 2015, respectively.

Stock Award Incentive Plan - During 2013, the Company adopted a Stock Award Incentive Plan, the purpose of which is to assist in recruiting and retaining individuals who provide services to the Company and to enable such individuals to participate in the future success of the Company. Any employee of the Company or members of the Board of Directors are eligible to participate in the plan. Stock awards under the plan are made as determined solely by the Administrator appointed by the Board of Directors. Stock awards under the plan are without cost to the recipient and are considered taxable compensation at the date of the award based on the fair value of the stock at the date of the award and recorded as expense by the Company. At the option of the Administrator, benefits of any stock issued under the plan may include vesting provisions and restrictions on transfer of the stock during the vesting period. There was no stock issued under the Plan during the year ended 2016. In 2017, stock awards, approved during 2016, of 500 shares were issued for a cost of $17,500. As of December 31, 2017, an additional stock award of 600 shares has been approved and will be issued in 2018.

NOTE 14 - RESTRICTIONS ON BANK DIVIDENDS

The payment of dividends to shareholders by the Company is not encumbered by any restrictive provisions. There are, however, limitations set by law on the amount of funds available to the Company from its Subsidiary Bank. Dividends may be paid out of funds legally available therefore subject to the restrictions set forth in West Virginia Code, Section 31-A-4-25, which provides that prior approval of the West Virginia Commissioner of Financial Institutions is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank's net profits for that year combined with its retained net profits for the preceding two years. The amount of funds legally available for distribution of dividends by the Bank to the Company without prior approval from regulatory authorities for 2017 was $1,755,708, less $362,498, which was distributed by December 31, 2017.

NOTE 15 - REGULATORY CAPITAL MATTERS

The Company is a bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. As a bank holding company, the Company's activities and those of its Subsidiary Bank are limited to the business of banking and activities closely related or incidental to banking.

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and its Subsidiary Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory reporting requirements. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, tier 1 capital, and common equity tier 1 capital to risk-weighted assets (as defined in the regulations), and leverage capital, which is tier 1 capital to adjusted average total assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2017 and 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and leverage capital ratios as disclosed in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

NOTE 15 - REGULATORY CAPITAL MATTERS (Continued)

The following table outlines the regulatory components of the Company and the Bank's capital and capital ratios as of December 31, 2017 and 2016, respectively.

	Actual			For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount (Thousands)		Ratio	Amount (Thousands)			Ratio	Amount (Thousands)			Ratio
As of December 31, 2017											
Total capital (to risk-weighted assets)											
Consolidated	$	16,256	20.05%	$	6,486	≥	8.00%	$	N/A	≥	N/A
Subsidiary Bank	$	15,212	18.76%	$	6,486	≥	8.00%	$	8,108	≥	10.00%
Tier I capital (to risk-weighted assets)											
Consolidated	$	15,239	18.80%	$	4,865	≥	6.00%	$	N/A	≥	N/A
Subsidiary Bank	$	14,195	17.51%	$	4,865	≥	6.00%	$	6,486	≥	8.00%
Common equity tier 1 capital (to risk-weighted assets)											
Consolidated	$	15,239	18.80%	$	3,648	≥	4.50%	$	N/A	≥	N/A
Subsidiary Bank	$	14,195	17.51%	$	3,648	≥	4.50%	$	5,270	≥	6.50%
Leverage capital (to adjusted average total assets)											
Consolidated	$	15,239	11.46%	$	5,317	≥	4.00%	$	N/A	≥	N/A
Subsidiary Bank	$	14,195	10.72%	$	5,297	≥	4.00%	$	6,621	≥	5.00%
As of December 31, 2016											
Total capital (to risk-weighted assets)											
Consolidated	$	15,674	20.13%	$	6,229	≥	8.00%	$	N/A	≥	N/A
Subsidiary Bank	$	14,735	18.92%	$	6,229	≥	8.00%	$	7,786	≥	10.00%
Tier I capital (to risk-weighted assets)											
Consolidated	$	14,697	18.88%	$	4,672	≥	6.00%	$	N/A	≥	N/A
Subsidiary Bank	$	13,758	17.67%	$	4,672	≥	6.00%	$	6,229	≥	8.00%
Common equity tier 1 capital (to risk-weighted assets)											
Consolidated	$	14,697	18.88%	$	3,504	≥	4.50%	$	N/A	≥	N/A
Subsidiary Bank	$	13,758	17.67%	$	3,504	≥	4.50%	$	5,061	≥	6.50%
Leverage capital (to adjusted average total assets)											
Consolidated	$	14,697	10.38%	$	5,220	≥	4.00%	$	N/A	≥	N/A
Subsidiary Bank	$	13,758	10.54%	$	5,220	≥	4.00%	$	6,526	≥	5.00%

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments under servicing agreement - The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments may become due if the agreement is terminated before December 2021. As of December 31, 2017, the contingent liability to the Bank's service center is estimated to be approximately $2,185,000 plus the actual costs incurred in connection with the termination.

Other commitments and contingencies - The Company and its Subsidiary are subject to claims and lawsuits which arise from time to time in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position or results of operations of the Company and its Subsidiary.

NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank has outstanding commitments, contingent liabilities, and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit and standby letters of credit, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for these commitments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit - The Bank has outstanding firm commitments to extend credit as follows:

	December 31,	
	2017	2016
Available on lines of credit	$ 4,699,029	$ 5,805,000
Other loan commitments	1,471,502	1,718,000
Total	$ 6,170,531	$ 7,523,000

NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

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. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon, accordingly, 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 or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment, or real estate.

Standby letters of credit - The Bank had commitments under standby letters of credit that totaled \$525,000 and \$575,000 as of December 31, 2017 and 2016, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

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

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Accordingly, investment securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or writedowns of individual assets.

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Investment securities available-for-sale - Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Third-party vendors compile prices from various sources and may determine fair value of identical or similar securities by using pricing models that consider observable market data. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or traded by dealers or brokers in active over-the-counter markets. Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities, and municipal bonds. Level 3 securities include those with unobservable inputs. Transfers between levels can occur due to changes in the observability of significant inputs.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Securities available-for-sale				
U.S. government and federal agencies	$ 6,510,248	$ -	$ 6,510,248	$ -
Mortgage backed	4,166,942	-	4,166,942	-
Total securities available-for-sale	$ 10,677,190	$ -	$ 10,677,190	$ -
December 31, 2016				
Securities available-for-sale				
U.S. government and federal agencies	$ 8,511,474	$ -	$ 8,511,474	$ -
Mortgage backed	5,324,582	-	5,324,582	-
Total securities available-for-sale	$ 13,836,056	$ -	$ 13,836,056	$ -

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses may need to be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The measurement of loss associated with impaired loans can be based on the observable market price of the loan, the present value of cash flows expected to be realized from the loan, or the fair value of the collateral. As of December 31, 2017, the fair value of substantially all of the impaired loans was estimated based on the fair value of the collateral. Collateral may be in the form of real estate or business / personal assets, including vehicles, equipment, inventory, and accounts receivable. The majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is real estate with an appraisal over two years old, then the fair value is considered Level 3. The value of business equipment is based on an outside appraisal, if available, or the net book value on the business' financial statement both of which are Level 2. For those loans for which Level 1 or Level 2 is not applicable, the valuation is based on a financial statement, prior appraisal, or other available information and is reduced to an estimated net realizable value by management, which is Level 3. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Other real estate owned (OREO) - OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the consolidated balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). However, if the appraisal is over two years old, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Impaired loans				
Secured by real estate				
Residential	$ 969,911	$ -	$ -	$ 969,911
Commercial	756,390	-	-	756,390
Commercial and industry	110,953	-	-	110,953
Consumer and other	52,182	-	-	52,182
Total impaired loans	$ 1,889,436	$ -	$ -	$ 1,889,436
Other real estate owned				
Residential	$ 145,000	$ -	$ -	$ 145,000
Total other real estate owned	$ 145,000	$ -	$ -	$ 145,000
December 31, 2016				
Impaired loans				
Secured by real estate				
Residential	$ 526,026	$ -	$ -	$ 526,026
Commercial	502,810	-	-	502,810
Commercial and industry	179,263	-	-	179,263
Consumer and other	26,933	-	-	26,933
Total impaired loans	$ 1,235,032	$ -	$ -	$ 1,235,032
Other real estate owned				
Residential	$ 115,000	$ -	$ -	$ 115,000
Total other real estate owned	$ 115,000	$ -	$ -	$ 115,000

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The quantitative information about Level 3 fair value measurements for financial assets and liabilities measured at fair value on a nonrecurring basis is as follows:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range
December 31, 2017				
Impaired loans				
Secured by real estate				
Residential	$ 969,911	Appraisal of collateral	Appraisal adjustment	*
Commercial	$ 756,390	Appraisal of collateral	Appraisal adjustment	Up to 29%
Commercial and industry	$ 110,953	Appraisal of collateral	Appraisal adjustment	Up to 99%
Consumer and other	$ 52,182	Appraisal of collateral	Appraisal adjustment	Up to 7%
Other real estate owned				
Residential	$ 145,000	Appraisal of property	Appraisal adjustment	Up to 3%
December 31, 2016				
Impaired loans				
Secured by real estate				
Residential	$ 526,026	Appraisal of collateral	Appraisal adjustment	*
Commercial	$ 502,810	Appraisal of collateral	Appraisal adjustment	*
Commercial and industry	$ 179,263	Appraisal of collateral	Appraisal adjustment	*
Consumer and other	$ 26,933	Appraisal of collateral	Appraisal adjustment	**
Other real estate owned				
Residential	$ 115,000	Appraisal of property	Appraisal adjustment	**

**The base calculation for impairment on real estate secured loans is collateral valued for 2017 and 2016 at 60% and 52%, respectively, of the most recent appraisal. Ranges for this type of input are not useful because each collateral property is unique.*

***There are no related allowances for this asset classification.*

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used to estimate the fair value disclosures for other financial instruments as of December 31, 2017 and 2016:

Cash and cash equivalents - The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Time deposits - The fair value of time deposits is estimated to approximate the carrying amounts.

Other securities - Other securities consist of restricted equity securities in the Federal Home Loan Bank (FHLB) and CBB Financial Corporation, and both are carried at cost. Because there is no market, the carrying values of restricted equity securities approximate fair values based on the issuer's redemption provisions.

Loans - The estimated fair values for loans are computed based on the scheduled principal maturity, discounted at interest rates currently offered for loans with similar terms made to borrowers of similar credit quality. No prepayments of principal are assumed.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Accrued interest receivable and payable - The fair value of accrued interest approximates the carrying amounts.

Bank owned life insurance - The fair value of bank owned life insurance approximates the cash surrender value of the policies.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing and interest-bearing demand deposits, regular savings, and certain types of money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings - The fair value of short-term borrowings approximates the carrying amounts.

Off-balance-sheet instruments - The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments to extend credit and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair value of the financial instruments is as follows:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 9,437,529	$ 9,437,529	$ 7,128,555	$ 7,128,555
Time deposits	3,237,000	3,237,000	3,486,000	3,486,000
Securities available-for-sale	10,677,190	10,677,190	13,836,056	13,836,056
Other securities	254,300	254,300	297,700	297,700
Loans - net	103,013,262	104,745,495	97,033,782	99,312,936
Accrued interest receivable	400,654	400,654	419,630	419,630
Bank owned life insurance	3,276,471	3,276,471	3,271,157	3,271,157
Financial liabilities				
Deposits	113,882,143	113,894,247	109,051,086	109,104,985
Short-term borrowings	3,000,000	3,000,000	4,000,000	4,000,000
Accrued interest payable	34,539	34,539	39,108	39,108

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

Calhoun Bankshares, Inc. was organized in 1988 and acquired Calhoun County Bank, Inc. on October 3, 1988, as a wholly-owned subsidiary in a pooling of interests transaction whereby stockholders retained the same ownership in Calhoun Bankshares, Inc. as in Calhoun County Bank, Inc. prior to reorganization.

The following financial statements reflect the financial position, results of operations, and cash flows of Calhoun Bankshares, Inc. (Parent Company Only).

CONDENSED BALANCE SHEETS

	December 31,	
	2017	2016
Assets		
Cash and cash equivalents	$ 1,042,227	$ 939,904
Investment in subsidiary (equity basis)	13,231,347	13,053,774
Total assets	$ 14,273,574	$ 13,993,678
Liabilities and shareholders' equity		
Total liabilities	$ -	$ -
Total shareholders' equity	14,273,574	13,993,678
Total liabilities and shareholders' equity	$ 14,273,574	$ 13,993,678

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2017	2016	2015
Income			
Dividend income from subsidiary	$ 362,498	$ 393,488	$ 324,534
Interest on deposits in other banks	5,744	-	-
Total income	368,242	393,488	324,534
Expenses			
Interest	-	-	7,123
Other	6,191	5,418	4,840
Total expenses	6,191	5,418	11,963
Income before income tax expense and equity in undistributed earnings of subsidiary	362,051	388,070	312,571
Income tax expense	-	-	-
Income before equity in undistributed earnings of subsidiary	362,051	388,070	312,571
Equity in undistributed earnings of subsidiary	266,926	591,199	535,085
Net income	$ 628,977	$ 979,269	$ 847,656

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net income	$ 628,977	$ 979,269	$ 847,656
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Equity in undistributed earnings of subsidiary	(266,926)	(591,199)	(535,085)
(Increase) decrease in other assets	-	-	15
Increase (decrease) in other liabilities	-	(100)	(11,900)
Total adjustments	(266,926)	(591,299)	(546,970)
Net cash flows provided (used) by operating activities	362,051	387,970	300,686
Cash flows from financing activities			
Purchases of treasury stock	(116,877)	(28,770)	(115,150)
Proceeds from sales of treasury stock	134,647	472,880	196,732
Cash dividends paid	(277,498)	(243,488)	(224,534)
Net cash flows provided (used) by financing activities	(259,728)	200,622	(142,952)
Net increase (decrease) in cash and cash equivalents	102,323	588,592	157,734
Cash and cash equivalents at beginning of year	939,904	351,312	193,578
Cash and cash equivalents at end of year	$ 1,042,227	$ 939,904	$ 351,312

The principal source of income for the Company is dividends received from its Subsidiary. State law imposes limitations on the payment of dividends by the Subsidiary Bank of the Company. A dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net profits combined with the retained net profits of the two preceding years unless the bank obtains regulatory approval.

Loans and extensions of credit must be secured in specified amounts. The Company had no borrowings outstanding from its Subsidiary Bank as of December 31, 2017.

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

The Company accounts for its investment in its Subsidiary by the equity method. During the years ended December 31, 2017, 2016, and 2015, changes in the investment were as follows:

		Calhoun County Bank, Inc.
Percent to total shares		100%
Balance at December 31, 2014	$	11,885,151
Add (deduct)		
Equity in net income		859,619
Equity in other comprehensive income		75,725
Dividends declared		(324,534)
Balance at December 31, 2015		12,495,961
Add (deduct)		
Equity in net income		984,687
Equity in other comprehensive income (loss)		(33,386)
Dividends declared		(393,488)
Balance at December 31, 2016		13,053,774
Add (deduct)		
Equity in net income		629,424
Equity in other comprehensive income (loss)		(89,353)
Dividends declared		(362,498)
Balance at December 31, 2017	$	13,231,347

SUPPLEMENTARY INFORMATION

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON
CONSOLIDATING INFORMATION

To the Board of Directors
Calhoun Bankshares, Inc. and Subsidiary
Grantsville, West Virginia

We have audited the consolidated financial statements of Calhoun Bankshares, Inc. and Subsidiary, as of and for the year ended December 31, 2017, and have issued our report thereon dated March 13, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Suttle & Stalnaker, PLLC

Parkersburg, West Virginia
March 13, 2018

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CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2017

	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
ASSETS				
Cash and due from banks	$ 536,483	$ 6,539,604	$ (536,483)	$ 6,539,604
Interest-earning deposits in other banks	505,744	1,184,181	-	1,689,925
Federal funds sold	-	1,208,000	-	1,208,000
Cash and cash equivalents	1,042,227	8,931,785	(536,483)	9,437,529
Time deposits	-	3,237,000	-	3,237,000
Investment securities				
Securities available-for-sale, at fair value	-	10,677,190	-	10,677,190
Other securities	-	254,300	-	254,300
Investment in subsidiary	13,231,347	-	(13,231,347)	-
Loans	-	104,278,325	-	104,278,325
Less: allowance for loan losses	-	(1,265,063)	-	(1,265,063)
Loans - net	-	103,013,262	-	103,013,262
Accrued interest receivable	-	400,654	-	400,654
Premises and equipment - net	-	1,911,410	-	1,911,410
Other real estate owned	-	145,000	-	145,000
Cash surrender value - bank owned life insurance	-	3,276,471	-	3,276,471
Deferred income taxes	-	881,464	-	881,464
Other assets	-	154,440	-	154,440
Total assets	**$ 14,273,574**	**$ 132,882,976**	**$ (13,767,830)**	**$ 133,388,720**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Demand - noninterest-bearing	$ -	$ 36,780,658	$ (536,483)	$ 36,244,175
Demand - interest-bearing	-	9,079,046	-	9,079,046
Savings	-	37,217,798	-	37,217,798
Time	-	31,341,124	-	31,341,124
Total deposits	-	114,418,626	(536,483)	113,882,143
Federal Home Loan Bank advances	-	3,000,000	-	3,000,000
Accrued interest payable	-	34,539	-	34,539
Other liabilities	-	2,198,464	-	2,198,464
Total liabilities	-	119,651,629	(536,483)	119,115,146
Shareholders' equity				
Common stock	306,850	306,850	(306,850)	306,850
Additional paid in capital	549,740	556,037	(556,037)	549,740
Retained earnings	14,784,256	13,333,276	(13,333,276)	14,784,256
Less: treasury stock, at cost	(402,456)	-	-	(402,456)
Accumulated other comprehensive income (loss)	(964,816)	(964,816)	964,816	(964,816)
Total shareholders' equity	14,273,574	13,231,347	(13,231,347)	14,273,574
Total liabilities and shareholders' equity	**$ 14,273,574**	**$ 132,882,976**	**$ (13,767,830)**	**$ 133,388,720**

Refer to the auditor's report on consolidating information.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2017

	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
Interest income				
Interest and fees on loans	$ -	$ 5,543,881	$ -	$ 5,543,881
Interest on deposits in other banks	5,744	57,573	-	63,317
Interest on federal funds sold	-	11,250	-	11,250
Interest and dividends on investment securities	-	243,138	-	243,138
Total interest income	5,744	5,855,842	-	5,861,586
Interest expense				
Interest on deposits	-	386,620	-	386,620
Interest on borrowings	-	36,402	-	36,402
Total interest expense	-	423,022	-	423,022
Net interest income	5,744	5,432,820	-	5,438,564
Provision for loan losses	-	120,000	-	120,000
Net interest income after provision for loan losses	5,744	5,312,820	-	5,318,564
Noninterest income				
Dividend income from subsidiary	362,498	-	(362,498)	-
Equity in undistributed earnings of subsidiary	266,926	-	(266,926)	-
Service charges and fees on deposits	-	428,783	-	428,783
Other service charges, commissions, and fees	-	376,269	-	376,269
Increase in cash surrender value - bank owned life insurance	-	109,245	-	109,245
Net realized gain from sales of investment available-for-sale	-	17,716	-	17,716
Other income	-	57,897	-	57,897
Total noninterest income	629,424	989,910	(629,424)	989,910
Noninterest expense				
General and administrative				
Compensation and benefits	-	2,772,330	-	2,772,330
Occupancy and equipment	-	356,883	-	356,883
Data processing	-	335,393	-	335,393
Director and committee fees	-	99,900	-	99,900
Equipment, software, and network maintenance	-	147,679	-	147,679
Regulatory fees	-	157,521	-	157,521
Postage and courier	-	69,529	-	69,529
Other expenses	6,191	770,909	-	777,100
Total noninterest expense	6,191	4,710,144	-	4,716,335
Income before income tax expense	628,977	1,592,586	(629,424)	1,592,139
Income tax expense	-	963,162	-	963,162
Net income	**$ 628,977**	**$ 629,424**	**$ (629,424)**	**$ 628,977**

Refer to the auditor's report on consolidating information.

CALHOUN BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
Cash flows from operating activities				
Net income	$ 628,977	$ 629,424	$ (629,424)	$ 628,977
Adjustments to reconcile net income to net cash provided (used) by operating activities				
Equity in undistributed earnings of subsidiary	(266,926)	-	266,926	-
Depreciation	-	158,492	-	158,492
Provision for loan losses	-	120,000	-	120,000
Provision for deferred income tax	-	399,485	-	399,485
Amortizations (accretions) on investments - net	-	50,934	-	50,934
Net realized (gain) loss from sales of investment securities available-for-sale	-	(17,716)	-	(17,716)
Net realized (gain) loss from sales of other real estate owned	-	(1,559)	-	(1,559)
Other real estate owned impairment loss	-	2,000	-	2,000
(Increase) decrease in accrued interest receivable	-	18,976	-	18,976
(Increase) decrease in cash surrender value - bank owned life insurance	-	(109,245)	-	(109,245)
(Increase) decrease in other assets	-	29,243	-	29,243
Increase (decrease) in accrued interest payable	-	(4,569)	-	(4,569)
Increase (decrease) in other liabilities	-	180,886	-	180,886
Total adjustments	(266,926)	826,927	266,926	826,927
Net cash flows provided (used) by operating activities	362,051	1,456,351	(362,498)	1,455,904
Cash flows from investing activities				
Net (increase) decrease in time deposits	-	249,000	-	249,000
Purchases of investment securities available-for-sale	-	(516,509)	-	(516,509)
Proceeds from maturities and calls of investment securities available-for-sale	-	1,000,000	-	1,000,000
Proceeds from principal payments on mortgage-backed securities available-for-sale	-	842,256	-	842,256
Proceeds from sales of investment securities available-for-sale	-	1,835,137	-	1,835,137
Purchase of other investment securities	-	(120,000)	-	(120,000)
Redemption of other investment securities	-	163,400	-	163,400
Loan originations and principal payment on loans	-	(6,133,230)	-	(6,133,230)
Proceeds from sales of other real estate owned	-	3,309	-	3,309
Proceeds from bank owned life insurance death benefit		103,931		103,931
Capital expenditures	-	(145,553)	-	(145,553)
Net cash flows provided (used) by investing activities	-	(2,718,259)	-	(2,718,259)
Cash flows from financing activities				
Net increase (decrease) in total deposits	-	4,427,636	403,421	4,831,057
Net increase (decrease) in Federal Home Loan Bank advances	-	(1,000,000)	-	(1,000,000)
Purchases of treasury stock	(116,877)	-	-	(116,877)
Proceeds from sales of treasury stock	134,647	-	-	134,647
Cash dividends paid	(277,498)	(362,498)	362,498	(277,498)
Net cash flows provided (used) by financing activities	(259,728)	3,065,138	765,919	3,571,329
Net increase (decrease) in cash and cash equivalents	102,323	1,803,230	403,421	2,308,974
Cash and cash equivalents at beginning of year	939,904	7,128,555	(939,904)	7,128,555
Cash and cash equivalents at end of year	**$ 1,042,227**	**$ 8,931,785**	**$ (536,483)**	**$ 9,437,529**
Supplemental schedule of noncash investing and financing activities				
Loans transferred to other real estate owned	$ -	$ 45,000	$ -	$ 45,000
Sales of other real estate owned financed through loans	$ -	$ 11,250	$ -	$ 11,250
Supplemental disclosure of cash flows information				
Cash paid during the year for				
Interest	$ -	$ 427,591	$ -	$ 427,591
Income taxes	$ -	$ 490,677	$ -	$ 490,677

Refer to the auditor's report on consolidating information.