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Board of Governors of the Federal Reserve System

FRB RICHMOND

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, Lawrence E Foley
Name of the Holding Company Director and Official

President
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.

Lawrence E Foley
Signature of Holding Company Director and Official

3-22-18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] 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 1417324
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Romney Bankshares, Inc.
Legal Title of Holding Company

PO Box 876
(Mailing Address of the Holding Company) Street / P.O. Box

Romney	WV	26757
City	State	Zip Code

95 E Main St, Romney WV 26757
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Dean K Young	EVP/CFO
Name	Title

304/822/3541
Area Code / Phone Number / Extension

304/822/3547
Area Code / FAX Number

youngd@bankofromney.net
E-mail Address

www.bankofromney.net
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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

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

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City State Zip Code

Physical Location (if different from mailing address)

ANNUAL REPORT OF BANK HOLDING COMPANIES - FR Y-6
ROMNEY BANKSHARES, INC.

Report Item		
1a	Form 10K	None
1b	Annual Report to Shareholders	Attached
2	Organizational Chart	Attached
2b	Domestic Branch Schedule	Attached
3	Shareholders	Attached
4	Directors and Officers	Attached

Romney Bankshares, Inc.
Romney, West Virginia
Fiscal Year Ending December 31, 2017
Item 2

State of Incorporation	Ownership	Entity	LEI
West Virginia		Romney Bankshares, Inc. Romney, West Virginia	"No LEI"
West Virginia	100% Owned by Romney Bankshares Inc.	The Bank of Romney Romney, West Virginia	LEI 254900IV7U7HAN6U7T54
West Virginia	100% Owned by The Bank of Romney Managing Member of LLC	The Bank of Romney Insurance Center, LLC Romney, West Virginia	"No LEI"

ROMNEY BANKSHARES, INC.
ROMNEY, WEST VIRGINIA
SUPPLEMENT TO ORGANIZATIONAL CHART

A) THERE ARE NO COMPANIES IN WHICH EXCESS OF 5 PERCENT OF THE SHARES OF ANY CLASS OF VOTING SECURITIES ARE CONTROLLED AS A RESULT OF DEBT PREVIOUSLY CONTRACTED.

B) THERE ARE NO COMPANIES HELD IN A FIDUCIARY CAPACITY DIRECTLY OR INDIRECTLY, BY THE BANK HOLDING COMPANY THAT EXCEEDS 5 PERCENT.

C) THERE ARE NO BANKS OR BANK HOLDING COMPANIES HELD, DIRECTLY OR INDIRECTLY, BY THE SUBSIDIARY BANK.

D) THE BANK HOLDING COMPANY HAS NO INVESTMENTS IN SHARES OF ANY CLASS OF NON-VOTING EQUITY WHICH ARE GREATER THAN OR EQUAL TO 25 PERCENT OF THE NON-VOTING EQUITY OF ANY BANK OR BANK HOLDING COMPANY THAT IS OTHERWISE CONTROLLED.

Results: A list of branches for your depository institution: BANK OF ROMNEY, THE (ID_RSSD: 722432).
This depository institution is held by ROMNEY BANKSHARES, INC. (1417324) of ROMNEY, 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)	722432	BANK OF ROMNEY, THE	95 EAST MAIN STREET	ROMNEY	WV	26757	HAMPSHIRE	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	
ok		Full Service	1357448	AUGUSTA BRANCH	ROUTE 50	AUGUSTA	WV	26704	HAMPSHIRE	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	
ok		Full Service	784636	CAPON BRIDGE BRANCH	ROUTE 50	CAPON BRIDGE	WV	26711	HAMPSHIRE	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	
ok		Full Service	3184330	PAW PAW BRANCH	63 WINCHESTER ST	PAW PAW	WV	25434	MORGAN	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	
ok		Full Service	3595114	SUNRISE BRANCH	ROUTE 50 AND STAYMAN DRIVE	ROMNEY	WV	26757	HAMPSHIRE	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	
ok		Full Service	2891855	SPRINGFIELD OFFICE	ROUTE 28 NORTH	SPRINGFIELD	WV	26763	HAMPSHIRE	UNITED STATES	Not Required	Not Required	BANK OF ROMNEY, THE	722432	

ROMNEY BANKSHARES, INC.
ROMNEY, WEST VIRGINIA

Report Item 3: Shareholders Who Own More than 5% of Bank Holding Company as of 12-31-2017

Name and Address	Citizenship	Number of Shares Owned	Percent of Class Owned
Linda Jane Haines Romney, West Virginia	USA	69,979 - Common Stock	13.2%

* No other individual owned 5% or more during 2017

ROMNEY BANKSHARES, INC.
ROMNEY, WEST VIRGINIA
DIRECTORS AND OFFICERS
Item 4

1-Name and Address	2-Principal Occupation Other Than Holding Company	3a-Position with Bank Holding Company	3b- Title & Position with Subsidiaries	3c/4c- Title, Position & Ownership with other Businesses	4a-Percent of Voting Shares in Holding Co.	4b-Percent Voting Shares in Subsidiary
Lawrence E. Foley Romney, West Virginia	N/A	Director & President	President & CEO of The Bank of Romney	None	1.2%	None
Lowell Hott Augusta, West Virginia	Veterinarian	Director	None	*	0.8%	None
William C. Keaton Springfield, West Virginia	Attorney	Director	None	**	0.6%	None
Thomas L. Williams, Jr. Romney, West Virginia	Retired Executive The Bank of Romney	Director/Chairman	None	None	0.2%	None
Charles E. See Romney, West Virginia	Retired Owner & Publisher of Hampshire Review and Weekender	Director/Secretary	None	***	0.5%	None
Linda Jane Haines Romney, West Virginia	Doctor of Psychiatry	Director	None	None	13.2%	None
Robert E. Mayhew Romney, West Virginia	Retired President of Mayhew Chevrolet	Director	None	****	1.3%	None
Dean K. Young Romney, West Virginia	N/A	Vice President& Treasurer	Exec Vice President/CFO The Bank of Romney	None	0.3%	None
Richard W. Smith, Jr Capon Bridge, West Virginia	Retail/Convenience Store Owner	Director	None	*****	0.4%	None
Grand Total					18.5%	

All Directors and Officers live in the USA

* Principal shareholder and President of Augusta Animal Hosp - 100%   * Hollyhock Farm 100%

* Old Hampshire LTD-75%

** Principal member of Keaton,Frazer & Milleson, PLLC Attorneys at Law - 37%

*** Principal shareholder of Cornwell and Ailes, Inc. - 70%

*** Romney Realty Inc- Owned by Cornwell and Ailes - 80%

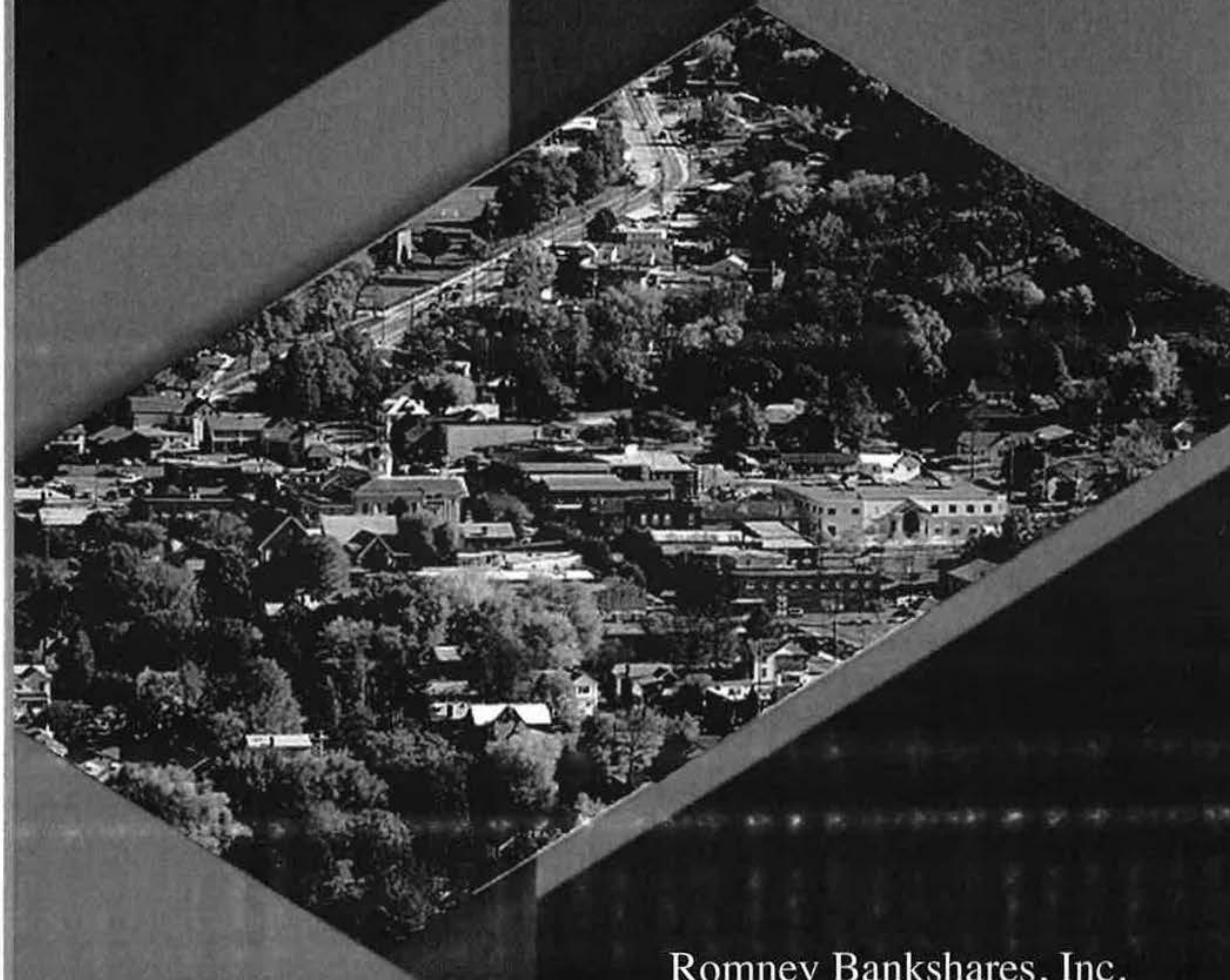
*** Shareholder in Cornwell Homes, Inc. - 25%

*** Shareholder in Jefferson Publishing - 50%

**** Shareholder in K.B. Mayhew Holdings - 50%

***** Single Member of RWS LLC & PDS LLC - 100%
***** Sole Member of Pam-Rick LLC & Pam-Rik LLC - 100%

The Bank Of Romney



Romney Bankshares, Inc.

2017 Annual Report of Condition

Thomas L. Williams Jr.
(Chairman)

Charles E. See

Lawrence E. Foley

Romney Bankshares, Inc. and The Bank of Romney

Board of Directors

Dean K. Young

Linda J. Haines

William C. Keaton

Lowell H. Hott

Richard W. Smith, Jr.

Table of Contents

To The Stockholders
Romney Bankshares, Inc.
Romney, WV 26757

Consolidated net income for Romney Bankshares, Inc. was elevated to their highest dollar level since the year 2012. We conclude 2017, at record levels for assets, loans and deposits. Asset quality has continued to improve as past due loan percentages and foreclosed asset balances have been significantly reduced from 2016. Key level management roles from succession planning that occurred early in 2017 has generated new ideas, product outreach and relationship development.

Financial Results

Net income for 2017 increased by 3.9% to $1,843,714 compared to $1,774,654 during 2016. The federal corporate tax change signed into law in late December 2017 reduced the current corporate federal tax rate for 2018 down to a flat 21%. The timing of the signed law change, prior to the 2017 year end, had a significant negative impact on our consolidated net income. The majority of financial institutions were immediately required to write down any net deferred tax assets carried on the Balance Sheet to the new tax rate through income tax expense. The change created a tax expense to income before taxes at a rate of 41.6% for 2017 compared to 27.1% for the previous year. The rate change difference resulted in an increase in tax expense of over $450,000 for 2017. Net income was positively influenced by a $612,022 income increase in loan interest and loan fees, a 21.6% reduction in our loan loss expense, a $93,682 increase in service charge income on deposits, and approximately a $200,000 combined expense reduction in FDIC assessments and foreclosed property losses.

Loan balances increased in all loan categories including consumer, mortgage and commercial classifications. Our net loan balance increase of $23,021,745 was the largest dollar increase in our 129 year history. The balance increased 13.2% to 197,567,667 from the 2016 balance of 174,545,922.

Deposit balances, also at record levels, grew more modestly than loans. The increase was $6,599,897 or 3.3% to $205,337,464, at the end of 2017. Most of the increase was attributed to non-interest bearing deposits, continuing to provide a positive trend in our net interest margin.

Due to our strength in income and capital, once again we were able to increase the annual dividend paid to our shareholders. The rate was increased to $1.36 per share in 2017 compared to $1.34 in 2016. Positive transaction purchase activity in Romney Bankshares Inc. stock and a growing capital balance also allowed the Board to raise the current share price to $54 per share from the previous year's $53. The dividends paid and dollar rate per share were again all record highs.

Expanded Products and Services

The Bank of Romney's most recent benefit is a new mobile app called SecurLOCK™ Equip that is FREE and allows customers the ability to control how, when and where their Bank of Romney Debit Card is used. It is a safe and secure way to manage and monitor debit card payment transactions and provides real-time, instant notification when the debit card is used. Debit cards can be turned "off" or set to monitor for certain transactions such as spending limits, geographic locations, and specific merchants.

During the third quarter of 2017, The Bank of Romney received approval from the West Virginia Division of Financial Institutions and the Federal Reserve Bank of Richmond to operate a branch facility in Slanesville, WV. The current Slanesville Customer Service Center is to operate as a branch as of the end of the first quarter of 2018. The change will allow the branch the ability to take loan applications and make and disperse loan proceeds from the new branch. Deborah Curci will continue to staff the branch as a lender along with her current duties at the previous customer service center. Deborah has been at The Bank of Romney since 2012 and has been in Slanesville since 2014.

Future Prospective

The reduction in the Federal corporate tax rate will have a positive effect on income for 2018 and beyond. Expanded products and services as well as a continued improvement in our economy is expected to continue to grow our asset levels, but funding cost may become a challenge to help fund the growth. Our continued success in 2018 will depend on the strength and support of our loyal customers, dedicated shareholders and talented staff.

Thomas L. Williams, Jr., Chairman of the Board
Romney Bankshares, Inc.

Lawrence E. Foley, President
Romney Bankshares, Inc.

Romney Bankshares, Inc.

Officers

Thomas L. Williams Jr.
Chairman

Lawrence E. Foley
President

Dean K. Young
Vice President/Treasurer

Charles E. See
Secretary

The Bank of Romney

Operating Officers

Lawrence E. Foley
President and CEO

Dean K. Young
Executive Vice President and
Chief Financial Officer

Patrick D. Dante
Assistant Vice President and
Chief Consumer Lending Officer

David M. Waugerman
Investment Advisor and
IRA Administrator

Darin R. Peters
Branch Manager

Lisa J. Carl
Vice President and
Chief Operating Officer

Myra T. Kesner
Branch Manager and
Assistant Cashier

Brittany Parker
Branch Manager

Natale M. Crabtree
Branch Manager

John Michael Cheshire
Chief Commercial
Lending Officer and
Assistant Vice President

Jennifer L. Smith
Compliance Officer

David R. Mayfield
Vice President of Loans

Brenda J. Foley
Assistant Cashier and
Bank Review Manager

Tracy L. Orndorff
Branch Manager

Cynthia L. Walker
Chief Mortgage Lending Officer
and Assistant Vice President

Rebecca J. Ward
Controller

Debra J. Davis
Loan Administration Officer/
Credit Analyst

JoAnn Hott
BSA/Security Officer

Tabitha J. Bean
Human Resources Officer

Thomas W. Tucker
IT Officer

Sarah S. Light
Loan Operations Supervisor

Barbara L. Phares-Lambert
Customer Service Officer

Stephanie Richardson
Loan Officer

Sharon Hallmark
Bookkeeping and
EFT Supervisor

Main Branch

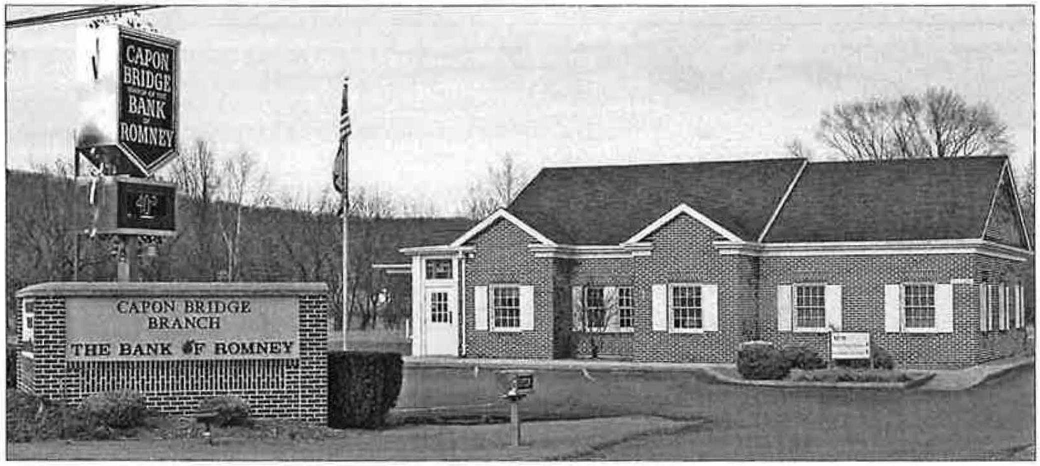
Main Street | P.O. Box 876 | Romney, WV 26757 | 304-822-3541

Staff

- Dottie Adams
- John Adams
- Kimberly Adams
- Holly Bailey
- Brittney Baker
- Laura Bowman
- Natalie Combs
- Rebecca S. Crouse
- Donna Davidson
- N. Eugene Frye
- Khristina Haines
- Shawna Haines
- Morgan Hobbie
- Zoe Hornagold
- Linette B. Hulver
- Jacqueline Iser
- Adam Jenkins
- Tracy Jessop
- Tosha Kesner
- Tammy K. Kesner
- Merle Lambert, Jr.
- Gaylene Lewis
- Jodi Link
- Pamela Link
- Donna Lynch
- Sandra Malecki
- Jacqueline Maphis
- Michael McQuaid
- Brittany Miller
- Kevin Mullens
- Ashley Oates
- Emily Powers
- Anita Ratliff
- Debbie Snyder
- Courtney Sowers
- Melissa Sowers
- Dolly Swick
- Dawn Timbrook
- Dustin Timbrook

Capon Bridge Branch

Route 50 | P.O. Box 214 | Capon Bridge, WV 26711 | 304-856-3461



Staff

- Tracy Orndorff, Branch Manager
- Julie Bergdoll
- Karen Fadeley
- Victoria J. Reynolds

Augusta Branch

Route 50 | P.O. Box 500 | Augusta, WV 26704 | 304-496-7460

Staff

- Myra T. Kesner, Branch Manager
- Joanie Hott
- Danielle Lewis
- Judith Miller
- Lisa Pressutti
- Amy Taylor

Springfield Branch

Route 28 | P.O. Box 72 | Springfield, WV 26763 | 304-822-3618

Staff

- Brittany Parker, Branch Manager
- Cathy Beckman
- Carrie Cox
- Christmas Hinkle

Paw Paw Branch

Winchester St. | P.O. Box 114 | Paw Paw, WV 25434 | 304-947-7255

Staff

- Natale Crabtree, Branch Manager
- Verlie Kesler
- Evelyn Kidwell
- Carol Morrison
- Robin Ridgeway
- Debra Travis

Sunrise Branch

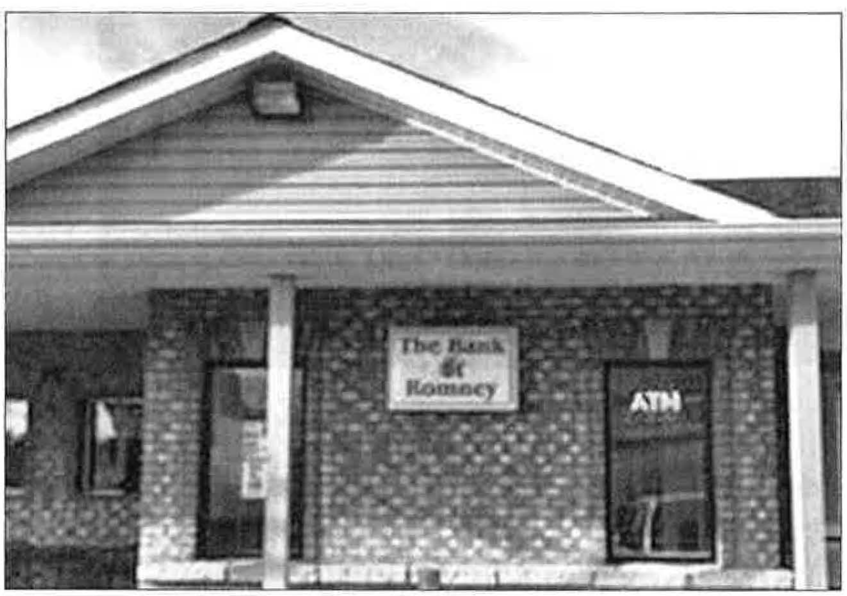
Route 50 | P.O. Box 376 | Shanks, WV 26761 | 304-822-2750

Staff

- Darin Peters, Branch Manager
- Katie Buckley
- Melissa Fout
- Wendy Galliher
- Mary Haymaker
- Karolyn Wolford

Slanesville Customer Service Center

100 North Main St. | Slanesville, WV 25444 | 304-496-8066



Staff

- Deborah Curci

Yount Hyde & Barbour
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors
Romney Bankshares, Inc. and Subsidiary
Romney, West Virginia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Romney Bankshares, Inc. and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2017, 2016 and 2015, and the related notes to the consolidated financial statements, (collectively, the financial statements).

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Romney Bankshares, Inc. and its Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years ended December 31, 2017, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 9, 2018

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets
December 31, 2017 and 2016

Assets	2017	2016
Cash and due from banks	$ 5,436,972	$ 4,089,820
Interest-bearing deposits in banks	3,830,459	4,237,070
Securities available for sale, at fair value	54,599,848	62,597,483
Trading securities, at fair value	464,560	- -
Securities held to maturity (fair value 2017, $354,652)	354,312	- -
Loans, net of allowance for loan losses of $1,524,588 in 2017 and $1,800,385 in 2016	197,567,667	174,545,922
Restricted securities, at cost	2,322,100	2,160,200
Bank premises and equipment, net	5,546,090	5,811,577
Accrued interest receivable	941,910	851,838
Other real estate owned, net of valuation allowance of $358,000 in 2017 and $577,455 in 2016	1,257,453	2,043,032
Bank owned life insurance	7,772,112	7,579,510
Other assets	1,706,042	2,594,983
	$ 281,799,525	$ 266,511,435
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing deposits	$ 44,498,921	$ 40,073,076
Interest bearing deposits	160,838,543	158,664,491
Total deposits	$ 205,337,464	$ 198,737,567
Federal Home Loan Bank borrowings	44,852,953	36,445,833
Notes payable	614,261	750,000
Accrued interest payable	155,535	142,577
Other liabilities	2,723,946	3,273,167
Total liabilities	$ 253,684,159	$ 239,349,144
Commitments and Contingent Liabilities		
Shareholders' Equity		
Common stock, par value $5 per share; authorized 1,280,000 shares; issued and outstanding, 580,000 shares	$ 2,900,000	$ 2,900,000
Surplus	1,365,830	1,383,742
Undivided profits	32,075,285	30,021,824
Accumulated other comprehensive (loss), net	(5,501,386)	(4,303,375)
	$ 30,839,729	$ 30,002,191
Less cost of shares acquired for the treasury, 2017, 51,334 shares; 2016, 53,177 shares	(2,724,363)	(2,839,900)
Total shareholders' equity	$ 28,115,366	$ 27,162,291
	$ 281,799,525	$ 266,511,435

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Interest and Dividend Income			
Interest and fees on loans	$ 9,789,271	$ 9,177,249	$ 9,362,819
Securities:			
Taxable	911,347	956,969	1,024,203
Tax-exempt	351,207	323,213	290,932
Dividends	122,566	107,401	152,536
Interest on deposits in banks	124,603	109,138	62,801
Total interest and dividend income	$ 11,298,994	$ 10,673,970	$ 10,893,291
Interest Expense			
Deposits	$ 1,115,100	$ 1,084,146	$ 1,222,284
Federal Home Loan Bank borrowings	617,218	477,088	486,768
Notes payable	32,489	42,678	53,601
Other interest	9	--	--
Total interest expense	$ 1,764,816	$ 1,603,912	$ 1,762,653
Net interest income	$ 9,534,178	$ 9,070,058	$ 9,130,638
Provision for loan losses	118,320	151,000	461,365
Net interest income after provision for loan losses	$ 9,415,858	$ 8,919,058	$ 8,669,273
Noninterest Income			
Service charges on deposit accounts	$ 1,220,717	$ 1,128,035	$ 1,132,551
Other service charges and fees	197,975	158,904	174,885
Net gain on sales of securities	13,171	90,733	61,521
(Loss) gain on trading securities	(47,133)	62,934	12,046
Other operating income	279,019	278,599	406,515
Total noninterest income	$ 1,663,749	$ 1,719,205	$ 1,787,518
Noninterest Expenses			
Salaries and employee benefits	$ 4,549,402	$ 4,650,394	$ 4,711,329
Occupancy expense of premises	397,184	390,981	386,911
Furniture and equipment expenses	650,967	649,738	680,606
FDIC assessments	88,000	166,000	218,000
Net loss on other real estate owned	101,792	223,503	161,496
Other operating expenses	2,136,736	2,124,395	1,970,757
Total noninterest expenses	$ 7,924,081	$ 8,205,011	$ 8,129,099
Income before income taxes	$ 3,155,526	$ 2,433,252	$ 2,327,692
Income tax expense	1,311,812	658,598	592,577
Net income	$ 1,843,714	$ 1,774,654	$ 1,735,115
Earnings Per Share	$ 3.49	$ 3.36	$ 3.31

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Net Income	$ 1,843,714	$ 1,774,654	$ 1,735,115
Other Comprehensive Income (Loss)			
Gross unrealized gains (losses) on securities available for sale arising during the period	$ 336,700	$ (761,438)	$ 214,832
Tax effect	(127,946)	290,140	(81,169)
	$ 208,754	$ (471,298)	$ 133,663
Less: Reclassification adjustment for (gains) included in net income	$ (13,171)	$ (153,667)	$ (73,567)
Tax effect	5,005	58,394	28,196
	$ (8,166)	$ (95,273)	$ (45,371)
Minimum pension liability adjustment	$ (527,259)	$ (399,433)	$ 461,611
Tax effect	57,466	151,785	(175,412)
	$ (469,793)	$ (247,648)	$ 286,199
Other comprehensive income (loss)	$ (269,205)	$ (814,219)	$ 374,491
Comprehensive Income	$ 1,574,509	$ 960,435	$ 2,109,606

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC.

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2017, 2016 and 2015

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive (Loss), Net	Total
Balance, December 31, 2014	$ 2,950,000	$ 1,893,357	$ 27,917,069	$ (3,662,539)	$ (3,863,647)	$ 25,234,240
Net income	--	--	1,735,115	--	--	1,735,115
Other comprehensive income	--	--	--	--	374,491	374,491
Cash dividends - $1.32 per share	--	--	(700,215)	--	--	(700,215)
Retirement of 10,000 shares from Treasury	(50,000)	(460,954)	--	510,954	--	--
Purchase of common stock for the Treasury, 8,860 shares	--	--	--	(470,960)	--	(470,960)
Proceeds of issuance of common stock from the Treasury, 16,123 shares	--	(32,687)	--	891,168	--	858,481
Balance, December 31, 2015	$ 2,900,000	$ 1,399,716	$ 28,951,969	$ (2,731,377)	$ (3,489,156)	$ 27,031,152
Net income	--	--	1,774,654	--	--	1,774,654
Other comprehensive loss	--	--	--	--	(814,219)	(814,219)
Cash dividends - $1.34 per share	--	--	(704,799)	--	--	(704,799)
Purchase of common stock for the Treasury, 9,631 shares	--	--	--	(510,443)	--	(510,443)
Proceeds of issuance of common stock from the Treasury, 7,282 shares	--	(15,974)	--	401,920	--	385,946
Balance, December 31, 2016	$ 2,900,000	$ 1,383,742	$ 30,021,824	$ (2,839,900)	$ (4,303,375)	$ 27,162,291
Net income	--	--	1,843,714	--	--	1,843,714
Other comprehensive loss	--	--	--	--	(269,205)	(269,205)
Cash dividends - $1.36 per share	--	--	(719,059)	--	--	(719,059)
Purchase of common stock for the Treasury, 7,271 shares	--	--	--	(385,733)	--	(385,733)
Proceeds of issuance of common stock from the Treasury, 9,114 shares	--	(17,912)	--	501,270	--	483,358
Reclassification of stranded tax effects from change in tax rate	--	--	928,806	--	(928,806)	--
Balance, December 31, 2017	$ 2,900,000	$ 1,365,830	$ 32,075,285	$ (2,724,363)	$ (5,501,386)	$ 28,115,366

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 1,843,714	$ 1,774,654	$ 1,735,115
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	377,605	369,580	350,892
Provision for loan losses	118,320	151,000	461,365
(Gain) on sale of securities	(13,171)	(90,733)	(61,521)
Loss (gain) on trading securities	47,133	(62,934)	(12,046)
Loss on sale of equipment	--	--	961
(Gain) loss on other real estate owned	4,491	(2,497)	(4,804)
Proceeds from trading securities	1,341,158	--	--
Purchases of trading securities	(1,852,851)	--	--
Impairment of other real estate owned	96,500	226,000	166,300
Net amortization of bond premium	255,449	269,168	218,471
Deferred tax expenses	1,296,984	117,388	411,188
Earnings on bank owned life insurance	(192,602)	(182,618)	(183,052)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(90,072)	(76,049)	95,213
(Increase) decrease in other assets	(473,518)	(83,250)	546,288
Increase (decrease) in accrued interest payable	12,958	(40,576)	(42,223)
(Decrease) in other liabilities	(1,076,480)	(151,531)	(576,325)
Net cash provided by operating activities	$ 1,695,618	$ 2,217,602	$ 3,105,822
Cash Flows from Investing Activities			
Proceeds from maturities, principal payments, and sales of securities available for sale	$ 8,978,886	$ 39,195,213	$ 35,883,178
Purchase of securities available for sale	(900,000)	(41,008,060)	(30,843,731)
Proceeds from principal payments held to maturity	8,688	--	--
Purchase of securities held to maturity	(363,000)	--	--
Net purchase of restricted securities	(161,900)	(317,100)	(367,000)
Net (increase) in loans made to customers	(23,433,420)	(9,010,489)	(2,516,975)
Purchase of investment in bank owned life insurance	--	(600,000)	--
Purchases of bank premises and equipment	(112,118)	(151,109)	(367,048)
Improvements to other real estate owned	--	(48,000)	(19,340)
Proceeds on sale of other real estate owned	977,943	547,907	1,791,919
Proceeds on sale of equipment	--	--	6,300
Net cash (used in) provided by investing activities	$ (15,004,921)	$ (11,391,638)	$ 3,567,303
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	$ 6,599,897	$ 2,551,174	$ (4,259,196)
Net proceeds on FHLB borrowings	8,407,120	6,109,717	692,601
Net (payments) on notes payable	(135,739)	(167,965)	(158,493)
Proceeds from issuance of common stock from the Treasury	483,358	385,946	858,481
Purchase of common stock for the Treasury and retirement	(385,733)	(510,443)	(470,960)
Dividends paid	(719,059)	(704,799)	(700,215)
Net cash provided by (used in) financing activities	$ 14,249,844	$ 7,663,630	$ (4,037,782)

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(Continued)
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Increase (decrease) in cash and cash equivalents	$ 940,541	$ (1,510,406)	$ 2,635,343
Cash and Cash Equivalents			
Beginning	8,326,890	9,837,296	7,201,953
Ending	$ 9,267,431	$ 8,326,890	$ 9,837,296
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest	$ 1,751,858	$ 1,644,488	$ 1,804,876
Income taxes	$ 542,990	$ 411,000	$ 304,750
Supplemental Disclosure of Noncash Transactions			
Other real estate acquired in settlement of loans	$ 293,355	$ 897,869	$ 831,420
Unrealized gain (loss) on securities available for sale	$ 323,529	$ (915,105)	$ 141,266
Minimum pension liability adjustment	$ (527,259)	$ (399,433)	$ 461,611

See Notes to Consolidated Financial Statements.

ROMNEY BANKSHARES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

Nature of Banking Activities

Romney Bankshares, Inc. and subsidiary (the Corporation) provide a variety of banking services to individuals and businesses through its five branches in Romney, Augusta, Capon Bridge, Springfield and Paw Paw, West Virginia. Its primary deposit products are demand deposits and certificates of deposits, and its primary lending products are commercial business, real estate mortgage and installment loans. The Corporation grants commercial, financial, agricultural, residential and consumer loans to customers in West Virginia. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America and to accepted practice within the banking industry.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Romney Bankshares, Inc. and its wholly-owned banking subsidiary, The Bank of Romney. In consolidation, significant intercompany accounts and transactions have been eliminated.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, determination of the pension benefit obligation and other than temporary impairment of securities.

Reclassifications

Certain reclassifications have been made to prior year's information to conform to the current year's presentation. The impact of these reclassifications was insignificant.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, which includes deposits in the Federal Home Loan Bank, Federal Reserve Bank, and correspondent banks.

Notes to Consolidated Financial Statements

Trading Securities

The Corporation engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest and dividends are included in net interest income.

Available for Sale and Held to Maturity Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair value, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Corporation intends to sell the security or (2) it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis. If, however, the Corporation does not intend to sell the security and it is not more-than-likely that the Corporation will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

For equity securities carried at cost as restricted securities, impairment is considered to be other-than-temporary based on the Corporation's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income.

Management regularly reviews each security for other-than-temporary impairment based on criteria that include the extent to which costs exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, its best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the Corporation would be required to sell the security before recovery.

Loans

The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout West Virginia. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Underwriting and risk characteristics of each loan class are summarized as follows:

- Commercial loans carry risks associated with the successful operation of a business and the financial strength of any related guarantors. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

Notes to Consolidated Financial Statements

- Commercial real estate construction and development loans carry risks that the project may not be finished or developed according to schedule due to budget, economic and valuation of collateral pressures.
- Consumer loans to individuals carry the risks associated with the continued creditworthiness of the borrower and the value of any collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- Real estate commercial mortgage loans carry risks associated with the successful operation of a business, the continued creditworthiness of the borrower and any related guarantors and changes in the value of the collateral. In the case of the investor-owned commercial real estate, risks are expanded to include the financial strength of the tenants occupying the property and the stability of occupancy and lease rates.
- Real estate residential mortgage loans carry risks associated with continued creditworthiness of the borrower and changes in the value of the collateral.
- Real estate residential construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. These construction loans also bear the risk that the general contractor, who may or may not be a customer of the Bank, may be unable to finish the construction project as planned because of financial pressure unrelated to the project or quality performance disputes with the owner.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and unearned discounts. Interest income is accrued on the unpaid principal balance.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Notes to Consolidated Financial Statements

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the collateral value or observable market price or present value of expected cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Corporation's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Troubled Debt Restructurings

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

Transfers of Financial Assets

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

Notes to Consolidated Financial Statements

Loan Fees and Costs

For years ended prior to 2017, loan origination and commitment fees and direct loan costs are being recognized as collected and incurred. The use of this method of recognition did not produce results that were materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield over the life of the related loan. Loan origination and commitment fees and direct loan costs are being deferred and amortized as an adjustment of the loan yield over the life of the related loan beginning in 2017.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. For financial reporting, depreciation of property and equipment is computed on the straight-line method over the useful lives of the assets. The range of useful lives are 15 - 40 years for buildings and improvements and 3 - 20 years for furniture and equipment.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Other Real Estate Owned

Assets acquired though or instead of loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Concentration of Credit Risk

Most of the Bank's activities are with customers located within Hampshire County, West Virginia. Note 3 details the types of lending in which the Bank engages. The Bank does not have any significant concentrations in any one industry or customer.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Notes to Consolidated Financial Statements

Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income.

Defined Benefit Plan

The Corporation has a noncontributory, defined benefit pension plan for full-time employees over 21 years of age. Benefits are generally based upon years of service and average compensation, which is equal to the highest average for the five consecutive calendar years immediately preceding retirement, termination or death, whichever occurs first. The Corporation funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. The Corporation does not have any potentially dilutive instruments.

Earnings per share have been computed based on the following:

	2017	2016	2015
Average number of common shares outstanding used to calculate earnings per share	528,728	527,414	524,787

Advertising Costs

The Corporation follows the policy of charging the production costs of advertising to expense as incurred. Advertising expense totaled $74,189, $73,673 and $67,376 for the years ended December 31, 2017, 2016 and 2015.

Comprehensive Income

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

Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). The Corporation early adopted this new standard in the current year. ASU 2018-01 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was $928,806.

Notes to Consolidated Financial Statements

During January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 3) Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The amendments within this ASU are effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Corporation is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

During February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Corporation is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Corporation is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Corporation does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2018, including interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Corporation is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

Note 2. Securities

The amortized cost and fair values of securities available for sale as of December 31, 2017 and 2016 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2017			
Obligations of U.S. Government corporations and agencies	$ 31,340,750	$ 17,414	$ (710,700)	$ 30,647,464
Obligations of states and political subdivisions	22,670,973	184,969	(162,158)	22,693,784
Other debt securities	1,149,058	- -	(9,318)	1,139,740
Equity securities	36,960	81,900	- -	118,860
	$ 55,197,741	$ 284,283	$ (882,176)	$ 54,599,848

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2016			
Obligations of U.S. Government corporations and agencies	$ 36,036,122	$ 57,245	$ (959,150)	$ 35,134,217
Obligations of states and political subdivisions	24,934,822	174,447	(270,078)	24,839,191
Other debt securities	2,511,001	449	(2,839)	2,508,611
Equity securities	36,960	78,504	- -	115,464
	$ 63,518,905	$ 310,645	$ (1,232,067)	$ 62,597,483

The Corporation's investment in FHLB stock totaled $2,212,100 and $2,050,200 at December 31, 2017 and 2016, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted security, which is carried at cost, because there is no market for the stock, other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Management did not consider this investment to be other-than-temporarily impaired at December 31, 2017 and 2016. FHLB stock repurchased by the FHLB totaled $16,868,400 during 2017 and $16,523,400 in 2016. FHLB stock purchased totaled $17,030,300 and $16,840,500 during 2017 and 2016, respectively. FHLB stock is shown in restricted securities on the balance sheet and is not part of the available for sale securities portfolio.

Notes to Consolidated Financial Statements

The amortized cost and fair value of securities available for sale as of December 31, 2017, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 3,134,513	$ 3,129,086
Due after one year through five years	18,746,624	18,475,002
Due after five years through ten years	25,605,925	25,278,113
Due after ten years	7,673,719	7,598,787
Equity securities	36,960	118,860
	$ 55,197,741	$ 54,599,848

For the years ended December 31, 2017, 2016 and 2015, proceeds from sales of securities available for sale amounted to $1,559,554, $4,850,011 and $4,480,113, respectively. Gross realized gains amounted to $14,679, $90,791 and $109,137. Gross realized losses amounted to $1,508, $58 and $47,616 for the years ended December 31, 2017, 2016 and 2015, respectively.

The amortized cost and fair value of securities held to maturity as of December 31, 2017 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	2017			
Obligations of states and political subdivisions	$ 354,312	$ 340	$ --	$ 354,652

At December 31, 2017 and 2016, investments in an unrealized loss position that are temporarily impaired are as follows:

	2017			
	Less than 12 Months		12 Months or More	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Obligations of U.S. Government corporations and agencies	$ 2,936,522	$ (29,359)	$ 26,684,396	$ (681,341)
Obligations of states and political subdivisions	8,472,923	(103,330)	2,806,011	(58,828)
Other debt securities	1,139,740	(9,318)	--	--
Total temporarily impaired securities	$ 12,549,185	$ (142,007)	$ 29,490,407	$ (740,169)

Notes to Consolidated Financial Statements

	2016			
	Less than 12 Months		12 Months or More	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Obligations of U.S. Government corporations and agencies	$ 32,259,584	$ (918,199)	$ 1,185,117	$ (40,951)
Obligations of states and political subdivisions	11,997,673	(270,078)	--	--
Other debt securities	1,497,692	(2,839)	--	--
Total temporarily impaired securities	$ 45,754,949	$ (1,191,116)	$ 1,185,117	$ (40,951)

The unrealized loss positions at December 31, 2017 consist of seventeen U.S. government obligations, five mortgage-backed securities, thirty-one municipal obligations, and two other debt securities. The cause of the temporary impairment is related to fluctuations in interest rates and timing of the security purchases. The duration of the impairment will continue until the individual security matures, if current market interest rates are maintained or fall during the period. As the Corporation does not intend to sell the investments and it is not-more-likely-than-not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

Securities having a book value of $23,328,842 and $25,200,407 at December 31, 2017 and 2016 were pledged to secure public deposits and for other purposes required by law.

The Corporation has investment assets designated as trading. As such, the changes in fair value are reflected in earnings. Trading securities at December 31, 2017 and 2016 are as follows:

	2017	2016
Equity securities	$ 464,560	$ --

The net (loss) gain on trading securities for the years ended December 31, 2017, 2016 and 2015 was $(47,133), $62,934, and $12,046, respectively.

Note 3. Loans

A summary of the balances of loans follows:

	December 31,	
	2017	2016
	(Thousands)	
Commercial, non-real estate	$ 7,772	$ 8,183
Commercial, real estate	30,146	28,221
Consumer	21,244	14,758
Residential	139,931	125,184
	$ 199,093	$ 176,346
Less:		
Allowance for loan losses	1,525	1,800
Loans, net	$ 197,568	$ 174,546

Notes to Consolidated Financial Statements

The totals above do not include net deferred fees of $211,151 at December 31, 2017.

Note 4. Allowance for Loan Losses

The following table presents the changes in allowance for loan losses and the recorded investment in loans by loan class and for the ending loan balances, based on impairment evaluation method as of December 31, 2017 and 2016.

2017	Commercial Non-Real Estate	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses					
Balance at December 31, 2016	$ 60,136	$ 636,367	$ 143,382	$ 960,500	$ 1,800,385
Charge-offs	(17,663)	(279,710)	(180,223)	(68,273)	(545,869)
Recoveries	350	9,836	116,514	25,052	151,752
Provision	(99)	11,612	116,345	(9,538)	118,320
Balance at December 31, 2017	$ 42,724	$ 378,105	$ 196,018	$ 907,741	$ 1,524,588
Ending balance:					
Individually evaluated for impairment	$ --	$ 41,876	$ --	$ 98,414	$ 140,290
Collectively evaluated for impairment	42,724	336,229	196,018	809,327	1,384,298
Total ending balance	$ 42,724	$ 378,105	$ 196,018	$ 907,741	$ 1,524,588
Loans					
Ending balance:					
Individually evaluated for impairment	$ 146,349	$ 1,943,266	$ --	$ 3,647,457	$ 5,737,072
Collectively evaluated for impairment	7,625,925	28,202,774	21,243,817	136,282,667	193,355,183
Total	$ 7,772,274	$ 30,146,040	$ 21,243,817	$ 139,930,124	$ 199,092,255

2016	Commercial Non-Real Estate	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses					
Balance at December 31, 2015	$ 53,637	$ 786,389	$ 154,493	$ 864,052	$ 1,858,571
Charge-offs	--	(16,552)	(116,041)	(217,808)	(350,401)
Recoveries	565	8,850	121,391	10,409	141,215
Provision	5,934	(142,320)	(16,461)	303,847	151,000
Balance at December 31, 2016	$ 60,136	$ 636,367	$ 143,382	$ 960,500	$ 1,800,385
Ending balance:					
Individually evaluated for impairment	$ 18,973	$ 340,870	$ --	$ 196,737	$ 556,580
Collectively evaluated for impairment	41,163	295,497	143,382	763,763	1,243,805
Total ending balance	$ 60,136	$ 636,367	$ 143,382	$ 960,500	$ 1,800,385
Loans					
Ending balance:					
Individually evaluated for impairment	$ 67,181	$ 3,161,145	$ --	$ 4,429,055	$ 7,657,381
Collectively evaluated for impairment	8,116,291	25,059,987	14,757,602	120,755,046	168,688,926
Total	$ 8,183,472	$ 28,221,132	$ 14,757,602	$ 125,184,101	$ 176,346,307

Notes to Consolidated Financial Statements

The following is a summary of information pertaining to impaired loans at December 31, 2017 and 2016 and for the years then ended:

2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With No Related Allowance					
Commercial	$ 146,349	$ 146,349	$ --	$ 39,501	$ 7,855
Commercial Real Estate					
Commercial	270,245	320,753	--	289,764	7,108
Construction	1,351,259	1,351,259	--	1,437,289	4,884
Other	--	--	--	417,272	--
Consumer	--	--	--	--	--
Residential					
1-4 Family	1,848,054	1,913,054	--	1,655,250	65,533
Construction	149,483	149,483	--	37,371	6,214
Total with no related allowance	$ 3,765,390	$ 3,880,898	$ --	$ 3,876,447	$ 91,594
With A Related Allowance					
Commercial	$ --	$ --	$ --	$ 12,754	$ --
Commercial Real Estate					
Commercial	321,762	321,762	41,876	290,699	13,343
Construction	--	--	--	--	--
Other	--	--	--	214,279	--
Consumer	--	--	--	--	--
Residential					
1-4 Family	1,260,002	1,260,002	90,958	1,705,990	56,803
Construction	389,918	389,918	7,456	418,933	20,520
Total with a related allowance	$ 1,971,682	$ 1,971,682	$ 140,290	$ 2,642,655	$ 90,666
Total					
Commercial	$ 146,349	$ 146,349	$ --	$ 52,255	$ 7,855
Commercial Real Estate	1,943,266	1,993,774	41,876	2,649,303	25,335
Consumer	--	--	--	--	--
Residential	3,647,457	3,712,457	98,414	3,817,544	149,070
Total	$ 5,737,072	$ 5,852,580	$ 140,290	$ 6,519,102	$ 182,260

2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With No Related Allowance					
Commercial	$ 27,871	$ 27,871	$ --	$ 28,904	$ --
Commercial Real Estate					
Commercial	408,645	493,994	--	577,782	9,924
Construction	1,568,706	1,744,833	--	1,654,686	--
Other	715,324	715,325	--	730,961	--
Consumer	--	--	--	4,362	--
Residential					
1-4 Family	2,157,247	2,225,864	--	2,168,921	42,372
Construction	36,916	36,916	--	39,222	2,217
Total with no related allowance	$ 4,914,709	$ 5,244,803	$ --	$ 5,204,838	$ 54,513
With A Related Allowance					
Commercial	$ 39,310	$ 39,310	$ 18,973	$ 56,909	$ 657
Commercial Real Estate					
Commercial	101,134	101,134	8,009	83,077	5,096
Construction	--	--	--	--	--
Other	367,336	367,336	332,861	373,413	--
Consumer	--	--	--	--	--
Residential					
1-4 Family	1,831,878	1,831,878	173,223	1,611,354	78,436
Construction	403,014	403,014	23,514	409,138	19,324
Total with a related allowance	$ 2,742,672	$ 2,742,672	$ 556,580	$ 2,533,891	$ 103,513
Total					
Commercial	$ 67,181	$ 67,181	$ 18,973	$ 85,813	$ 657
Commercial Real Estate	3,161,145	3,422,622	340,870	3,419,919	15,020
Consumer	--	--	--	4,362	--
Residential	4,429,055	4,497,672	196,737	4,228,635	142,349
Total	$ 7,657,381	$ 7,987,475	$ 556,580	$ 7,738,729	$ 158,026

Notes to Consolidated Financial Statements

	December 31, 2017	December 31, 2016
Nonaccrual Loans by Class		
Commercial	$ 115,094	$ 79,762
Commercial Real Estate		
Commercial	131,304	214,413
Construction	1,347,111	1,568,706
Other	--	1,082,661
Consumer		
Auto	42,392	41,027
Residential		
1-4 Family	1,691,504	2,937,394
Construction	149,483	--
	$ 3,476,888	$ 5,923,963

Nonaccrual homogeneous loans excluded from impaired loan disclosure amounted to $913,185, $786,272 and $1,461,753 at December 31, 2017, 2016 and 2015, respectively. If interest on these loans had been accrued, such income would have approximated $63,629, $53,415 and $56,467 for 2017, 2016 and 2015, respectively. The Corporation had loans of $4,880,102, $5,300,310 and $5,260,177 that were modified in troubled debt restructurings as of December 31, 2017, 2016 and 2015, respectively. Modifications made for four new troubled debt restructuring loans included, rate reductions, extension of interest only payments and extension of maturity dates. The Corporation has allocated $140,290, $472,775 and $551,170 of specific allowance for these loans as of December 31, 2017, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements

The following table presents information related to loan modifications as TDRs during the years ended December 31, 2017 and 2016:

2017

Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	--	$ --	$ --
Commercial Real Estate			
Commercial	1	221,594	221,594
Construction	1	1,347,111	1,347,111
Other	--	--	--
Consumer			
Auto	--	--	--
Other	--	--	--
Residential			
1-4 Family	1	61,289	61,289
Construction	1	149,483	149,483
Total	4	$ 1,779,477	$ 1,779,477

2016

Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	--	$ --	$ --
Commercial Real Estate			
Commercial	2	131,187	131,187
Construction	--	--	--
Other	--	--	--
Consumer			
Auto	1	24,900	24,900
Other	3	68,953	68,953
Residential			
1-4 Family	4	381,136	381,136
Construction	--	--	--
Total	10	$ 606,176	$ 606,176

TDR modifications made in 2017 were the result of rate concessions, loan term changes and payment extensions being granted. All of these loans were evaluated for specific impairment as of December 31, 2017.

The period end balances are inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as TDRs that were fully paid down, charged-off, or foreclosed upon by period end are not reported.

There were no loans modified as TDRs that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2017, 2016 and December 31, 2015.

Notes to Consolidated Financial Statements

The following table represents the aging of past due loans by class of loan as of December 31, 2017 and 2016:

2017

Loan Class	30-59 Days	60-89 Days	≥90 Days	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment ≥90 Days and Accruing
Commercial	$ 8,166	$ 115,094	$ --	$ 123,260	$ 7,649,014	$ 7,772,274	$ --
Commercial Real Estate							
Commercial	587,494	--	--	587,494	19,887,478	20,474,972	--
Construction	36,517	--	--	36,517	5,828,283	5,864,800	--
Other	--	--	--	--	3,806,268	3,806,268	--
Consumer							
Auto	160,553	13,169	--	173,722	9,190,447	9,364,169	--
Other	121,744	11,635	6,366	139,745	11,739,903	11,879,648	6,366
Residential							
1-4 Family	6,109,889	504,778	285,546	6,900,213	128,673,357	135,573,570	--
Construction	--	--	149,483	149,483	4,207,071	4,356,554	--
Totals	$ 7,024,363	$ 644,676	$ 441,395	$ 8,110,434	$ 190,981,821	$ 199,092,255	$ 6,366

2016

Loan Class	30-59 Days	60-89 Days	≥90 Days	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment ≥90 Days and Accruing
Commercial	$ 18,897	$ 12,581	$ 39,310	$ 70,788	$ 8,112,685	$ 8,183,473	$ --
Commercial Real Estate							
Commercial	1,065,608	40,105	50,000	1,155,713	19,580,876	20,736,589	--
Construction	--	--	40,029	40,029	5,250,955	5,290,984	--
Other	--	--	1,082,661	1,082,661	1,110,898	2,193,559	--
Consumer							
Auto	78,607	--	--	78,607	6,144,457	6,223,064	--
Other	175,060	27,768	--	202,828	8,331,711	8,534,539	--
Residential							
1-4 Family	3,623,840	862,412	1,060,102	5,546,354	115,980,619	121,526,973	5,873
Construction	150,390	35,070	--	185,460	3,471,667	3,657,127	--
Totals	$ 5,112,402	$ 977,936	$ 2,272,102	$ 8,362,440	$ 167,983,868	$ 176,346,308	$ 5,873

Loans are graded on a scale of 1-7. The first three grades are considered pass, while grades 4-6 are placed on the watchlist and range from special mention to doubtful. Loans graded 7 are loss and are charged-off and will not be evident on a watchlist or carried as a bankable asset.

Notes to Consolidated Financial Statements

The primary determinants of the grade assigned to a loan or credit commitment are based upon the reliability of the primary source of repayment and the past, present and projected financial condition of the borrower. The grade should also reflect current economic, local and industry conditions. Major factors used in determining the grade include the following variables:

- Capitalization (debt/equity)
- Liquidity
- Cash flow-debt service
- Revenue and earnings trends
- Alternative sources of financing
- Management strength or weakness
- Quality of financial information
- Reputation and credit history
- Industry risk
- Economic conditions

Each grade is described below:

Pass 1 - Highest Quality

These loans represent a credit of the highest quality. The borrowers historic (at least 2 years) cash flows manifest large and stable margins of coverage. Balance sheets are conservative, well capitalized and liquid. After considering debt service for the proposed and existing debt, projected cash flows continue to be strong and provide ample coverage. Also included in this category may be loans secured by U.S. government securities, U.S. government agencies, highly rated municipal bonds, savings accounts, certificates of deposit (Bank of Romney accounts) and Romney Bankshares, Inc. stock.

Pass 2 - Good Quality

These loans have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher graded borrower. These loans carry a normal level of risk, with minimal loss exposure. The borrower has the ability to perform according to the credit facility. The margins of cash flow coverage are satisfactory, but vulnerable to more rapid deterioration than the higher quality loans.

Pass 3 - Acceptable Quality

These loans represent a reasonable credit risk. The borrower demonstrates the ability to repay the debt from normal business operations. Risk factors could include reliability on margins, cash flow and/or liquidity that may be dependent on business factors, critical to success, that are out of the borrower's control. These borrowers might also exhibit a lack in depth of management, management experience or have limited access to alternative financing sources.

Historic financial information may indicate erratic performance, but current trends are positive. The quality of financial information is adequate, but may not be as detailed and sophisticated as information found on higher graded loans. If adverse circumstances arise, the impact on the borrower may be significant.

Notes to Consolidated Financial Statements

Pass 4 – Watch

Loans, which possess some credit deficiency or potential weakness, which deserve close attention but which do not yet appear to jeopardize repayment. The key distinctions of an a Pass-Watch classification are that the credit characteristics are those of a 3 rated credit that is performing normally, but there is an uncertain level of risk due to such factors as (1) a lack of information about the current condition of the borrower, and/or (2) a documentation defect that could ultimately jeopardize repayment of the loan in full. Examples of 4 rated borrowers are business start-ups and most RE construction/renovation projects.

The level of risk in a Pass-Watch credit is considered non-criticized (5 or worse) and within normal underwriting guidelines as long as the loan is given the proper level of management supervision. Debt service coverage may be weaker than for category 3 credits and secondary repayment sources may be less secure.

Grade 5 - Other Assets Especially Mentioned (OAEM)

These loans exhibit that the borrower's capacity, character, credit, or collateral has deteriorated slightly. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Circumstances warrant more than normal monitoring, as these borrowers reflect the risks described in the following categories. These loans should be placed on the Bank's watchlist.

Grade 6 - Substandard

Loans which are inadequately protected by the net worth and debt service capacity of the borrower or of the collateral pledged. Loans which show a continuous balance on the Bank's books with no evident future principal reduction. Borrowers whose character has become suspect. The source of repayment is considered conditional, problematic or marginal. These are unsecured or partially secured loans to financially weak borrowers with a strong guarantor/endorser who did not benefit from the loan and are without a curtailment in over one year. Also considered are workout loans, which are loans that exhibit a potential loss consideration. These loans are considered classified and graded substandard. The credit risk in this situation relates to the possibility of some loss of principal and/or interest if the deficiencies are not corrected.

Grade 7 - Doubtful

Loans which are inadequately protected by the net worth of the borrower or by the collateral pledged and repayment in full is improbable on the basis of existing facts, values and conditions. Doubtful loans are those which are over six months past due that are not well secured or in the process of collection. The probability of some loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the facility, its classifications as an estimated loss is deferred until its more exact status may be determined. A full or partial reserve allocation is possible.

Notes to Consolidated Financial Statements

Grade 8 - Loss

Loans which are considered uncollectible and continuance as an acceptable asset is not warranted. A full charge off is recommended.

Performing and Non-Performing

Non-performing consumer loans are loans on nonaccrual and loans ninety days or more past due. All other loans are performing.

The following table displays loans by credit quality at December 31, 2017 and 2016:

2017 Credit Exposure - By Internally Assigned Grade

		Commercial Real Estate		Residential	
	Commercial	Commercial	Construction	1-4 Family	Construction
Pass	$ 6,793,467	$ 21,268,851	$ 4,513,541	$ 126,216,959	$ 3,717,357
OAEM	34,496	1,932,288	- -	5,240,731	99,795
Substandard	944,311	1,080,101	1,351,259	4,115,880	539,402
Doubtful	- -	- -	- -	- -	- -
Total	$ 7,772,274	$ 24,281,240	$ 5,864,800	$ 135,573,570	$ 4,356,554

2017 Consumer Credit Exposure - By Payment Activity

	Performing	Non-Performing
Consumer		
Auto	$ 9,321,778	$ 42,391
Other	11,873,282	6,366
Total	$ 21,195,060	$ 48,757

2016 Credit Exposure - By Internally Assigned Grade

		Commercial Real Estate		Residential	
	Commercial	Commercial	Construction	1-4 Family	Construction
Pass	$ 7,124,571	$ 19,149,040	$ 3,722,278	$ 112,339,397	$ 3,254,113
OAEM	121,114	1,041,450	- -	4,631,811	- -
Substandard	937,788	2,739,658	1,568,706	4,555,765	403,014
Doubtful	- -	- -	- -	- -	- -
Total	$ 8,183,473	$ 22,930,148	$ 5,290,984	$ 121,526,973	$ 3,657,127

2016 Consumer Credit Exposure - By Payment Activity

	Performing	Non-Performing
Consumer		
Auto	$ 6,182,037	$ 41,027
Other	8,534,539	- -
Total	$ 14,716,576	$ 41,027

At December 31, 2017 and 2016, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was $355,704 and $262,683, respectively.

Notes to Consolidated Financial Statements

Note 5. Other Real Estate Owned

Other real estate owned activity was as follows:

	December 31, 2017	December 31, 2016
Beginning balance	$ 2,043,032	$ 1,868,573
Loans transferred to real estate owned	293,355	897,869
Capitalized expenditures	- -	48,000
Direct write-downs	(96,500)	(226,000)
Sales of real estate owned	(982,434)	(545,410)
End of year	$ 1,257,453	$ 2,043,032

At December 31, 2017, there was $387,883 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property in the balance of other real estate owned.

Note 6. Bank Premises and Equipment

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

	December 31, 2017	December 31, 2016
Land	$ 1,365,714	$ 1,365,714
Buildings and improvements	6,971,467	6,899,704
Furniture and equipment	2,933,700	3,026,361
	$ 11,270,881	$ 11,291,779
Less accumulated depreciation	5,724,791	5,480,202
Bank premises and equipment, net	$ 5,546,090	$ 5,811,577

Depreciation expense was $377,605, $369,580 and $350,892 for the years ended December 31, 2017, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements

Note 7. Income Taxes

The Corporation files income tax returns in the U.S. federal jurisdiction and the state of West Virginia. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2014.

Net deferred tax assets consist of the following components as of December 31, 2017 and 2016:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 195,291	$ 390,599
Deferred compensation	77,952	129,753
Pension	--	670,172
Nonaccrual interest	160,749	327,004
Other real estate owned	82,340	219,433
Deferred loan fees	48,565	--
Securities available for sale	137,545	350,140
Securities trading	18,769	--
	$ 721,211	$ 2,087,101
Deferred tax liabilities:		
Pension	$ 132,936	$ --
Depreciation	167,083	303,479
	$ 300,019	$ 303,479
Net deferred assets	$ 421,192	$ 1,783,622

The provision for income taxes charged to operations for the years ended December 31, 2017, 2016 and 2015, consists of the following:

	2017	2016	2015
Current tax expense	$ 14,828	$ 541,210	$ 181,389
Deferred tax expense	1,296,984	117,388	411,188
	$ 1,311,812	$ 658,598	$ 592,577

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2017, 2016 and 2015, due to the following:

	2017	2016	2015
Computed "expected" tax expense	$ 1,072,879	$ 827,306	$ 791,415
Increase (decrease) in income taxes resulting from:			
State taxes	48,077	32,191	14,155
Tax-exempt interest income	(136,951)	(133,649)	(124,798)
Bank-owned life insurance	(72,605)	(72,687)	(116,140)
Tax impact from Enacted Change in Tax Rate	395,242	--	--
Other	5,170	5,437	27,945
	$ 1,311,812	$ 658,598	$ 592,577

Notes to Consolidated Financial Statements

Income tax expense for 2017 includes downward adjustment of net deferred tax assets in the amount of $395,242, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The act reclassed the corporate federal tax rate from 34% to 21% effective January 1, 2018.

Note 8. Employee Benefit Plan

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets as of and for the years ending December 31, 2017, 2016 and 2015.

	2017	2016	2015
Change in Benefit Obligation			
Benefit obligation, beginning	$ 13,546,307	$ 12,951,148	$ 13,110,437
Service cost	315,814	299,741	322,626
Interest cost	592,293	600,182	555,985
Actuarial (gain) loss	1,768,051	315,396	(719,569)
Benefits paid	(422,878)	(620,160)	(318,331)
Benefit obligation, ending	$ 15,799,587	$ 13,546,307	$ 12,951,148
Change in Plan Assets			
Fair value of plan assets, beginning	$ 11,613,176	$ 10,945,253	$ 9,987,238
Actual return on plan assets	1,658,759	288,083	(3,654)
Employer contributions	1,750,000	1,000,000	1,280,000
Benefits paid	(422,878)	(620,160)	(318,331)
Fair value of plan assets, ending	$ 14,599,057	$ 11,613,176	$ 10,945,253
Funded Status			
Funded status - accrued cost included in other liabilities	$ (1,200,530)	$ (1,933,131)	$ (2,005,895)
Amounts recognized in accumulated other comprehensive income (loss):			
Net actuarial loss	$ (6,546,764)	$ (6,019,505)	$ (5,620,072)
Amount recognized	$ (6,546,764)	$ (6,019,505)	$ (5,620,072)

The accumulated benefit obligation for the defined benefit pension plan was $12,956,047, $11,203,278 and $10,853,455 at December 31, 2017, 2016 and 2015, respectively.

The weighted-average assumptions used to determine the Corporation's benefit obligation at year end are as follows:

	December 31,		
	2017	2016	2015
Discount rate	3.81%	4.46%	4.73%
Rate of compensation increase	3.00%	3.00%	3.00%
Expected return on plan assets	6.69%	6.44%	6.67%

Notes to Consolidated Financial Statements

The following table provides the components of net periodic benefit cost for the plan for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Components of Net Periodic Benefit Cost			
Service cost	$ 315,814	$ 299,741	$ 322,626
Interest cost	592,293	600,182	555,985
Expected (return) on plan assets	(812,024)	(750,801)	(710,232)
Recognized net actuarial loss	394,057	378,681	455,928
Net periodic benefit cost	$ 490,140	$ 527,803	$ 624,307
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Loss			
Change to net actuarial (gain) loss for period	$ 921,316	$ 778,114	$ (5,683)
Amortization of actuarial loss	(394,057)	(378,681)	(455,928)
Total recognized in other comprehensive (income) loss	$ 527,259	$ 399,433	$ (461,611)
Total Recognized in Net Benefit Cost and Other Comprehensive (Income) Loss	$ 1,017,399	$ 927,236	$ 162,696

The weighted-average assumptions used to determine the Corporation's net periodic benefit costs are as follows:

	December 31,		
	2017	2016	2015
Discount rate	4.46%	4.73%	4.32%
Expected return on plan assets	6.44%	6.67%	6.92%
Rate of compensation increase	3.00%	3.00%	3.00%

The pension plan's weighted-average asset allocations at December 31, 2017 and 2016 by asset category are as follows:

	Percentage of Plan Assets	
	December 31, 2017	December 31, 2016
Equity securities	62%	61%
Debt securities	31%	37%
Other	7%	2%
Total	100%	100%

Notes to Consolidated Financial Statements

Investment Policy and Strategy

The policy is to invest assets based on certain target allocations. The assets will be reallocated periodically to meet the target allocations. The investment policy will be reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be changed.

The overall investment return goal is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5% after fees over a rolling 5-year moving average basis.

Allowable assets include cash equivalents, fixed income securities, equity securities, exchange traded index funds and guaranteed investment certificates. Prohibited investments include, but are not limited to, commodities and future contracts, private placements, options, limited partnerships, venture capital investments, real estate and residual collateralized mortgage obligations.

In order to achieve a prudent level of portfolio diversification, the securities of any one company will not exceed more than 10% of the total plan assets, and no more than the 25% of total plan assets should be invested in any one industry (other than securities of U.S. Government or Agencies). Additionally, no more than 20% of the plan assets will be invested in foreign securities (both equity and fixed).

Determination of Expected Long-Term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class.

The fair value of the Corporation's pension plan assets at December 31, 2017 and 2016, by asset category are as follows:

	Fair Value Measurements at December 31, 2017			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 952,927	$ 952,927	$ --	$ --
Equity				
US companies	7,663,803	7,123,803	540,000	--
Foreign companies	1,431,887	1,431,887	--	--
Fixed Income Securities				
US Treasury bonds	140,069	--	140,069	--
Corporate bonds	1,473,234	--	1,473,234	--
Mortgage-backed bonds	460,573	--	460,573	--
Mutual funds	2,363,919	2,363,919	--	--
International bonds	112,645	--	112,645	--
Total	$ 14,599,057	$ 11,872,536	$ 2,726,521	$ --

Notes to Consolidated Financial Statements

	Fair Value Measurements at December 31, 2016			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 277,771	$ 277,771	$ --	$ --
Equity				
US companies	6,049,051	5,519,051	530,000	--
Foreign companies	1,048,843	1,048,843	--	--
Fixed Income Securities				
US Treasury bonds	210,731	--	210,731	--
Corporate bonds	1,173,519	--	1,173,519	--
Mortgage-backed bonds	431,393	--	431,393	--
Mutual funds	2,190,287	2,190,287	--	--
International bonds	231,581	--	231,581	--
Total	$ 11,613,176	$ 9,035,952	$ 2,577,224	$ --

The Corporation expects to contribute $1,400,000 to its pension plan in 2018. The Corporation made a $1,750,000 contribution in 2017.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

2018	$ 600,000
2019	611,000
2020	633,000
2021	660,000
2022	702,000
2023-2026	4,028,000

Note 9. Executive Supplemental Income Plans

Executive Supplemental Income Plans have been adopted for certain key employees which provide that benefits are to be paid in monthly installments for 15 years following retirement or death. The compensation expense for 2017, 2016 and 2015, based on the present value of the retirement benefits, amounted to $17,468, $17,772 and $22,584, respectively. The plan is unfunded; however, life insurance has been acquired on the lives of these employees in amounts sufficient to discharge the obligations thereunder.

Note 10. Fund Restrictions and Reserve Balance

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 2017, the aggregate amount of unrestricted funds which could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval, totaled $2,729,618 or 9.7% of the consolidated net assets.

Notes to Consolidated Financial Statements

Note 11. Related Party Transactions

The Corporation has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal shareholders, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. At December 31, 2017 and 2016, these loans totaled $1,527,056 and $2,489,162, respectively. During 2017, total principal additions were $1,106,533 and total principal payments were $2,068,639.

Deposits from related parties held by the Corporation at December 31, 2017 and 2016 amounted to $3,108,308 and $2,748,312, respectively.

Note 12. Deposits

The aggregate amount of jumbo time deposits, each with a minimum denomination of $250,000, was $18,447,198 and $20,054,009 at December 31, 2017 and 2016, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2018	$ 54,594,797
2019	13,489,468
2020	8,300,732
2021	9,099,711
2022	7,508,490
	$ 92,993,198

At December 31, 2017 and 2016, overdraft demand deposits reclassified to loans totaled $72,035 and $68,369, respectively.

Included in the regular certificates of deposits are $12,513,000 of brokered deposits as of December 31, 2017, issued in denominations of less than $100,000 and obtained through Financial Northeastern Companies. There were $8,122,000 brokered deposits as of December 31, 2016.

As of December 31, 2017 there were no customer relationships where the balances on deposit exceeded 5% of total deposits. At December 31, 2016, there was one customer relationship where the balances on deposit exceeded 5% of total deposits. This customer comprised 7% of the outstanding deposits at December 31, 2016.

Notes to Consolidated Financial Statements

Note 13. Federal Home Loan Bank Advances and Other Borrowings

The Corporation has entered into various note agreements with the Federal Home Loan Bank of Pittsburgh. The fixed rate short-term debt of $2,600,000 and $7,400,000 at December 31, 2017 and 2016 had a weighted average interest rate of 1.55% and 0.76%. The fixed-rate, long-term debt of $42,252,953 at December 31, 2017 matures between 2018 and 2026. The fixed-rate, long-term debt at December 31, 2016 was $29,045,033. At December 31, 2017, the interest rates ranged from 1.16 to 2.66 percent and from 0.86 to 2.66 percent at December 31, 2016. At December 31, 2017 and 2016, the weighted average interest rates on the long-term debt were 1.74 and 1.46 percent, respectively. Notes totaling $11,219,000 are interest only until maturity, payable quarterly. The remaining $31,033,953 is amortized through 2026 with monthly payments of $63,986. These advances are secured by a blanket floating lien on all real estate mortgage loans secured by 1 to 4 family residential properties, and any other real estate related collateral. Total collateral under the blanket lien amounted to approximately $103,599,000 and $83,481,000 as of December 31, 2017 and 2016, respectively.

On April 14, 2014, the Corporation entered into a note agreement with another financial institution, as part of a stock repurchase transaction. Interest calculated at 5% is payable annually for two years. The note is then payable in five annual payments of $173,239 which began April 14, 2017. The note payable had a balance of $614,261 and $750,000 as of December 31, 2017 and 2016.

The contractual maturities of debt are as follows:

2018	$ 12,934,795
2019	8,528,824
2020	9,637,306
2021	4,729,775
2022	7,099,857
Thereafter	2,536,657
	$ 45,467,214

Note 14. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Corporation does not anticipate any material losses as a result of these transactions. See Note 15 with respect to financial instruments with off-balance-sheet risk.

Notes to Consolidated Financial Statements

Note 15. Financial Instruments With Off-Balance-Sheet Risk

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance-sheet risk as of December 31, 2017 and 2016 is as follows:

	2017	2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 16,548,000	$ 13,801,000
Standby letters of credit and financial guarantees written	89,000	89,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. There was no collateral held for those commitments at December 31, 2017.

Notes to Consolidated Financial Statements

Note 16. Fair Value of Assets and Liabilities

Determination of Fair Value

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Corporation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Notes to Consolidated Financial Statements

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

Securities available for sale and trading securities: Securities available for sale and trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). Securities identified as restricted securities including stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") and the Federal Reserve Bank ("FRB") are excluded from the table below since there is no ability to sell these securities except when the FHLB or FRB require redemption based on either our borrowings at the FHLB, or, in the case of the FRB, changes in certain portions of our capital.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016:

		Fair Value Measurements Using		
Description	Balance Outstanding	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets as of December 31, 2017:				
Obligations of US Government corporations and agencies	$ 30,647,464	$ --	$ 30,647,464	$ --
Other debt securities	1,139,740	--	1,139,740	--
Obligations of states and political subdivisions	22,693,784	--	22,693,784	--
Equity securities	583,420	464,560	118,860	--
Assets as of December 31, 2016:				
Obligations of US Government corporations and agencies	$ 35,134,217	$ --	$ 35,134,217	$ --
Other debt securities	2,508,611	--	2,508,611	--
Obligations of states and political subdivisions	24,839,191	--	24,839,191	--
Equity securities	115,464	--	115,464	--

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

Notes to Consolidated Financial Statements

The following describes the valuation techniques used by the Corporation to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, or uses an income valuation approach then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned: Other real estate owned ("OREO") is measured at fair value less estimated costs to sell, based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level 2). If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Corporation because of marketability, then the fair value is considered Level 3. OREO is measured at fair value on a nonrecurring basis. Any initial 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 on the Consolidated Statements of Income.

The following table summarizes the Corporation's assets that were measured at fair value on a nonrecurring basis at December 31, 2017 and 2016:

		Carrying Value		
Description	**Balance Outstanding**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets as of December 31, 2017:				
Impaired loans, net of valuation allowance	$ 1,831,392	$ --	$ --	$ 1,831,392
Other real estate owned	1,257,453	--	--	1,257,453
Assets as of December 31, 2016:				
Impaired loans, net of valuation allowance	$ 2,186,092	$ --	$ --	$ 2,186,092
Other real estate owned	2,043,032	--	--	2,043,032

Notes to Consolidated Financial Statements

The following table presents information about Level 3 fair value measurements as of December 31, 2017:

	Quantitative Information about Level 3 Fair Value Measurement for December 31, 2017			
Asset	Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired loans net of valuation allowance	$ 1,831,392	Appraisal and income for market valuation	Market discount	1% - 15% (7%)
OREO	1,257,453	Appraisal, internal evaluation or market analysis	Market discount	0% - 54% (22%)

Note 17. Concentration Risk

The Corporation maintains its cash accounts in several correspondent banks. As of December 31, 2017, deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $626,076.

Note 18. Common Stock

On March 6, 2015, the Board of Directors authorized a retirement of 10,000 shares from treasury stock held by the Corporation. The retirement reduced total outstanding shares to 580,000 as of December 31, 2015. There were no retirements for the years ended December 31, 2017 or 2016.

Note 19. Regulatory Capital Matters

Bank and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 Capital ratio is calculated and utilized in the assessment of capital for all institutions. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. The capital conservation buffer is implemented in a phase approach from 0.0% for 2015 to 2.5% by 2019. The capital conservation buffer for 2017 is 1.25%. Although the capital conservation buffer is not part of regulatory minimums risk-based capital requirement, it does determine the minimums that must be met to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below the buffer amount. Management believes as of December 31, 2017 and 2016, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Notes to Consolidated Financial Statements

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans required. At year-end 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Corporation's and the Bank's actual capital amounts (in thousands) and ratios are also presented in the table. Minimum capital ratios below include phase-in of capital conservation buffer.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 35,140	20.1%	$ 16,195	9.25%	N/A	N/A
The Bank of Romney	$ 33,907	19.5%	$ 16,065	9.25%	$ 17,368	10.0%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 33,616	19.2%	$ 12,684	7.25%	N/A	N/A
The Bank of Romney	$ 32,383	18.6%	$ 12,592	7.25%	$ 13,894	8.0%
Common Tier 1 (to Risk-Weighted Assets)						
Consolidated	$ 33,616	19.2%	$ 10,067	5.75%	N/A	N/A
The Bank of Romney	$ 32,383	18.6%	$ 9,487	5.75%	$ 11,289	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 33,616	11.7%	$ 11,482	4.0%	N/A	N/A
The Bank of Romney	$ 32,383	11.3%	$ 11,425	4.0%	$ 14,281	5.0%
As of December 31, 2016:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 33,265	20.3%	$ 14,125	8.625%	N/A	N/A
The Bank of Romney	$ 32,282	19.8%	$ 14,044	8.625%	$ 16,283	10.0%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 31,465	19.2%	$ 10,850	6.625%	N/A	N/A
The Bank of Romney	$ 30,482	18.7%	$ 10,788	6.625%	$ 13,026	8.0%
Common Tier 1 (to Risk-Weighted Assets)						
Consolidated	$ 31,465	19.2%	$ 8,392	5.125%	N/A	N/A
The Bank of Romney	$ 30,482	18.7%	$ 8,345	5.125%	$ 10,584	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 31,465	11.7%	$ 10,736	4.0%	N/A	N/A
The Bank of Romney	$ 30,482	11.4%	$ 10,681	4.0%	$ 13,351	5.0%

Notes to Consolidated Financial Statements

Note 20. Accumulated Other Comprehensive Income

Changes in each component of accumulated comprehensive (loss) were as follows:

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Retirement Benefits	Accumulated Other Comprehensive (Loss)
Balance at December 31, 2015	$ (4,710)	$ (3,484,446)	$ (3,489,156)
Net unrealized (losses) arising during the period, net of tax effect of $290,140	(471,298)	--	(471,298)
Net unrealized gains reversed upon the liquidation of investment securities, net of tax effect of $58,394	(95,273)	--	(95,273)
Change in the funded status of pension retirement plans, net of tax effect of $151,785	--	(247,648)	(247,648)
Balance at December 31, 2016	$ (571,281)	$ (3,732,094)	$ (4,303,375)
Net unrealized (losses) arising during the period, net of tax effect of $127,946	208,754	--	208,754
Net unrealized gains reversed upon the liquidation of investment securities, net of tax effect of $5,005	(8,166)	--	(8,166)
Change in the funded status of pension retirement plans, net of tax effect of $57,466	--	(469,793)	(469,793)
Reclassification of stranded tax effects from change in tax rate	(89,685)	(839,121)	(928,806)
Balance at December 31, 2017	$ (460,378)	$ (5,041,008)	$ (5,501,386)

Note 21. Subsequent Event

In accordance with ASC 855-10, the Corporation evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Corporation evaluated subsequent events through March 9, 2018.

Based on the evaluation, the Corporation did not identify any recognized or non-recognized subsequent events that would have required adjustment to or disclosure in the financial statements.

Notes to Consolidated Financial Statements

Note 22. Condensed Financial Information - Parent Corporation Only

ROMNEY BANKSHARES, INC.
(Parent Corporation Only)

Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets		
Cash on deposit with subsidiary bank	$ 506,061	$ 801,049
Interest-bearing deposits	31,787	125,993
Investment in subsidiary, at cost, plus equity in undistributed net income	26,818,816	26,129,769
Securities - available for sale	118,860	115,464
Securities - trading	464,560	- -
Bank premises, net	819,622	813,653
Total assets	$ 28,759,706	$ 27,985,928
Liabilities		
Notes payable	$ 614,261	$ 750,000
Accrued interest payable	21,755	26,782
Other liabilities	8,324	46,855
	$ 644,340	$ 823,637
Shareholders' Equity	$ 28,115,366	$ 27,162,291
Total liabilities and shareholders' equity	$ 28,759,706	$ 27,985,928

Notes to Consolidated Financial Statements

ROMNEY BANKSHARES, INC.
(Parent Corporation Only)

Statements of Income
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Revenues			
Dividends from subsidiary	$ 900,000	$ 900,000	$ 800,000
Dividends, other	21,409	18,176	21,022
(Loss) gain on trading securities	(47,133)	62,934	12,046
Rental income	42,000	42,000	42,000
Total revenues	$ 916,276	$ 1,023,110	$ 875,068
Expenses			
Depreciation expense	$ 16,752	$ 18,098	$ 18,098
Interest expense	32,489	42,678	53,601
Other expenses	6,477	6,390	6,089
Total expenses	$ 55,718	$ 67,166	$ 77,788
Income before income tax expense (benefit) and equity in undistributed net income of subsidiary	$ 860,558	$ 955,944	$ 797,280
Income Tax Expense (Benefit)	(21,160)	17,023	(5,946)
Income before equity in undistributed net income of subsidiary	$ 881,718	$ 938,921	$ 803,226
Equity in Undistributed Net Income of Subsidiary	961,996	835,733	931,889
Net income	$ 1,843,714	$ 1,774,654	$ 1,735,115

Notes to Consolidated Financial Statements

ROMNEY BANKSHARES, INC.
(Parent Corporation Only)

Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 1,843,714	$ 1,774,654	$ 1,735,115
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	16,752	18,098	18,098
Loss (gain) on trading securities	47,133	(62,934)	(12,046)
Deferred tax benefit	(10,647)	- -	- -
Undistributed earnings of subsidiary	(961,996)	(835,733)	(931,889)
Increase (decrease) in accrued interest payable	(5,027)	(4,918)	(4,754)
Decrease (increase) in other assets	- -	5,946	(330)
(Decrease) increase in other liabilities	(27,536)	17,023	- -
Net cash provided by operating activities	$ 902,393	$ 912,136	$ 804,194
Cash Flows from Investing Activities			
Proceeds from maturities and sales of securities available for sale	$ 1,341,158	$ 1,294,020	$ 1,483,181
Purchase of securities available for sale	(1,852,851)	(811,553)	(1,890,668)
Purchase of premises and equipment	(22,721)	- -	- -
Net cash provided by (used in) operating activities	$ (534,414)	$ 482,467	$ (407,487)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock from the Treasury	$ 483,358	$ 385,946	$ 858,481
Purchase of common stock for the Treasury and retirement	(385,733)	(510,443)	(470,960)
Dividends paid	(719,059)	(704,799)	(700,215)
Net (payments) on note payable	(135,739)	(167,965)	(158,493)
Net cash (used in) financing activities	$ (757,173)	$ (997,261)	$ (471,187)
Increase (decrease) in cash and cash equivalents	$ (389,194)	$ 397,342	$ (74,480)
Cash and Cash Equivalents			
Beginning	927,042	529,700	604,180
Ending	$ 537,848	$ 927,042	$ 529,700

Banking Services

- ATM Machines
- Agricultural Loans
- Apple Club Checking Accounts
- Apple Express 24-Hour Banking
- "Apple Power" Authorized Overdraft
- Automobile Loans
- Bank-By-Mail
- Business Loans
- Cash Advance
- Cashier Checks
- Certificates of Deposit
- Certified Checks
- Christmas Clubs
- Cirrus Network
- Community Rooms
- Double Check Program for Businesses
- Drive-In Facilities
- E-Statements
- IRA Accounts
- Interest-Bearing NOW Checking Accounts
- Internet Banking
- Business MasterMoney Debit Card
- Consumer MasterMoney Debit Card
- MMA Checking Accounts
- Mobile Banking
- Money Orders
- Mortgage Loans
- Night Depository
- Online Bill Pay
- Personal Loans
- Regular Checking Accounts
- Remote Deposit Capture For Businesses
- Safe Deposit Boxes
- SecurLOCK™ Equip
- Statement Savings Accounts
- Visa Gift Cards
- Wire Transfers

Member of the Federal Reserve System