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FRB RICHMOND

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Linda K. Ashley
Name of the Holding Company Director and Official

President and CEO
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.

Linda K. Ashley
Signature of Holding Company Director and Official

05/21/2018
Date of Signature

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

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2152734
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

The Poca Valley Bankshares, Inc.
Legal Title of Holding Company

P.O. Box 56
(Mailing Address of the Holding Company) Street / P.O. Box

Walton	WV	25286
City	State	Zip Code

7033 Charleston Road
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Robert N. Rowsey	SVP/CFO
Name	Title

304-577/-9418 (direct)
Area Code / Phone Number / Extension

304-577-6324
Area Code / FAX Number

browsey@pocavalleybank.com
E-mail Address

pvb@pocavalleybank.com
Address (URL) for the Holding Company's web page

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

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

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

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

For Use By Tiered Holding Companies

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

N/A
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)

N/A
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)

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Physical Location (if different from mailing address)

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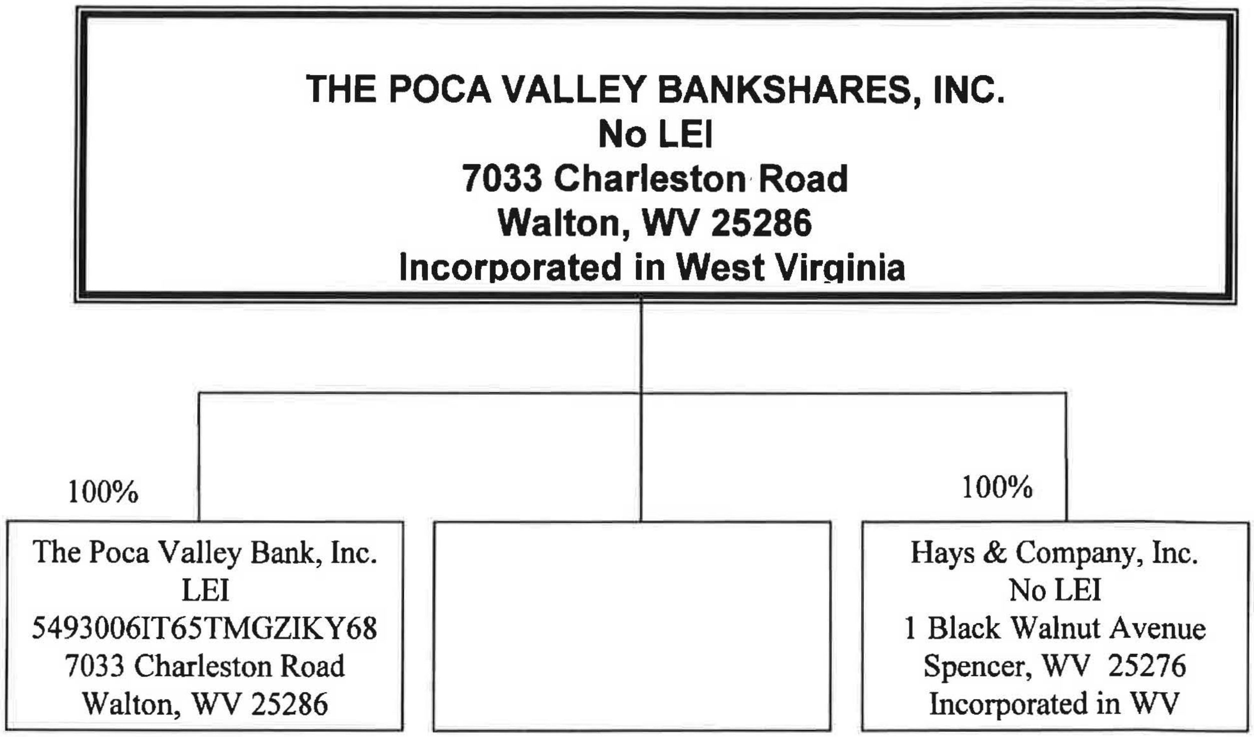
Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

2a. **Organizational Chart, Branch List and supplemental information:**



2a(1). No Top-Tier bank holding companies.
2a(2). No Foreign banking organizations as defined by Reg. K.
2a(3). No bank holding companies, U.S. banks or foreign banking organization controlled.
2a(4). No nonbanking companies controlled.
2a(5). No large banking and insurance company investments.
2a(6). No entity required to file regulatory reports to the Federal Reserve System.
2a(7). No other company which is both a subsidiary of the Reporter and parent of a reportable company.

2b. See the Branch Report attached.

2b.

Results: A list of branches for your depository institution: POCA VALLEY BANK, INC., THE (ID_RSSD: 851239).
This depository institution is held by POCA VALLEY BANKSHARES, INC., THE (2152734) of WALTON, WV.
The data are as of 12/31/2017. Data reflects information that was received and processed through 03/31/2018.

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)	851239	POCA VALLEY BANK, INC., THE	7033 CHARLESTON ROAD	WALTON	WV	25286	ROANE	UNITED STATE	7628	0	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	1192461	CLENDENIN BRANCH	545 SPENCER ROAD	CLENDENIN	WV	25045	KANAWHA	UNITED STATE	226010	1	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	2448754	EKVIEW BRANCH	5087 ELK RIVER ROAD NORTH	ELKVIEW	WV	25071	KANAWHA	UNITED STATE	226011	2	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3296411	POCA BRANCH	142 MAIN ST	POCA	WV	25159	PUTNAM	UNITED STATE	358766	4	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	2643371	SISSONVILLE BRANCH	6420 SISSONVILLE DR	SISSONVILLE	WV	25320	KANAWHA	UNITED STATE	226012	3	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3676835	SPENCER BRANCH	1 BLACK WALNUT AVENUE	SPENCER	WV	25276	ROANE	UNITED STATE	441697	6	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3296420	WINFIELD BRANCH	3500 WINFIELD RD	WINFIELD	WV	25213	PUTNAM	UNITED STATE	362115	5	POCA VALLEY BANK, INC., THE	851239	

Form FR Y-6
December 31, 2017

Report Item 3: Shareholders
(1)(a) (1)(b) (1)(c) (2)(a) (2)(b) (2)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-17			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-17		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Adelee Conley **Walton, WV**	**USA**	**33,925 / 15.2352% common**	**None**		
Anna Marlene Jones **Walton, WV**	**USA**	**17,650 / 7.9264% common**			
Poca Valley Bank KSOP **Walton, WV**	**USA**	**15,920 / 7.1494% common**			
Darlene Jo Kemmner Smith **Charleston, WV**	**USA**	**12,945 / 5.8134% common**			
Harry D. Kemmner **Lost Creek, WV**	**USA**	**12,283 / 5.9121% common**			

Form FR Y-6

December 31, 2017

Report Item 4: Principal Shareholders, Directors and Officers
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsitdiaries)	(3)(c) Title & Position with Other Businesses (include names of Other Businesses)	(4)(a) Percentage of Voting Shares in Bank Holding company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Adelee Conley **Walton, WV**	Retired	**None**	**None**	**None**	**15.2532%**	**None**	**None**
Harry D. Kemmner **Lost Creek, WV**	CFO Mountain State Medical Specialties	**Director, Chair Audit Committee**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc., Chair Audit Comm.)	**None** Licensed CPA	**5.9121%**	**None**	**None**
Phillip B. Robertson **Clendenin, WV**	Retired	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hay & Company, Inc.)	**None**	**1.0230%**	**None**	**None**
Mitchell Smith **Elkview, WV**	Insurance	**Director & Secretary**	**Director** (The Poca Valley Bank, Inc.; Hays & Company, Inc.) **Director & Registered Representative** (Poca Valley Financial, Inc.)	**Owner/President** (Smith Insurance Agency, L.L.C.)	**0.3539%**	**None**	Smith Insurance Agency, L.L.C. 100%

(Continued...)

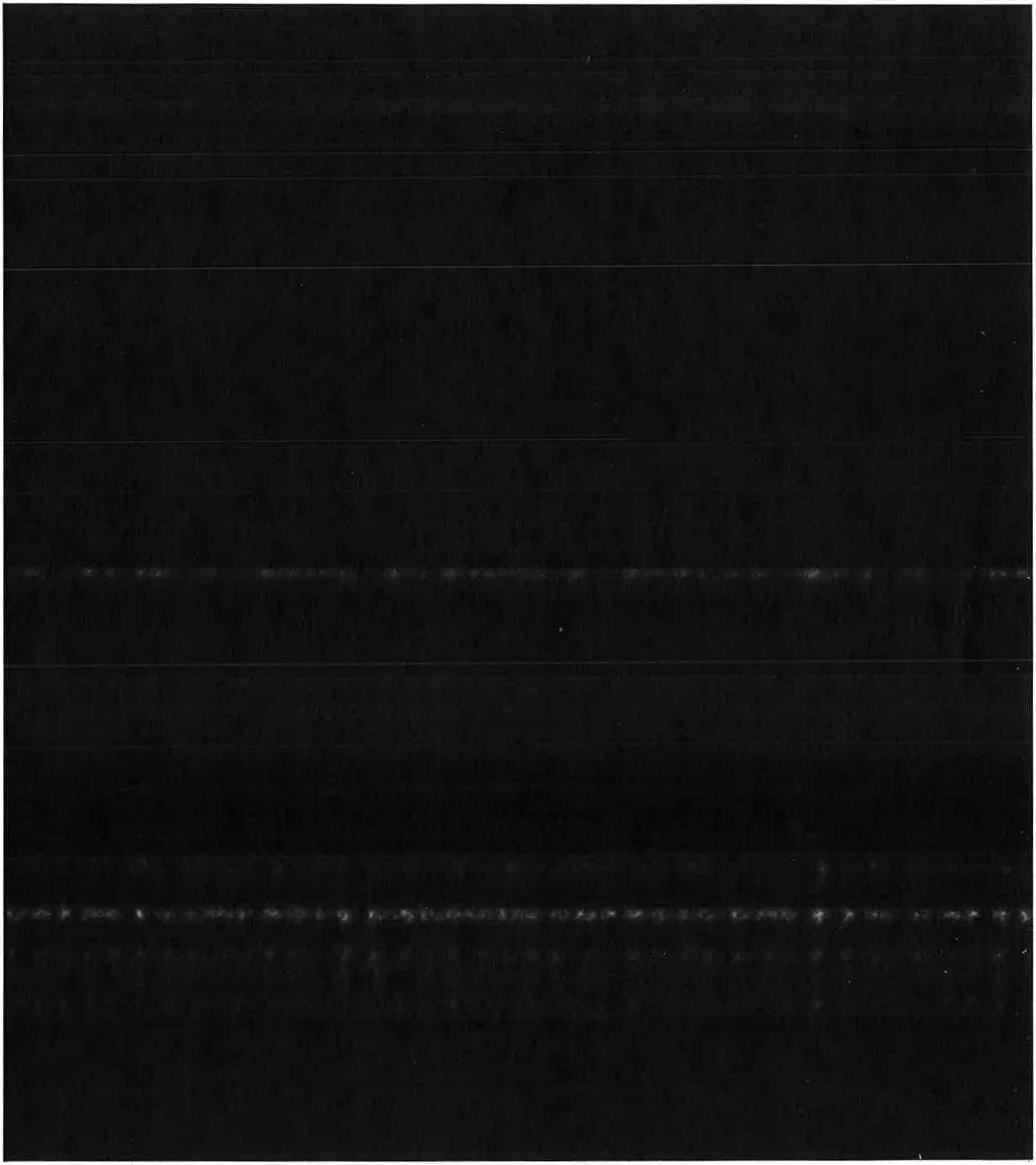
Linda K. Ashley **Walton, WV**	N/A	**CEO, Director, Pres Board, Finanial Expert**	**Manager** (Hays & Company, Inc.) **Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**None**	**0.0292%**	**None**	**None**
Terrence Rusin **Charleston, WV**	Correctional Sys. Medical Services Insurance Real Estate	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President/CEO** PSIMED, Inc.; PSIMED Corrections, LLC; Oasis, LLC; RE Enterprises; Rusin Insurance Agency; Links LLC; Comprehensive MH Care LLC; Custom Bus Sys LLC; Oakland Properties	**1.0212%**	**None**	PSIMED 100% PSIMED Corrections 100% Oasis 100% RE Enterprises 100% Insurance Agen 100% Links, LLC 100% Comprehensive 100% Custom 100% Oakland 33%
James Shafer **Clendenin, WV**	Heavy Equip.; Auto Trailer, RV Sales; Oil/Gas Line Inspect	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President/Owner** Shafer Equipment Shafer Pre-Owned Vehicles Pro Tech	**0.2251%**	**None**	Shafer Equipment 100% Shafer Pre-Own Veh 100% Protech 33%
L.D. Epling, II **Spencer, WV**	Trucking Hardware/Feed Store Asphalt Sporting Goods	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President** Epling Trucking Farmers Friend	**1.5884%**	**None**	Epling Trucking 100% Farmers Friend 100% A&E Asphalt 50% Trigger Time, LLC 50%

(Continued...)

William C. Howard	Health/Dental/Visior Benefits	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**Owner/President** Benefit Assistance Corp.	**0.2245%**	**None**	Benefit Assistance Corp. 50%
John Jarrett	Comm. Constr.; Real Est.	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**Owner/President** John Jarrett Construction	**0.0844%**	**None**	Jarrett Cons Ser Inc Pres 100% JP Develop LLC Mem 50% CCJ Prop LLC Mem 100%
J.E. White, Jr.	Attorney	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**Partner** Anspach Meeks Ellenberger Salaried	**0.2268%**	**None**	**None**

THE POCA VALLEY BANKSHARES, INC

2017 ANNUAL REPORT



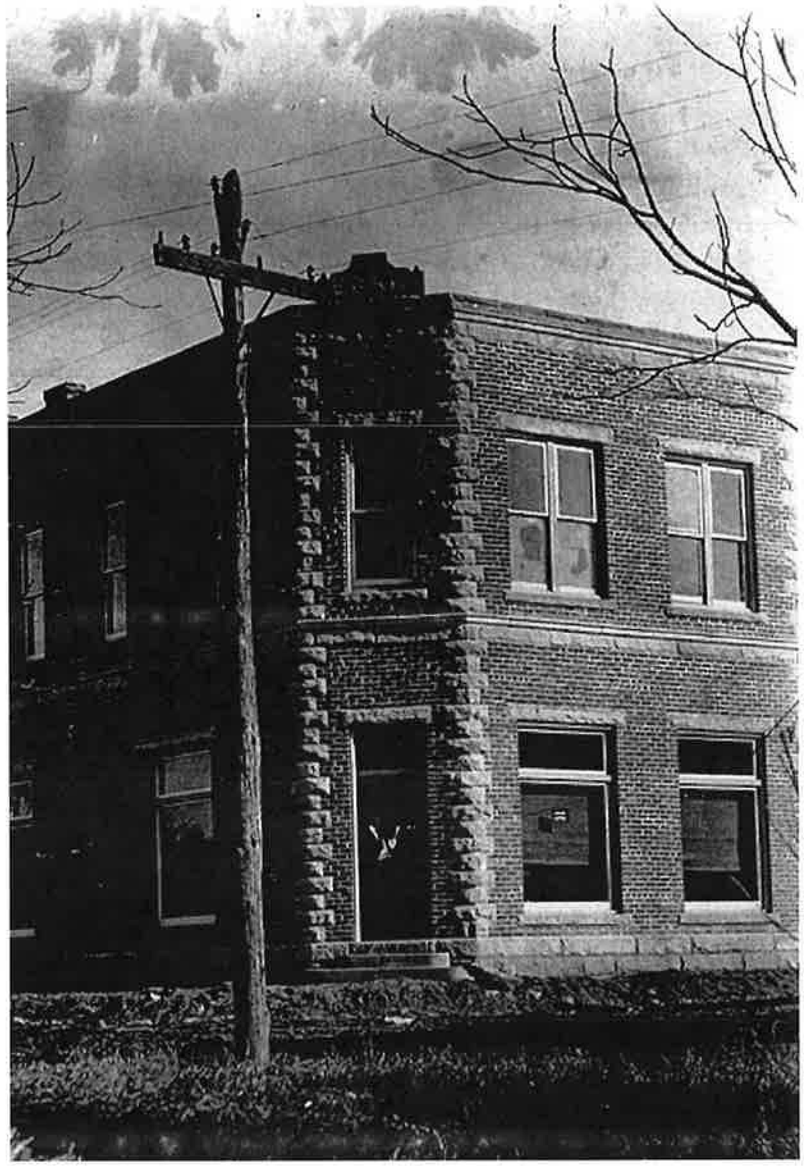
CORE

noun

1. the central part of a fleshy fruit, containing the seeds.
2. the central, innermost, or most essential part of anything.

Corporate Information

<u>Poca Valley Bankshares, Inc.</u>
PO Box 56
Walton, WV 25286
Bank Holding Company
Organized January 1, 1994



Poca Valley Bank
Walton, WV
Community Bank
Organized 1908

Poca Valley Financial
Walton, WV
Investment & Insurance
Organized 1996

Hays & Company
A Poca Valley Bankshares Company
Spencer, WV
General Accounting &
Tax Services
Acquired in 2004

The Company and its Subsidiaries are Equal Opportunity Employers

Dear Friends, April 2018

What a year 2017 was for us! As you review the annual report, I trust you will find sustenance and grow in confidence with the organization in which you have invested. We look forward to growing your investment, assisting our communities, and investing in our people. We do those things best when we focus on the Core of who we are, who we've always been, and continuing to fill a niche for consumers and small business owners as they work to attain their dreams.

One of my favorite things about my job is the constant stories of yesteryear of how Poca Valley helped our communities to grow, individuals to buy farms, build houses, send children to college. Somehow, in today's fast paced, high-tech world our society seems to have lost focus on the sense of community as it relates to our every day practices. However, when tragedies arise, West Virginians are superior in banding together to get things done to help our neighbors. As a native Roane Countian, I am proud of our commitment to each other. My goal for Poca Valley is that we elevate the values which have made us 109 years strong. We do that through cultivating relationships, making a difference one customer at a time, adding to our communities, investing into school systems, and staying true to who we are.

One of our crowning achievements for 2017 was the recognition from our national affiliation *Independent Community Bankers of America (ICBA)* as THE GRAND NATIONAL AWARD WINNER for their quest to honor community banks who have shown exceptional inspiration through servicing their communities. We were selected from a national pool of entrants as the Grand Champion winner through our flood relief work as a result of the tragedy we experienced in our very own communities. As described by *ICBA* in their own words, "In extraordinary circumstances, this year's National Community Bank Service Award honorees have gone the extra mile for their communities." The beauty of being a community bank is that in rural towns of not just West Virginia but truly throughout our great landscape of America, community banks go beyond just offering day-to-day banking services. In our particular case with the devastating flood, we partnered with Clendenin Elementary and Bridge Elementary to help them get their schools open on time, we helped to provide food and clothing to our children and their families through organized efforts, we assisted our employees with their personal loss all the while in the midst of our own rebuilding efforts due to our own loss. We didn't provide just a financial contribution; it was a partnership of work and dedication, volunteerism from our employees and constant interactions with committees and rebuilding efforts to supply furniture and fixtures. It is who we are. Thank you for believing in us.

As we share our 2017 results, we will focus on the CORE of who we are. Our employees and our customers are our CORE. I am honored to represent you and to be partnered with you.

With warmest regards,

Linda Ashley
President & CEO

Board of Directors & Senior Management Team

PVB Directors

Linda Ashley - President & CEO
Ben Robertson - Chairman of the Board
Mitchell Smith - Secretary of the Board
Harry Kemmner - Vice Chairman of the Board
L.D. Epling
Jim Shafer
Terry Rusin
John H. Jarrett
William C. Howard
J.E. White Jr.

PVB Leadership Team

Robert Rowsey - SVP Chief Financial Officer
Sherry Evans - SVP Chief Operating Officer
John Cole - VP Chief Information Officer
Vicki Nichols - VP Human Resources
Randall Coleman - VP Business Developement
Mike Spangler - VP Retail Banking Manager
Tony Spiegelberg - VP Chief Credit Officer
Michelle Shamblin - VP Controller
Tom Anderson - VP Poca Valley Financial
Kevin Jennings - VP Hays & Co
Diana Kitts - VP Mortgage Department Manager
Debbie Greathouse - VP Data Technology
Scott Lacy - Credit Administration Manager

2017 Habitat For Humanity Build

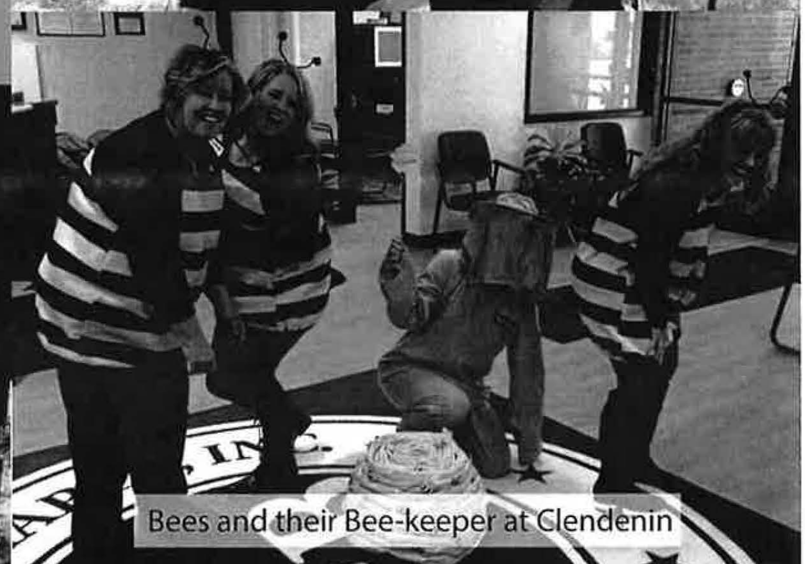
Joetta Simms - 30 Years of Service

Martin getting the "Pie in the Face"

2017 Habitat For Humanity Build

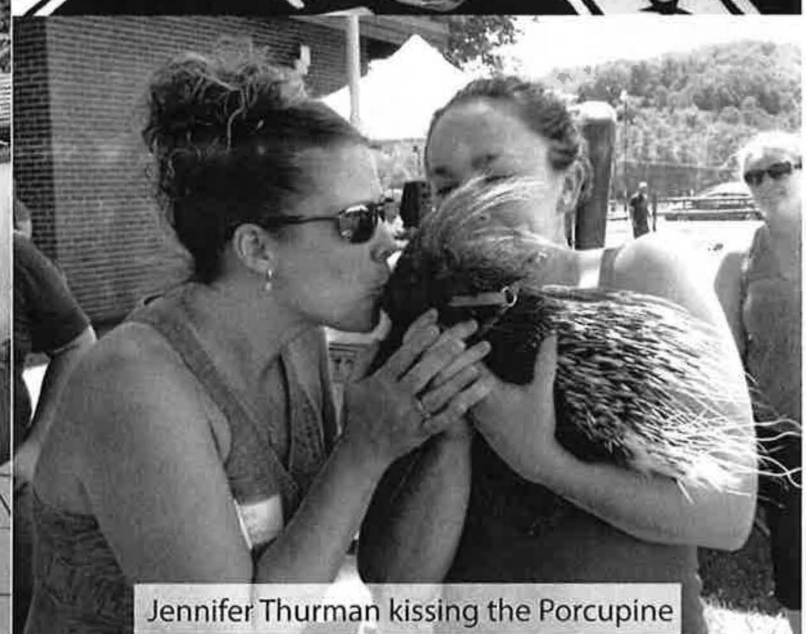
"Identity Thieves" at the Poca Branch

Vicki Nichols - 40 Years of Service



Bees and their Bee-keeper at Clendenin

Minnie Mouse and Daisy Duck at Elkview



Jennifer Thurman kissing the Porcupine


Esther Sossong - Ugliest Christmas Sweater Contest

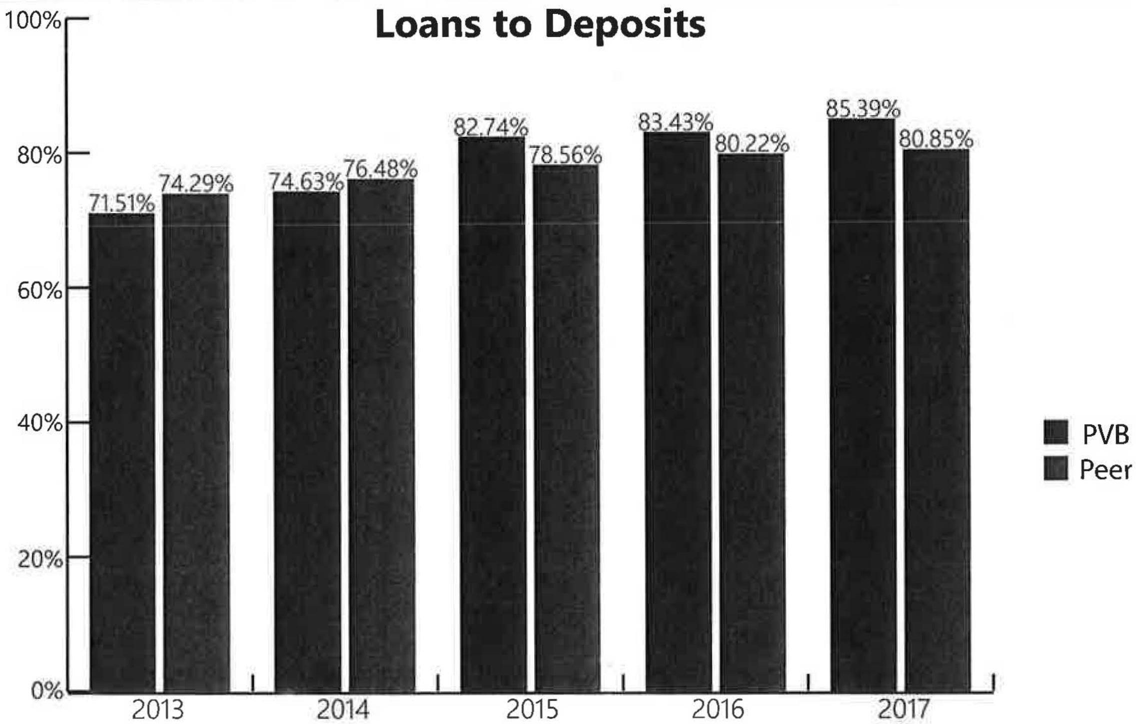

Sissonville Branch - Ugliest Christmas Sweater Contest

In Loving Memory ~ Samuel Selbe
1/18/1940 - 7/11/2017

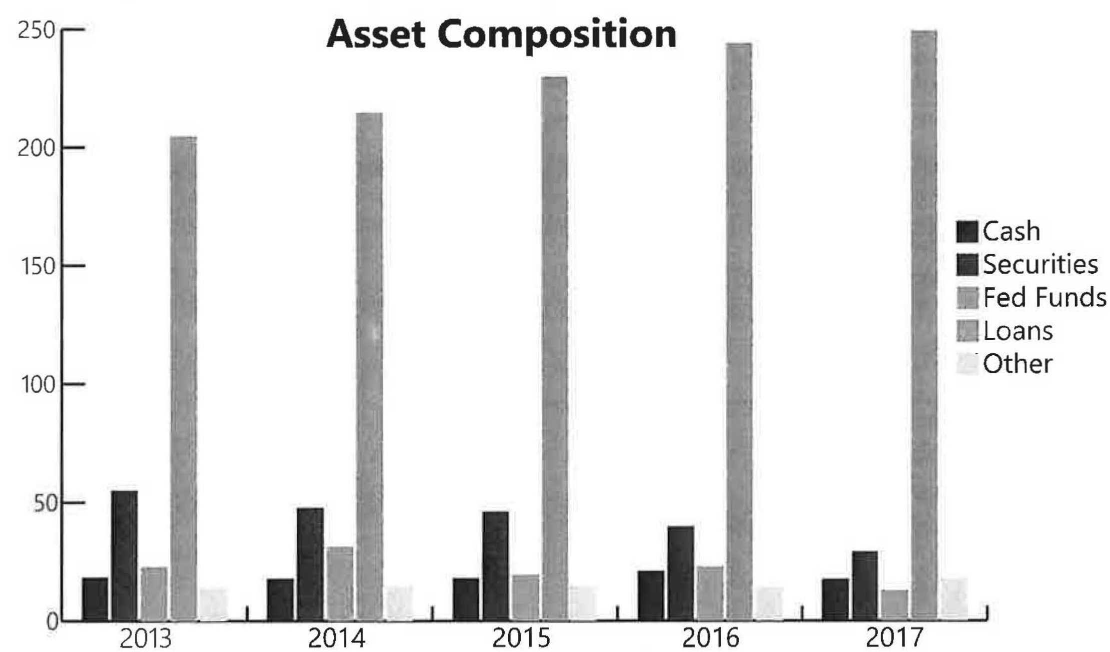
Selected Financial Data

	Year Ended December 31, 2016	Year Ended December 31, 2017	Change Amount	Change Percentage
Summary of Operations				
Total Interest Income	$ 14,621	$ 14,765	$ 144	0.98%
Total Interest Expense	(1,577)	(1,373)	204	-12.94%
Net Interest Income	13,044	13,392	348	2.67%
Loan Loss Provision	(600)	(397)	203	-33.83%
Net Interest Income After Loan Loss Provision	12,444	12,995	551	4.43%
Non-interest Income	4,274	4,003	(271)	-6.34%
Non-interest Expense	(13,875)	(13,717)	158	-1.14%
Net Income (Loss) Before Taxes	2,843	3,281	438	15.41%
Income Tax (Expense) Benefit	(827)	(1,347)	(520)	62.88%
Net Income	2,016	1,934	(82)	-4.07%
Per Common Share				
Net Income (Loss)	$ 9.08	$ 8.70	$ (0.38)	-4.20%
Book Value	$ 136.02	$ 143.35	$ 7.33	5.39%
Dividends	$ 1.85	2.15	0.30	16.22%
Shares Outstanding (Thousands)	222	223	1	0.45%
Weighted Average Shares Outstanding (Thousands)	222	222	0	0.00%
Ratios				
Return on Average Assets	0.60%	0.59%	-0.01%	-2.10%
Return on Average Equity	6.84%	6.23%	-0.62%	-9.05%
Regular Dividend Payout	20.36%	24.72%	4.36%	21.40%
Tier 1 Capital To Average Quarterly Assets	8.53%	9.29%	0.76%	8.92%
Financial Condition at Period End				
Assets	$ 342,418	$ 326,473	$ (15,945)	-4.66%
Net Loans	$ 243,129	$ 248,436	$ 5,307	2.18%
Total Deposits	$ 295,301	$ 278,353	$ (16,948)	-5.74%
Common Shareholders' Equity	$ 30,197	$ 31,872	$ 1,675	5.55%

In thousands, except per share data and percentages.

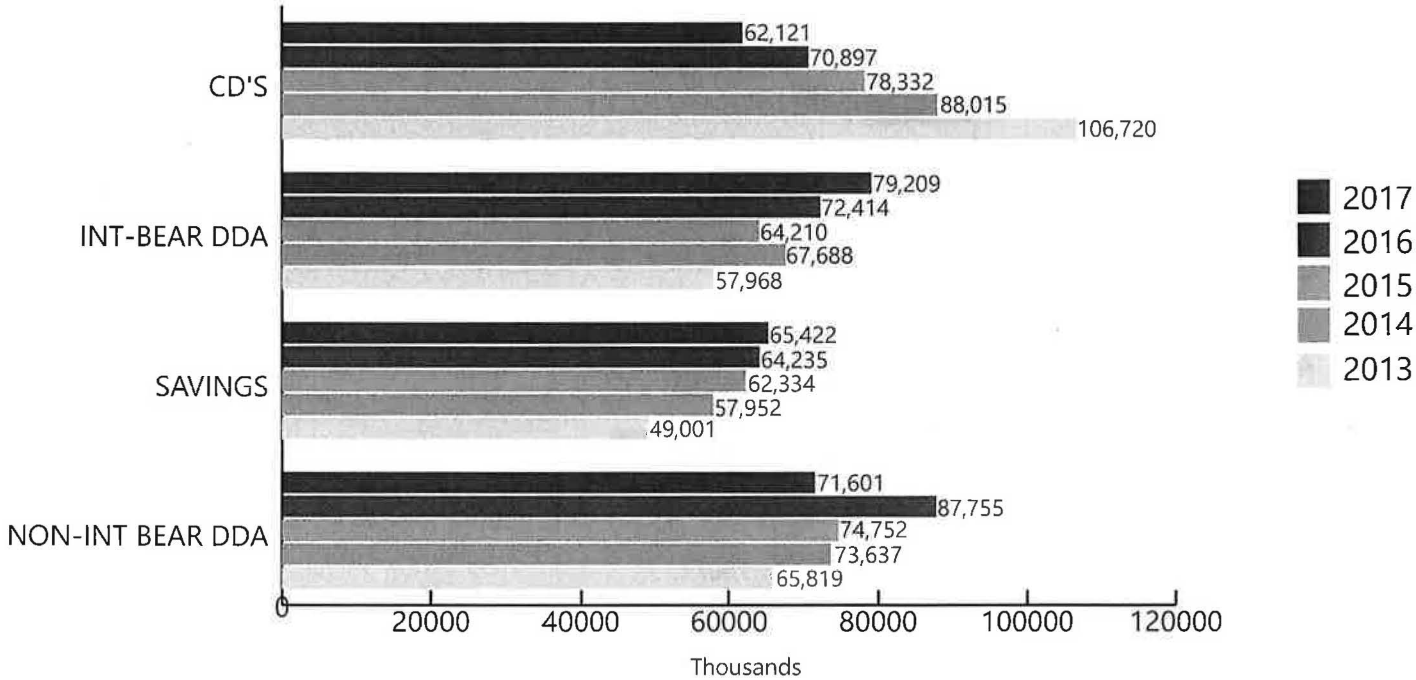


	2013	2014	2015	2016	2017
PVB	71.51%	74.63%	82.74%	83.43%	85.39%
Peer	74.29%	76.48%	78.56%	80.22%	80.85%



	2013	2014	2015	2016	2017
Cash	18,435	17,979	18,080	21,123	17,554
Securities	55,195	47,852	46,028	39,897	29,196
Fed Funds	22,861	31,346	19,576	22,911	12,725
Loans	204,673	214,676	229,841	243,966	249,309
Other	14,267	14,651	14,670	14,521	17,689
	315,431	326,504	328,195	342,418	326,473

Poca Valley Bank
Deposit Composition

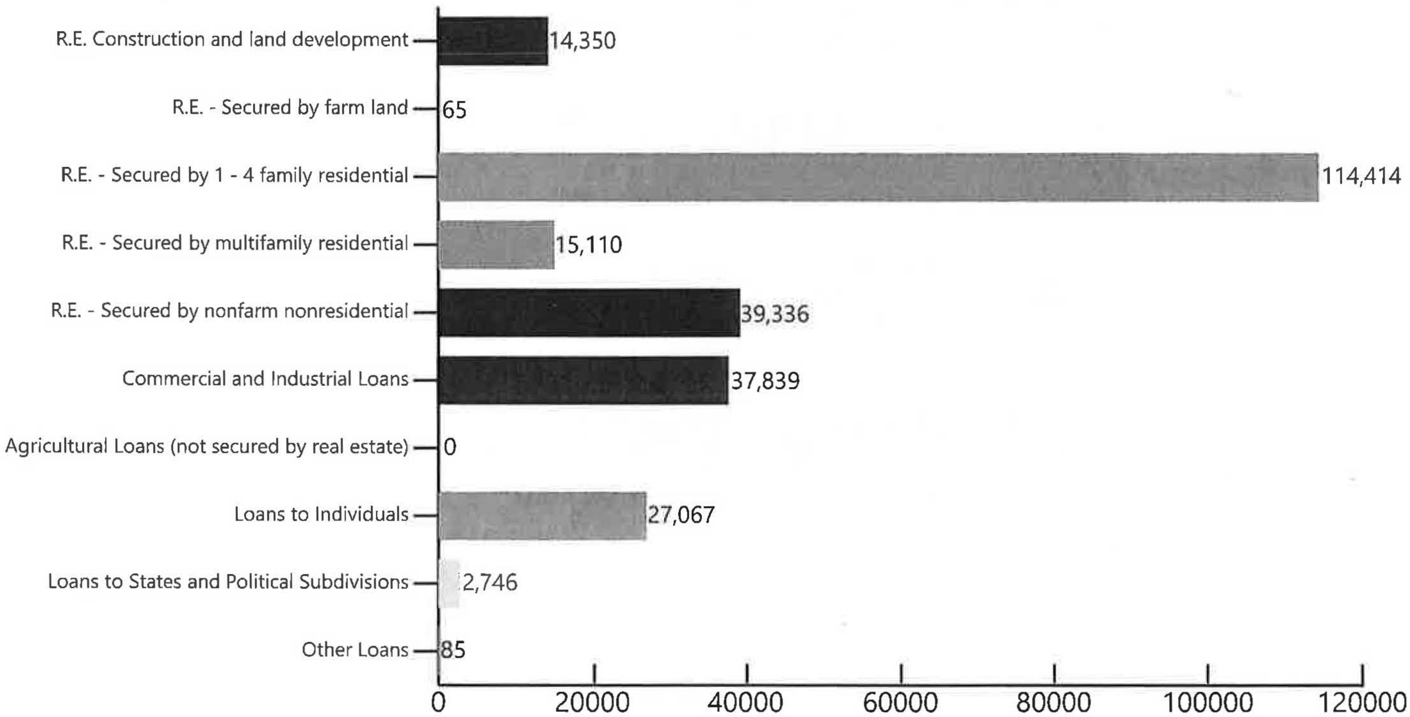


	2013	2014	2015	2016	2017
CD'S	106,720	88,015	78,332	70,897	62,121
INT-BEAR DDA	57,968	67,688	64,210	72,414	79,209
SAVINGS	49,001	57,952	62,334	64,235	65,422
NON-INT BEAR DDA	65,819	73,637	74,752	87,755	71,601
	279,508	287,292	279,628	295,301	278,353

Deposit Growth

	2013	2014	2015	2016	2017
PVB	0.90%	2.96%	-2.67%	5.61%	-5.74%
Peer	0.36%	0.29%	-0.37%	-0.04%	0.50%

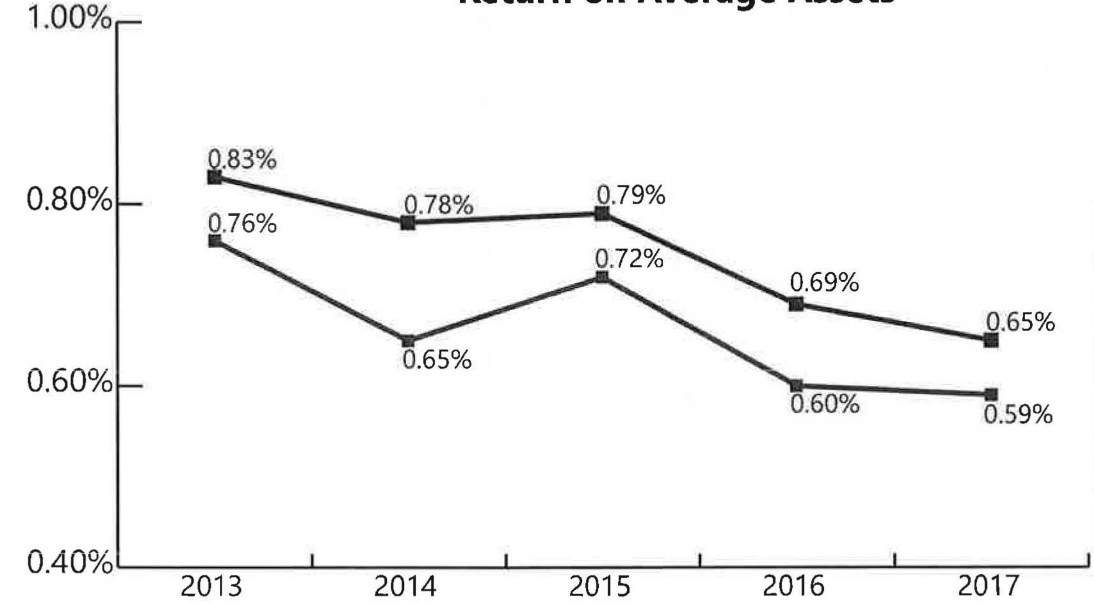
Loan Composition 2017



	2013	2014	2015	2016	2017
R.E. Construction and land development	7,795	11,109	13,060	14,202	14,350
R.E. - Secured by farm land	461	344	98	79	65
R.E. - Secured by 1 - 4 family residential	91,375	93,066	97,684	105,420	114,414
R.E. - Secured by multifamily residential	11,913	11,135	13,452	13,494	15,110
R.E. - Secured by nonfarm nonresidential	32,363	32,987	34,131	37,811	39,336
Commercial and Industrial Loans	34,572	37,485	41,078	41,427	37,839
Agricultural Loans (not secured by real estate	5	0	0	0	0
Loans to Individuals	27,001	28,083	28,713	27,846	27,067
Loans to States and Political Subdivisions	1,392	2,868	2,950	3,077	2,746
Other Loans	104	141	188	96	85
	206,981	217,218	231,354	243,452	251,012

	2013	2014	2015	2016	2017
PVB	2.53%	4.65%	6.80%	5.23%	2.20%
Peer	0.61%	2.60%	2.35%	2.07%	1.29%

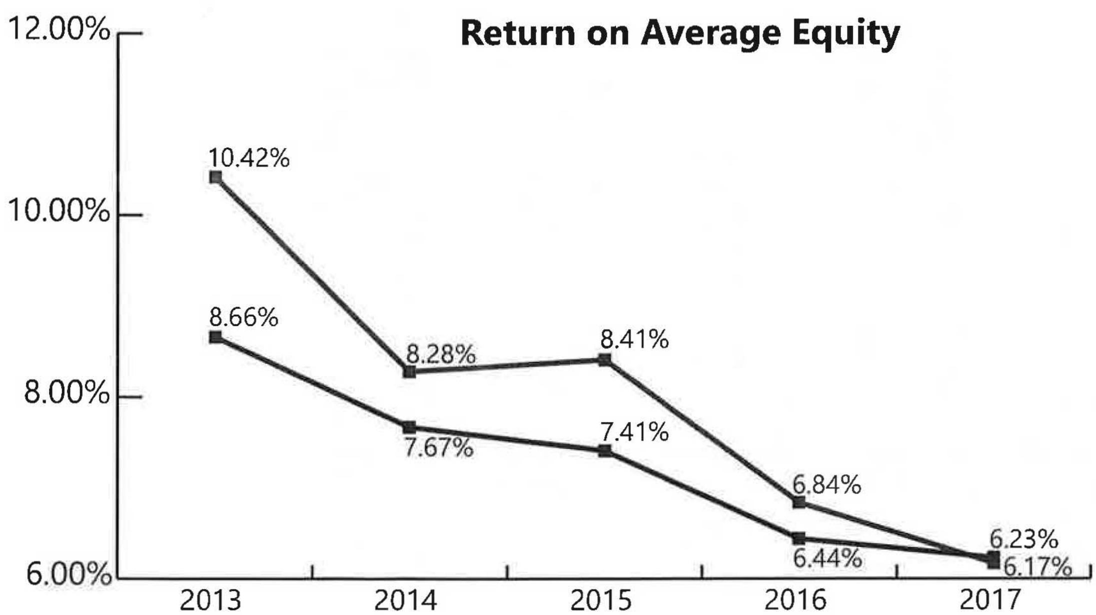
Return on Average Assets



Peer Average	
Date	Percentage
12/31/2013	0.95%
12/31/2014	1.02%
12/31/2015	1.04%
12/31/2016	1.06%
12/31/2017	1.03%

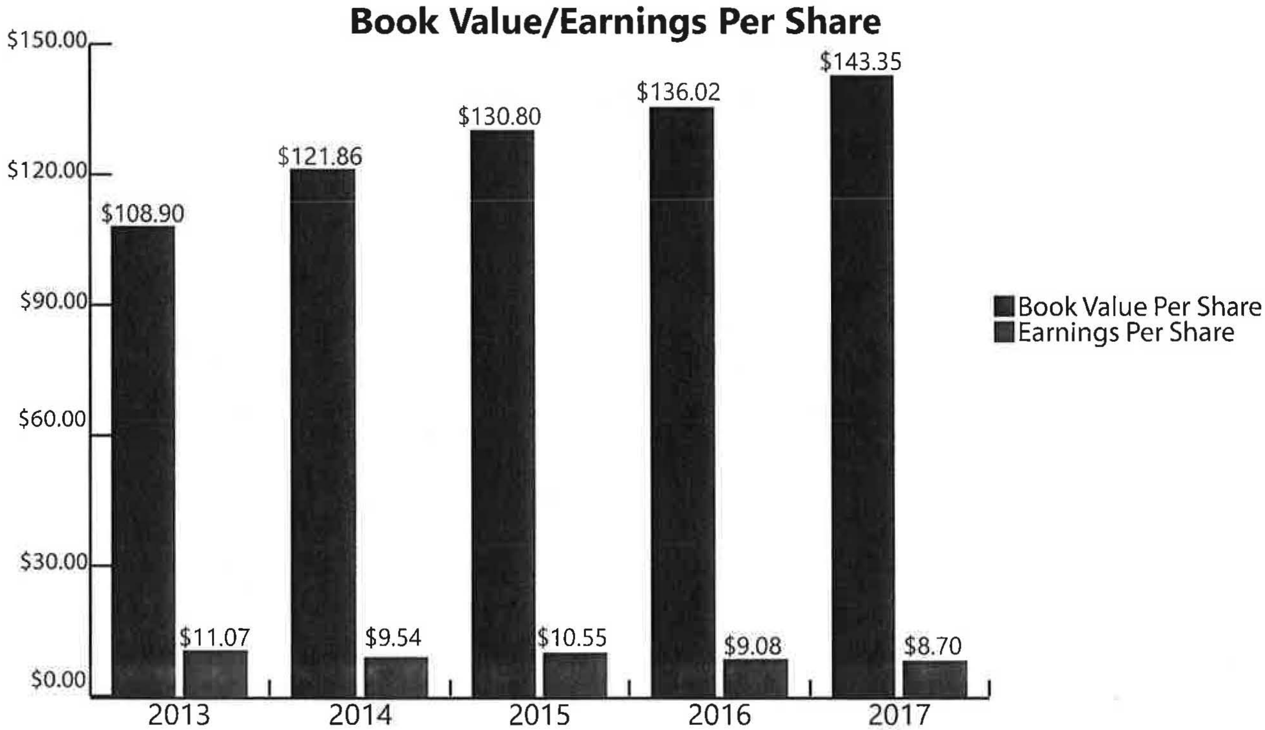
	2013	2014	2015	2016	2017
PVB	0.83%	0.78%	0.79%	0.69%	0.65%
PVBS	0.76%	0.65%	0.72%	0.60%	0.59%

Return on Average Equity

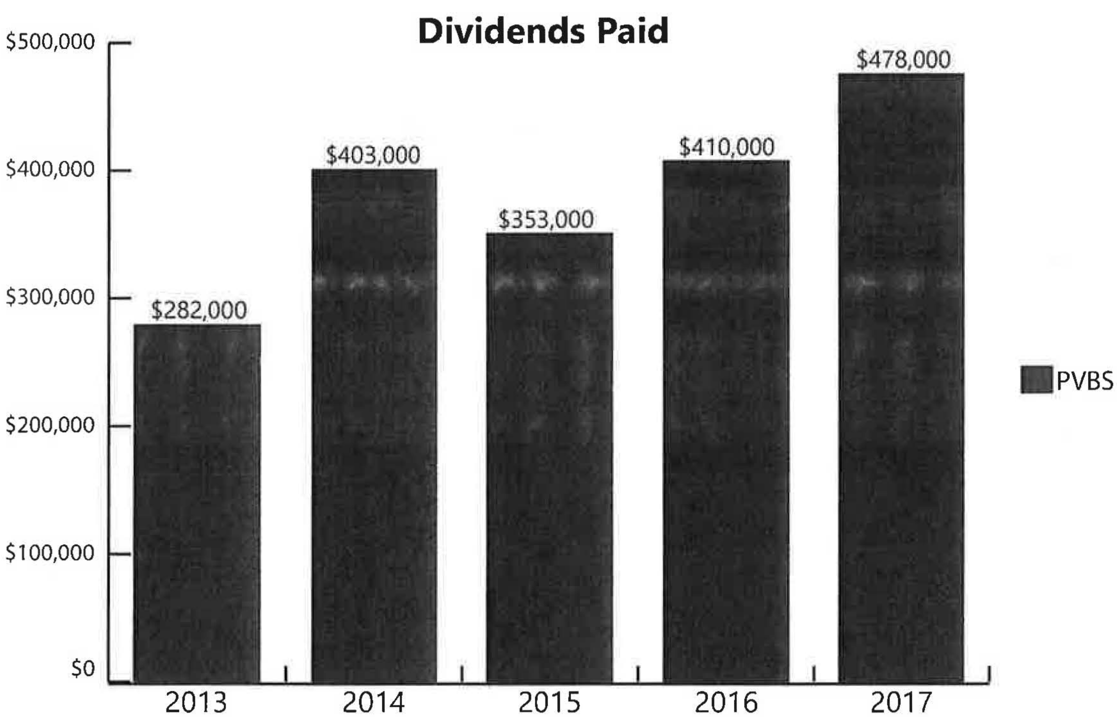


Peer Average	
Date	Percentage
12/31/2013	9.28%
12/31/2014	9.81%
12/31/2015	9.84%
12/31/2016	9.86%
12/31/2017	9.68%

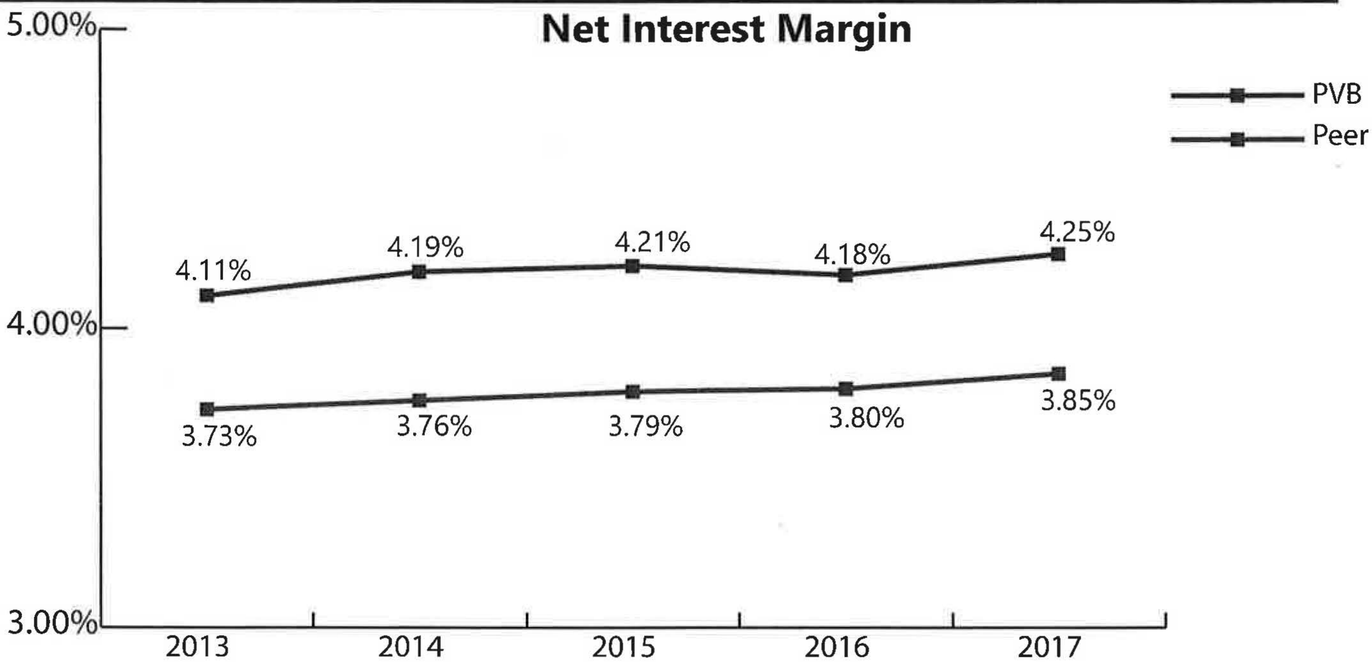
	2013	2014	2015	2016	2017
PVB	8.66%	7.67%	7.41%	6.44%	6.17%
PVBS	10.42%	8.28%	8.41%	6.84%	6.23%



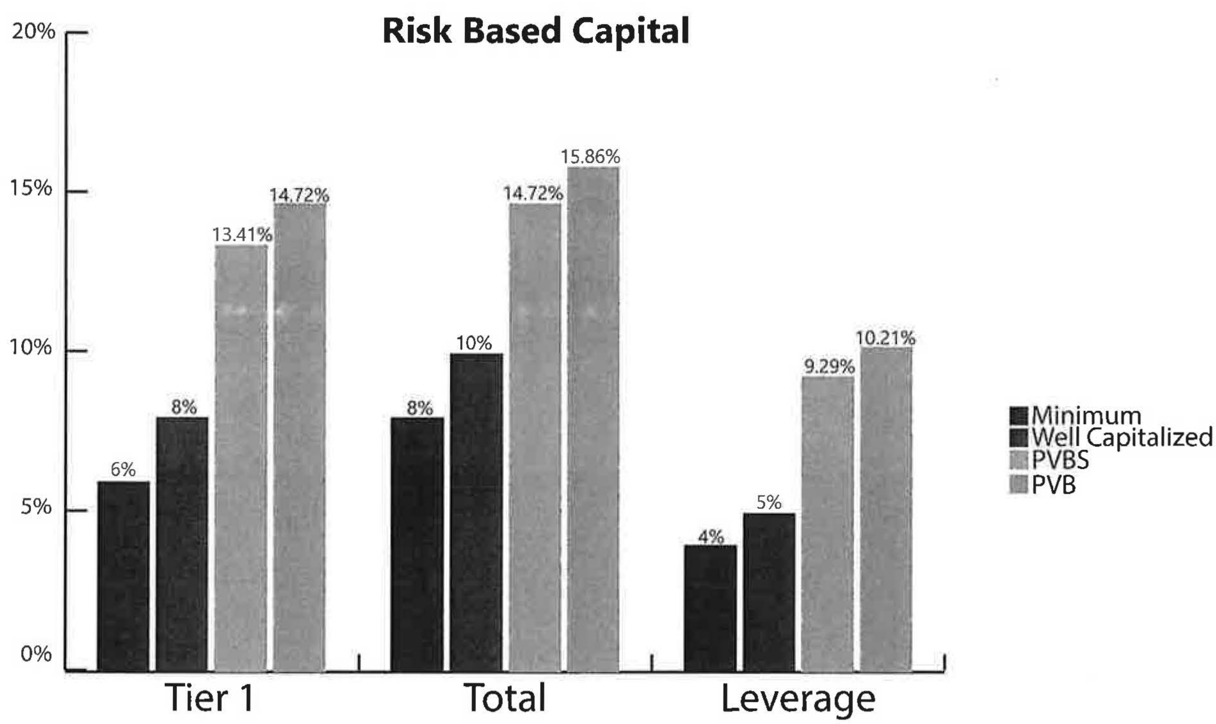
	2013	2014	2015	2016	2017
Book Value Per Share	$108.90	$121.86	$130.80	$136.02	$143.35
Earnings Per Share	$11.07	$9.54	$10.55	$9.08	$8.70



	2013	2014	2015	2016	2017
PVBS	$282,000	$403,000	$353,000	$410,000	$478,000



	2013	2014	2015	2016	2017
PVB	4.11%	4.19%	4.21%	4.18%	4.25%
Peer	3.73%	3.76%	3.79%	3.80%	3.85%



	Tier 1	Total	Leverage
Minimum	6%	8%	4%
Well Capitalized	8%	10%	5%
PVBS	13.41%	14.72%	9.29%
PVB	14.72%	15.86%	10.21%

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Poca Valley Bankshares, Inc. and Subsidiaries
Walton, West Virginia

We have audited the accompanying consolidated financial statements of The Poca Valley Bankshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 27, 2018

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
Years Ended December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and due from banks	$ 14,874,382	$ 18,275,851
Interest bearing deposits with other banks	2,679,438	2,847,267
Federal funds sold	12,725,442	22,911,347
Securities available for sale	28,615,307	39,391,512
Other investments	580,504	505,504
Loans, less allowance for loan losses of $2,575,729 and $2,489,826, respectively	248,435,909	240,042,900
Loans held for sale	873,199	837,352
Bank premises and equipment, net	4,776,262	4,535,928
Accrued interest receivable	884,319	829,170
Cash surrender value of life insurance	6,479,510	6,395,809
Other real estate owned	451,760	357,943
Other assets	5,096,942	5,487,400
Total Assets	$ 326,472,974	$ 342,417,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 71,601,050	$ 87,754,724
Interest bearing	206,752,176	207,546,488
Total Deposits	278,353,226	295,301,212
Borrowings	11,703,879	13,049,022
Other liabilities	4,543,801	3,870,391
Total Liabilities	294,600,906	312,220,625
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, authorized 750,000 shares, issued 225,000 shares, outstanding 222,674 and 222,009 shares in 2017 and 2016	225,000	225,000
Capital surplus	1,927,150	1,927,150
Retained earnings	29,235,488	27,893,099
Accumulated other comprehensive income	776,453	518,827
Less cost of shares acquired for the treasury, 2017, 2,326 shares; 2016, 2,991 shares	(292,023)	(366,718)
Total Stockholders' Equity	31,872,068	30,197,358
Total Liabilities and Stockholders' Equity	$ 326,472,974	$ 342,417,983

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

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2017 and 2016

	2017	2016
Interest income		
Interest and fees on loans	$ 13,776,338	$ 13,736,430
Interest and dividends on securities:		
Taxable	510,596	496,130
Tax-exempt	236,438	278,678
Interest on federal funds sold	164,728	92,936
Interest on deposits at other financial institutions	77,109	16,443
Total interest income	14,765,209	14,620,617
Interest expense		
Interest on deposits	897,625	864,090
Interest on borrowings	475,534	713,469
Total interest expense	1,373,159	1,577,559
Net interest income	13,392,050	13,043,058
Provision for loan losses	397,000	600,000
Net interest income after provision for loan losses	12,995,050	12,443,058
Other income		
Service fees on deposit accounts	2,449,682	2,264,825
Securities gains	32,150	137,183
Commissions and professional fees	1,041,488	1,469,871
Other	480,023	402,293
	4,003,343	4,274,172
Other expenses		
Salaries and employee benefits	7,403,924	7,310,814
Net occupancy expense	1,179,633	910,451
Equipment rentals, depreciation and maintenance	575,148	692,269
Directors fees	218,400	216,675
Legal and professional fees	584,331	448,294
FDIC assessment	171,727	188,185
Loan and foreclosed asset expense	397,485	365,434
Data processing and card fees	1,252,977	1,336,728
Office supplies, postage and freight expense	361,432	404,047
Advertising	266,584	204,857
Losses on sale of OREO and other assets	65,475	13,653
Other	1,239,679	1,783,231
	13,716,795	13,874,638
Income before income tax expense	3,281,598	2,842,592
Income tax expense	1,347,380	826,859
Net income	$ 1,934,218	$ 2,015,733

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

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017 and 2016

	2017	2016
Net income	$ 1,934,218	$ 2,015,733
Other comprehensive income (loss)		
Gross unrealized gains (losses) arising during the period	203,263	(288,528)
Adjustment for income tax benefit (expense)	(47,659)	112,526
	155,604	(176,002)
Less: Reclassification adjustment for gains included in net income	(32,150)	(137,183)
Adjustment for income tax expense	11,574	53,501
	(20,576)	(83,682)
Other comprehensive income (loss), net of tax	135,028	(259,684)
Comprehensive income	$ 2,069,246	$ 1,756,049

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2015	$ 225,000	$ 1,927,150	$ 26,069,116	$ 778,511	$ (222,364)	$ 28,777,413
Net income	-	-	2,015,733	-	-	2,015,733
Cash dividends declared on common stock ($1.85 per share)	-	-	(410,420)	-	-	(410,420)
Repurchase of 357 shares from the Treasury	-	-	-	-	74,316	74,316
Other comprehensive income (loss)	-	-	-	(259,684)	-	(259,684)
Adjustment for Treasury stock price	-	-	218,670	-	(218,670)	
Balance, December 31, 2016	225,000	1,927,150	27,893,099	518,827	(366,718)	30,197,358
Net income	-	-	1,934,218	-	-	1,934,218
Cash dividends declared on common stock ($2.15 per share)	-	-	(478,084)	-	-	(478,084)
Repurchase of 665 shares from the Treasury	-	-	-	-	83,548	83,548
Other comprehensive income (loss)	-	-	-	135,028	-	135,028
Adjustment for Treasury stock price	-	-	8,853	-	(8,853)	-
Cumulative effect of tax rate change	-	-	(122,598)	122,598	-	-
Balance, December 31, 2017	$ 225,000	$ 1,927,150	$ 29,235,488	$ 776,453	$ (292,023)	$ 31,872,068

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

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,934,218	$ 2,015,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	447,624	468,769
Provision for loan losses	397,000	600,000
Deferred income tax expense (benefit)	109,637	82,355
Increase in cash surrender value of life insurance contracts	(83,701)	(82,287)
Losses on sale of other real estate owned and other assets	65,475	13,653
Write-down of other real estate owned and other assets	26,132	356,311
Securities gains, net	(32,150)	(137,183)
Proceeds from sales of loans	10,927,031	10,412,781
Loans originated for sale	(10,962,877)	(10,605,170)
Net amortization of securities premiums	340,932	458,944
(Increase) decrease in accrued interest receivable	(55,149)	(31,139)
(Increase) decrease in other assets	212,586	(2,960,464)
Increase (decrease) in other liabilities	819,742	(513,705)
Net cash provided by operating activities	4,146,500	78,598
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase of) proceeds from interest bearing deposits with other banks, net	167,829	(1,021,189)
Proceeds from sales and maturities of securities available for sale	11,835,218	4,525,983
Principal payments received on securities available for sale	3,838,069	5,396,004
Net change in other investments	(75,000)	-
Purchase of securities available for sale	(5,002,601)	(4,401,525)
(Increase) decrease in federal funds sold, net	10,185,905	(3,335,375)
(Increase) decrease in loans, net	(9,138,402)	(11,986,101)
Purchase of Bank premises and equipment	(796,633)	(758,174)
Proceeds from sales of bank premises and equipment and other assets	124,309	250,218
Proceeds from sale of other real estate owned	147,335	292,254
Net cash provided by (used in) investing activities	11,286,029	(11,037,905)

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	$ (16,947,986)	$ 15,673,117
Payments on long-term borrowings	(1,345,143)	(2,085,011)
Sale of treasury stock	(62,785)	(196,789)
Dividends paid	(478,084)	(410,420)
Net cash provided by (used in) financing activities	(18,833,998)	12,980,897
Increase (decrease) in cash and due from banks	(3,401,469)	2,021,590
Cash and due from banks		
Beginning	18,275,851	16,254,261
Ending	$ 14,874,382	$ 18,275,851
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest on deposits and borrowings	$ 1,383,639	$ 1,577,559
Income taxes	$ 1,293,000	$ 1,331,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of treasury shares	$ 146,333	$ 271,105
Bank financed sale of other real estate owned	$ 49,318	$ 118,441
Real estate and other assets acquired in settlement of loans	$ 397,711	$ 658,105

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations:

The Poca Valley Bankshares, Inc. (the "Company") is a bank holding company with headquarters in Walton, West Virginia. The Poca Valley Bank (the "Bank"), a wholly-owned subsidiary, is a commercial bank which provides retail and commercial loans and deposits to customers in Roane County, northern Kanawha County, Putnam County and southern Jackson County, West Virginia, through branches in Roane, Kanawha and Putnam Counties. As a wholly-owned subsidiary, Hays & Company provides general accounting services. As a state bank, the Bank is subject to regulation and examination by the West Virginia Division of Financial Institutions and the Federal Deposit Insurance Corporation. The Company is subject to regulation and examination by the Federal Reserve Board.

Consolidation and basis of presentation:

The accompanying consolidated financial statements include the accounts of the Company, The Poca Valley Bank and Hays & Company. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the adequacy of the allowance for loan losses, which is sensitive to changes in local economic conditions, fair values of financial instruments, the valuation of other real estate owned and deferred taxes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The loans of the Bank are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Presentation of cash flows:

For purposes of the consolidated statements of cash flows, cash and due from banks includes cash on hand and non-interest bearing funds at correspondent banks.

Securities:

All securities are classified as available for sale at the time of purchase in accordance with management's intent and re-evaluated at each reporting date. Available for sale securities are those that the Company intends to hold for an indefinite period of time, but not necessarily to maturity and are reported at estimated fair value, net of applicable income taxes as a separate component of stockholders' equity.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using methods which approximate the interest method.

Other than temporary impairment:

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

Loans receivable:

Loans receivable are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield of the related loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Interest accrual resumes when the loan is no longer past due and the borrower, in management's opinion, is able to meet future payments as they become due. A loan is considered past due if the required principal and interest payment has not been received as of the contractual due date.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Allowance for loan losses:

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings and is evaluated on a monthly basis by management. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan (homogeneous) pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the prior three years.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company.

Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trends and conditions such as unemployment rates; housing statistics; banking industry conditions; and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change.

There have been no significant changes to the methods used to determine the allowance for loan losses during the years ended December 31, 2017 and 2016.

Loan charge-off policies:

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans or 120 days past due for closed-end loans unless the loan is well secured and in the process of collection. All other loans are generally charged down to net realizable value when the loan is 90 days past due and or when current information confirms all or part of a specific loan to be uncollectible.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Loans held for sale:

Loans held for sale are those loans the Bank has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sale proceeds and the carrying value of the loans.

Bank premises and equipment:

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets, which are 5 years for land improvements, 40 years for buildings, and 5 years for furniture and fixtures. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

Other real estate owned:

Other real estate owned consists primarily of real estate held for resale, which was acquired through foreclosure or deed in lieu of foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at acquisition at fair value less estimated costs to sell, with any write-down charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Expenses incurred in connection with holding these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Income taxes:

The consolidated provision for income taxes includes federal and state income taxes and is based on pretax income reported in the consolidated financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the consolidated statements of income. At December 31, 2017 and 2016, there were no unrecognized tax benefits. As of December 31, 2017 and 2016, there were no net operating loss carryforwards for income tax purposes.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Advertising:

The Company expenses advertising costs as they are incurred. For the years ended December 31, 2017 and 2016, the Bank incurred expenses of $266,584 and $204,857, respectively.

Comprehensive Income:

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

Reclassifications:

Certain reclassifications have been made to prior period balances to conform with the current year's presentation format.

Subsequent events:

Subsequent events have been considered through March 27, 2018, the date the consolidated financial statements were available to be issued. Based on management's evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

Note 2. Cash Concentrations and Restrictions on Cash

At December 31, 2017, and during the year, the Company had interest bearing and non-interest bearing deposits due from other banks and Federal Funds sold to other banks in excess of the limits of depository insurance. The Company does not expect any losses from those depository relationships. The Bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2017 and 2016, the reserve requirement approximated $6,871,000 and $7,187,000, respectively, and was met through vault cash and amounts on deposit with the Federal Reserve Bank.

Note 3. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017:				
Mortgage-backed securities - U.S. Government agencies and corporations	$ 11,985,275	$ 207,500	$ (6,180)	$ 12,186,595
Trust preferred securities	698,498	12,203	-	710,701
States and political subdivisions	14,909,884	854,396	(46,269)	15,718,011
	$ 27,593,657	$ 1,074,099	$ (52,449)	$ 28,615,307
December 31, 2016:				
Mortgage-backed securities - U.S. Government agencies and corporations	$ 23,834,900	$ 440,656	$ (34,570)	$ 24,240,986
Trust preferred securities	704,110	-	(7,082)	697,028
States and political subdivisions	14,001,966	604,630	(153,098)	14,453,498
	$ 38,540,976	$ 1,045,286	$ (194,750)	$ 39,391,512

The following table shows the proceeds from sales or available for sale securities and the gross realized gains and losses on those sales. Gains and losses are computed using the specific identification method.

	2017	2016
Proceeds from sales	$ 11,835,218	$ 4,525,983
Gross realized gains	$ 100,906	$ 151,247
Gross realized losses	$ 68,756	$ 14,064

At December 31, 2017 and 2016, securities with an amortized cost of $8,210,377 and $8,088,568, respectively, and with estimated fair values of $9,034,781 and $8,664,154, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Other investments include Federal Home Loan Bank of Pittsburgh (FHLB) stock which was $580,504 and $505,504 at December 31, 2017 and 2016. Such securities are carried at cost since they may only be redeemed by the issuing bank.

Note 3. Investment Securities (Continued)

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2017 and 2016.

2017	*Less than 12 Months*		*12 Months or More*		*Total*	
	Estimated Fair Value	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Loss**
Mortgage backed securities	$ 496,227	$ (6,180)	$ -	$ -	$ 496,227	$ (6,180)
States and political subdivisions	2,897,845	(46,269)	-	-	2,897,845	(46,269)
	$ 3,394,072	$ (52,449)	$ -	$ -	$ 3,394,072	$ (52,449)

2016	*Less than 12 Months*		*12 Months or More*		*Total*	
	Estimated Fair Value	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Loss**
Mortgage backed securities	$ 2,749,446	$ (34,570)	$ -	$ -	$ 2,749,446	$ (34,570)
Trust preferred securities	697,028	(7,082)	-	-	697,028	(7,082)
States and political subdivisions	6,052,093	(153,098)	-	-	6,052,093	(153,098)
	$ 9,498,567	$ (194,750)	$ -	$ -	$ 9,498,567	$ (194,750)

Impairment is evaluated considering numerous factors, and their relative significance varies case by case. Factors considered include the length of time and extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the security in order to allow for an anticipated recovery in market value.

The Company had 9 and 23 investment securities at December 31, 2017 and 2016 that were in a loss position, respectively. These securities are predominately rated investment grade securities. The Company has the intent and ability to hold such investments until maturity or market price recovery and, accordingly, has concluded that none of the securities in its investment portfolio are other-than-temporarily impaired at December 31, 2017.

Note 3. Investment Securities (Continued)

The maturities, amortized cost and estimated fair values of securities at December 31, 2017, are summarized as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due within 1 year	$ 502,954	$ 504,110
Due after 1 but within 5 years	2,951,598	3,076,952
Due after 5 but within 10 years	4,723,439	5,001,685
Due after 10 years	19,415,666	20,032,560
Total	$ 27,593,657	$ 28,615,307

Note 4. Loans

The following table summarizes the primary segments of the loan portfolio:

	2017	2016
Residential real estate	$ 109,997,320	$ 99,408,906
Commercial real estate	39,336,330	37,810,695
Commercial and industrial	37,838,664	41,392,716
Consumer and other	63,839,324	63,920,409
Gross loans	251,011,638	242,532,726
Less: Allowance for loan losses	(2,575,729)	(2,489,826)
Loans, net	$ 248,435,909	$ 240,042,900

At December 31, 2017, loans with a carrying amount of $98,198,050 were pledged to secure borrowings with the Federal Home Loan Bank.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions

Note 4. Loans (Continued)

When the Company modifies a loan and subsequently if the loan goes into default, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

Loan modifications that are considered TDRs completed during the year ending December 31, 2017 were as follows:

2017	No of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Loan Category			
1-4 Family first lien	5	$ 568,921	$ 335,934
Commercial Real Estate	1	466,036	459,186
	6	$ 1,034,957	$ 795,120

Loan modifications that are considered TDRs completed during the year ending December 31, 2016 were as follows:

2016	No of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Loan Category			
1-4 Family first lien	1	$ 93,474	$ 62,497
Commercial Real Estate	-	-	-
	1	$ 93,474	$ 62,497

The TDRs completed in 2017 and 2016 were modified due to the following:

2017	Rate Reduction
1-4 Family first lien	$ 335,934
Commercial Real Estate	459,186
	$ 795,120

2016	Rate Reduction
1-4 Family first lien	$ 62,497
Commercial Real Estate	-
	$ 62,497

As of December 31, 2017, none of the loan modifications classified as TDRs during 2016 or 2017 subsequently defaulted and there were no commitments to lend additional funds to borrowers owing receivables whose terms have been modified in troubled debt restructurings.

Note 4. Loans (Continued)

The Company conducts its business through eight offices all located in West Virginia. At December 31, 2017 and 2016, the majority of the Company's loan portfolio was secured by properties located in this region. The Company does not believe it has significant concentrations of credit risk to any one group of borrowers given its underwriting and collateral requirements.

Note 5. Allowance for Loan Losses

The segments of the Company's loan portfolio are disaggregated into classes of loans which allow management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories or homogeneous pools within the loan portfolio. The allowance for loan losses consists of amounts applicable to:

Real Estate Loans

- The Bank's Construction and Development loans are primarily made up of loans made for the construction of single family dwellings with the majority made to individual borrowers. Construction lending is generally considered to involve a higher degree of credit risk than long-term permanent financing. The Bank attempts to reduce risk by requiring the borrowers to have a documented plan and specifications of the project along with a cost estimate. The construction must be done by a contractor that has the experience to perform the project. On a limited basis, the Bank will lend to contractors to construct residential homes. These loans are generally limited to the construction of homes where there is a contract in place to take out the construction loan upon completion.

- Farmland loans that are made for various unimproved farmland;

- 1-4 Family First Lien loans are made for the purpose of financing individuals' homes with the majority being owner-occupied. This loan segment is made up of fixed rate and 3 to 7 year balloon loans. Balloon loans may have an amortizing period up to thirty years;

- 1-4 Family Junior Lien loans are loans made with liens that are not first mortgages, made up of fixed rate and 3 to 7 year balloon loans;

- Home Equity Lines of Credit (HELOC) are lines of credit generally secured by junior liens on 1-4 family homes;

- Multifamily residential properties that provide housing for more than five families, such as apartment buildings;

- Commercial Real Estate ("CRE") loans consisting of both non-owner occupied CRE loans including loans secured by non-owner occupied nonfarm nonresidential properties, and owner-occupied commercial structures;

Commercial and Industrial Loans (C&I)

C&I loans consist of all the Bank's business loans which are not secured by real estate;

Note 5. Allowance for Loan Losses (Continued)

Consumer – Credit Cards

Credit Cards that include all the Bank's open end credit cards, most of which are unsecured;

Consumer and Other

Consumer and other loans consisting of mobile homes, auto loans, savings account loans, personal lines of credit, overdraft loans, other types of secured consumer loans, unsecured personal loans and a small segment of municipal loans.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. The loan portfolio consists primarily of loans within the Bank's primary market area and loans are normally extended to customers with other relationships with the Bank who are known by Bank officers and members of the Board of Directors. Therefore, monitoring the status of individual borrowers and consequently monitoring the risk in the loan portfolio is based upon real-time knowledge of the individual borrowers, local employment information and commercial activities. Loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Certain loans including loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative and loans which are of heightened concern to management based upon their knowledge of the local business environment are included on the Company's "watch list". Loans classified as "watch list", special mention and substandard and loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired", which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement.

Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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. The Company generally does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring agreement. However, at times, consumer loans, primarily residential loans, will be evaluated on a case by case basis for impairment.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method, which is required for loans that are collateral dependent. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a monthly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

Note 5. Allowance for Loan Losses (Continued)

The following table presents impaired loans segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2017 and 2016:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2017					
Residential real estate	$ 1,638,101	$ 300,126	$ 431,625	$ 2,069,726	$ 2,066,940
Commercial real estate	1,710,362	206,760	1,738,703	3,449,065	3,448,816
Commercial and industrial	3,033,418	730,624	1,149,500	4,182,918	4,166,857
Consumer and other	17,809	1,983	-	17,809	17,822
Total impaired loans	$ 6,399,690	$ 1,239,493	$ 3,319,828	$ 9,719,518	$ 9,700,435

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2016					
Residential real estate	$ 833,724	$ 108,781	$ 2,490,446	$ 3,324,170	$ 3,318,387
Commercial real estate	576,320	19,993	143,892	720,212	719,895
Commercial and industrial	3,408,130	935,579	3,374,138	6,782,269	6,782,183
Consumer and other	20,049	5,200	120,772	140,822	141,285
Total impaired loans	$ 4,838,224	$ 1,069,553	$ 6,129,249	$ 10,967,473	$ 10,961,750

There are certain impaired loans on which payments are being applied to reduce the principal balance of the loan because the recovery of principal is not determinable. The unpaid principal balance reflects the balance as if the payments were applied in accordance with the terms of the original contractual agreement whereas the recorded investment reflects the outstanding principal balance for financial reporting purposes. In addition, the recorded investment in a loan may be reduced by partial charge offs which would not be reflected in the unpaid principal balance.

Note 5. Allowance for Loan Losses (Continued)

The following table presents the average recorded investment in impaired loans and related interest income recognized for the year ended December 31, 2017 and 2016:

	Twelve Months Ended December 31, 2017		
	Average Recorded Investment in Impaired Loans	Interest Income Recognized	Non-Accrual Loans
Residential real estate	$ 2,281,395	$ 105,930	$ 1,472,514
Commercial real estate	3,459,714	167,457	198,769
Commercial and industrial	4,430,684	205,634	16,056
Consumer and other	19,140	1,340	611,094
Total impaired loans	$ 10,190,933	$ 480,361	$ 2,298,433

	Twelve Months Ended December 31, 2016		
	Average Recorded Investment in Impaired Loans	Interest Income Recognized	Non-Accrual Loans
Residential real estate	$ 3,534,363	$ 207,688	$ 1,573,832
Commercial real estate	858,648	41,422	91,336
Commercial and industrial	6,677,090	195,182	5,493
Consumer and other	189,639	11,467	103,884
Total impaired loans	$ 11,259,740	$ 455,759	$ 1,774,545

Management uses a nine point internal risk rating system to monitor the credit quality of the commercial loan portfolio. The first five categories are considered not criticized, and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the orderly liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses found in Substandard loans, with the added provision that the weaknesses make collection of debt in full highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category. The consumer loan portfolio is evaluated and risk rated only when a loan has been determined to have deteriorated in quality. This could include delinquency, loss of income of borrower, death or other extenuating circumstances.

Note 5. Allowance for Loan Losses (Continued)

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of the commercial loans in their portfolios at origination and on an ongoing basis. The Credit Analysis Department confirms the appropriate risk grade at origination and monitors all subsequent changes to risk ratings. The Company's Classified Loan Review Committee reviews risk grades when approving a loan and approves all risk rating changes, except those made within the pass risk categories. The Company engages an external consultant to conduct loan reviews on a quarterly basis. Generally, the external consultant reviews commercial relationships that equal or exceed $600,000, and significant non-accrual, past due, and substandard loans. In addition, new loans originated in the current year are reviewed on a sample basis. Detailed reviews, including plans for resolution, are completed monthly on loans classified as Substandard. The Company's process requires the review and evaluation of an impaired loan to be updated at least annually. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2017 and 2016:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2017					
Commercial real estate	$ 37,126,163	$ -	$ 2,210,167	$ -	$ 39,336,330
Commercial and industrial	33,094,835	543,289	4,200,540	-	37,838,664
Consumer and other	55,050,925	2,769,744	3,812,135	-	61,632,804
	$ 125,271,923	$ 3,313,033	$ 10,222,842	$ -	$ 138,807,798

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016					
Commercial real estate	$ 36,049,548	$ 1,149,044	$ 612,103	$ -	$ 37,810,695
Commercial and industrial	34,640,975	3,061,019	3,690,722	-	41,392,716
Consumer and other	56,915,331	1,459,408	3,138,933	-	61,513,672
	$ 127,605,854	$ 5,669,471	$ 7,441,758	$ -	$ 140,717,083

Included in the Pass category are certain loans not subject to risk ratings. These include loans in the above categories that management has elected not to evaluate because there are no performance issues and certain legacy loans which have not been evaluated under the Bank's current risk rating system.

Note 5. Allowance for Loan Losses (Continued)

The following tables present the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2017 and 2016:

	Performing	Non-Performing	Total
December 31, 2017			
Residential real estate	$ 109,899,413	$ 97,907	$ 109,997,320
Consumer and other	2,200,462	6,058	2,206,520
	$ 112,099,875	$ 103,965	$ 112,203,840

	Performing	Non-Performing	Total
December 31, 2016			
Residential real estate	$ 99,335,433	$ 73,473	$ 99,408,906
Consumer and other	2,392,428	14,309	2,406,737
	$ 101,727,861	$ 87,782	$ 101,815,643

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans as of December 31, 2017 and 2016:

	30-59 Days	60-89 Days	90 Plus Days	Total Past Due	Current	Total	90 Plus Accruing
December 31, 2017							
Residential real estate	$ 1,167,522	$ 317,841	$ 917,242	$ 2,402,605	$ 107,594,715	$ 109,997,320	$ 122,132
Commercial real estate	20,079	-	155,606	175,685	39,160,645	39,336,330	-
Commercial and industrial	-	-	-	-	37,838,664	37,838,664	-
Consumer and other	255,897	97,367	318,926	672,190	63,167,134	63,839,324	268,055
	$ 1,443,498	$ 415,208	$ 1,391,774	$ 3,250,480	$ 247,761,158	$ 251,011,638	$ 390,187

	30-59 Days	60-89 Days	90 Plus Days	Total Past Due	Current	Total	90 Plus Accruing
December 31, 2016							
Residential real estate	$ 1,652,973	$ 303,567	$ 506,552	$ 2,463,092	$ 96,945,814	$ 99,408,906	$ 36,589
Commercial real estate	-	-	91,336	91,336	37,719,359	37,810,695	-
Commercial and industrial	8,354	24,335	5,493	38,182	41,354,534	41,392,716	-
Consumer and other	483,140	121,528	163,312	767,980	63,152,429	63,920,409	-
	$ 2,144,467	$ 449,430	$ 766,693	$ 3,360,590	$ 239,172,136	$ 242,532,726	$ 36,589

Note 5. Allowance for Loan Losses (Continued)

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The classes described above, provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Pass rated credits are segregated from criticized credits for the application of qualitative factors. Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factors because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Company's qualitative factors consist of: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; levels of and trends in the Company's borrowers in bankruptcy; trends in volumes and terms of loans; effects of changes in lending policies and strategies; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a monthly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of a specific loan to be uncollectible, the loss is promptly charged off against the ALLL.

Note 5. Allowance for Loan Losses (Continued)

The following table summarizes the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2017 and 2016. Activity in the allowance is presented for the twelve months ended December 31, 2017 and 2016:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
ALLL balance at December 31, 2016	$ 1,289,650	$ 107,832	$ 1,068,813	$ 23,531	$ 2,489,826
Charge-offs	(239,908)	(26,698)	(32,373)	(505,113)	(804,092)
Recoveries	42,162	196,325	109,511	144,997	492,995
Provision	(210,434)	10,697	164,114	432,623	397,000
ALLL balance at December 31, 2017	$ 881,470	$ 288,156	$ 1,310,065	$ 96,038	$ 2,575,729
Ending ALLL for loans:					
Individually evaluated for impairment	$ 300,126	$ 206,760	$ 730,624	$ 1,983	$ 1,239,493
Collectively evaluated for impairment	581,344	81,396	579,441	94,055	1,336,236
	$ 881,470	$ 288,156	$ 1,310,065	$ 96,038	$ 2,575,729
Loans:					
Individually evaluated for impairment	$ 2,069,726	$ 3,449,065	$ 4,182,918	$ 17,809	$ 9,719,518
Collectively evaluated for impairment	107,927,594	35,887,265	33,655,746	63,821,515	241,292,120
	$ 109,997,320	$ 39,336,330	$ 37,838,664	$ 63,839,324	$ 251,011,638

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
ALLL balance at December 31, 2015	$ 1,268,943	$ 291,058	$ 240,140	$ 357,345	$ 2,157,486
Charge-offs	(199,777)	-	(64,397)	(503,879)	(768,053)
Recoveries	313,534	2,400	105,698	78,761	500,393
Provision	(93,050)	(185,626)	787,372	91,304	600,000
ALLL balance at December 31, 2016	$ 1,289,650	$ 107,832	$ 1,068,813	$ 23,531	$ 2,489,826
Ending ALLL for loans:					
Individually evaluated for impairment	$ 108,781	$ 19,993	$ 935,579	$ 5,200	$ 1,069,553
Collectively evaluated for impairment	1,180,869	87,839	133,234	18,331	1,420,273
	$ 1,289,650	$ 107,832	$ 1,068,813	$ 23,531	$ 2,489,826
Loans:					
Individually evaluated for impairment	$ 3,324,170	$ 720,212	$ 6,782,269	$ 140,822	$ 10,967,473
Collectively evaluated for impairment	96,084,736	37,090,483	34,610,447	63,779,587	231,565,253
	$ 99,408,906	$ 37,810,695	$ 41,392,716	$ 63,920,409	$ 242,532,726

Foreclosed properties as of December 31, 2017 included seven residential real estate properties with a total carrying value of $367,884. The recorded investment in consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures are in process was $344,865, which consists of six loans.

Note 6. Bank Premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation at December 31, 2017 and 2016, are as follows:

	2017	2016
Land	$ 1,373,669	$ 1,478,156
Land improvements	368,166	387,002
Building and improvements	4,877,283	4,871,177
Furniture and equipment	4,736,405	4,703,463
Construction-in-progress	895,628	308,723
	12,251,151	11,748,521
Less accumulated depreciation	(7,474,889)	(7,212,593)
Bank premises and equipment, net	$ 4,776,262	$ 4,535,928

The Company recorded depreciation expense in the amount of $447,624 and $468,769, in 2017 and 2016, respectively.

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of December 31, 2017 and 2016:

	2017	2016
NOW and Super NOW accounts	$ 4,943,535	$ 5,222,192
Money Market accounts	12,210,486	9,300,730
Simply Elite and Simple Secure	62,054,646	57,891,344
Savings deposits	65,422,119	64,235,132
Regular certificates of deposits and other time deposits	62,121,390	70,897,090
Total interest bearing deposits	$ 206,752,176	$ 207,546,488

Time certificates of deposit in denominations of $250,000 or more totaled $6,923,340 and $6,502,618 at December 31, 2017 and 2016, respectively.

Included in regular certificates of deposit are $1,843,939 and $4,665,009 as of December 31, 2017 and 2016, respectively, of brokered certificates of deposit issued and obtained through the Certificate of Deposit Account Registry Service ("CDARS") program.

The aggregate amount of demand deposit overdrafts reclassified as loan balances were $85,486 and $96,239 at December 31, 2017 and 2016, respectively.

Note 7. Deposits (Continued)

At December 31, 2017, the schedule maturities of certificates of deposit are as follows:

2018	32,594,843
2019	7,480,007
2020	11,052,863
2021	10,993,677
2022 and thereafter	-
	$ 62,121,390

Note 8. Related Parties

Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability.

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates for the year ended December 31, 2017 and 2016, is as follows:

	2017	2016
Balance, beginning	$ 5,868,401	$ 6,285,752
Borrowings	8,425,600	7,810,130
Repayments	(10,747,847)	(8,227,481)
Balance, ending	$ 3,546,154	$ 5,868,401

Aggregate deposit balances with related parties totaled approximately $10,896,866 and $13,184,117, or 3.91% and 4.46% of total deposits at December 31, 2017 and 2016, respectively.

The Company has borrowed money from two related parties which approximated $1,866,667 and $2,800,000 outstanding at December 31, 2017 and 2016, respectively. See Note 9 for further detail.

Note 9. Borrowings

The Company has a $4,000,000 term loan with a correspondent bank to amortize a previous short-term credit facility. The term loan bears interest at 5.0% for the first sixty months and thereafter at 3.50% above three (3) month LIBOR (currently 1.69%) with a 4.0% floor and a maturity date of November 2021. Interest and principal repayments are due quarterly. Total indebtedness related to this agreement at December 31, 2017 and 2016 was $1,837,212 and $2,249,022, respectively. The agreement is secured by 100% of the shares of the common stock of the Bank. Prepayment penalties apply to pay downs or payoffs from external funding sources or the refinance of the debt.

Note 9. Borrowings (Continued)

The Company has a $8,000,000 term loan with the FHLB. The term loan bears interest at 2.50% with a maturity date of July 2022. Interest only payments are due quarterly. Total indebtedness related to this agreement at December 31, 2017 and 2016 was $8,000,000. The loan is secured by loans pledged to the FHLB. Prepayment penalties apply to pay downs or payoffs from external funding sources or the refinance of the debt.

The Company has outstanding notes to shareholders in the amount of $1,866,667 and $2,800,000 at December 31, 2017 and 2016, respectively. The notes, which are unsecured and junior in position to the Company's prior debt, carry an interest rate of 8.50% mature in November 2019, and are now optionally redeemable by the Company. Interest only payments are due monthly. The notes qualify as Tier 2 capital for the Company.

The Company has a line of credit with a correspondent bank in the amount of $8,000,000. The line of credit bears an interest rate of the prime rate (currently 4.50%) and a maturity date of November 2018. Interest only payments are due monthly. The line of credit is secured by the assignment of a deposit account held by the lender. There were no amounts drawn on the line at December 31, 2017.

The Company has a line of credit with the FHLB in the amount of $250,000. The line of credit bears interest bears an interest rate of 1.54% and has a maturity date of May 2027. Interest only payments are due quarterly. The line of credit is secured by loans pledged to the FHLB. There were no amounts drawn on the line at December 31, 2017.

A summary of the maturities of long term borrowings is as follows:

Years Ending December 31,	Amount
2018	430,026
2019	2,315,973
2020	469,450
2021	488,430
2022 and thereafter	8,000,000
	$ 11,703,879

Note 10. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Current expense:		
Federal	$ 1,096,678	$ 640,488
State	141,065	104,017
Total current expense	1,237,743	744,505
Deferred expense (benefit):		
Federal	96,735	71,797
State	12,902	10,557
Total deferred expense (benefit)	109,637	82,354
Income tax expense	$ 1,347,380	$ 826,859

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory federal income tax rate by book pretax income for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Computed tax at applicable federal statutory rate	$ 1,115,743	$ 966,481
State income tax, net	64,028	62,392
Increase (decrease) in taxes resulting from:		
Tax-exempt/ disallowed interest	(192,459)	(185,456)
Cash surrender value of life insurance	(25,466)	(25,665)
Adjustments made due to change in tax rates	380,008	-
Other, net	5,526	9,107
Applicable income taxes	$ 1,347,380	$ 826,859

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

Note 10. Income Taxes (Continued)

The tax effects of temporary differences, which give rise to the Company's deferred tax assets and liabilities as of December 31, 2017 and 2016, are as follows:

	2017		2016	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Net unrealized gain/loss on securities available for sale	$ -	$ 245,196	$ -	$ 331,710
Allowance for loan losses	252,002	-	254,674	-
Deferred loan origination fees	118,836	-	184,289	-
Nonaccrual interest	11,141	-	27,153	-
Other real estate	77,747	-	158,547	-
Accrued employee benefits	528,583	-	759,094	-
Depreciation	-	91,682	-	203,445
Other	-	-	-	51,449
	$ 988,309	$ 336,878	$ 1,383,757	$ 586,604

No valuation allowance for deferred tax assets was recorded at December 31, 2017 and 2016, as the Company believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

In accordance with ASC Topic 740-10, *Income Taxes*, the Company has concluded that there were no significant uncertain tax positions requiring recognition in the consolidated financial statements for the tax years ended 2014 through 2017. The Company is subject to U.S. Federal income tax examinations for the returns filed after December 31, 2014. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2014 through 2017.

On December 22, 2017, President Trump signed into law new U.S. tax reform legislation. The Tax Cut and Jobs Act of 2017 ("TCJA") makes significant changes to U.S. corporate income tax laws including a decrease in the corporate income tax rate to 21% effective for tax years beginning after December 31, 2017. As a result of the change in tax rate, a deferred tax expense of $380,008 was recorded in 2017.

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The standard provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 (or position thereof) is recorded. The Company has early adopted this standard and has reclassified ($122,598) from accumulated other comprehensive income / (loss) to retained earnings as of December 31, 2017.

Note 11. Benefit Plans

The Company sponsors a profit sharing plan, which includes 401(k) provisions, that covers substantially all employees of the Company's subsidiaries. Under the provisions of this Plan, the Board of Directors may approve the contribution of a percentage of eligible employees' salaries to the Plan each year. For the years ended December 31, 2017 and 2016, the Board approved a contribution of 4.50% and 3.0% of all eligible employees' salaries to the Plan, which was contributed to the Plan in the form of Company stock. The Company also matches 100% of employees' contributions up to 2% of their respective salaries, and matches 50% of employees' contributions between 2% and 4% of their respective salaries. The Company's matches are contributed to the Plan in the form of Company stock. The Company reflects contributions to the Plan as an operating expense. Payments upon retirement or termination of employment are based on vested amounts credited to the individual accounts. Accruals charged to operations for the Plan totaled $809,477 and $415,240, for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Plan held 15,870 and 14,705 shares of Company stock, respectively.

The Bank has a non-qualified Supplemental Executive and Director Retirement Plan (SEDRP) with certain executive officers and directors which provides an income benefit payable at projected normal retirement age or death. Provisions charged to the consolidated statements of income and the cumulative liabilities under these plans are computed using a 5.0% present value discount. The liability accrued under these plans at December 31, 2017 and 2016 is $2,202,433 and $1,946,393, respectively, which is included in Other Liabilities in the accompanying consolidated balance sheets. The cost of these plans included in the consolidated statements of income was $502,382 and $481,285 for the year ended December 31, 2017 and 2016, respectively.

The Bank also maintains life insurance on the directors and officers participating in the SEDRP. At December 31, 2017 and 2016, the cash surrender value of these insurance contracts was $6,479,510 and $6,395,809, respectively.

Note 12. Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

Note 13. Regulatory Capital Requirements

The federal banking agencies have adopted regulations that substantially amend the capital regulations applicable to the Bank. These regulations implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital requirements adopted by the Federal Reserve Bank. These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain companies with assets under $1 billion.

Note 13. Regulatory Capital Requirements (Continued)

Under the new capital regulations, the minimum capital ratios are: (1) CET1 capital ratio of 4.5% of risk-weighted assets; (2) a total capital ratio of 8.0% of risk-weighted assets; (3) a Tier 1 capital ratio of 6.0% of risk-weighted assets; and (4) a leverage ratio of 4.0%. The FRB's prompt corrective action standards also changed effective January 1, 2015. Under the new standards, the ratios to be well capitalized are: (1) CET1 capital ratio of 6.5%; (2) a total capital ratio of 10.0%; (3) a Tier 1 capital ratio of 8.0%; and (4) a leverage ratio of 5.0%.

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CET1 will be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented to 2.50% in January 2019. The capital conservation buffer for 2017 is 1.25% and for 2016 is 0.625%. Management believes as of December 31, 2017, the Company and the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 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. Prompt corrective action provisions are not applicable to holding companies.

Note 13. Regulatory Capital Requirements (Continued)

The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are presented in the table as follows:

As of December 31, 2017:		Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Action Provisions	
		Amount	Ratio %		Amount	Ratio %		Amount	Ratio %
CET1 capital (to risk-weighted assets)									
Parent	$	30,221,000	13.41%	$	10,137,825	4.50%			
Bank	$	33,138,000	14.72%	$	10,131,615	4.50%	$	14,634,555	6.50%
Total risk-based capital (to risk-weighted assets)									
Parent	$	33,170,000	14.72%	$	18,022,800	8.00%			
Bank	$	35,714,000	15.86%	$	18,011,760	8.00%	$	22,514,700	10.00%
Tier 1 Capital (to risk-weighted assets)									
Parent	$	30,221,000	13.41%	$	13,517,100	6.00%			
Bank	$	33,138,000	14.72%	$	13,508,820	6.00%	$	18,011,760	8.00%
Tier 1 leverage ratios (to adjusted total assets)									
Parent	$	30,221,000	9.32%	$	12,976,960	4.00%			
Bank	$	33,138,000	10.21%	$	12,980,240	4.00%	$	16,225,300	5.00%

As of December 31, 2016:		Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Action Provisions	
		Amount	Ratio %		Amount	Ratio %		Amount	Ratio %
CET1 capital (to risk-weighted assets)									
Parent	$	28,907,000	12.52%	$	10,386,900	4.50%			
Bank	$	33,299,000	14.45%	$	10,372,815	4.50%	$	14,982,955	6.50%
Total risk-based capital (to risk-weighted assets)									
Parent	$	33,077,000	14.33%	$	18,465,600	8.00%			
Bank	$	35,789,000	15.53%	$	18,440,560	8.00%	$	23,050,700	10.00%
Tier 1 Capital (to risk-weighted assets)									
Parent	$	28,907,000	12.52%	$	13,849,200	6.00%			
Bank	$	33,299,000	14.45%	$	13,830,420	6.00%	$	18,440,560	8.00%
Tier 1 leverage ratios (to adjusted total assets)									
Parent	$	28,907,000	8.53%	$	13,554,000	4.00%			
Bank	$	33,299,000	9.86%	$	13,508,560	4.00%	$	16,885,700	5.00%

(Continued)

Note 14. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Such financial instruments consist solely of commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in this class of financial instruments.

The Bank's total contract amount of commitments to extend credit at December 31, 2017 and 2016, are as follows:

Financial instruments whose contract amounts represent credit risk:	**Contract Amount 2017**	**Contract Amount 2016**
Commitments to extend credit	$ 34,032,150	$ 41,494,939
Credit card commitments	4,563,902	4,470,165
Performance and standby letters of credit	495,500	560,500
Courtesy overdraft protection	5,990,386	5,994,442
Total	$ 45,081,938	$ 52,520,046

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

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. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate. Credit card commitments are unsecured lines of credit.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Such guarantees primarily support a customer's performance under a loan or performance bond. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans. The Bank holds collateral to support the letters of credit if deemed necessary.

(Continued)

Note 15. Fair Value of Financial Instruments

The following summarizes the methods and significant assumptions used by the Company in estimating its fair value disclosures for financial instruments.

Cash and due from banks:

The carrying values of cash and due from banks approximate their estimated fair value.

Interest bearing deposits with other banks:

The fair values of interest bearing deposits with other banks are estimated by discounting scheduled future receipts of principal and interest at the current rates offered on similar instruments with similar remaining maturities.

Federal funds sold:

The carrying values of Federal funds sold approximate their estimated fair values.

Securities:

Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans and loans held for sale:

The estimated fair values for loans and loans held for sale are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable:

The carrying values of accrued interest receivable and payable approximate their estimated fair value.

Cash surrender value of life insurance contacts:

The carrying values of cash surrender value of life insurance contracts approximate their fair values.

Borrowings:

The fair values of borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Note 15. Fair Value of Financial Instruments (Continued)

Deposits:

The estimated fair values of demand deposits, savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Off-balance sheet instruments:

The fair values of commitments to extend credit and credit card commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and credit card commitments are deemed insignificant, and therefore, the estimated fair values and carrying values are not reflected below.

The carrying values and estimated fair values of the Company's financial instruments are summarized below:

	December 31, 2017	
	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 14,874,382	$ 14,874,382
Interest bearing deposits with other banks	2,679,438	2,679,438
Federal funds sold	12,725,442	12,725,442
Securities available for sale	28,615,307	28,615,307
Other Investments	580,504	580,504
Loans	251,261,875	251,557,875
Loans held for sale	873,199	873,199
Accrued interest receivable	884,199	884,199
Cash surrender value of life insurance contracts	6,479,510	6,479,510
Financial liabilities:		
Borrowings	11,703,879	11,703,879
Deposits	278,353,226	260,033,226
Accrued interest payable	25,187	25,187

Note 15. Fair Value of Financial Instruments (Continued)

	December 31, 2016	
	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 18,275,851	$ 18,275,851
Interest bearing deposits with other banks	2,847,267	2,847,267
Federal funds sold	22,911,347	22,911,347
Securities available for sale	39,391,512	39,391,512
Other Investments	505,504	505,504
Loans	243,128,868	245,086,868
Loans held for sale	837,352	837,352
Accrued interest receivable	829,170	829,170
Cash surrender value of life insurance contracts	6,395,809	6,395,809
Financial liabilities:		
Borrowings	13,049,022	13,049,022
Deposits	295,301,212	284,026,212
Accrued interest payable	35,668	35,668

Note 16. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Note 16. Fair Value Measurements (Continued)

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Available-for-Sale Securities:

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for a security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds. Level 3 securities include trust preferred securities issued by banks, thrifts, and insurance companies (TRUP CDOs). The market for these securities is not active and markets for similar securities are also not active. The cash flow projections for TRUP CDO's utilize a discounted cash flow model based on variables such as estimates of future cash flows, creditworthiness of the underlying banks and determination of probability of default of the underlying collateral.

Impaired Loans:

Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, recent appraisal value and /or tax assessed value, liquidation value and discounted cash flows. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or when discounted cash flows method is utilized, the Bank records the loans as nonrecurring Level 3. Significant unobservable inputs include appraisal adjustments and estimated selling costs for collateral values, and interest rates for similar instruments for discounted cash flows.

Other Real Estate Owned:

Foreclosed assets held for resale are adjusted to fair value upon transfer of the loans to other real estate owned. Subsequently, these assets are carried at the lower of carrying value or fair value. When fair value is based upon independent market price or, appraised value of the foreclosed asset, they are classified as Level 2. When an appraised value is not available or management determines the fair value of the property is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset or repossession as nonrecurring Level 3. Significant unobservable inputs include appraisal adjustments and estimated selling costs for collateral values.

Note 16. Fair Value Measurements (Continued)

Assets measured on a recurring and non-recurring basis at December 31, 2017 and 2016 are presented in the tables below. The Company has no liabilities that are measured at fair value.

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total
2017				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities	$ -	$ 27,904,606	$ 710,701	$ 28,615,307
	$ -	$ 27,904,606	$ 710,701	$ 28,615,307
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 5,160,197	$ 5,160,197
Other real estate owned	-	-	451,760	451,760
	$ -	$ -	$ 5,611,957	$ 5,611,957
2016				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities	$ -	$ 38,694,484	$ 697,028	$ 39,391,512
	$ -	$ 38,694,484	$ 697,028	$ 39,391,512
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 3,768,671	$ 3,768,671
Other real estate owned	-	-	357,943	357,943
	$ -	$ -	$ 4,126,614	$ 4,126,614

Note 16. Fair Value Measurements (Continued)

The following table shows a reconciliation of the beginning and ending balance at December 31, 2017 and 2016 for level 3 assets measured on a recurring basis using significant unobservable inputs.

		Available for Sale Securities
Balance, December 31, 2015	$	697,408
Total gain included in other comprehensive income		6,507
Collections and sales		(6,887)
Balance, December 31, 2016	$	697,028
Total gain included in other comprehensive income		21,979
Collections and sales		(8,306)
Balance, December 31, 2017	$	710,701

For level 3 assets and liabilities measured at fair value as of December 31, the significant unobservable inputs used in the fair value measurements were as follows:

		Fair Value at December 31, 2017	Valuation Technique	Significant Unobservable Inputs	Range
Available-for-sale securities	$	710,701	Discounted market value	Discounted for proceeds allowance	0% - 10%
Other real estate owned	$	451,760	Discounted appraised value	Discounted for selling costs and age of appraisals	15% - 55%
Impaired loans	$	5,160,197	Discounted appraised value	Discounted for selling costs and age of appraisals	15% - 55%

		Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Range
Available-for-sale securities	$	697,028	Discounted market value	Discounted for proceeds allowance	0% - 10%
Other real estate owned	$	357,943	Discounted appraised value	Discounted for selling costs and age of appraisals	15% - 55%
Impaired loans	$	3,768,671	Discounted appraised value	Discounted for selling costs and age of appraisals	15% - 55%

Note 17. Parent Company Financial Statements

The investment of the Company in its wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to the Company's balance sheets at December 31, 2017 and 2016, and the related statements of income, retained earnings, and cash flows is presented below:

Balance Sheets
(in thousands of dollars)

	December 31, 2017	December 31, 2016
Assets		
Cash	$ 523	$ 167
Investment in PVB	34,729	34,495
Investment in non-bank subsidiaries	271	475
Accounts receivable from subsidiaries	53	111
Total Assets	$ 35,576	$ 35,248
Liabilities		
Long-term debt	$ 3,704	$ 5,049
Other liabilities	-	2
Total Liabilities	3,704	5,051
Stockholders' Equity		
Common stock, $1 par value, authorized 750,000 shares, issued 225,000 shares, outstanding 222,674 and 222,009 shares in 2017 and 2016	2,152	2,152
Retained earnings	29,236	27,893
Accumulated other comprehensive income (loss)	776	519
Less cost of shares acquired for the treasury, 2017, 2,326 shares; 2016, 2,991 shares	(292)	(367)
Total Stockholders' Equity	31,872	30,197
Total Liabilities and Stockholders' Equity	$ 35,576	$ 35,248

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

Note 17. Parent Company Financial Statements (Continued)

Statements of Income and Retained Earnings
(in thousands of dollars)

	Years ended December 31, 2017	2016
Income		
Dividends from subsidiaries	$ 478	410
Other income	1,773	1,700
Total Income	2,251	2,110
Expenses		
Interest expense	271	510
Other expenses	45	45
Total Expenses	316	555
Net income before income tax benefit and undistributed subsidiaries net income	1,935	1,555
Income tax expense (benefit)	(104)	(195)
Income before undistributed subsidiaries net income	2,039	1,750
Undistributed subsidiaries net income (loss)	(105)	265
Net Income	$ 1,934	$ 2,015
Retained earnings, beginning of period	$ 27,893	$ 26,069
Dividends paid in cash	(478)	(410)
Net income	1,934	2,015
Reclassification	(122)	-
Adjustment for Treasury stock price	9	219
Retained earnings, end of period	$ 29,236	$ 27,893

Statements of Cash Flows
(in thousands of dollars)

	Years ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,934	$ 2,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed subsidiary (income) loss	105	(265)
(Increase) decrease in receivables from subsidiaries	58	110
(Increase) decrease in other assets	-	202
Increase (decrease) in other liabilities	(2)	2
Net cash provided by operating activities	2,095	2,064
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid in Cash	(478)	(410)
Payments on long-term borrowings	(1,345)	(2,085)
Proceeds received from sale of stock	84	75
Net cash provided by (used in) financing activities	(1,739)	(2,420)
Net Increase (Decrease) in Cash	356	(356)
Cash, beginning of year	167	523
Cash, end of year	$ 523	$ 167

Note 18. Recent Accounting Pronouncements and Changes

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 was effective for annual reporting periods beginning after December 15, 2017. ASU No. 2015-14 issued in August 2015 deferred the effective date of this update to annual reporting periods beginning after December 15, 2018. Earlier application is permitted, including interim reporting periods. The adoption of this ASU is not expected to have a material effect on the Bank's current financial position or results of operations; however, it may impact the reporting of future financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-01 will, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values be requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair values of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 will be effective January 1, 2019 and is not expected to have a significant impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 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. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, *Revenue from Contracts with Customers.* ASU 2016-02 will be effective on January 1, 2020, and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. This ASU is not expected to have a significant impact on the financial statements.

Note 18. Recent Accounting Pronouncements and Changes (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments.* ASU 2016-13 requires 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 and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2021. The Bank is currently evaluating the potential impact of ASU 2016-13 on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective January 1, 2019, and is not expected to have a significant impact on the financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost.* ASU 2017-07 provides guidance for retirement benefits. This guidance require that an employer disaggregate the service cost component form the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost on the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. ASU 2017-07 will be effective January 1, 2019, and is not expected to have a significant impact on the financial statements.

In April 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities.* ASU 2017-08 provides guidance on the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective January 1, 2020 and the Company is currently evaluating the potential impact it will have on the consolidated financial statements.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's financial statements and disclosures.

A special thank you to our Shareholders for your continued support.
You are an integral part of our **CORE**.

Sitting: Mitchell Smith, Harry Kemmner, Linda Ashley, Philip (Ben) Robertson, J.E. White
Standing: James Shafer, William Howard, L.D. Epling, John Jarrett, Terence Rusin

YOUR BANK FOR YESTERDAY TODAY & TOMORROW

7033 Charleston Rd, Walton WV 25286
304-577-6611 | www.PocaValleyBank.com

March 27, 2018

Brown, Edwards & Company, L.L.P.
124 Newman Avenue
Harrisonburg, VA 22801

This representation letter is provided in connection with your audit of the consolidated financial statements of The Poca Valley Bankshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 27, 2018 the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 15, 2017, including our responsibility for the preparation and fair presentation of the financial statements.
2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3) We acknowledge our responsibility for 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.
4) We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable:
   a) The measurement process is appropriate and consistent in determining accounting estimates.
   b) The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
   c) The disclosures related to accounting estimates are complete and appropriate.
   d) No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
6) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7) All of the following have been properly recorded or disclosed in the financial statements as applicable:

   a) Related party relationships and transactions and related amounts receivable or payable, including loans, deposits, sales, purchases, transfers, leasing arrangements, and guarantees.

   b) Contingent assets and liabilities, including loans charged off and outstanding letters of credit.

   c) Commitments to originate, purchase, or sell loans and participations.

   d) Commitments to purchase or sell securities, including commitments to purchase or sell securities under forward-placement, financial-futures contracts, and standby commitments.

   e) Positions in financial futures contracts or other derivative securities.

   f) The status of the institutions' capital plans filed with regulators.

   g) Sales of loans or other transfers of financial assets.

   h) The following information about financial instruments with concentrations of credit risk:

      i) The common activity, region, or characteristic that identifies the concentration.

      ii) The maximum loss that could result if the counterparties completely failed to perform their obligations and any collateral for the amounts due was worthless to the institution.

      iii) The institution's policy of requiring collateral to minimize the risk, the nature of this collateral, and information about the institution's access to the collateral.

   i) Lease obligations under long-term leases.

8) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

9) We have disclosed to you all of our –

   a) Nonperforming assets.

   b) Intentions to foreclose or repossess property.

10) If applicable, provision has been made for:

   a) Losses, costs, or expenses that may be incurred in the collection of securities, loans, leases and real estate.

   b) Losses, costs or expenses that may be incurred in the disposition of other real estate owned.

   c) Liabilities for the interest on deposits and other indebtedness, including subordinated capital notes and participation loans.

   d) Other than temporary declines in the value of investment securities and other investment assets.

11) We agree with the findings of appraisers used and have adequately considered the qualifications of the appraisers in determining the amounts and disclosures in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to appraisers regarding the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the appraisers.

12) The classification of securities and other investment assets as available-for-sale correctly reflects management's ability and intent.

13) No transactions or activities are planned that would result in any recapture of the base-year, tax-basis bad debt reserve.

14) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

15) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

16) Material concentrations have been properly disclosed in accordance with U.S. GAAP.

17) Guarantees, whether written or oral, under which the Company is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

18) The Company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

19) Loans receivable and other receivables recorded in the financial statements represent valid claims against debtors for lending transactions, sales, or other charges arising on or before the balance sheet date, and the carrying amounts of those receivables are determined in accordance with generally accepted ac counting principles.

20) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.

21) The Internal Revenue Service has examined the Company's Federal income tax returns through 2014. However, the institution's Federal income tax returns for 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed. The Company has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Institution – Specific

22) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Information Provided

23) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   d) Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

   e) All regulatory or examination reports, supervisory correspondence, and similar materials from applicable regulatory agencies, including communications about supervisory actions or noncompliance with, or deficiencies in, rules and regulations or supervisory actions.

24) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

25) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

26) We have no knowledge of any fraud or suspected fraud that affects the Company and involves:

   a) Management,

   b) Employees who have significant roles in internal control, or

   c) Others where the fraud could have a material effect on the financial statements.

27) We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, analysts, regulators, or others.

28) We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

29) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations, or supervisory actions, whose effects should be considered when preparing financial statements.

30) We have disclosed to you all known actual or possible litigation, claims, and assessments, including any liabilities resulting from acting in a fiduciary capacity, whose effects should be considered when preparing financial statements.

31) We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.

32) Related party transactions (including insider loans) have been entered into in compliance with existing regulations.

33) The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral or deposited in escrow as security, except as made known to you and disclosed in the notes to the financial statements.

34) There are no regulatory examinations currently in progress for which we have not received examination reports.

Specific Representations

35) Management has determined that the losses on the available-for-sale securities are temporary in nature.

36) The Company maintains, through provision expense, an allowance for loan losses that the institution believes to be adequate to absorb probable credit losses inherent in the portfolio. We have performed timely reviews of the loans included in non-performing assets and based on that review have concluded that the Allowance for loan losses at December, 31, 2017 is deemed adequate to absorb the losses that we have identified in the portfolio related to specific loans as well as those that we estimate based upon environmentally adjusted historical loss information. We do not anticipate any loss of principal or interest on loans over 90 days past due and still accruing which are both well secured and in the process of collection.

37) The calculations of current and deferred tax expense (benefit) and related current and deferred tax assets/liabilities, including the valuation allowance, are determined in accordance with U.S. generally accepted accounting principles.

38) We agree with the work of specialists used to determine the carrying value of bank owned life insurance and have adequately considered the qualifications of these specialists in determining the related amounts and disclosures in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to these specialists regarding the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the actuaries. The Bank has both the intent and financial ability to hold the investment in bank owned life insurance until the death of the insured. It is not our intention at this time to modify or cancel the policies prior to the insured's death.

39) We agree with the work of specialists in evaluating our non-qualified Supplemental Executive and Director Retirement Plan (SEDRP) and have adequately considered the qualifications of these specialists in determining the related amounts and disclosures in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to these specialists regarding the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists. In addition, related to our Supplemental Executive and Director Retirement Plan, we believe the assumptions used, including the discount rate of 5%, are a reasonable estimate of the future performance of the Company's plan.

40) In regards to the tax preparation and other nonattest services performed by you, we have:

   a. Made all management decisions and performed all management functions.

   b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.

   c. Evaluated the adequacy and results of the services performed.

   d. Accepted responsibility for the results of the service.

41) We have no plans to terminate or make modifications to any of our employee benefit plans.

No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the consolidated financial statements.

Very truly yours,

Harry Kemmner, Audit Committee Chairman

Linda Ashley, Chief Executive Officer

Bob Rowsey, Chief Financial Officer

Michelle Shamblin, Controller

Client: Poca Valley Bank

Period End: December 31, 2017

SUMMARY OF ADJUSTMENTS PASSED AND EVALUATION OF ALLOWANCE FOR UNDETECTED ERROR

Scope: All known and projected misstatements and/or classification errors over (Scope should generally not exceed 5% of planning materiality). (1) $ 90,000

Planning Materiality: $ 1,800,000

			Pretax effect Debit (Credit) (2) of Misstatement and Classification Errors On:												
	W/P	Type	Assets				Liabilities		Income Statement						
Description	Reference	(3)	Cash & Due Fed Funds & Other ST Investments	AFS & HTM Securities	Loans & ALLL	Other Assets	Deposits	Other Liabilities	Interest Income	Interest Expense	Loan Loss Provision	Non Interest Income	Non Interest Expense	Income Statement Effect	Equity Effect
											-		-	-	117,752
To correct SERP expense and beginning liability	5208												(117,752)	117,752	
To record increase in Stone Ridge loan as of 12/22/2017	9800				148,488		(148,488)							-	
														-	
														-	
														-	
														-	
														-	
Total (6)			-		148,488	-	(148,488)	-	-	-	-	-	(117,752)	117,752	117,752
														(7)	(117,752)
Cumulative Misstatement Errors															-