

6/11/2018

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies - FR Y-6

FRR RICHMOND

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.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2017

Month / Day / Year

No LEI

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

Reporter's Name, Street, and Mailing Address

Harrison Bankshares, Inc.

Legal Title of Holding Company

P.O. Box 98

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

Lost Creek WV 26385

City State Zip Code

80 East Main Street

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Virgil L. McNemar President & CEO

Name Title

304-745-3342 ext 101

Area Code / Phone Number / Extension

304-745-5314

Area Code / FAX Number

vmcnemar@hcbwv.com

E-mail Address

www.hcbwv.com

Address (URL) for the Holding Company's web page

I, Virgil L. McNemar

Name of the Holding Company Director and Official

President & 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.

Signature of Holding Company Director and Official

6-418

Date of Signature

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

For Federal Reserve Bank Use Only RSSD ID 1249178 C.I.

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes 0 In accordance with the General Instructions for this report (check only one), 1. a letter justifying this request is being provided along with the report [] 2. a letter justifying this request has been provided separately ... [] NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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Physical Location (if different from mailing address)

FORM FR Y-6

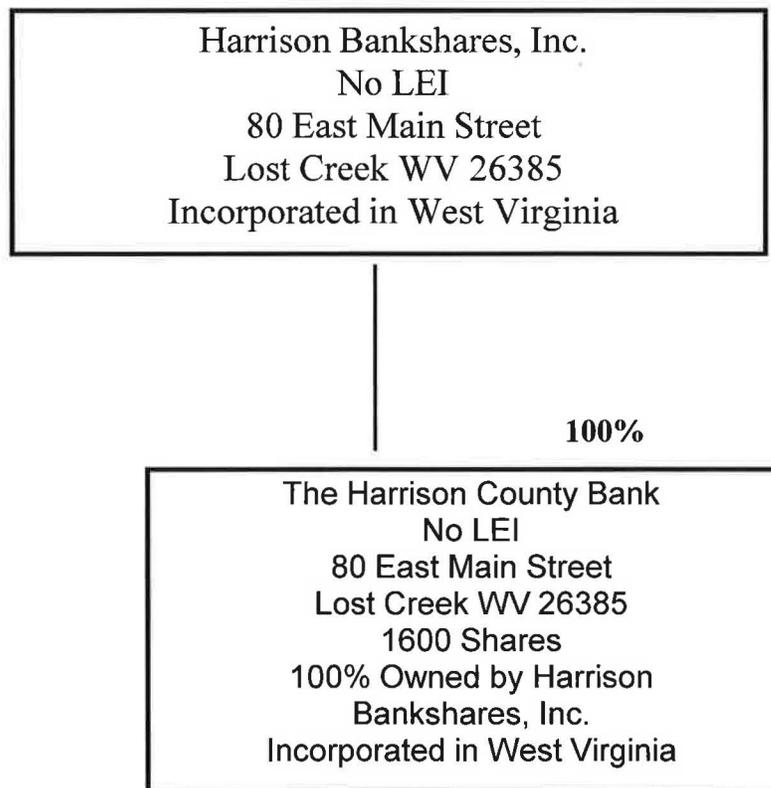
**Harrison Bankshares, Inc.
P.O. Box 98
Lost Creek, WV 26385
Fiscal year ending December 31, 2017**

Report Item

1:

The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, two copies are enclosed.

2a: Organizational Chart



2b: Domestic branch listing provided to the Federal Reserve Bank.

Results: A list of branches for your depository institution: HARRISON COUNTY BANK, THE (ID_RSSD: 104234).
 This depository institution is held by HARRISON BANKSHARES, INC. (1249178) of LOST CREEK, WV.
 The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

Note:

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	104234	HARRISON COUNTY BANK, THE	MAIN STREET	LOST CREEK	WV	26385	HARRISON	UNITED STATES	Not Required	Not Required	HARRISON COUNTY BANK, THE	104234	
OK		Full Service	2529934	BRIDGEPORT BRANCH	1215 JOHNSON AVENUE	BRIDGEPORT	WV	26330	HARRISON	UNITED STATES	Not Required	Not Required	HARRISON COUNTY BANK, THE	104234	
OK		Full Service	3677382	CLARKSBURG BRANCH	17 ARMORY RD	CLARKSBURG	WV	26301	HARRISON	UNITED STATES	Not Required	Not Required	HARRISON COUNTY BANK, THE	104234	
OK		Full Service	3293429	NUTTER FORT BRANCH	1506 BUCKHANNON PIKE	CLARKSBURG	WV	26301	HARRISON	UNITED STATES	Not Required	Not Required	HARRISON COUNTY BANK, THE	104234	
OK		Full Service	2448615	WEST MILFORD BRANCH	507 MAIN STREET	WEST MILFORD	WV	26451	HARRISON	UNITED STATES	Not Required	Not Required	HARRISON COUNTY BANK, THE	104234	

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**Harrison Bankshares, Inc.
Fiscal Year Ending December 31, 2017**

Report Item 3: Shareholders

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

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities holders 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 12-31-2017		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Estate of Mary Thrash Jim Harris Personal Representative Lost Creek, WV, USA Comment: Jim Harris votes the shares held in the Estate of Mary Thrash as personal representative.	USA	340 - 5.82% Common Stock	None		
Walter E. Buck & David H. Nutter Foundation, Inc. Lost Creek, WV, USA	USA	650 - 11.13% Common Stock			
Isaac H. Maxwell III Lost Creek, WV, USA	USA	302 - 5.17% Common Stock			

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**Harrison Bankshares, Inc.
Fiscal Year Ending December 31, 2017**

Report Item 4: Insiders

(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Isaac H. Maxwell III Lost Creek, WV, USA	Retired Farmer	Director/Chairman	Director (The Harrison County Bank)	Retired	5.17%	None	N/A
Randy Williams Flemington, WV, USA	Pharmacist	Director	Director (The Harrison County Bank)	Pharmacist Village Pharmacy	3.53%	None	Village Pharmacy (25%)
John F. McCuskey Charleston, WV, USA	Attorney	Director	Director (The Harrison County Bank)	Attorney Shuman, McCuskey & Slicer PLLC	4.52%	None	N/A
David J. Griffith Clarksburg, WV, USA	Retired	Director	Director (The Harrison County Bank)	Retired	1.46%	None	N/A
Kermit P. Stutler Lost Creek, WV, USA	Salesman	Director	Director (The Harrison County Bank)	VP/ Secretary Bykota, Inc.	0.84%	None	N/A
Michael T. Marsh Mt. Claire, WV, USA	Insurance claim specialist	Director	Director (The Harrison County Bank)	Insurance claim specialist Farmers Mechanics	1.04%	None	N/A
Virgil McNemar Lost Creek, WV, USA	N/A	Director/CEO	President & CEO (The Harrison County Bank)	N/A	0.10%	None	N/A
Walter E. Buck & David H. Nutter Foundation, Inc. Lost Creek, WV, USA	N/A	N/A	N/A	N/A	11.13%	None	N/A

**HARRISON BANKSHARES, INC.
AND SUBSIDIARY**

**INDEPENDENT AUDITOR'S REPORT AND
RELATED FINANCIAL STATEMENTS**

DECEMBER 31, 2017 AND 2016

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Tetrick & Bartlett, PLLC

**Certified Public Accountants
Consultants**

INDEPENDENT AUDITOR'S REPORT

Directors and Stockholders
Harrison Bankshares, Inc.
Lost Creek, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Harrison Bankshares, Inc. and Subsidiary, which comprise the consolidated statements of financial condition 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.

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 the 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 audits 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 Harrison Bankshares, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, Harrison Bankshares, Inc. adopted new accounting guidance, FASB Accounting Standards Update (ASU) 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. Our opinion is not modified with respect to that matter.

Jack & Barbara, PLLC

Fairmont, West Virginia
February 18, 2018

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31,**

	2017	2016
ASSETS		
Cash and due from banks		
Noninterest-bearing	\$ 4,524,611	\$ 3,806,743
Interest bearing	<u>143,962</u>	<u>136,345</u>
Total cash and due from banks	4,668,573	3,943,088
Investment securities (note 3)	47,778,738	46,565,280
Loans, net (note 4)	53,678,466	51,089,514
Interest receivable	434,058	397,546
Bank premises and equipment, net (note 5)	3,116,459	3,194,968
Deferred income taxes (benefits) (note 14)	212,464	503,163
Restricted investments – stock in Federal Home Loan Bank, at cost	56,700	70,500
Other assets (note 6)	<u>250,489</u>	<u>224,645</u>
TOTAL ASSETS	<u><u>\$ 110,195,947</u></u>	<u><u>\$ 105,988,704</u></u>

	2017	2016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits (note 7):		
Noninterest-bearing	\$ 31,798,162	\$ 29,188,491
Interest-bearing	<u>67,535,463</u>	<u>66,546,981</u>
Total deposits	99,333,625	95,735,472
Interest payable	8,130	8,255
Federal funds purchased (note 8)	-	-
Advances from Federal Home Loan Bank (note 9)	-	-
Other liabilities (note 10)	<u>150,013</u>	<u>176,665</u>
Total liabilities	<u>99,491,768</u>	<u>95,920,392</u>
Stockholders' Equity		
Common stock (note 11)	1,600	1,600
Additional paid-in capital	1,110,839	1,110,839
Retained earnings	10,946,828	10,467,267
Accumulated other comprehensive income (loss)	(702,040)	(858,346)
Treasury stock (note 11)	<u>(653,048)</u>	<u>(653,048)</u>
Total stockholders' equity	<u>10,704,179</u>	<u>10,068,312</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 110,195,947</u></u>	<u><u>\$ 105,988,704</u></u>

See accompanying notes and independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
Interest Income		
Interest and fees on loans	\$ 2,807,205	\$ 2,758,402
Interest and dividends on investment securities	954,955	844,261
Interest on federal funds sold	1,809	1,134
Total interest income	<u>3,763,969</u>	<u>3,603,797</u>
Interest Expense		
Interest on time certificates of deposit of \$100,000 or more	112,501	124,777
Interest on other deposits	141,853	151,279
Interest on federal funds purchased	18	-
Interest on advances from Federal Home Loan Bank	246	2,965
Total interest expense	<u>254,618</u>	<u>279,021</u>
Net interest income	3,509,351	3,324,776
Provision for loan losses	30,000	30,000
Net interest income after provision for loan losses	<u>3,479,351</u>	<u>3,294,776</u>
Noninterest Income		
Securities gains (losses)	(3,550)	134,769
Service charges and fees	592,048	611,619
Safe deposit rentals	15,162	15,854
Rental income	34,152	34,152
Other	20,748	23,532
Total other income	<u>658,560</u>	<u>819,926</u>
Noninterest Expenses		
Salaries and employee benefits	1,430,690	1,393,210
Occupancy expense of bank premises	225,290	234,353
Furniture and equipment expense	161,916	163,329
Assessment fees	43,147	52,220
Stationery and supplies	42,944	46,451
Director fees	120,400	112,000
Advertising	35,559	48,038
Other expenses	950,937	914,369
Total other expenses	<u>3,010,883</u>	<u>2,963,970</u>

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (CONT'D)
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Income before income taxes	\$ 1,127,028	\$ 1,150,732
Provision for income taxes (note 14)	<u>445,758</u>	<u>300,257</u>
NET INCOME	<u>\$ 681,270</u>	<u>\$ 850,475</u>
Earnings per share		
Net income	<u>\$ 116.68</u>	<u>\$ 145.65</u>

See accompanying notes and independent auditor's report.

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Net income	<u>\$ 681,270</u>	<u>\$ 850,475</u>
Other Comprehensive Income (Loss) Before Tax		
Changes in net unrealized gains (losses) on securities available for sale, net of income taxes of \$78,220 in 2017 and \$370,749 in 2016	309,317	(719,689)
Reclassification adjustment for (losses) gains realized, net of income taxes of \$8,272 in 2017 and \$35,139 in 2016	<u>16,057</u>	<u>(68,211)</u>
Other comprehensive income (loss), net of tax	<u>325,374</u>	<u>(787,900)</u>
Total comprehensive income	<u><u>\$1,006,644</u></u>	<u><u>\$ 62,575</u></u>

See accompanying notes and independent auditor's report.

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,**

	<u>Common</u>		<u>Retained</u>	<u>Treasury</u>	<u>Accumulated</u> <u>Other</u>	
	<u>Stock</u>	<u>Surplus</u>	<u>Earnings</u>	<u>Stock</u>	<u>Comprehensive</u> <u>Income (Loss)</u>	<u>Total</u>
Balance, January 1, 2016	\$ 1,600	\$ 1,110,839	\$ 9,967,132	\$ (653,048)	\$ (70,446)	\$10,356,077
Net income			850,475			850,475
Dividends paid (\$60.00 per share)			(350,340)			(350,340)
Purchase of treasury stock						-
Sale of treasury stock						-
Unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes	-	-	-	-	(787,900)	(787,900)
Balance, December 31, 2016	1,600	1,110,839	10,467,267	(653,048)	(858,346)	10,068,312
Net income			681,270			681,270
Dividends paid (\$63.50 per share)			(370,777)			(370,777)
Purchase of treasury stock						-
Sale of treasury stock						-
Unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes					325,374	325,374
Reclassification of stranded tax effects	-	-	169,068	-	(169,068)	-
Balance, December 31, 2017	<u>\$ 1,600</u>	<u>\$ 1,110,839</u>	<u>\$10,946,828</u>	<u>\$ (653,048)</u>	<u>\$ (702,040)</u>	<u>\$10,704,179</u>

See accompanying notes and independent auditor's report.

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Cash Flows From Operating Activities		
Net income	\$ 681,270	\$ 850,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163,075	172,797
Provision for loan losses	30,000	30,000
Securities (gains) losses	3,550	(134,769)
(Gains) losses on sales of foreclosed real estate and other assets	(75)	(3,936)
Deferred income taxes	204,207	(25,183)
Net amortization of securities	634,180	605,350
Loss (gain) on sale/disposal of assets	410	-
Change in assets and liabilities:		
Interest receivable	(36,512)	(40,910)
Other assets	(27,844)	(101,558)
Interest payable	(125)	(2,140)
Other liabilities	(26,652)	(39,361)
Net cash provided by operating activities	<u>1,625,484</u>	<u>1,310,765</u>
Cash Flows From Investing Activities		
Investment security purchases	(11,435,819)	(25,087,110)
Investment securities called and matured	6,444,162	6,224,280
Proceeds from sale of investment securities	3,552,335	15,101,492
Net (purchases)/redemptions of restricted investments	13,800	(3,800)
Proceeds from sales of foreclosed real estate and other assets	7,075	35,015
Loans (increase) decrease	(2,623,952)	(1,020,103)
Capital expenditures	(84,976)	(85,598)
Net cash (used in) provided by investing activities	<u>(4,127,375)</u>	<u>(4,835,824)</u>
Cash Flows From Financing Activities		
Deposits increase (decrease)	3,598,153	669,566
Dividends paid	(370,777)	(350,340)
Net cash provided by financing activities	<u>3,227,376</u>	<u>319,226</u>

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Net increase (decrease) in cash and cash equivalents	\$ 725,485	\$ (3,205,833)
Cash and cash equivalents at January 1,	<u>3,943,088</u>	<u>7,148,921</u>
Cash and cash equivalents at December 31,	<u>\$ 4,668,573</u>	<u>\$ 3,943,088</u>
Supplemental disclosures of cash flow information		
Income taxes paid	<u>\$ 335,218</u>	<u>\$ 436,233</u>
Interest paid	<u>\$ 254,743</u>	<u>\$ 281,161</u>
Loans transferred to foreclosed real estate and other assets during the year	<u>\$ 5,000</u>	<u>\$ 36,500</u>
Proceeds from sales of foreclosed real estate and other assets financed through loans	<u>\$ -</u>	<u>\$ -</u>
Other asset transferred to bank premises and equipment	<u>\$ -</u>	<u>\$ -</u>
Total decrease (increase) in unrealized gain (loss) on securities available-for-sale	<u>\$ 411,867</u>	<u>\$ (1,193,789)</u>

See accompanying notes and independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Harrison Bankshares, Inc. and its subsidiary ("The Corporation") conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of the more significant policies.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 18, 2018, the date which the financial statements were available to be issued.

Nature of Operations

Harrison Bankshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary Harrison County Bank (the Bank). The Bank generates commercial, mortgage and consumer loans and receives deposits from customer located primarily in Harrison County, West Virginia and surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the West Virginia Department of Banking and the Federal Deposit Insurance Corporation.

Basis of Consolidation

The consolidated financial statements include the accounts of Harrison Bankshares, Inc. and its wholly owned subsidiary, The Harrison County Bank. All significant intercompany balances and transactions have been eliminated.

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. Actual results could differ from those estimates.

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 appraisals for significant collateral.

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Bank's loans 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 determined.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in net assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the statement of financial condition. Such items, along with net income, are components of comprehensive income.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and noninterest-bearing and interest bearing amounts due from banks.

Trust Assets

Assets held in a fiduciary or agency capacity for Bank customers are not included in the financial statements since such items are not assets of the Bank. Trust Department income is reported on a cash basis. Reporting of such income on an accrual basis would not have a material effect on net income.

Investment Securities

Debt securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included 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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted investments are stock from the Federal Home Loan Bank of Pittsburgh, which is restricted as to its marketability. Because no ready market exists for these investments and it has no quoted market value, the Corporation's investment in this stock is carried at cost.

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The determination of the allowance for loan losses requires significant estimates, including consideration of current economic conditions and historical loss experience pertaining to pools of homogeneous loans, which may be susceptible to change. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) construction and land development segment; (ii) residential real estate segment; (iii) commercial real estate segment; (iv) commercial and industrial segment and (v) other consumer segment.

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

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HARRISON BANKSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Charge-off of Uncollectible Loans

Construction and land development loans are either charged-off or written down to fair value at 90-days past due. Residential real estate and commercial real estate loans are either charged-off or written down to fair value when the loan has been foreclosed and the balance exceeds the market value of the collateral. Commercial and industrial and other consumer loans are considered for charge-off at 60-days past due. Any loan in any portfolio segment may be charged-off prior to the policies described above if a loss confirming event occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment.

Impaired Loans

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

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

When a loan within any class is impaired, interest income is recognized unless the receipt of principal and interest is in doubt when contractually due. If receipt of principal and interest is in doubt when contractually due, interest income is not recognized. Cash receipts received on nonaccruing impaired loans within any class are generally applied entirely against principal until the loan has been collected in full, after which time any additional cash receipts are recognized as interest income. Cash receipts received on accruing impaired loans within any class are applied in the same manner as accruing loans that are not considered impaired.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD)

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Other Assets

Real estate and other property held for resale, acquired principally through foreclosure, are reported at the lower of cost or estimated net realizable value and are included in other assets. Any write downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred in maintaining foreclosed real estate and subsequent write-downs to reflect declines in market value of the property are included in determining net income.

Advertising

The Bank expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place.

Sales Tax

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and expenses, respectively.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, accumulated depreciation, and state income tax benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns with the subsidiary.

All required federal business income tax returns for the Company have been filed up to, and including the tax year ended December 31, 2016. The Company's federal income tax returns for 2016, 2015, and 2014 remain subject to examination by the Internal Revenue Service ("IRS").

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HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Pension Plan

The Bank provides a 401(K) pension plan which covers substantially all employees. The employees may make tax deferred contributions to the plan. The Bank annually determines its contribution to the plan, if any.

The Bank's policy is to fund pension costs accrued.

Employer match pension expense for 2017 and 2016 was \$46,091 and \$46,299 respectively.

In addition, the 401(K) plan includes a discretionary profit-sharing feature, contributions were \$45,000 and \$45,000 for 2017 and 2016, respectively.

New Authoritative Accounting Guidance

The Financial Accounting Standards Board (the 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 amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This ASU will be effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Corporation has elected to implement this Update early and has reclassified the stranded tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.

2. Restrictions on Cash and Due from Banks

The Corporation is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2017 and 2016, was \$1,122,000 and \$806,000, respectively.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. Investment Securities

Securities available for sale consist of the following:

December 31, 2017

	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 28,423,201	\$ -	\$ (636,864)	\$ 27,786,337
Municipal securities	<u>20,244,194</u>	<u>61,036</u>	<u>(312,829)</u>	<u>19,992,401</u>
 Totals	 <u>\$ 48,667,395</u>	 <u>\$ 61,036</u>	 <u>\$ (949,693)</u>	 <u>\$ 47,778,738</u>

December 31, 2016

	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 30,218,921	\$ -	\$ (652,396)	\$ 29,566,525
Municipal securities	<u>17,646,884</u>	<u>9,123</u>	<u>(657,252)</u>	<u>16,998,755</u>
 Totals	 <u>\$ 47,865,805</u>	 <u>\$ 9,123</u>	 <u>\$ (1,309,648)</u>	 <u>\$ 46,565,280</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The amortized cost and estimated market value of investment securities at December 31, 2017 and 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2017

	<u>Securities Available For Sale</u>	
	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies		
One year or less	\$ -	\$ -
After one year through five years	27,007,401	26,393,257
After five years through ten years	1,415,800	1,393,080
After ten years	<u>-</u>	<u>-</u>
	<u>28,423,201</u>	<u>27,786,337</u>
Municipal securities		
One year or less	407,301	406,420
After one year through five years	1,887,067	1,889,058
After five years through ten years	9,933,887	9,846,128
After ten years	<u>8,015,939</u>	<u>7,850,795</u>
	<u>20,244,194</u>	<u>19,992,401</u>
	<u>\$ 48,667,395</u>	<u>\$ 47,778,738</u>

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2016

	<u>Securities Available For Sale</u>	
	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies		
One year or less	\$ -	\$ -
After one year through five years	27,366,955	26,762,579
After five years through ten years	2,851,966	2,803,946
After ten years	-	-
	<u>30,218,921</u>	<u>29,566,525</u>
Municipal securities		
One year or less	200,000	200,270
After one year through five years	974,167	968,626
After five years through ten years	8,994,835	8,727,028
After ten years	7,477,882	7,102,831
	<u>17,646,884</u>	<u>16,998,755</u>
	<u>\$ 47,865,805</u>	<u>\$ 46,565,280</u>

The book value of securities pledged to secure public deposits, repurchase agreements, trust deposits and for other purposes required or permitted by law amounted to \$6,138,609 and \$5,359,574 December 31, 2017 and 2016, respectively.

Gross losses of \$3,550 and gains of \$134,769 in 2017 and 2016, respectively, were realized from sales of investment securities available-for-sale with proceeds of \$3,552,335 and \$15,101,492, respectively.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The table below shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2017 and 2016.

December 31, 2017

<u>Description of Securities</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized</u>	<u>Fair Value</u>	<u>Unrealized</u>	<u>Fair Value</u>	<u>Unrealized</u>
		<u>Loss</u>		<u>Loss</u>		<u>Loss</u>
Obligations of U.S.						
Government Agencies	\$ 6,233,240	\$ (96,816)	\$ 21,553,096	\$ (540,048)	\$ 27,786,336	\$ (636,864)
Municipal securities	<u>9,479,783</u>	<u>(119,216)</u>	<u>5,282,460</u>	<u>(193,613)</u>	<u>14,762,243</u>	<u>(312,829)</u>
Total temporarily impaired securities	<u>\$15,713,023</u>	<u>\$ (216,032)</u>	<u>\$ 26,835,556</u>	<u>\$ (733,661)</u>	<u>\$ 42,548,579</u>	<u>\$ (949,693)</u>

December 31, 2016

<u>Description of Securities</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized</u>	<u>Fair Value</u>	<u>Unrealized</u>	<u>Fair Value</u>	<u>Unrealized</u>
		<u>Loss</u>		<u>Loss</u>		<u>Loss</u>
Obligations of U.S.						
Government Agencies	\$26,406,904	\$ (565,363)	\$ 3,159,621	\$ (87,033)	\$ 29,566,525	\$ (652,396)
Municipal securities	<u>13,939,939</u>	<u>(657,252)</u>	<u>-</u>	<u>-</u>	<u>13,939,939</u>	<u>(657,252)</u>
Total temporarily impaired securities	<u>\$40,346,843</u>	<u>\$ (1,222,615)</u>	<u>\$ 3,159,621</u>	<u>\$ (87,033)</u>	<u>\$ 43,506,464</u>	<u>\$ (1,309,648)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

At December 31, 2017, the sixty-three debt securities with unrealized losses have depreciated 2.18% from the Corporation's amortized cost bases. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of review of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

4. Loans

Loans outstanding at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Construction and land development	\$ 940,110	\$ 1,644,304
Residential real estate	35,177,362	35,858,879
Commercial real estate	8,293,466	4,962,155
Commercial and industrial	1,297,153	1,459,220
Other consumer	8,415,095	7,788,779
	<u>54,123,186</u>	<u>51,713,337</u>
Allowance for loan losses	(290,715)	(465,503)
Net deferred loan origination fees	<u>(154,005)</u>	<u>(158,320)</u>
Total net loans	<u>\$ 53,678,466</u>	<u>\$ 51,089,514</u>

Deferred dealer premiums of \$9,650 and \$6,045 are included in loans at December 31, 2017 and 2016, respectively.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Scheduled maturities on loans without regard to scheduled principal repayments on amortizing loans are as follows on December 31, 2017.

Due within one year	\$ 9,183,624
After one but within five years	7,315,026
After five but within fifteen years	18,304,327
After fifteen years	<u>19,320,209</u>
 Total	 <u>\$ 54,123,186</u>

Allowance for Loan Losses

A summary of the transactions in the allowance for loan losses and details regarding impaired loans follows for the years ended December 31, 2017 and 2016:

	2017	2016
Allowance for Loan Losses		
Balance, January 1,	\$ 465,503	\$ 454,519
Provision charged to operations	30,000	30,000
Recoveries credited to reserve	14,796	12,945
Losses charged to reserve	<u>(219,584)</u>	<u>(31,961)</u>
 Balance, December 31,	 <u>\$ 290,715</u>	 <u>\$ 465,503</u>
 Recorded balances of impaired loans, at end of year:		
With specific reserves assigned to the loan balances	\$ -	\$ 376,671
With no specific reserves assigned to the loan balances	<u>130,591</u>	<u>143,366</u>
Total	<u>\$ 130,591</u>	<u>\$ 520,037</u>
 Average balance of impaired loans for the year	 \$ 325,314	 \$ 342,988
Allowance for loan losses on impaired loans	\$ -	\$ 122,600

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The following tables present by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans at December 31, 2017 and 2016:

December 31, 2017

	Construction and land development	Residential real estate	Commercial real estate	Commercial and industrial	Other consumer	Total
Allowance for Loan Losses:						
Beginning balance	\$ 6,621	\$ 156,469	\$ 19,987	\$ 10,671	\$ 271,755	\$ 465,503
Charge-offs	-	(190,302)	-	-	(29,282)	(219,584)
Recoveries	-	-	-	-	14,796	14,796
Provision	(1,937)	211,796	22,057	(4,210)	(197,706)	30,000
Ending balance	<u>4,684</u>	<u>177,963</u>	<u>42,044</u>	<u>6,461</u>	<u>59,563</u>	<u>290,715</u>
Ending balance: individually evaluated for impairment	-	-	-	-	-	-
Ending balance: collectively evaluated for impairment	<u>4,684</u>	<u>177,963</u>	<u>42,044</u>	<u>6,461</u>	<u>59,563</u>	<u>290,715</u>
Ending balance: acquired loans with deteriorated credit quality	-	-	-	-	-	-
Finance Receivables:						
Ending balance: individually evaluated for impairment	\$ -	\$ 130,591	\$ -	\$ -	\$ -	\$ 130,591
Ending balance: collectively evaluated for impairment	940,110	35,046,771	8,293,466	1,297,153	8,415,095	53,992,595
Ending balance: acquired loans with deteriorated credit quality	-	-	-	-	-	-
Ending balance	<u>\$ 940,110</u>	<u>\$ 35,177,362</u>	<u>\$ 8,293,466</u>	<u>\$ 1,297,153</u>	<u>\$ 8,415,095</u>	<u>\$ 54,123,186</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2016

	Construction and land development	Residential real estate	Commercial real estate	Commercial and industrial	Other consumer	Total
Allowance for Loan Losses:						
Beginning balance	\$ 11,872	\$ 276,432	\$ 39,521	\$ 11,950	\$ 112,744	\$ 452,519
Charge-offs	-	-	-	-	(31,961)	(31,961)
Recoveries	697	-	-	-	12,248	12,945
Provision	<u>(5,948)</u>	<u>(119,963)</u>	<u>(19,534)</u>	<u>(1,279)</u>	<u>178,724</u>	<u>32,000</u>
Ending balance	<u>6,621</u>	<u>156,469</u>	<u>19,987</u>	<u>10,671</u>	<u>271,755</u>	<u>465,503</u>
Ending balance: individually evaluated for impairment	<u>-</u>	<u>117,800</u>	<u>-</u>	<u>4,800</u>	<u>-</u>	<u>122,600</u>
Ending balance: collectively evaluated for impairment	<u>6,621</u>	<u>156,469</u>	<u>19,987</u>	<u>5,871</u>	<u>153,955</u>	<u>342,903</u>
Ending balance: acquired loans with deteriorated credit quality	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Finance Receivables:						
Ending balance: individually evaluated for impairment	\$ -	\$ 377,421	\$ -	\$ 142,616	\$ -	\$ 520,037
Ending balance: collectively evaluated for impairment	1,644,304	35,481,458	4,962,155	1,316,604	7,788,779	51,193,300
Ending balance: acquired loans with deteriorated credit quality	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,644,304</u>	<u>\$ 35,858,879</u>	<u>\$ 4,962,155</u>	<u>\$ 1,459,220</u>	<u>\$ 7,788,779</u>	<u>\$ 51,713,337</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the year ended December 31, 2017 and 2016. The Corporation's internal creditworthiness grading system is based on experiences with similarly graded loans. This grading system is based greatly on the UCS classification system representing the degree of risk of nonpayment. Management assigns a risk grade to loans at issuance and adjusts the risk grade as factors indicative of a change in the risk grade are known. The categories presented in the following table are:

Pass – Minimal Risk: Loans in this category have virtually no chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has been with the bank for many years and has an excellent credit history.
- Cash flow is steady and well in excess of required debt repayment.
- The borrower has excellent access to alternative sources of finance at favorable terms.
- Management is of high quality and has unquestioned character.
- The collateral, if required, is cash or cash equivalent and is equal to or exceeds the value of the loan.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

Pass – Low Risk: Loans in this category are very unlikely to result in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has an excellent credit history.
- The borrower's cash flow is steady and comfortably exceeds the required debt requirements plus other fixed charges.
- The borrower has good access to alternative sources of finance at favorable terms.
- Management is of high quality and has unquestioned character.
- The collateral, if required, is sufficiently liquid and has a large enough margin to make very likely the recovery of the full amount of the loan in the event of default.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Pass – Medium Risk: Loans in this category have little chance of resulting in a loss. This category should include the average loan under average economic conditions. Loans in this category would have a level of risk similar to a loan with the following characteristics:

- The borrower has a good credit history.
- The borrower's cash flow may be subject to cyclical conditions, but is adequate to meet required debt repayments plus other fixed charges even after a limited period of losses or in the event of a somewhat lower trend in earnings.
- The borrower has some access to alternative sources of finance at reasonable terms.
- The borrower has good management in important positions.
- Collateral, which would usually be required, is sufficiently liquid and has a large enough margin to make likely the recovery of the value of the loan in the event of a default.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

Pass – Moderate Risk: Loans in this category have a limited chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has only a fair credit rating but no recent credit problems.
- The borrower's cash flow is currently adequate to meet required debt repayments, but it may not be sufficient in the event of significant adverse developments.
- The borrower has some limited access to alternative sources of finance, possibly at unfavorable terms.
- Some management weakness exists.
- Collateral, which would generally be required, is sufficient to make likely the recovery of the value of the loan in the event of default, but liquidating the collateral may be difficult or expensive.
- The guarantor would achieve this rating, or lower, if borrowing individually from this bank.

Pass – Watch: Loans in this category have a limited chance of resulting in a loss, and should be watched closely for other deciding factors. These would have a level of risk similar to a loan with the following characteristics:

- The loan is for a start-up company.
- There is concern for the results of the industry.
- There have been significant changes in the company's management.
- The business has massive seasonal issues or fluctuations.

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**HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Classified – Special Mention: Loans in this category have one or more inherent weaknesses that raise objective concern about the ability of the borrower to repay the debt as currently structured.

Classified – Substandard: A loan is substandard when it is inadequately protected by the current financial strength and paying capacity of the borrower, guarantor, or collateral pledged. In this category, loans must have a well-defined weakness that jeopardizes the liquidation of debt.

Classified – Doubtful: A loan that is classified as doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. In this category, the possibility of loss is extremely high, but its classification as an estimated loss is deferred until a more exact status may be determined.

Classified – Loss: Loss loans are considered uncollectible and of such little value that there is no justification to continuing them as loans. This does not mean that the loans have no recovery or salvage value; rather, that it is not practical to defer writing off the asset even though partial recovery may occur in the future.

**Credit Risk Profile by Creditworthiness Category by Class of Loan
December 31, 2017**

	Construction and land development	Residential real estate	Commercial real estate	Commercial and industrial	Other consumer	Total
Pass - minimal risk	\$ -	\$ -	\$ -	\$ 200,020	\$ 954,153	\$ 1,154,173
Pass - low risk	41,721	12,670,853	322,867	884,989	100,945	14,021,375
Pass - medium risk	898,389	22,079,084	7,913,067	212,144	6,143,028	37,245,712
Pass - moderate risk	-	296,834	57,532	-	1,216,969	1,571,335
Pass - watch	-	-	-	-	-	-
Classified - special mention	-	-	-	-	-	-
Classified - substandard	-	130,591	-	-	-	130,591
Classified - doubtful	-	-	-	-	-	-
Classified - loss	-	-	-	-	-	-
Total	\$ 940,110	\$ 35,177,362	\$ 8,293,466	\$ 1,297,153	\$ 8,415,095	\$ 54,123,186

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**HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	December 31, 2016					Total
	Construction and land development	Residential real estate	Commercial real estate	Commercial and industrial	Other consumer	
Pass - minimal risk	\$ -	\$ -	\$ -	\$ 238,012	\$ 1,002,660	\$ 1,240,672
Pass - low risk	45,612	15,579,377	361,597	-	165,640	16,152,226
Pass - medium risk	1,598,692	19,534,041	4,577,168	805,515	5,310,623	31,826,039
Pass - moderate risk	-	368,040	23,390	273,077	1,309,856	1,974,363
Pass - watch	-	-	-	-	-	-
Classified - special mention	-	-	-	-	-	-
Classified - substandard	-	377,421	-	142,616	-	520,037
Classified - doubtful	-	-	-	-	-	-
Classified - loss	-	-	-	-	-	-
Total	<u>\$ 1,644,304</u>	<u>\$ 35,858,879</u>	<u>\$ 4,962,155</u>	<u>\$ 1,459,220</u>	<u>\$ 7,788,779</u>	<u>\$ 51,713,337</u>

Nonaccrual Loans

Information on nonaccrual loans as of December 31, 2017 and 2016 is as follows:

	2017	2016
Construction and land development	\$ -	\$ -
Residential real estate	-	-
Commercial real estate	-	-
Commercial and industrial	-	-
Other consumer	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Age Analysis of Past Due Loans by Class

The following tables present an aging analysis of loans as of December 31, 2017 and 2016.

December 31, 2017

	Past Due			Total	Current	Total Loans	90 or More Days Past Due and Accruing
	30-59 Days	60-89 Days	90 or More Days				
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 940,110	\$ 940,110	\$ -
Residential real estate	401,876	339,912	140,233	882,021	34,295,341	35,177,362	140,233
Commercial real estate	62,829	-	-	62,829	8,230,637	8,293,466	-
Commercial and industrial	23,994	-	-	23,994	1,273,159	1,297,153	-
Other consumer	98,021	44,209	-	142,230	8,272,865	8,415,095	-
Total	<u>\$ 586,720</u>	<u>\$ 384,121</u>	<u>\$ 140,233</u>	<u>\$ 1,111,074</u>	<u>\$ 53,012,112</u>	<u>\$ 54,123,186</u>	<u>\$ 140,233</u>

December 31, 2016

	Past Due			Total	Current	Total Loans	90 or More Days Past Due and Accruing
	30-59 Days	60-89 Days	90 or More Days				
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 1,644,304	\$ 1,644,304	\$ -
Residential real estate	1,011,942	193,334	33,254	1,238,530	34,620,349	35,858,879	33,254
Commercial real estate	-	-	-	-	4,962,155	4,962,155	-
Commercial and industrial	-	-	142,616	142,616	1,316,604	1,459,220	142,616
Other consumer	112,638	77,388	80,543	270,569	7,518,210	7,788,779	80,543
Total	<u>\$ 1,124,580</u>	<u>\$ 270,722</u>	<u>\$ 256,413</u>	<u>\$ 1,651,715</u>	<u>\$ 50,061,622</u>	<u>\$ 51,713,337</u>	<u>\$ 256,413</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Impaired Loans

The following tables present impaired loan information:

	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	132,188	130,591	-	138,768	11,088
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	<u>\$ 132,188</u>	<u>\$ 130,591</u>	<u>\$ -</u>	<u>\$ 138,768</u>	<u>\$ 11,088</u>
With an allowance recorded:					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	132,188	130,591	-	138,768	11,088
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Other consumer	-	-	-	-	-
Grand Total	<u>\$ 132,188</u>	<u>\$ 130,591</u>	<u>\$ -</u>	<u>\$ 138,768</u>	<u>\$ 11,088</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	145,348	143,366	-	151,046	12,185
Commercial real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Other consumer	-	-	-	-	-
Total	<u>\$ 145,348</u>	<u>\$ 143,366</u>	<u>\$ -</u>	<u>\$ 151,046</u>	<u>\$ 12,185</u>
With an allowance recorded:					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	235,466	234,055	117,800	237,170	8,603
Commercial real estate	-	-	-	-	-
Commercial and industrial	143,443	142,616	4,800	144,889	5,505
Other consumer	-	-	-	-	-
Total	<u>\$ 378,909</u>	<u>\$ 376,671</u>	<u>\$ 122,600</u>	<u>\$ 382,059</u>	<u>\$ 14,108</u>
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate	380,814	377,421	117,800	388,216	20,788
Commercial real estate	-	-	-	-	-
Commercial and industrial	143,443	142,616	4,800	144,889	5,505
Other consumer	-	-	-	-	-
Grand Total	<u>\$ 524,257</u>	<u>\$ 520,037</u>	<u>\$ 122,600</u>	<u>\$ 533,105</u>	<u>\$ 26,293</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. Bank Premises and Equipment

Bank premises and equipment at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Land	\$ 1,730,442	\$ 1,730,442
Bank premises	2,772,220	2,762,065
Equipment	<u>1,735,836</u>	<u>1,746,828</u>
	6,238,498	6,239,335
Less: Accumulated depreciation	<u>(3,122,039)</u>	<u>(3,044,367)</u>
Bank premises and equipment – net	<u>\$ 3,116,459</u>	<u>\$ 3,194,968</u>

Depreciation charged to operations at December 31, 2017 and 2016 was as follows:

	2017	2016
Bank premises	\$ 71,072	\$ 75,426
Equipment	<u>92,003</u>	<u>97,371</u>
Total	<u>\$ 163,075</u>	<u>\$ 172,797</u>

6. Other Assets

Other assets at December 31, 2017 and 2016 consist of the following:

	2017	2016
Income tax refund receivable	\$ 112,147	\$ 18,480
Prepaid expenses	76,084	86,053
U.S. Savings Bonds	1,019	58,716
Other real estate owned	-	-
Other foreclosed assets	5,000	7,000
Other	<u>56,239</u>	<u>54,396</u>
Total	<u>\$ 250,489</u>	<u>\$ 224,645</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. Deposits

Deposits at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Demand deposits - noninterest-bearing	\$ 31,798,162	\$ 29,188,491
Demand deposits - interest-bearing	20,587,961	18,214,387
Savings	26,485,462	25,080,779
Time, \$100,000 and over	9,036,450	11,134,196
Other time	<u>11,425,590</u>	<u>12,117,619</u>
	<u>\$ 99,333,625</u>	<u>\$ 95,735,472</u>

The following is a summary of the maturity distributions of certificates of deposits in amounts of \$100,000 or more as of December 31, 2017:

2018	\$ 4,855,059
2019	1,346,559
2020	953,212
2021	610,638
2022	<u>1,270,982</u>
	<u>\$ 9,036,450</u>

A summary of the maturities on other time deposits are as follows:

2018	\$ 6,397,445
2019	2,455,428
2020	684,522
2021	969,768
2022	<u>918,427</u>
	<u>\$ 11,425,590</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC insurance limit of \$250,000 totaled \$3,026,002 and \$4,854,626 at December 31, 2017 and 2016, respectively.

\$5,435 and \$9,313 of demand deposits have been reclassified as loan balances at December 31, 2017 and 2016 respectively.

8. Short-Term Borrowings

The Corporation has no Federal Funds purchased from the Federal Home Loan Bank of Pittsburgh as of December 31, 2017.

The Corporation purchased stock in The Federal Home Loan Bank, with a balance of \$56,700 and \$70,500 at December 31, 2017 and 2016, respectively.

9. Advances From Federal Home Loan Bank

The Corporation is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). Because FHLB offers various term advances to its members, the Corporation did not establish an open line of credit as of December 31, 2017. The Corporation had no outstanding advances from FHLB at December 31, 2017 and 2016.

10. Other Liabilities

Other liabilities at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Income taxes payable	\$ -	\$ -
Accrued expenses	<u>150,013</u>	<u>176,665</u>
Total	<u>\$ 150,013</u>	<u>\$ 176,665</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. Stockholders' Equity

Harrison Bankshares, Inc. was incorporated under the laws of West Virginia November 25, 1987. Shares of common stock at December 31, 2017 and 2016 are as follows:

	<u>Par Value Per Share</u>	<u>Shares</u>			
		<u>Authorized</u>	<u>Issued</u>	<u>Outstanding</u>	<u>Treasury Stock</u>
Balance, January 1, 2016	\$ 0.25	12,800	6,400	5,839	561
Purchase of treasury stock	-	-	-	-	-
Sales of treasury stock	-	-	-	-	-
Balance, December 31, 2016	0.25	12,800	6,400	5,839	561
Purchase of treasury stock	-	-	-	-	-
Sales of treasury stock	-	-	-	-	-
Balance, December 31, 2017	<u>\$ 0.25</u>	<u>12,800</u>	<u>6,400</u>	<u>5,839</u>	<u>561</u>

Treasury stock is valued at cost.

12. Dividend Restrictions

The approval of the West Virginia Banking Commissioner is required for state banks to pay dividends in excess of earnings retained in the current year plus retained net profits for the preceding two years. As of December 31, 2017, the subsidiary bank was permitted to pay dividends without prior regulatory approval.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. Other Expenses

Other expenses consist of the following:

	2017	2016
Other insurance	\$ 20,376	\$ 19,947
Contributions	4,734	7,685
Data processing	229,320	187,596
Courier services	28,270	26,903
Dues and subscriptions	29,709	30,015
Postage and freight	50,870	56,570
Telephone	54,726	50,092
Travel	3,610	3,908
Other taxes	23,249	24,208
Legal and professional fees	85,053	100,271
Repossession expense	1,039	4,351
Other real estate expense and loss	-	-
Charged off DDAs and cash short	9,283	33,782
Education and training	6,831	8,278
Bank automobile expense	4,705	3,076
Business development	1,136	1,400
Debit card expense	322,938	293,550
FRB service charge	22,404	22,212
Miscellaneous	<u>52,684</u>	<u>40,525</u>
	<u>\$ 950,937</u>	<u>\$ 914,369</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

14. Income Taxes

The consolidated provision for income taxes for 2017 and 2016 consists of the following:

	2017	2016
Current federal income taxes	\$ 183,294	\$ 288,856
Deferred federal income tax (benefit)	<u>201,874</u>	<u>(22,450)</u>
Total federal income taxes	<u>385,168</u>	<u>266,406</u>
Current state income taxes	58,257	36,584
Deferred state income tax (benefit)	<u>2,333</u>	<u>(2,733)</u>
Total state income taxes	<u>60,590</u>	<u>33,851</u>
Total	<u>\$ 445,758</u>	<u>\$ 300,257</u>

A reconciliation of the statutory income tax to the income tax expense included in the statements of income at December 31, 2017 and 2016 is as follows:

	2017	2016
Expected tax provision at 34% rate	\$ 383,190	\$ 391,249
State income tax, net of federal income tax benefit	41,982	23,167
Nontaxable income	(161,733)	(111,713)
Remeasurement of deferred tax asset	169,068	-
Other, net	<u>13,251</u>	<u>(2,446)</u>
Provision for income taxes	<u>\$ 445,758</u>	<u>\$ 300,257</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Accumulated deferred income taxes (benefits) at December 31, 2017 and 2016 relate to the following timing differences:

	2017	2016
Provision for loan losses	\$ (42,958)	\$ (89,515)
Depreciation	58,249	92,823
Unrealized appreciation (depreciation) on securities	(186,618)	(442,178)
Deferred state income tax	(860)	(2,185)
Loan fees	(38,679)	(60,435)
Other	<u>(1,598)</u>	<u>(1,673)</u>
 Total deferred income taxes (benefits)	 <u>\$ (212,464)</u>	 <u>\$ (503,163)</u>

The following represents the tax effects allocated to each component of other comprehensive income at December 31, 2017 and 2016.

	2017		
	<u>Before</u> <u>Tax</u> <u>Amount</u>	<u>Tax</u> <u>(Expense)</u> <u>or Benefit</u>	<u>Net of</u> <u>Tax</u> <u>Amount</u>
Unrealized gain on securities available-for-sale	\$ 411,866	\$ (86,492)	\$ 325,374
Other comprehensive income	<u>\$ 411,866</u>	<u>\$ (86,492)</u>	<u>\$ 325,374</u>
	2016		
	<u>Before</u> <u>Tax</u> <u>Amount</u>	<u>Tax</u> <u>(Expense)</u> <u>or Benefit</u>	<u>Net of</u> <u>Tax</u> <u>Amount</u>
Unrealized loss on securities available-for-sale	\$(1,193,788)	\$ 405,888	\$ (787,900)
Other comprehensive income	<u>\$(1,193,788)</u>	<u>\$ 405,888</u>	<u>\$ (787,900)</u>

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. Related Party Transactions

Related Party Loans

In the ordinary course of business, the Corporation makes loans to its officers, directors, shareholders and employees at basically the same terms as those to unrelated borrowers. All loans are approved by the loan committee and the board of directors. Changes in the aggregate balances of these loans at December 31, 2017 are summarized as follows:

Balance January 1, 2017	\$ 1,424,949
New loans	991,065
Repayments	(503,243)
Reclassifications	<u>2,820</u>
Balance December 31, 2017	<u>\$ 1,915,591</u>

Related Party Deposits

In the ordinary course of business, the Corporation receives deposits from its officers, directors, employees, and their affiliated companies at basically the same terms as those to unrelated parties. The total deposits of the related parties at December 31, 2017 are summarized as follows:

Employees	\$ 956,769
Directors and their affiliated companies	<u>1,845,604</u>
Total	<u>\$ 2,802,373</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

16. Financial Instruments with Off-Balance Sheet Risk, Financial Instruments with Concentrations of Credit Risk, and Commitments and Contingencies

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the needs of its customers. These financial instruments include commitments to extend credit. The instruments involve elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

At December 31, 2017 and 2016 the Corporation had the following financial instruments whose contract amounts represent credit risk:

	2017	2016
Commitments to extend credit	\$ <u>5,124,418</u>	\$ <u>5,325,370</u>

Under commitments to extend credit, the Corporation agrees to lend to its customers as long as there is no violation of any of the terms of the contract. These commitments generally have fixed expiration dates and termination clauses. The Corporation evaluates each customer's credit worthiness on a case-by-case basis and the collateral obtained upon extension of credit is based upon management's credit evaluation of the customer. Collateral generally includes trade receivables, inventory, property, plant and equipment, and income producing commercial properties. Since many of these commitments to extend credit will expire without being drawn upon, the total commitments do not necessarily represent future cash requirements.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Corporation makes consumer, commercial and residential loans to customers primarily in Harrison County, West Virginia and portions of contiguous counties. Although the Bank has a diversified loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent upon the economic conditions in the Banks primary trade area.

The Corporation maintains deposit accounts with other financial institutions; some of these deposits accounts were in excess of federally insured limits. The Corporation places its cash only with high credit quality institutions and monitors the credit quality of these institutions regularly, and, as such, does not believe there is significant risk of nonperformance by these institutions. In addition, the majority of deposits with other financial institutions are maintained at the Federal Reserve Bank of Richmond and the Federal Home Loan Bank. Therefore, the Corporation believes this significantly reduces the risk of exposure relating to those deposits. The following illustrates the Corporation's exposure to concentrations of credit risk for their deposit accounts with other financial institutions at December 31, 2017 and 2016:

	2017	2016
Due from banks	\$ 2,221,807	\$ 1,653,643
Less: Federally insured amounts	-	(1,000)
Less: Amounts on deposit with Federal Reserve	<u>(2,077,845)</u>	<u>(1,516,298)</u>
Exposure from uninsured amounts	<u>\$ 143,962</u>	<u>\$ 136,345</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

17. Regulatory Matters

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

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

The Bank's most recent examination report (at June 30, 2015) by its primary regulatory authority of its capital categorization under the framework for prompt corrective action categorizes the bank as well capitalized. To be well capitalized, the Bank must maintain minimum common equity risk-based, Tier 1 risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since its last financial reporting that management believes have changed the Bank's category.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Bank's actual capital amounts and ratios are also presented in the following table (in thousands).

	Actual Ratio		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u> (dollars in thousands)	<u>Ratio</u>	<u>Amount</u> (dollars in thousands)	<u>Ratio</u>	<u>Amount</u> (dollars in thousands)	<u>Ratio</u>
As of 12/31/17:						
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$11,353	20.76%	\$ 2,461	4.50%	\$ 3,554	6.50%
Total Capital (to Risk-Weighted Assets)	\$11,644	21.30%	\$ 4,374	8.00%	\$ 5,468	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	\$11,353	20.76%	\$ 3,281	6.00%	\$ 4,374	8.00%
Tier 1 Capital (to Average Assets)	\$11,353	10.38%	\$ 4,375	4.00%	\$ 5,469	5.00%
As of 12/31/16:						
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$10,854	20.95%	\$ 2,332	4.50%	\$ 3,368	6.50%
Total Capital (to Risk-Weighted Assets)	\$11,319	21.84%	\$ 4,145	8.00%	\$ 5,182	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	\$10,854	20.95%	\$ 3,109	6.00%	\$ 4,145	8.00%
Tier 1 Capital (to Average Assets)	\$10,854	10.18%	\$ 4,267	4.00%	\$ 5,334	5.00%

HARRISON BANKSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

18. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements*, defines fair value 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. ASC Topic 820 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. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Accordingly, securities available-for-sale is recorded at fair value on a recurring basis.

Additionally, from time to time, the Corporation may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for instruments measured at fair value.

Available-for-sale securities: Investment securities available-for-sale is 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 the 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 U.S. Government and agency debt securities, agency mortgage backed securities, municipal securities, and other securities.

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Loans: The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, *Accounting by Creditors for Impairment of a Loan*. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2017, substantially all of the total impaired loans were evaluated based on the fair value of collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral required classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When an 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, the Corporation records the impaired loan as nonrecurring Level 3.

Assets at Fair Value on a Recurring Basis

Fair value of assets and liabilities are measured on a recurring basis at December 31, 2017 and 2016, are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2017</u>				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 27,786,337	\$ -	\$ 27,786,337	\$ -
Municipal securities	<u>19,992,401</u>	<u>-</u>	<u>19,992,401</u>	<u>-</u>
Totals	<u>\$ 47,778,738</u>	<u>\$ -</u>	<u>\$ 47,778,738</u>	<u>\$ -</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2016</u>				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 29,566,525	\$ -	\$ 29,566,525	\$ -
Municipal securities	<u>16,998,755</u>	<u>-</u>	<u>16,998,755</u>	<u>-</u>
 Totals	 <u>\$ 46,565,280</u>	 <u>\$ -</u>	 <u>\$ 46,565,280</u>	 <u>\$ -</u>

Assets Recorded at Fair Value on a Nonrecurring Basis

Fair value of assets and liabilities measured on a nonrecurring basis at December 31, 2017 and 2016, are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>				<u>Total Gains (Losses)</u>
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>December 31, 2017</u>					
Impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>December 31, 2016</u>					
Impaired loans	<u>\$ 254,071</u>	<u>\$ -</u>	<u>\$ 254,071</u>	<u>\$ -</u>	<u>\$ (122,600)</u>

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HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

19. Fair Value of Financial Instruments:

In accordance with the disclosure requirements of FASB ASC 825, *Financial Instruments*, the estimated fair values of the Corporation's financial instruments at December 31, 2017 and 2016 are as follows:

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2017</u>					
Financial Assets					
Cash and due					
from banks	\$ 4,668,573	\$ 4,668,573	\$ 4,668,573	\$ -	\$ -
Investment securities	47,778,738	47,778,738	-	47,778,738	-
Loans	53,678,466	*****			
Restricted investments	56,700	56,700	-	56,700	-
Financial Liabilities					
Deposits	99,333,625		-	-	99,471,654
<u>December 31, 2016</u>					
Financial Assets					
Cash and due					
from banks	\$ 3,943,088	\$ 3,943,088	\$ 3,943,088	\$ -	\$ -
Investment securities	46,565,280	46,565,280	-	46,565,280	-
Loans	51,089,514	*****			
Restricted investments	70,500	70,500	-	70,500	-
Financial Liabilities					
Deposits	95,735,472		-	-	95,906,977

***** - Management has determined it is not cost effective to estimate fair value.

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Cash and due from banks: The fair value of cash and due from banks is estimated to approximate the carrying amounts.

Investment securities and restricted investments: Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans: Management has determined it is not cost effective to estimate the fair value of loans. Information necessary to estimate the fair values using industry guidance is not readily available.

Deposits: The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding by the deposit liabilities compared to the cost of borrowing funds in the market.

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**HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

20. Parent Company Financial Statements

Presented below are condensed financial statements for the parent company, Harrison Bankshares, Inc., for 2017 and 2016.

**CONDENSED PARENT COMPANY BALANCE SHEETS
DECEMBER 31,**

	2017	2016
ASSETS		
Noninterest-bearing deposits with subsidiary bank	\$ -	\$ -
Interest-bearing deposits with subsidiary bank	40,553	60,957
Investment in subsidiary	10,651,108	9,996,235
Due from subsidiary	<u>12,518</u>	<u>11,120</u>
TOTAL ASSETS	<u>\$10,704,179</u>	<u>\$10,068,312</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' Equity		
Common stock	\$ 1,600	\$ 1,600
Additional paid-in capital	1,110,839	1,110,839
Retained earnings	10,946,828	10,467,267
Accumulated other comprehensive income (loss)	(702,040)	(858,346)
Treasury stock - at cost	<u>(653,048)</u>	<u>(653,048)</u>
Total stockholders' equity	<u>10,704,179</u>	<u>10,068,312</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$10,704,179</u>	<u>\$10,068,312</u>

See independent auditor's report.

HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

CONDENSED PARENT COMPANY STATEMENTS OF INCOME
AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
Income		
Dividends from Harrison County Bank	\$ 370,777	\$ 350,340
Interest income	<u>71</u>	<u>74</u>
Total income	<u>370,848</u>	<u>350,414</u>
Expenses		
Other expenses	<u>31,595</u>	<u>31,052</u>
Total expenses	<u>31,595</u>	<u>31,052</u>
Income before income taxes and equity in undistributed net income of subsidiary	339,253	319,362
Income tax benefit	<u>12,518</u>	<u>11,120</u>
Income before equity in undistributed net income of subsidiary	351,771	330,482
Equity in undistributed net income of subsidiary	<u>329,499</u>	<u>519,993</u>
Net Income	681,270	850,475
Retained earnings, January 1,	<u>10,467,267</u>	<u>9,967,132</u>
Total	11,148,537	10,817,607
Less: Dividends paid	(370,777)	(350,340)
Add: Reclassification of stranded tax effects to accumulated other comprehensive income (loss)	<u>169,068</u>	<u>-</u>
Retained earnings, December 31,	<u>\$ 10,946,828</u>	<u>\$ 10,467,267</u>

See independent auditor's report.

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**CONDENSED PARENT COMPANY STATEMENTS OF
COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Net income	\$ 681,270	\$ 850,475
Other Comprehensive Income (Loss) Before Tax		
Changes in net unrealized gains (losses) on securities available for sale, net of income taxes of \$78,220 in 2017 and \$370,749 in 2016	309,317	(719,689)
Reclassification adjustment for (losses) gains realized, net of income taxes of \$8,272 in 2017 and \$35,139 in 2016	<u>16,057</u>	<u>(68,211)</u>
Other comprehensive income (loss), net of tax	<u>325,374</u>	<u>(787,900)</u>
Comprehensive income	<u>\$1,006,644</u>	<u>\$ 62,575</u>

See independent auditor's report.

**HARRISON BANKSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**CONDENSED PARENT COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Cash flows from operating activities		
Net income	\$ 681,270	\$ 850,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net loss (income) of subsidiaries	<u>(329,499)</u>	<u>(519,993)</u>
Net cash provided by operating activities	<u>351,771</u>	<u>330,482</u>
Cash flows from financing activities		
Dividends paid	(370,777)	(350,340)
Advances (to) from subsidiary	<u>(1,398)</u>	<u>58</u>
Net cash (used in) financing activities	<u>(372,175)</u>	<u>(350,282)</u>
Net (decrease) in cash and cash equivalents	(20,404)	(19,800)
Cash and cash equivalents at January 1,	<u>60,957</u>	<u>80,757</u>
Cash and cash equivalents at December 31,	<u>\$ 40,553</u>	<u>\$ 60,957</u>

See independent auditor's report.