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FRB RICHMOND

FR Y-6
OMB Number 7100-0297
Approval expires November 30, 2019
Page 1 of 2

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, R. L. Bowling
Name of the Holding Company Director and Official

President and CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3/27/18
Date of Signature

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

For Federal Reserve Bank Use Only

RSSD ID 1472211
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 29, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Peoples Bankshares, Inc.
Legal Title of Holding Company

PO Box 817
(Mailing Address of the Holding Company) Street / P.O. Box

Mullens	WV	25882
City	State	Zip Code

200 First Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Randy R. Hamilton	EVP & COO
Name	Title

304-294-7115
Area Code / Phone Number / Extension

304-294/7147
Area Code / FAX Number

rhamilton@firstpeoplesbank.org
E-mail Address

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

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

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

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

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

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

FRY-6 Report Item 2a - Organizational Chart 2017

Peoples Bankshares, Inc.

PO Box 817, 200 First Street

Mullens, WV 25882

Incorporated in West Virginia | No LEI number

Peoples Bankshares, Inc. Owns 100% of First Peoples Bank, Inc.

First Peoples Bank, Inc.

PO Box 817, 200 First Street

Mullens, WV 25882

Incorporated in West Virginia | No LEI number

Peoples Bankshares, Inc. Item #2b

Results: A list of branches for your depository institution: FIRST PEOPLES BANK, INC. (ID_RSSD: 708333).
This depository institution is held by PEOPLES BANKSHARES, INC. (1472211) of MULLENS, 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)	708333	FIRST PEOPLES BANK, INC.	200-206 FIRST STREET	MULLENS	WV	25882	WYOMING	UNITED STATES	Not Required	Not Required	FIRST PEOPLES BANK, INC.	708333	
OK		Full Service	3958063	MACARTHUR BRANCH	123 BETHEL ROAD	MACARTHUR	WV	25873	RALEIGH	UNITED STATES	Not Required	Not Required	FIRST PEOPLES BANK, INC.	708333	
OK		Full Service	707831	PINEVILLE BRANCH	243 MAIN AVENUE	PINEVILLE	WV	24874	WYOMING	UNITED STATES	Not Required	Not Required	FIRST PEOPLES BANK, INC.	708333	

First Peoples Bank
Current Shareholders with Ownership, Control or Holdings of 5% or More with Power to Vote as of December 31, 2017
FR Y-6 Report Item 3.1: Securities Holders

Name and Address	Country	Number and Percentage of Each Class of Voting Securities
Barbara Davis Pauley Gaithersburg, MD	USA	5.34% - 28,950 shares common stock
William A. Davis, II Bethesda, MD	USA	5.16% - 27,950 shares common stock
Susan D. Steele Dallas, TX	USA	5.53% - 30,000 shares common stock
Trust u/w of H. E. Lilly c/o First Peoples Bank Mullens, WV Ronald L. Bowling, Michael N. Wikel, and Andrew J. Lilly, Trustees	USA	27.67% - 150,000 shares common stock

REPORT ITEM 3.2 - 5% OR MORE DURING FISCAL YEAR BUT NOT AT YEAR-END

none

PEOPLES BANKSHARES, INC.
REPORT OF BANK HOLDING COMPANIES
FR Y-6 FOR PERIOD ENDING DECEMBER 31, 2017
REPORT ITEM 4 - DIRECTORS AND OFFICERS

QUESTION #1	QUESTION #2	QUESTION #3	QUESTION #4
NAME AND ADDRESS	**PRINCIPAL OCCUPATION**	**TITLE OR POSITION** **a) Holding Co.** **b) Subsidiaries** **c) Other Business**	**PERCENTAGE OF EACH CLASS OF VOTING SECURITIES OWNED, CONTROLLED OR HELD WITH POWER TO VOTE IN A) Holding Company; B)Direct and indirect subsidiaries of holding co.; and C) Other business**
************************	*****************	***********************************	**
Ronald L. Bowling Mullens, WV USA		a) President and CEO, Chairman b) President, CEO, Director c) N/A	a) 1.29% b) N/A c) N/A
Robert Browning, Jr. Pineville, WV USA	Legal Services	a) Director b) Director c) Owner, Robert Browning, Jr., LC	a) 0.04% b) N/A c) 100% of Robert Browning, Jr., LC
Charles T. Feller Mullens, WV USA	Insurance Agent	a) Director b) Director c) Part Owner, C. V. Feller Insurance	a) 3.11% b) N/A c) 50% of C. V. Feller Insurance
Randy R. Hamilton Bud, WV USA		a) Executive VP & COO b) EVP, COO, Director c) N/A	a) 0.28% b) N/A c) N/A
Kenneth W. McBride, Jr. Mullens, WV USA	Independent Xerox Agent	a) Director b) Director c) Owner, Professional Business Products	a) 0.74% b) N/A c) 100% of Professional Business Products
Joseph G. Mason, III Cincinnati, OH USA	Retired	a) Director b) Director c) N/A	a) 3.30% b) N/A c) N/A
Barbara Davis Pauley Gaithersburg, MD USA	Retired	a) Director b) Director c) N/A	a) 5.34% b) N/A c) N/A
Michael N. Wikel Mullens, WV USA	Retired	a) Director b) Director c) N/A	a) 1.75% b) N/A c) N/A
Trust u/w of H. E. Lilly Ronald L. Bowling, Trustee Mullens, WV USA Michael N. Wikel, Trustee Mullens, WV USA Andrew J. Lilly, Trustee Blacksburg, VA USA	Trust	a) N/A b) N/A c) N/A	a) 27.67% b) N/A c) N/A

Peoples Bankshares, Inc. And Subsidiary

Mullens, West Virginia

2017 Annual Report

TO OUR SHAREHOLDERS:

On behalf of the directors, officers and employees, we appreciate the opportunity to submit this consolidated annual report of Peoples Bankshares, Inc. and its wholly owned subsidiary, First Peoples Bank, for the year ended December 31, 2017. As shown below, we saw improvement in key ratios from the preceding year. The following table represents figures used to measure the bank's performance.

	2017	2016
Net Earnings	$774,565	$669,022
Net Earnings per Share	$1.43	$1.23
Dividends Per Share	$0.69	$0.64
Book Value per Share	$37.89	$37.47
Return on Average Assets	.60%	.52%
Return on Average Equity	3.75%	3.26%
Average Capital to Average Assets Ratio	16.06%	16.06%
Average Capital to Average Deposit Ratio	19.03%	19.08%

We are pleased that the bank's net earnings were $774,565 in 2017, an increase of 15.78% from 2016. This is encouraging as 2017 was our sixth consecutive year of increased earnings in an environment of modest economic growth. We expect this trend to continue in 2018.

As we have discussed in previous communications, the Federal Reserve carefully monitors interest rates consistent with its mandate to foster maximum employment and price stability. In its January 2018 press release, the Federal Reserve indicated that "...economic conditions will evolve in a manner that will warrant further gradual increases". The press release went on to say that rates are "...likely to remain, for some time, below levels that are expected to prevail in the longer run." In other words, a return to historically normal rates will be achieved incrementally based on the Federal Reserve's assessment of the strength of the economy.

The bank is well-positioned to take advantage of future rate increases but, obviously, the Federal Reserve's timeline remains questionable considering the uncertainty in the national and global economies. For the bank, this uncertainty extends to the local economy in southern West Virginia which is heavily influenced by the gas and coal sectors. Nonetheless, we are encouraged to see interest rates moving up, consumer spending improving, inflation in check and promises of relief from regulatory burdens in the banking and fossil fuel industries. Regulatory relief in the fossil fuel industry especially should have a positive impact on the local economy.

Our management philosophy has enabled us to prosper in favorable conditions and economic downturns. We remain committed to sound management practices in controlling expenses, extending credit, maintaining excellent asset quality, and exercising prudent capital management. We are proud of the fact that our bank remains one of the safest banks in the nation, consistently earning a 5-star rating since the inception of the Bauer Financial rating system 29 years ago.

The directors and officers continue to be fully committed to the bank's long-term health. Our capable and dedicated employees exemplify this commitment by providing the best possible service to our customers and communities. The public image we have earned for courteous, helpful, full-service banking combined with sound management proves that our bank can prosper and be successful in 2018 and beyond. Thank you for your loyalty and support.

R. H. Bowling

Chairman, President and CEO

Consolidated Balance Sheets

December 31, 2017, 2016, and 2015

	2017	2016	2015
ASSETS			
Cash and due from banks	$ 14,353,021	$ 14,123,512	$ 20,208,432
Cash and Cash Equivalents	14,353,021	14,123,512	20,208,432
Interest Bearing Deposits with Other Banks:			
Certificates of deposit	12,831,000	16,408,000	12,511,000
Investment Securities			
Available-for-sale securities at estimated fair value (amortized cost $59,556,645, $52,234,614 and $48,279,650, respectively)	58,763,575	51,435,345	48,113,084
Held-to-maturity securities (estimated fair value $-0-, $723,951 and $992,133, respectively)	—	698,242	957,436
Total Investment Securities	58,763,575	52,133,587	49,070,520
Loans			
Commercial and financial	2,528,755	2,534,544	2,497,697
Real estate	35,379,690	35,895,970	34,188,810
Loans to individuals for household, family and other consumer expenditures	5,092,012	4,327,030	4,583,189
Total Loans	43,000,457	42,757,544	41,269,696
Less: Allowance for loan losses	(404,495)	(432,654)	(386,496)
Net Loans	42,595,962	42,324,890	40,883,200
Bank premises and equipment, net	1,434,144	1,483,041	1,485,107
Other real estate owned	45,000	215,000	235,000
Accrued interest receivable and other assets	989,204	1,133,321	975,136
TOTAL ASSETS	$ 131,011,906	$127,821,351	$125,368,395
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS:			
Noninterest bearing	$ 25,918,302	$ 23,254,505	$ 23,237,256
Interest bearing	84,436,254	84,157,145	81,503,062
Total Deposits	110,354,556	107,411,650	104,740,318
Accrued interest on deposits	27,319	27,655	27,826
Other liabilities	93,611	72,791	159,881
Total Liabilities	110,475,486	107,512,096	104,928,025
STOCKHOLDERS' EQUITY:			
Common stock (Par value $1 per share 1,200,000 shares authorized, 600,000 shares issued)	600,000	600,000	600,000
Capital surplus	1,800,000	1,800,000	1,800,000
Retained earnings	20,493,717	20,093,160	19,771,043
Treasury stock (57,959 shares - 2017, 2016 and 2015, at cost)	(1,804,870)	(1,804,870)	(1,804,870)
Accumulated other comprehensive (loss) income	(552,427)	(379,035)	74,197
Total Stockholders' Equity	20,536,420	20,309,255	20,440,370
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 131,011,906	$127,821,351	$125,368,395
Book Value Per Share	$37.89	$37.47	$37.71

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
INTEREST INCOME:			
Interest and fees on loans	$ 1,914,194	$ 1,921,947	$ 1,869,310
Interest on time deposits in other banks	346,538	311,618	175,119
Investment securities:			
Taxable	790,820	677,043	772,477
Tax exempt	166,760	169,024	153,990
Total Interest Income	3,218,312	3,079,632	2,970,896
INTEREST EXPENSE:			
Interest on time deposits of $100,000 or more	166,543	160,246	167,157
Interest on other deposits	229,814	222,683	228,706
Total Interest Expense	396,357	382,929	395,863
Net Interest Income	2,821,955	2,696,703	2,575,033
Provision for loan losses	—	65,000	-
Net Interest Income After Provision for Loan Losses	2,821,955	2,631,703	2,575,033
NONINTEREST INCOME:			
Service charges on deposit accounts	63,310	64,850	70,031
Other service charges	281,616	270,857	266,339
Net realized gain on sale of investment securities.	68,741	60,531	8,331
Other income	139,593	136,757	128,276
Total Noninterest Income	553,260	532,995	472,977
NONINTEREST EXPENSES:			
Salaries and employee benefits	815,858	917,926	982,409
Data processing	353,184	303,536	303,605
Occupancy, furniture and equipment expense	259,302	255,172	261,422
Other expenses	806,250	729,126	661,977
Total Noninterest Expenses	2,234,594	2,205,760	2,209,413
Income Before Income Taxes	1,140,621	958,938	838,597
Provision For Income Taxes	366,056	289,916	243,108
Net Income	$ 774,565	$ 669,022	$ 595,489
Earnings Per Share	$1.43	$1.23	$1.10

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Net Income	$ 774,565	$ 669,022	$ 595,489
Other Comprehensive Income, Net of Tax			
Net unrealized (losses) gains on securities available-for-sale	(99,380)	(379,621)	228,691
Change related to employee benefit plan	(74,014)	(73,611)	11,892
	(173,394)	(453,232)	240,583
Comprehensive Income	$ 601,171	$ 215,790	$ 836,072

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2017, 2016, and 2015

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance January 1, 2015	$ 600,000	$ 1,800,000	$ 19,500,779	$(1,804,870)	$ (166,386)	$19,929,523
Comprehensive Income:						
Net income	—	—	595,489	—	—	595,489
Net unrealized gains on securities available-for-sale (net of tax)	—	—	—	—	228,691	228,691
Change related to employee benefit plan (net of tax)	—	—	—	—	11,892	11,892
Cash dividends paid - $.60 per share	—	—	(325,225)	—	—	(325,225)
Balance December 31, 2015	$ 600,000	$ 1,800,000	$ 19,771,043	$(1,804,870)	$ 74,197	$20,440,370
Comprehensive Income:						
Net income	—	—	669,022	—	—	669,022
Net unrealized losses on securities available-for-sale (net of tax)	—	—	—	—	(379,621)	(379,621)
Change related to employee benefit plan (net of tax)	—	—	—	—	(73,611)	(73,611)
Cash dividends paid - $.64 per share	—	—	(346,905)	—	—	(346,905)
Balance December 31, 2016	$ 600,000	$ 1,800,000	$ 20,093,160	$(1,804,870)	$ (379,035)	$20,309,255
Comprehensive Income:						
Net income	—	—	774,565	—	—	774,565
Net unrealized losses on securities available-for-sale (net of tax)	—	—	—	—	(99,380)	(99,380)
Change related to employee benefit plan (net of tax)	—	—	—	—	(74,012)	(74,012)
Cash dividends paid - $.69 per share	—	—	(374,008)	—	—	(374,008)
Balance December 31, 2017	$ 600,000	$ 1,800,000	$ 20,493,717	$(1,804,870)	$ (552,427)	$20,536,420

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
OPERATING ACTIVITIES:			
Interest and fees received	$ 3,381,210	$ 3,154,992	$ 3,005,433
Service charges, trust and other income	484,519	472,464	464,646
Interest paid	(396,693)	(383,101)	(398,309)
Cash paid to employees and suppliers	(2,258,751)	(2,089,173)	(2,074,039)
Income taxes paid	(274,294)	(333,500)	(276,001)
Net Cash Provided By Operating Activities	935,991	821,682	721,730
INVESTING ACTIVITIES:			
Purchases of available-for-sale securities	(22,819,707)	(38,803,365)	(19,066,654)
Redemptions (purchases) of certificates of deposit	3,577,000	(3,897,000)	(3,511,000)
Proceeds from maturities and calls of held-to-maturity securities	—	251,042	347,793
Proceeds from maturities and calls of available-for-sale securities	5,525,212	30,716,579	24,446,737
Proceeds from sales of available-for-sale securities	10,568,682	4,061,300	4,002,840
Net increase in loans	(101,072)	(1,486,690)	(2,811,133)
Purchases of premises and equipment	(25,495)	(72,895)	(41,689)
Net Cash (Used In) Provided By Investing Activities	(3,275,380)	(9,231,029)	3,366,894
FINANCING ACTIVITIES:			
Net increase in deposits	2,942,906	2,671,332	2,924,456
Dividends paid	(374,008)	(346,905)	(325,225)
Net Cash Provided By Financing Activities	2,568,898	2,324,427	2,599,231
Increase (Decrease) in Cash and Cash Equivalents	229,509	(6,084,920)	6,687,855
Cash and cash equivalents at beginning of year	14,123,512	20,208,432	13,520,577
Cash and Cash Equivalents at End of Year	$ 14,353,021	$ 14,123,512	$ 20,208,432
RECONCILEMENT OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 774,565	$ 669,022	$ 595,489
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	74,392	76,221	83,680
Provision for loan losses	—	65,000	—
Loss on fixed asset sales	—	13,738	—
Provision for deferred income tax	60,056	(32,084)	(43,892)
Amortization or accretion, net	169,767	139,204	78,021
Amortization of net periodic pension cost	(107,628)	20,212	84,730
Net realized gains on sales of available-for-sale and other investment securities	(68,741)	(60,531)	(8,331)
Increase in interest receivable and other assets	(8,404)	(49,575)	(85,418)
Increase (decrease) in prepaid and income taxes payable	31,706	(11,499)	10,999
Decrease in interest payable	(336)	(172)	(2,446)
Increase (decrease) in accrued expenses	10,614	(7,854)	8,898
Net Cash Provided By Operating Activities	$ 935,991	$ 821,682	$ 721,730

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

ORGANIZATION: Peoples Bankshares, Inc. (the "Bank") is a bank holding company with one banking subsidiary engaged in community banking activities and providing financial services to individuals and businesses primarily in Wyoming and Raleigh Counties, West Virginia.

Note 1 – Summary of Significant Accounting Policies

BASIS OF ACCOUNTING: The accounting and reporting policies of **Peoples Bankshares, Inc. and Subsidiary, First Peoples Bank ("Peoples")**, conform with U.S. generally accepted accounting principles and within the banking industry. The following is a description of the more significant accounting and reporting policies.

PRINCIPLES OF CONSOLIDATION: These consolidated financial statements include the accounts of **Peoples Bankshares, Inc.** and its wholly-owned subsidiary, **First Peoples Bank.** All significant intercompany transactions and balances have been eliminated in consolidation.In Note 14, the condensed financial statements of the parent corporation reflect the investment in the subsidiary bank using the equity method of accounting.

CASH AND CASH EQUIVALENTS: Peoples Bankshares, Inc. has defined cash and cash equivalents to include cash and due from banks and federal funds sold. **First Peoples Bank** maintains cash balances at a bank which exceed the FDIC insurance limit of $250,000.

OTHER SHORT TERM INVESTMENTS: Other short term investments include certificates of deposit ("CDs") held at various banks.The CDs earn interest at varying rates and will mature through 2022. All of the CDs are below the FDIC insurance limit of $250,000 and are carried at cost.

SECURITIES AVAILABLE-FOR-SALE: Available-for-sale securities consist of bonds, notes, and other securities not classified as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity entitled, "Accumulated Other Comprehensive Income", until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.Premiums and discounts are recognized in interest income using the interest method over the period to maturity. The Bank determines whether a decline in fair value below the amortized cost basis of a security is other than temporary. This determination requires significant judgment. In making this judgment, the Bank's review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer, recent changes in external credit ratings and the Bank's intent and ability to hold the security.

SECURITIES HELD-TO-MATURITY: Bonds, notes, and other securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

LOANS: Loans are carried at the principal amount outstanding.Interest on loans and amortization of unearned income are computed by methods which generally result in level rates of return on principal based on applicable interest rates.

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful.Consistent with the Bank's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. The Bank's method of income recognition for impaired loans that are classified as nonaccrual is to recognize interest income on the cash basis or apply the cash receipt to principal when the ultimate collectability of principal is in doubt.

Selected real estate loan inspection fees and related loan processing costs are recognized as received or paid and are not amortized over the contractual life of the loans. Management does not consider these net amounts material to results of operations.

ALLOWANCE FOR LOAN LOSSES: The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature

Note 1 – Summary of Significant Accounting Policies (Continued)

of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms.

BANK PREMISES AND EQUIPMENT: Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation.For financial reporting purposes, depreciation is being calculated on the straight line method over the estimated useful life of each type of asset. Maintenance and repairs are charged to current operations. Gains and losses on routine sales of assets are reflected in current operations.

OTHER REAL ESTATE OWNED (OREO): OREO consists of real estate acquired in foreclosure of loans. Such assets are carried at the lower of the investment in the assets or the fair value of the assets less estimated selling costs. Any adjustment to the fair value at the date of transfer is charged against the allowance for loan losses. Any subsequent valuation adjustments as well as any costs relating to operating, holding or disposing of the property are recorded in other expense in the period incurred. There was $45,000, $215,000 and $235,000 in OREO included in the Consolidated Balance Sheet at December 31, 2017, 2016 and 2015, respectively.

FEDERAL RESERVE BANK STOCK: The Bank owns 1,440 shares of Federal Reserve Bank ("Fed") Stock at a par value of $50. The carrying value in the financial statements is $72,000 which is the minimum required by the Fed. The carrying value approximates market value.

INCOME TAXES: Deferred income taxes are provided for temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements at the statutory tax rate. If there were uncertain income tax positions, **Peoples** would record a liability based on a recognitions threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements.

EARNINGS PER SHARE: Earnings per share of common stock are based upon the weighted average number of shares outstanding of 542,041 for 2017, 2016 and 2015.

TREASURY STOCK: The Bank records common stock purchased for treasury at cost.

OTHER ACCOUNTING POLICIES: Accounting policies relating to the pension plan and fair value of financial instruments are described in Note 9 and Note 12, respectively.

ACCOUNTING ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 as additional information becomes known.

ADVERTISING COSTS: Costs for advertising products and services are expensed as incurred. Advertising expense was $21,820, $21,873, and $26,844 for 2017, 2016 and 2015, respectively.

FAIR VALUE MEASUREMENTS: The Bank determines the fair value of its financial instruments based on the fair value hierarchy established in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures."FASB ASC 820, which also clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

FASB ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable.Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions.The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

When determining the fair value measurements for assets and liabilities, the Bank looks to active and observable markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, the Bank looks to market observable data for similar assets and liabilities and classifies such items as Level 2.Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques using unobservable inputs to determine a fair value and classifies such items as Level 3.The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

COMPREHENSIVE INCOME: The Bank has adopted FASB ASC 220, "Comprehensive Income".FASB ASC 220 requires the reporting of comprehensive income in addition to net income from operations.Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

Note 2 – Investment Securities

Debt and equity securities have been classified in the consolidated statements of financial condition according to management's intent.The carrying amount of securities and their approximate fair values at December 31 follow:

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$46,120,796	$ —	$ (760,369)	$ 45,360,427
Obligations of states and political subdivisions	13,435,849	38,696	(71,397)	13,403,148
Mortgage-backed securities	—	—	—	—
	$59,556,645	$ 38,696	$ (831,766)	$ 58,763,575

Note 2 – Investment Securities (Continued)

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$ 40,176,610	$ —	$ (792,155)	$ 39,384,455
Obligations of states and political subdivisions	12,058,004	85,680	(92,794)	12,050,890
Mortgage-backed securities	—	—	—	—
	$ 52,234,614	$ 85,680	$ (884,949)	$ 51,435,345
Held-to-Maturity Securities:				
Obligations of states and political subdivisions	697,653	25,703	—	723,356
Mortgage-backed securities	589	6	—	595
	$ 698,242	$ 25,709	$ —	$ 723,951

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$35,999,158	$ 14,480	$ (298,137)	$35,715,501
Obligations of states and political subdivisions	12,280,492	144,404	(27,313)	12,397,583
Mortgage-backed securities	—	—	—	—
	$48,279,650	$ 158,884	$ (325,450)	$48,113,084
Held-to-Maturity Securities:				
Obligations of states and political subdivisions	954,207	34,657	—	988,864
Mortgage-backed securities	3,229	40	—	3,269
	$ 957,436	$ 34,697	$ —	$ 992,133

The amortized cost and estimated fair value of the total investment portfolio at December 31, 2017, by contractual maturity, are shown below.Expected maturities will differ from contractual maturities because borrowers have the right to call or repay obligations.

	2017			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,500,412	$ 4,480,181	$ —	$ —
Due from one to five years	30,858,582	30,363,333	—	—
Due from five to ten years	18,622,681	18,340,799	—	—
Due after ten years	5,574,970	5,579,262	—	—
Total Investments	$ 59,556,645	$ 58,763,575	$ —	$ —

Note 2 – Investment Securities (Continued)

Provided below is a summary of securities which were in an unrealized loss position at December 31, 2017, 2016 and 2015.

	Less than 12 months		12 months or longer	
2017	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$ 11,867,498	$ 141,181	$ 33,492,928	$ 619,188
Obligations of states and political subdivisions	2,235,230	36,019	4,115,509	35,378
Mortgage-backed securities	—	—	—	—
	$ 14,102,728	$ 177,200	$ 37,608,437	$ 654,566
Held-to-Maturity Securities:				
U.S. Treasury and Federal Agencies	$ —	$ —	$ —	$ —
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	—	—	—	—
	$ —	$ —	$ —	$ —
2016	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$31,434,264	$ 742,347	$ 7,950,192	$ 49,808
Obligations of states and political subdivisions	3,082,040	31,459	4,174,231	61,335
Mortgage-backed securities	—	—	—	—
	$34,516,304	$ 773,806	$12,124,423	$ 111,143
Held-to-Maturity Securities:				
U.S. Treasury and Federal Agencies	$ —	$ —	$ —	$ —
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	—	—	—	—
	$ —	$ —	$ —	$ —
2015	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
Available-for-Sale Securities:				
U.S. Treasury and Federal Agencies	$ 4,000,000	$ 14,260	$22,000,000	$ 283,877
Obligations of states and political subdivisions	4,151,591	24,901	1,130,296	2,412
Mortgage-backed securities	—	—	—	—
	$ 8,151,591	$ 39,161	$23,130,296	$ 286,289
Held-to-Maturity Securities:				
U.S. Treasury and Federal Agencies	$ —	$ —	$ —	$ —
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	—	—	—	—
	$ —	$ —	$ —	$ —

Note 2 – Investment Securities (Continued)

During the year ended December 31, 2017, $10,033,464 of available-for-sale securities were sold. Gross realized gains on sales of available-for-sale securities were $101,627 in 2017, $62,110 in 2016 and $10,040 in 2015.Realized losses on sales of available-for-sale securities were $32,886 in 2017, $-0- in 2016 and $1,709 in 2015.Management does not believe any individual security with an unrealized loss as of December 31, 2017 is other than temporarily impaired. The Bank believes the decline in value is attributable to changes in market interest rates and not the credit quality of the issuers. The Bank has the intent and the ability to hold these securities until such time as the value recovers or the securities mature.

Certain bank securities are pledged to secure public deposits and for other purposes.The pledged securities amounted to $22,365,775, $21,738,000, and $19,648,000, at December 31, 2017, 2016 and 2015, respectively. Market value of pledged securities amounted to $22,041,000, $21,458,000, and $19,513,000 at December 31, 2017, 2016 and 2015, respectively.

Note 3 – Loans

Major classes of loans are as follows:

	December 31		
	2017	2016	2015
Commercial Real Estate			
Owner Occupied	$ 5,758,522	$ 3,950,381	$ 4,182,486
Non Owner Occupied	2,480,482	3,881,288	4,442,046
Other Commercial	1,129,906	931,756	1,033,657
Residential Real Estate	28,163,029	28,318,074	25,929,399
Construction and Land Development	—	798,657	735,253
Consumer			
Automobile	1,696,591	1,736,421	1,853,737
Secured by Deposit	2,677,015	1,737,016	1,802,886
All Other	1,094,912	1,403,951	1,290,232
Total Loans	$ 43,000,457	$ 42,757,544	$ 41,269,696

As of December 31, 2017, 2016 and 2015, aggregate loans to directors, executive officers and their associates were $760,936, $844,979, and $773,656, respectively.During 2017, $176,765 in new loans were made and repayments totaled $260,808. These loans were made in the ordinary course of business and included the normal credit terms, interest rates and collateral requirements prevailing at the time for comparable transactions with other persons. Management believes they do not constitute more than a normal credit risk.

Note 4 – Credit Quality

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

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status.Generally, when collection in full of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income on commercial and most consumer loans generally is discontinued when a loan becomes 90 to 120 days past due as to principal or interest. However, regardless of delinquency status, if a loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days), then the loan will not be placed on nonaccrual. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. **First Peoples Bank's** method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or apply the cash receipt to principal when the ultimate collectability of principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest has been paid and the borrower has evidenced their ability to meet the contractual provisions of the note.

Note 4 – Credit Quality (Continued)

A loan may be restructured and constitutes a troubled debt restructuring if the Bank grants a concession to the borrower that it would not otherwise consider. Concessions usually take the form of a reduced interest rate, principal reductions, the extension of the maturity date or acceptance of cash or other assets for partial or full satisfaction of the loan. The Bank had no troubled debt restructurings at December 31, 2017.

The following table sets forth **First Peoples Bank's** age analysis of its past due loans, segregated by class of loans:

AGE ANALYSIS OF PAST DUE LOANS
AS OF DECEMBER 31, 2017

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
Commercial Real Estate						
Owner Occupied	$ 156,806	$ —	$ 156,806	$ 5,601,716	$ 5,758,522	$ —
Non Owner Occupied	—	—	—	2,480,482	2,480,482	—
Other Commercial	—	—	—	1,129,906	1,129,906	—
Residential Real Estate	434,509	102,366	536,875	27,626,154	28,163,029	—
Construction and						
Land Development	—	—	—	—	—	
Consumer						
Automobile	11,933	4,048	15,981	1,680,610	1,696,591	—
Secured by Deposit	1,361	—	1,360	2,675,654	2,677,015	—
All Other	8,779	—	8,779	1,086,133	1,094,912	—
Total	$ 613,388	$ 106,414	$ 719,802	$ 42,280,655	$ 43,000,457	$ —
Percentage of Total Receivables	1.43%	0.25%	1.67%	98.33%	100.00%	

AGE ANALYSIS OF PAST DUE LOANS
AS OF DECEMBER 31, 2016

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
Commercial Real Estate						
Owner Occupied	$ —	$ —	$ —	$ 3,951,581	$ 3,951,581	$ —
Non Owner Occupied	—	—	—	3,881,288	3,881,288	—
Other Commercial	—	—	—	931,756	931,756	—
Residential Real Estate	272,420	334,173	606,593	27,711,481	28,318,074	—
Construction and						
Land Development	—	—	—	798,657	798,657	—
Consumer						
Automobile	16,193	7,682	23,875	1,712,547	1,736,422	—
Secured by Deposit	—	—	—	1,737,016	1,737,016	—
All Other	3,460	—	3,460	1,399,290	1,402,750	—
Total	$ 292,073	$ 341,855	$ 633,928	$ 42,125,616	$ 42,757,544	$ —
Percentage of Total Receivables	0.68%	0.80%	1.48%	98.52%	100.00%	

Note 4 – Credit Quality (Continued)

AGE ANALYSIS OF PAST DUE LOANS AS OF DECEMBER 31, 2015

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
Commercial Real Estate						
Owner Occupied	$ —	$ —	$ —	$ 4,182,486	$ 4,182,486	$ —
Non Owner Occupied	—	—	—	4,442,046	4,442,046	—
Other Commercial	—	—	—	1,033,657	1,033,657	—
Residential Real Estate	505,931	94,818	600,749	25,328,650	25,929,399	—
Construction and Land Development	—	—	—	735,253	735,253	—
Consumer						
Automobile	62,306	42,513	104,819	1,748,918	1,853,737	—
Secured by Deposit	81,198	—	81,198	1,721,688	1,802,886	—
All Other	4,257	4,480	8,737	1,281,495	1,290,232	—
Total	$ 653,692	$ 141,811	$ 795,503	$40,474,193	$41,269,696	$ —
Percentage of Total Receivables	1.59%	0.34%	1.93%	98.07%	100.00%	

First Peoples Bank assigns credit quality indicators of pass, special mention, substandard and doubtful to its loans. For **First Peoples Bank's** loans with a corporate credit exposure, **First Peoples Bank** internally assigns a grade based on the creditworthiness of the borrower. For loans with a consumer credit exposure, **First Peoples Bank** internally assigns a grade based upon an individual loan's delinquency status. **First Peoples Bank** updates these grades on a quarterly basis.

For loans with a corporate credit exposure, special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or in the Company's credit position at some future date. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill-proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices. For loans with a consumer credit exposure, loans that are past due 30-89 days are considered special mention.

A substandard loan with a corporate credit exposure is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt by the borrower. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. They require more intensive supervision by management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some substandard loans, the likelihood of full collection of interest and principal may be in doubt and thus, placed on nonaccrual. For loans with a consumer credit exposure, loans that are 90 days or more past due or that have been placed on nonaccrual are considered substandard.

A loan with corporate credit exposure is classified as doubtful if it has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the loan, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers,

Note 4 – Credit Quality (Continued)

acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing.Generally, there are not any loans with a consumer credit exposure that are classified as doubtful.Usually, they are charged off prior to such a classification. Loans classified as doubtful are also considered impaired.

The Bank did not have any significant loans that were graded special mention, substandard, doubtful or impaired at December 31, 2017. Therefore, the recorded investment in the financing receivables as listed in Note 3 is graded as pass credit quality.

Note 5 – Allowance for Credit Losses

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change.Allocations are made for specific commercial loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectability. Other commercial loans not specifically reviewed are segregated by class and allocations are made based upon historical loss percentages adjusted for current environmental factors. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current environmental conditions. The environmental factors considered for each of the portfolios includes estimated probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the allowance for credit losses analysis. During 2017, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. For commercial loans, when a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to management to charge off all or a portion of that loan. Generally, any unsecured commercial loan more than six months delinquent in payment of interest must be charged off in full.If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is six months delinquent. Any commercial loan, secured or unsecured, on which a principal or interest payment has not been made within 90 days, is reviewed monthly for appropriate action.

For consumer loans, closed-end retail loans that are 180 cumulative days delinquent from the contractual due date are charged off. Any consumer loan on which a principal or interest payment has not been made within 90 days is reviewed monthly for appropriate action. For a one-to-four family open-end or closed-end residential real estate loan, home equity loan, or a high loan-to-value loan that has reached 180 or more days past due, management evaluates the collateral position and charges off any amount that exceeds the value of the collateral. Retail credits for which the borrower is in bankruptcy, all amounts deemed unrecoverable are charged off within 60 days of the receipt of the notification. On retail credits effected by fraud, a loan is charged off within 90 days of the discovery of the fraud.In the event of the borrower's death and if repayment within the required timeframe is uncertain, the loan is generally charged off as soon as the amount of the loss is determined.

The loan loss reserve is unallocated based on historical trends and environmental factors. Therefore, the loan loss reserve is not allocated to any portfolio segment. A summary of changes in the allowance for loan losses is as follows:

	2017	2016	2015
Balance at beginning of year	$ 432,654	$ 386,496	$ 387,161
Loans charged off	(116,986)	(33,126)	(1,118)
Recoveries	88,827	14,284	453
Net charge-offs	(28,159)	(18,842)	(665)
Provision for loan losses	—	65,000	—
Balance at End of Year	$ 404,495	$ 432,654	$ 386,496

Note 6 – Premises and Equipment

Included in the accompanying consolidated balance sheets are the following components of premises and equipment:

	2017	2016	2015
Land and improvements	$ 761,646	$ 761,646	$ 711,645
Bank premises	1,807,289	1,801,550	1,790,650
Furniture and equipment	1,047,114	1,027,358	1,004,464
	3,616,049	3,590,554	3,506,759
Less accumulated depreciation	2,181,905	2,107,513	2,021,652
	$ 1,434,144	$ 1,483,041	$ 1,485,107

Depreciable lives are ten to forty years for bank premises and three to twenty years for equipment.

Note 7 – Income Taxes

The consolidated provision for income taxes on the statements of income is composed of the following:

	2017	2016	2015
Federal:			
Current	$ 278,000	$ 289,000	$ 261,000
Deferred	51,000	(23,100)	(31,712)
State:			
Current	28,000	33,000	26,000
Deferred	9,056	$ (8,984)	$ (12,180)
Total	$ 366,056	$ 289,916	$ 243,108

A reconciliation of the differences between the tax provision and the expected tax expense computed by applying the statutory income tax rate of 34% is as follows:

	2017	2016	2015
Statutory rate applied to income before income taxes	$ 388,000	$ 326,000	$ 285,000
Increase (decrease) in income taxes resulting from:			
Tax-exempt interest income	(57,000)	(57,000)	(52,000)
Nondeductible interest on debt to carry tax-exempt obligations	1,800	1,600	1,400
State income taxes, net of federal tax benefit	18,500	22,000	17,000
Other items, net	14,756	(2,684)	(8,292)
Provision for Income Taxes	$ 366,056	$ 289,916	$ 243,108

The net deferred tax asset in the accompanying consolidated balance sheets includes the following amounts of deferred tax assets and liabilities (included in other liabilities):

	2017	2016	2015
Deferred tax assets:			
Real estate losses and other	$ —	$ 8,000	$ —
Allowance for loan losses	45,000	77,000	60,000
Net unrealized loss on available-for-sale securities	214,000	320,000	66,626
Valuation allowance	—	—	—
Asset net of valuation allowance	259,000	405,000	126,626
Deferred tax liabilities:			
Accumulated depreciation	(28,000)	(51,293)	(60,000)
Net unrealized gain on available-for-sale securities	—	—	—
Net pension asset	(45,589)	(88,700)	(145,859)
	(73,589)	(139,993)	(205,859)
Net Deferred Tax Asset (Liability)	$ 185,411	$ 265,007	$ (79,233)

Note 7 – Income Taxes (Continued)

The Tax Cuts and Jobs Act "TCJA" was signed into law on December 22, 2017. The TCJA lowered the Federal corporate tax rate from 35% to 21% effective January 1, 2018. **Peoples** remeasured deferred tax assets and liabilities at the new rate at December 31, 2017.

In accordance with FASB ASC 740, "Income Taxes," **Peoples** would record a liability for uncertain income tax positions based on a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements. **Peoples** adopted these recognitions provisions of FASB ASC 740 as of January 1, 2008.There are no recognized or unrecognized tax benefits as a result of FASB ASC 740. Interest and penalties will be accrued if uncertain tax positions will not be ultimately sustained. There was no interest and penalties in the financial position or results of operation at December 31, 2017, 2016 and 2015. The valuation allowance was established to reduce the deferred tax asset to the amount that will more-likely-than-not be realized. This reduction resulted due to uncertainty of the realization of the tax benefits provided by the allowance for loan losses (Note 1). Statutory limitations and Internal Revenue Service audits have closed tax years 2014 and prior.

Note 8 – Deposits and Other Borrowings

Deposits outstanding are as follows:

	2017	2016	2015
Non-interest bearing	$ 25,918,302	$ 23,254,505	$ 23,237,256
Interest bearing:			
Interest checking	14,243,171	11,592,079	10,956,657
Money-market deposit accounts	3,000,882	2,547,707	2,255,034
Savings	30,090,292	29,648,901	28,146,594
Certificates of deposit, $100,000 or more	13,122,066	15,545,847	14,175,208
Other time deposits	23,979,843	24,822,611	25,969,569
Total Interest Bearing	84,436,254	84,157,145	81,503,062
	$ 110,354,556	$ 107,411,650	$ 104,740,318

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

2018	$ 14,530,140
2019	6,668,698
2020	4,839,063
2021	5,318,157
2022	5,745,851
	$ 37,101,909

The Bank held deposits of $1,684,198 for related parties at December 31, 2017.

The Bank has an unsecured Federal Funds Line of Credit in the amount of $4,000,000 with CenterState Bank of Florida. The applicable interest rate will be determined at the time of advance. There were no advances made in 2017.

The Bank has a secured funding facility with the Federal Reserve Discount Window in the amount of $6,000,000. The applicable interest rate is determined at the current market rate. There were no advances made in 2017. Advances are secured by certain investments.

Note 9 – Employer Pension Plan

On January 1, 2000, the Bank established a 401(k) profit sharing plan.The plan covers all employees who meet certain eligibility requirements. The 401(k) provision of the plan allows eligible employees to make contributions pursuant to a salary reduction arrangement of up to 15% of compensation. The Bank can make matching contributions at its discretion. There was $8,489, $0, and $0 profit sharing expense for the years ended December 31, 2017, 2016 and 2015, respectively.

Peoples Bankshares, Inc.'s subsidiary, **First Peoples Bank,** maintains a non-contributory defined benefit pension plan which covers substantially all eligible employees meeting certain service and age requirements. The subsidiary has consistently contributed the recommended pension plan cost determined annually by The Allegheny Group Pension Plan. The Bank amended the Plan March 31, 2016 ("Freeze Date") to freeze the accrual of benefits. As a result of the amendment, no benefits have accrued since the freeze date.

Note 9 – Employer Pension Plan (Continued)

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the three-year period, and a statement of the funded status as well as the assumptions and components of net periodic pension credits for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Changes in Projected Benefit Obligation:			
Projected Benefit Obligation at the Beginning of the Year	$ 4,146,326	$ 3,963,997	$ 4,074,837
Service cost	—	18,911	76,727
Interest cost	164,477	155,576	155,943
Experience loss (gain)	143,117	(140,178)	(103,633)
Benefit payments	(101,264)	(90,453)	(90,453)
Plan Change	—	—	66,289
Change in Discount Rate Measured at Year-End	255,675	238,473	(215,713)
Projected Benefit Obligation at the End of the Year	$ 4,608,331	$ 4,146,326	$ 3,963,997
Change in Plan Assets:			
Fair value of plan assets at the Beginning of the Year	$ 4,368,077	$ 4,328,646	$ 4,504,395
Actual return on plan assets	510,845	129,884	(85,296)
Employer contributions	—	—	—
Benefit payments	(101,264)	(90,453)	(90,453)
Experience gain measured at year-end	—	—	—
Fair value of plan assets at the End of the Year	$ 4,777,658	$ 4,368,077	$ 4,328,646

	2017	2016	2015
Net Amount Recognized:			
Funded status	$ 169,327	$ 221,751	$ 364,649
Unrecognized transition assets	2,388,127	2,228,066	2,105,381
Unrecognized prior service cost	—	—	—
Unrecognized net loss	—	—	—
Employer contributions	—	—	—
Net Amount Recognized	$ 2,557,454	$ 2,449,817	$ 2,470,030

	2017	2016	2015
Components of Net Periodic Pension Credit:			
Service cost	$ —	$ 18,911	$ 76,727
Interest cost	164,477	155,576	155,943
Expected return on plan assets	(316,070)	(296,728)	(306,626)
Curtailment	—	64,393	—
Amortization of prior service cost	—	1,896	—
Amortization of net loss	43,957	76,164	158,686
Net Periodic Pension (Credit) Cost	$ (107,636)	$ 20,212	$ 84,730
Adjustment due to change in measurement date	—	—	—
Prior service cost	—	—	66,288
Change to net actuarial loss for period	204,018	517,042	72,577
Curtailment impact	—	(251,903)	—
Curtailment charge	—	(64,393	—
Amortization of prior service (credit) cost	—	(1,896)	—
Amortization of net gain	(43,957)	(76,164)	(158,686)
Total recognized in other comprehensive income	$ 52,425	$ 142,898	$ 64,909

The assumptions used in the measurement of the bank's benefit obligation are shown in the following table:

	2017	2016	2015
Weighted-average assumptions as of:			
Discount rate	3.55%	4.05%	4.30%
Expected return on plan assets	6.75%	6.75%	6.75%
Rate of compensation increase	N/A	N/A	3.00%

Note 9 – Employer Pension Plan (Continued)

The following table shows a comparison of the projected and accumulated benefit obligations to the fair value of plan assets:

	December 31, 2017	December 31, 2016	December 31, 2015
Projected benefit obligation	$ 4,608,331	$ 4,146,326	$ 3,963,997
Accumulated benefit obligation	$ 4,608,331	$ 4,146,326	$ 3,781,220
Fair value of plan assets	$ 4,777,658	$ 4,368,077	$ 4,328,646

Pension Plan Investment Policy and Strategy:

Asset allocation for the Plan as of the measurement date, by asset category, is as follows:

	Target Allocation 2018	Allowable Allocation Range	Percentage of Plan Assets at 2017	2016	2015
Plan Assets					
Equity securities	60%	35-90%	48%	47%	51%
Debt securities	20%	10-40%	25%	25%	20%
Alternative Investments	15%	0-25%	12%	12%	19%
Real estate	—	0-15%	—	1%	—
Cash & Equivalents	5%	0-20%	15%	15%	10%
Total	100%		100%	100%	100%

The policy, as established by the Pension Committee, is to invest assets per the target allocations stated above.The assets will be reallocated periodically to meet the above target allocations.The investment policy will be reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be changed.

The overall investment return goal is to achieve a rate of return greater than a blended index of the S & P 500 and the Barclay's Aggregate Bond Index, which is tailored to the same asset mix of the retirement plan assets, by one-half of 1% annualized after fees over a rolling five-year moving average basis.

Allowable assets include cash equivalents, fixed income securities, equity securities, and exchange traded index funds. Prohibited investments include, but are not limited to, commodities and future contracts, private placements, options, limited partnerships, venture capital investments, real estate and IO, PO, and residual tranche CMOs.Unless a specific derivative security is allowed per the plan document, permission must be sought from the Pension Committee to include such investments.

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 15% of the cost and/or market value of the total retirement plan assets, and no more than 25% of the total retirement plan assets should be invested in any one industry, other than securities of the U.S. Government or Agencies thereof.Additionally, no more than 30% of the market value of the total retirement plan assets shall be invested in foreign securities (both equity & fixed), if any.Exchange Traded Index Funds are allowable investments in this investment policy statement and are not subject to the restrictions contained in this investment policy statement.

Cash Flows:

The following table sets forth information about the expected cash flows for the pension plan:

Employer Contributions	Amount
2017	$ —

The following table sets forth the estimated future benefit payments reflecting expected future service:

Year	Amount
2018	$ 159,332
2019	222,861
2020	232,393
2021	240,529
2022	261,728
2023 – 2026	1,327,289

Note 9 – Employer Pension Plan (Continued)

In accordance with FASB ASC 715 and using the guidance contained in FASB ASC 820, the following is a description of the valuation methodologies used to measure the Plan assets at fair value:

Cash and Cash Equivalents: These underlying assets are highly liquid U. S. government obligations. The fair value of cash and cash equivalents approximates cost (Level 1).

Debt Securities: These securities of the U. S. Government, municipalities, and corporations are valued at the closing price reported in the active market in which the individual security is traded (Level 1).

Common and Preferred Stock: These securities are valued at the closing price on the respective stock exchange (Level 1).

The following table represents the balances of the plan assets, by fair value hierarchy level, as of December 31, 2017:

		Fair Value Measurements at December 31, 2017 Using		
Description	**Balance as of December 31, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and Cash Equivalents	$ 410,879	$ 410,879	$ —	$ —
Fixed Income Investments	1,084,528	1,084,528	—	—
Domestic Equities	1,514,518	1,514,518	—	—
International Equities	1,117,972	1,117,972	—	—
Alternative Investments	649,761	649,761	—	—
Real Estate	—	—	—	—
Totals	$ 4,777,658	$ 4,777,658	$ —	$ —

Note 10 – Regulatory Requirements and Restrictions

First Peoples Bank is subject to certain requirements imposed by federal and state banking statutes and regulations.These requirements, among other things, establish minimum levels for capital, restrict the amount of dividends that may be distributed, restrict the amount of loans that may be made by the subsidiary to the parent and require that the subsidiary maintain minimum reserve balances with the Federal Reserve Bank.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined).Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well-capitalized, under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

Note 10 – Regulatory Requirements and Restrictions (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets).......	$ 20,536,000	46.8	3,512,000	≥ 8.0%	$ 4,390,000	≥ 10.0%
Tier I Capital (to Risk Weighted Assets).......	20,196,000	46.0	2,634,000	≥ 6.0%	3,512,000	≥ 8.0%
Common Tier I Capital (to Risk Weighted Assets).......	20,509,000	46.7	1,975,500	≥ 4.5%	2,853,500	≥ 6.5%
Tier I Capital (to Average Assets)..................	20,196,000	15.5	5,214,000	≥ 4.0%	6,517,950	≥ 5.0%
As of December 31, 2016:						
Total Capital (to Risk Weighted Assets).......	$ 20,309,000	52.9	3,069,000	≥ 8.0%	$ 3,836,000	≥ 10.0%
Tier I Capital (to Risk Weighted Assets).......	19,390,000	50.5	2,301,000	≥ 6.0%	3,068,000	≥ 8.0%
Common Tier I Capital (to Risk Weighted Assets).......	20,208,000	52.7	1,726,000	≥ 4.5%	2,493,000	≥ 6.5%
Tier I Capital (to Average Assets)..................	19,390,000	14.9	5,178,000	≥ 4.0%	6,472,550	≥ 5.0%
As of December 31, 2015:						
Total Capital (to Risk Weighted Assets).......	$ 20,440,000	49.8	3,280,000	≥ 8.0%	$ 4,100,000	≥ 10.0%
Tier I Capital (to Risk Weighted Assets).......	19,518,000	47.6	2,460,000	≥ 6.0%	3,280,000	≥ 8.0%
Common Tier I Capital (to Risk Weighted Assets).......	20,440,000	49.8	1,845,000	≥ 4.5%	2,665,000	≥ 6.5%
Tier I Capital (to Average Assets)..................	19,518,000	15.3	5,098,000	≥ 4.0%	6,372,000	≥ 5.0%

The primary source of funds for dividends paid to the shareholders of **Peoples Bankshares, Inc.** is the dividends it receives from **First Peoples Bank.**

Presently, there are no loans or other extensions of credit between the parent and **First Peoples Bank** nor are any transactions of this nature anticipated in the near future.

First Peoples Bank must maintain sufficient cash reserves to meet specific daily average balances as required by the Federal Reserve Bank. The average daily reserve balance for the year ended December 31, 2017 was approximately $25,000.

Note 11 – Commitments and Credit Risk

The subsidiary, **First Peoples Bank,** offers financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, loan commitments and unused lines of credit. The subsidiary had issued commitments to extend credit consisting of unused lines of credit, of approximately $980,000 as of December 31, 2017.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal activities, bond financing and similar transactions.

Commitments to extend credit are obligations to loan to customers at prevailing market rates specific sums, as long as no pre-established condition of the loan agreement is violated. Commitments generally have fixed

Note 11 – Commitments and Credit Risk (Continued)

expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

The Bank uses the same credit and collateral policies in making commitments and conditional obligations as it does for all other lending. Collateral which secures these types of commitments is the same type as collateral for other types of lending such as accounts receivable, inventory, real estate and equipment. Management does not expect any material losses as a result of the commitments.

The subsidiary's loan portfolio consists primarily of loans to residents of Wyoming and Raleigh Counties, West Virginia.Coal mining remains the primary industry in this portion of southern West Virginia, and individual borrowers, as well as various support industries, are directly affected by changes in the economic conditions related to that industry.

On September 1, 2014, the Bank entered into a ten year data processing agreement with Computer Services, Inc. to receive an array of data processing and reporting services. The terms of the agreement can be automatically renewed for an additional ten years.

Note 12 – Fair Value of Financial Instruments

In accordance with FASB ASC 820, the following describes the valuation techniques used by **Peoples** to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Securities available-for-sale and held-to-maturity: Securities available-for-sale are recorded at fair value on a recurring basis.Held-to-maturity securities are disclosed at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). Management internally reviews the fair values provided by third party vendors on a monthly basis.Management's review consists of comparing fair values assigned by third party vendors to trades and offerings observed by management. The review requires some degree of judgment as to the number or percentage of securities to review on the part of management which could fluctuate based on past reviews and in comparison to current expectations.Exceptions that are deemed to be material are reviewed by management. Prices obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. Management utilizes a number of factors to determine if a market is inactive, all of which may require a significant level of judgment. Factors that management consider include: a significant widening of the bid-ask spread, a considerable decline in the volume and level of trading activity in the instrument, a significant variance in prices among market participants, and a significant reduction in the level of observable inputs.Any securities not valued based upon the methods above are considered Level 3.

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2017, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy:

		Fair Value Measurements at December 31, 2017 Using		
Description	Balance as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	$ 58,763,575	$ —	$ 58,763,575	$ —
Held-to-maturity securities	—	—	—	—
Totals	$ 58,763,575	$ —	$ 58,763,575	$ —

Note 12 – Fair Value of Financial Instruments (Continued)

Description	Balance as of December 31, 2016	Fair Value Measurements at December 31, 2016 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	$ 51,435,345	$ —	$ 51,435,345	$ —
Held-to-maturity securities	723,951	—	723,951	—
Totals	$ 52,159,296	$ —	$ 52,159,296	$ —

Description	Balance as of December 31, 2015	Fair Value Measurements at December 31, 2015 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	$ 48,113,084	$ —	$ 48,113,084	$ —
Held-to-maturity securities	992,133	—	992,133	—
Totals	$ 49,105,217	$ —	$ 49,105,217	$ —

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

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

Assets that may be recorded at fair value on a nonrecurring basis include impaired loans, real estate acquired through foreclosure, and other repossessed assets. A loan is considered impaired when management believes it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent, if this value is less than the loan balance. When the fair value of the collateral is based on an observable market price or current appraised value, the valuation is considered a Level 2 fair value. When an appraised value is not available and there is not an observable market price, the resulting valuation is considered a Level 3 fair value. Real estate acquired through foreclosure is adjusted to fair value upon transfer of the loan to foreclosed assets, usually based on an appraisal of the property. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. A valuation based on current appraised value is considered a Level 2 fair value.

There were no nonrecurring basis items as of December 31, 2017, 2016 and 2015.

The following methods and assumptions were used in estimating its fair value disclosures for other financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Securities: The estimated fair values of securities are based on quoted market prices, where available.

Loans: The fair values of loans are estimated using discounted cash flow analyses, at interest rates currently being offered for loans with similar terms to borrowers of similar creditworthiness.

Note 12 – Fair Value of Financial Instruments (Continued)

Deposits: The fair values of demand deposits (e.g., interest and non-interest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings: For federal funds purchased, which represent short-term borrowings, the carrying amount is a reasonable approximation of fair value.

Commitments: The fair values of commitments are estimated based on fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the counterparties' credit standing. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.The fair values approximated the carrying values of these commitments and letters of credit as of December 31, 2017.

The estimated carrying amounts and fair values of the Bank's financial instruments at December 31 were as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and due from banks, and federal funds sold	$ 14,353,021	$ 14,353,021	$ 14,123,512	$ 14,123,512
Certificates of deposit	12,831,000	12,831,000	16,408,000	16,408,000
Securities available-for-sale	59,556,645	58,763,575	52,234,614	51,435,345
Securities held-to-maturity	—	—	698,242	723,951
Loans receivable	42,595,962	42,746,804	42,324,890	42,486,446
Liabilities:				
Certificates of deposit	$ 37,101,909	$ 37,951,842	$ 40,368,458	$ 41,039,000

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair value amounts in theory represent the amounts at which financial instruments could be exchanged or settled in a current transaction between willing parties.In practice, however, this may not be the case due to inherent limitations in the methodologies and assumptions used to estimate fair value. For example, quoted market prices may not be realized because the financial instrument may be traded in a market that lacks liquidity; or a fair value derived using a discounted cash flow approach may not be the amount realized because of the subjectivity involved in selecting underlying assumptions, such as projecting cash flows or selecting a discount rate.

The fair value amount also may not be realized because it ignores transaction costs and does not include potential tax effects. The Bank does not plan to dispose of, either through sale or settlement, the majority of its financial instruments at these estimated fair values.

Cash and due from banks and federal funds sold, certificates of deposit, securities available-for-sale, securities held-to-maturity and deposits are classified as Level II.Loans receivable are classified as Level III.

Note 13 – Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) are as follows:

	2017	2016	2015
Net Income	$ 774,565	$ 669,022	$ 595,489
Securities available for sale:			
Unrealized holding gains (loss)	6,198	(632,703)	381,152
Related income (expense) benefit	(105,578)	253,082	(152,461)
Net effect on other comprehensive (loss) income	(99,380)	(379,621)	228,691
ASC 715 pension plan:			
Recognized net actuarial loss	(204,018)	(517,042)	(72,577)
Related income tax benefit	97,916	06,817	29,031
Amortization of prior service cost	-	1,896	(66,288)
Related income tax expense	-	(758)	(26,515)
Curtailment charge	-	64,393	-
Related income tax expense	-	(25,756)	-
Curtailment charge	-	251,903	-
Related income tax expense	-	(100,761)	-
Amortization of net gain	43,957	76,164	158,686
Related income tax expense	(11,869)	(30,467)	(63,475)
Net effect on other comprehensive loss	(74,014)	(73,612)	(11,892)
Total change in other comprehensive (loss) income	(173,394)	(453,232)	240,583
Total Comprehensive Income	$ 601,171	$ 215,790	$ 836,072

The components of accumulated comprehensive income (loss) are as follows:

	Before Tax	Tax (Expense) Benefit	After Tax
2017:			
Unrealized holding losses	$ (793,070)	$ 214,129	$ (578,941)
Employee benefit plan funded status	169,327	(142,813)	26,514
	$ (623,743)	$ 71,316	$ (552,427)
2016:			
Unrealized holding losses	$ (799,268)	$ 319,707	$ (479,561)
Employee benefit plan funded status	221,751	(121,225)	100,526
	$ (577,517)	$ 198,482	$ (379,035)
2015:			
Unrealized holding gains	$ (166,566)	$ 66,626	$ (99,940)
Employee benefit plan funded status	290,228	(116,091)	174,137
	$ 123,662	$ (49,465)	$ 74,197

Note 14 – Parent Company Condensed Financial Information

The condensed financial information of Peoples Bankshares, Inc. (Parent company only) is presented below:

BALANCE SHEETS
December 31, 2017 and 2016

ASSETS	2017	2016
Cash	$ 893,103	$ 919,708
Investment in First Peoples Bank	19,643,316	19,389,548
TOTAL ASSETS	$ 20,536,419	$ 20,309,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ —	$ —
Stockholders' Equity	20,536,419	20,309,256
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 20,536,419	$ 20,309,256

STATEMENTS OF INCOME
Years Ended December 31, 2017 and 2016

	2017	2016
Income:		
Dividends from subsidiary bank	$ 348,000	$ 346,950
Interest income	2,876	466
Total Income	350,876	347,416
Operating Expenses	3,473	3,470
Income before tax and equity in earnings of subsidiary bank	347,403	343,946
Applicable income tax	—	—
Income before equity in earnings of subsidiary bank	347,403	343,946
Equity in earnings of subsidiary bank in excess of dividends paid	427,162	325,076
Net Income	$ 774,565	$ 669,022

Note 14 – Parent Company Condensed Financial Information (Continued)

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Dividends and interest received	$ 350,876	$ 347,416
Cash paid to suppliers	(3,473)	(3,470)
Net Cash Provided By Operating Activities	347,403	343,946
CASH FLOWS USED FOR FINANCING ACTIVITIES:		
Dividends paid	(374,008)	(346,905)
Net Cash Used for Financing Activities	(374,008)	(346,905)
Decrease in Cash and Cash Equivalents	(26,605)	(2,959)
Cash and cash equivalents, beginning of year	919,708	922,667
Cash and Cash Equivalents at End of Year	$ 893,103	$ 919,708
RECONCILEMENT OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 774,565	$ 669,022
Adjustment to reconcile net income to cash provided by operating activities:		
Equity in earnings of subsidiary bank in excess of dividends paid	(427,162)	(325,076)
Net Cash Provided By Operating Activities	$ 347,403	$ 343,946

Note 15 – Subsequent Events

Subsequent events have been evaluated through the report date, which is the date the consolidated financial statements were available to be issued. As of the report date, no subsequent events or transactions had occurred that would have materially impacted the financial statements as presented.

RICHMOND & COMPANY

Rolfe A. Richmond, CPA
Pio J. DeFlaviis, CPA
J. Alan Hart, CPA
Andrew F. Conner, CPA
Richard L. Ross, CPA

CERTIFIED PUBLIC ACCOUNTANTS
ACCOUNTING CORPORATION
POST OFFICE BOX 1204
BECKLEY, WEST VIRGINIA 25802-1204
rco@richmondcompany.com
http://www.RichmondCompany.com

Telephone (304) 252-7353
Fax (304) 253-1732

INDEPENDENT AUDITOR'S REPORT

To The Stockholders and Board of Directors
Peoples Bankshares, Inc. and Subsidiary
Mullens, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Peoples Bankshares, Inc. and its Subsidiary,** which comprise the consolidated balance sheets as of December 31, 2017, 2016, and 2015, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 ***Peoples Bankshares, Inc. and its Subsidiary*** as of December 31, 2017, 2016, and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Richmond & Company
Certified Public Accountants

March 21, 2018

Peoples Bankshares, Inc.

Board of Directors

Ronald L. Bowling

Charles T. Feller

Joseph G. Mason, III

Barbara D. Pauley

Robert Browning, Jr.

Randy R. Hamilton

Kenneth W. McBride, Jr.

Michael N. Wikel

Officers

Ronald L. Bowling
Chairman
President and CEO

Randy R. Hamilton
Executive Vice President

Terri L. Lusk
Secretary

First Peoples Bank

Board of Directors

Ronald L. Bowling

Robert Browning, Jr.

Charles T. Feller

Randy R. Hamilton

Joseph G. Mason, III

Kenneth W. McBride, Jr.

Barbara D. Pauley

Michael N. Wikel

Officers

Ronald L. Bowling, *Chairman, President, CEO and Trust Officer*

Randy R. Hamilton, *Executive Vice President and Chief Operations Officer*

Terri L. Lusk, *Senior Vice President and Personnel Officer*

John D. Lay, *Senior Vice President*

Jeanne Worley, *Vice President*

Tonya Farley, *Vice President*

Connie H. Byars, *Auditor and Compliance Officer*

Anthony T. Worrell, *Information Technology Officer*

Debra K. Beavers, *Assistant Vice President*

Jesse W. Bryson, *Assistant Vice President*

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Cynthia Monk

Tiffany Rollins

Teresa Sparks

Vanessa Stafford

Lori Stump

Debra Walker

Meghan Young

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Interest Checking Accounts

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Regular Savings Accounts

Time Certificates of Deposit

Money Market Funds Investment Accounts

Direct Deposit

Christmas Club Accounts

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Home Improvement Loans

Automobile Loans

Real Estate Loans

Personal Loans

Commercial Loans

Overdraft Reserve℠

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Day and Night Depository

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Wire Transfers

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Telephone Banking

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PB

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