March 27, 2018

Research Department, Statistics Division
Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

Re: Submission of Annual Report of Bank Holding Companies – FR Y-6

Herein is a listing of exhibits in response to each report item. Report items that are not applicable to our bank holding company, Benchmark Bankshares, Inc., are so noted:

Report Item 1:	Enclosed with this mailing
Report Item 2a:	Enclosed with this mailing (Exhibit 2a)
Report Item 2b:	Enclosed with this mailing (Exhibit 2b)
Report Item 3.1:	CEDE AND COMPANY New York, N.Y. 10274 USA 3,171,633 shares 61.49% Common Stock
Report Item 3.2:	N/A
Report Item 4:	Enclosed with this mailing (Exhibit 3)

Should you require additional information, please contact our staff at (434) 676- 9054.

Sincerely,

BENCHMARK BANKSHARES INC.

E. Neil Burke

E. Neil Burke
Cashier/Assistant Secretary

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, Jay A. Stafford
Name of the Holding Company Director and Official

CEO/President
Title of the Holding Company Director and Official

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

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

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 ______
C.I. ______

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

none
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Benchmark Bankshares, Inc.
Legal Title of Holding Company

PO Box 569
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Kenbridge	VA	23944

100 S. Broad St Kenbridge, VA 23944
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
E. Neil Burke	EVP/CFO

434-676-9054 ext. 1111
Area Code / Phone Number / Extension

434-676-2703
Area Code / FAX Number

neil.burke@bcbonline.com
E-mail Address

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

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

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

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

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

Benchmark Bankshares, Inc.

Report on Audit of Consolidated Financial Statements

Creedle, Jones & Alga, P.C.
Certified Public Accountants

Benchmark Bankshares, Inc.

Table of Contents

Creedle
Jones
& Alga
A Professional Corporation

Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP
Scott A. Thompson, CPA, CGMA
Kimberly W. Jackson, CPA

Nadine L. Chase, CPA
Monique A. Lubick, CPA

Sherwood H. Creedle, Emeritus

Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Benchmark Bankshares, Inc.

We have audited the accompanying consolidated financial statements of Benchmark Bankshares, Inc. (a Virginia corporation) and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for each of the three years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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.

P. O. Box 1113
204 S. Main Street
Emporia, Virginia 23847
434-634-3111 • FAX: 434-634-6895

P. O. Box 487
828 N. Mecklenburg Avenue
South Hill, Virginia 23970
434-447-7111 • FAX: 434-447-5793

P. O. Box 147
313 N. Main Street
Lawrenceville, Virginia 23868
434-848-4191 • FAX: 434-848-1009

www.cja-cpa.com

Opinion

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

Creedle, Jones & Alga, P.C.

Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
March 20, 2018

Exhibit A

Benchmark Bankshares, Inc.

Consolidated Statements of Financial Condition

	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	**$ 11,854,293**	$ 10,635,580
Federal reserve excess balance account	**17,295,000**	35,041,000
Interest-bearing time deposits with other banks	**8,711,000**	8,407,000
Federal funds sold	**3,176,000**	156,000
Investment securities, net	**35,196,719**	34,325,604
Loans, held for sale	**1,664,625**	335,924
Loans, held for investment	**485,063,526**	448,021,154
Less: Allowance for loan losses	**(4,703,158)**	(4,678,500)
Net Loans	**482,024,993**	443,678,578
Premises and fixed assets - net	**14,665,547**	13,241,853
Cash value life insurance	**13,076,282**	12,832,541
Other real estate owned	**3,428,077**	3,798,693
Accrued interest receivable	**1,993,605**	1,726,690
Deferred income taxes	**1,583,751**	2,341,771
Other assets	**2,220,781**	2,306,486
Total Assets	**$ 595,226,048**	$ 568,491,796
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand (noninterest-bearing)	**$ 115,145,830**	$ 109,975,128
Interest-bearing checking accounts	**163,649,496**	153,008,367
Money market accounts	**85,313,175**	69,639,571
Savings accounts	**53,639,581**	46,332,713
Time deposits	**106,135,511**	121,744,613
Total Deposits	**523,883,593**	500,700,392
Index retirement plan liability	**867,032**	1,200,909
Dividends payable	**1,186,378**	1,084,823
Accrued interest payable	**131,665**	157,863
Accrued income tax payable	**1,216**	21,215
Other liabilities	**1,313,173**	1,461,024
Total Liabilities	**527,383,057**	504,626,226
Stockholders' Equity		
Common stock[(1)(2)]	**1,082,073**	1,083,241
Additional paid-in capital	**4,714,536**	4,637,433
Retained earnings	**61,966,865**	58,280,208
Unrealized security gains (losses) net of tax effect	**79,517**	(135,312)
Total Stockholders' Equity	**67,842,991**	63,865,570
Total Liabilities and Stockholders' Equity	**$ 595,226,048**	$ 568,491,796

[(1)]Common stock, $0.21 par value and 8,000,000 shares authorized. 5,158,165 shares issued and outstanding as of December 31, 2017; 5,165,824 shares issued and outstanding as of December 31, 2016.

[(2)]5,435 of the shares outstanding in 2017 are restricted shares that vest in 2018. 7,537 of the shares outstanding in 2016 were restricted shares that vested in 2017.

See independent auditor's report and accompanying notes to the financial statements.

Benchmark Bankshares, Inc.

Consolidated Statements of Comprehensive Income

	Years Ended December 31, 2017	2016	2015
Interest Income			
Interest and fees on loans	$ 24,503,032	$ 23,166,022	$ 22,077,880
Interest on investment securities			
U. S. Government agencies	39,122	47,177	34,337
Mortgage-backed securities	51,269	30,919	33,090
State and political subdivisions	885,941	818,523	896,469
Other securities	38,876	39,189	38,171
Interest on short-term investments	96,774	93,802	53,311
Interest on Federal funds sold	203,731	122,278	35,654
Total Interest Income	25,818,745	24,317,910	23,168,912
Interest Expense			
Interest-bearing checking deposits	547,386	506,360	484,607
Money market demand deposits	286,915	261,549	207,916
Savings deposits	129,897	110,977	96,774
Time deposits	926,848	1,250,199	1,572,164
Federal funds purchased	71	3	-
Total Interest Expense	1,891,117	2,129,088	2,361,461
Net Interest Income	23,927,628	22,188,822	20,807,451
Provision for Loan Losses	502,306	130,149	448,454
Net Interest Income after Provision for Loan Losses	23,425,322	22,058,673	20,358,997
Other Income			
Service charges on deposit accounts	3,239,392	3,023,616	2,822,817
Dividends	71,317	69,593	82,680
Gain (loss) on sale of loans	1,109,858	1,100,478	1,149,349
Gain (loss) on sale of AFS securities	106,491	211,729	182,641
Gain (loss) on sale of other assets	7,930	(42,491)	(52,000)
Other operating income	1,718,004	1,414,855	1,751,654
Total Other Income	6,252,992	5,777,780	5,937,141
Other Expenses			
Salaries and benefits	10,610,477	10,462,220	9,545,063
Depreciation	867,511	752,776	850,819
Occupancy expense	1,477,747	1,165,804	1,077,971
Other operating expenses	6,573,942	6,047,820	5,740,109
Total Other Expenses	19,529,677	18,428,620	17,213,962
Income Before Income Taxes	10,148,637	9,407,833	9,082,176
Provision for Income Taxes	4,018,016	2,885,971	2,754,281
Net Income	$ 6,130,621	$ 6,521,862	$ 6,327,895
Earnings Per Common Share - Basic	$ 1.19	$ 1.26	$ 1.23
Earnings Per Common Share - Diluted	$ 1.19	$ 1.26	$ 1.23

See independent auditor's report and accompanying notes to the financial statements.

	2017	2016	2015
Other Comprehensive Income, Net of Tax			
Unrealized gains (losses) on securities during period	**164,049**	(773,060)	(46,355)
(Gain) loss included in net income	**(70,284)**	(139,741)	(120,543)
Reclassification due to tax reform impact on AFS securities	**(19,504)**	-	-
Other Comprehensive Income (Loss), Net of Tax	**74,261**	(912,801)	(166,898)
Comprehensive Income	**$ 6,204,882**	$ 5,609,061	$ 6,160,997
Average Shares Outstanding	**5,160,965.000**	5,163,256.000	5,164,462.000
Average Shares Assuming Dilution	**5,160,965.000**	5,163,256.000	5,164,775.000

See independent auditor's report and accompanying notes to the financial statements.

Exhibit C

Benchmark Bankshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2017, 2016, and 2015

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Securities Gain (Loss) Net of Tax	Total
Balance - December 31, 2014	5,158,650.000	$ 1,082,583	$ 4,433,559	$ 49,615,300	$ 944,387	$ 56,075,829
Net Income						
Parent Company				(51,867)		(51,867)
Subsidiary (Benchmark Community Bank)				6,379,762		6,379,762
Sale of stock	8,000.000	1,771	72,629	(5,739)		68,661
Stock issuance - directors' annual retainer	6,180.000	643	71,325			71,968
Stock repurchases	(5,744.000)	(1,206)	(7,180)	(54,336)		(62,722)
Adjustment for expired stock options				(6,039)		(6,039)
Semi-Annual Cash Dividend Declared						
June 18, 2015; $0.18 per share				(930,663)		(930,663)
December 17, 2015; $0.19 per share				(981,746)		(981,746)
Other Comprehensive Income (Net of Tax)						
Unrealized security losses					(46,355)	(46,355)
Less: Reclassification adjustment for loss on sale					(120,543)	(120,543)
Balance - December 31, 2015	5,167,086.000	1,083,791	4,570,333	53,964,672	777,489	60,396,285
Net Income						
Parent Company				(71,609)		(71,609)
Subsidiary (Benchmark Community Bank)				6,593,471		6,593,471
Stock issuance - directors' annual retainer	7,537.000		79,397			79,397
Recognition of vested shares - directors' annual retainer		1,298	(1,298)			-
Stock repurchases	(8,799.000)	(1,848)	(10,999)	(88,330)		(101,177)
Semi-Annual Cash Dividend Declared						
June 16, 2016; $0.20 per share				(1,033,173)		(1,033,173)
December 15, 2016; $0.21 per share				(1,084,823)		(1,084,823)
Other Comprehensive Income (Net of Tax)						
Unrealized security losses					(773,060)	(773,060)
Less: Reclassification adjustment for loss on sale					(139,741)	(139,741)
Balance - December 31, 2016	5,165,824.000	1,083,241	4,637,433	58,280,208	(135,312)	63,865,570
Net Income						
Parent Company				(77,176)		(77,176)
Subsidiary (Benchmark Community Bank)				6,207,797		6,207,797
Stock issuance - directors' annual retainer	5,435.000		95,054			95,054
Recognition of vested shares - directors' annual retainer		1,583	(1,583)			-
Stock repurchases	(13,094.000)	(2,751)	(16,368)	(193,749)		(212,868)
Semi-Annual Cash Dividend Declared						
June 15, 2017; $0.21 per share				(1,083,340)		(1,083,340)
December 21, 2017; $0.23 per share				(1,186,379)		(1,186,379)
Other Comprehensive Income (Net of Tax)						
Unrealized security gain					164,049	164,049
One-time adjustment due to change in tax law				19,504	(19,504)	-
Reclassification adjustment for gain on sale					70,284	70,284
Balance - December 31, 2017	**5,158,165.000**	**$ 1,082,073**	**$ 4,714,536**	**$ 61,966,865**	**$ 79,517**	**$ 67,842,991**

See independent auditor's report and accompanying notes to the financial statements.

Exhibit D

Benchmark Bankshares, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31, 2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 6,130,621	$ 6,521,862	$ 6,327,895
Adjustments to reconcile net income to net cash provided by operations			
Depreciation	867,511	752,776	850,819
Provision for loan losses	502,306	130,149	448,454
Deferred taxes	(159,167)	(573,878)	(213,961)
Net write down of foreclosed assets	585,963	275,165	356,996
Increase in cash value of life insurance	(243,741)	(259,104)	(275,762)
Net change in other real estate owned	370,616	62,290	376,441
(Gain) Loss on sale of securities	(106,491)	(211,729)	(182,641)
(Gain) Loss on sale of other assets	(7,930)	42,491	52,000
Changes in assets and liabilities			
Interest receivable	(266,915)	(171,623)	81,520
Other assets	1,452,417	(593,487)	(439,340)
Interest payable	(26,198)	(31,265)	(55,957)
Other liabilities	(2,324,550)	651,481	(1,167,748)
Net Cash Provided by Operating Activities	6,774,442	6,595,128	6,158,716
Cash Flows from Investing Activities			
Proceeds from maturity/calls of investments	7,989,839	6,282,050	11,160,927
Proceeds from sale/maturity/calls of HTM securities	1,000,000	-	-
Purchase of investment securities	(9,628,053)	(11,493,231)	(5,734,390)
Net change in loans held for investment	(37,042,372)	(24,117,066)	(29,135,334)
Net change in loans held for sale	(1,328,701)	(335,924)	235,640
Proceeds from sale of other real estate	622,149	619,109	1,022,368
Purchase premises and equipment	(2,291,205)	(2,199,605)	(122,348)
Net Cash Used in Investing Activities	(40,678,343)	(31,244,667)	(22,573,137)
Cash Flows from Financing Activities			
Net increase in noninterest-bearing deposits	5,065,121	16,529,735	16,950,836
Net increase in customer escrow deposits	105,581	84,231	118,737
Net increase in interest-bearing deposits	18,012,499	9,619,006	27,364,219
Dividends paid	(2,269,719)	(1,912,409)	(1,912,409)
Proceeds from sale of common stock	-	-	68,661
Payments to repurchase common stock	(212,868)	(62,722)	(62,722)
Net Cash Provided by Financing Activities	20,700,614	24,257,841	42,527,322
Net Increase (Decrease) in Cash and Cash Equivalents	(13,203,287)	(391,698)	26,112,901
Cash and Cash Equivalents - Beginning of Year	54,239,580	54,631,278	28,518,377
Cash and Cash Equivalents - End of Year	$ 41,036,293	$ 54,239,580	$ 54,631,278
Supplemental Disclosures of Cash Flow Information			
Interest paid	$ 1,917,314	$ 2,160,353	$ 2,417,418
Income taxes paid	2,973,343	2,973,343	2,771,499

See independent auditor's report and accompanying notes to the financial statements.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less, and Federal funds sold. Generally, Federal funds sold are purchased and sold for one-day periods.

The net gain of $106,491 in 2017 resulted from the sale of ten municipal bonds. The net gain of $211,729 in 2016 resulted from the sale of four municipal bonds. The net gain of $182,641 in 2015 resulted from the sale of seven municipal bonds.

The Company recognized capitalized interest of $2,656 during 2017. No capitalized interest was recognized during 2016 or 2015.

1 Nature of Business

Benchmark Bankshares, Inc. ("Company"), headquartered in Kenbridge, Virginia, is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "Federal Reserve") and the Virginia Bureau of Financial Institutions. The Company's wholly-owned subsidiary, Benchmark Community Bank (the "Bank"), is a Virginia state-chartered bank subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Reserve. The Bank is also a member of the Federal Deposit Insurance Corporation (FDIC). The Bank is primarily engaged in the business of obtaining deposits, including demand, savings and certificates, and originating residential, installment, and business loans within its primary lending area of Southside Virginia. The Bank operates 12 full-service banking offices in Southside Virginia and loan production offices in Wake Forest, North Carolina and Henderson, North Carolina.

2 Significant Accounting Policies and Practices

The accounting policies and practices of Benchmark Bankshares, Inc. conform to generally accepted accounting principles and general practice within the banking industry. Certain of the more significant policies and practices follow:

(a) *Basis of Presentation*

The consolidated financial statements of Benchmark Bankshares, Inc. and its wholly-owned subsidiary, Benchmark Community Bank, include the accounts of both companies. All material inter-company balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company follow generally accepted accounting principles ("GAAP") and general practices of the financial services industry, within the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") structure of authoritative literature.

(b) *Use of Estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, securities with other than temporary impairment, deferred income taxes, other real estate owned, and fair value measurements. Amounts in prior years' Consolidated Financial Statements are reclassified whenever necessary to conform to the current year's presentation.

Management has evaluated the impact of subsequent events on these consolidated financial statements through the date these consolidated financial statements were available to be issued.

(c) *Cash and Due from Banks*

Cash and due from banks includes cash and balances due from correspondent banks, which are deposited in both noninterest-bearing and interest-bearing accounts, as well as federal funds sold. All balances are readily available for use by the Company and its subsidiary. These deposits are subject to FDIC insurance limitations and are insured for the first $250,000 on deposit with each correspondent bank. As of December 31, 2017, the Bank was required to maintain a compensating balance of $1,500,000 with Community Bankers Bank and $750,000 with State Bank and Trust Company.

Federal funds sold are basically uncollateralized loans to other financial institutions. As a result, management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents. Through participation in the "Excess Balance Account" program, the Company's excess funds are usually deposited directly with the Federal Reserve, eliminating the risk associated with federal funds held at other institutions.

The following is a breakdown of cash and due from banks as of December 31:

	2017	2016
Cash	**$ 4,624,244**	$ 3,538,755
Due from banks (noninterest-bearing)	**7,120,461**	6,958,743
Due from banks (interest-bearing)	**29,291,588**	43,742,082
Total Cash and Cash Equivalents	**$ 41,036,293**	$ 54,239,580

Interest-bearing deposits due from banks as of December 31, 2017 consist of $109,588 held in the Bank's daily investment account with the Federal Home Loan Bank of Atlanta, $8,711,000 invested in FDIC insured short-term time deposits, $17,295,000 held as excess balance federal funds with the Federal Reserve, and $3,176,000 in federal funds sold.

The Bank was also required to maintain a balance of $25,000 with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2017 and 2016. These deposits do not earn interest.

(d) *Investment Securities*

The Company did not hold any bonds classified as held-to-maturity as of December 31, 2017. Securities classified as held-to-maturity are reported at amortized cost. The impact of temporary fluctuations in fair value of the debt securities is not reflected in the Company's consolidated financial statements. The remaining portfolio is classified as available-for-sale. Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes.

Other-than-temporary-impairment (OTTI) deemed to be credit-related is charged to earnings as realized losses. No OTTI existed within the portfolio for any of the periods presented. Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Company intends to sell the security, or (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company does not intend to sell the security and it is not more-than-likely that the Company will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Management evaluates securities for other-than-temporary impairment at least quarterly. 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; (3) the ability of the issuer to make principal and interest payments; and (4) changes in the regulatory, economic, or technological environment of the issuer. A decline in fair value of any security below cost that is deemed other-than-temporary and related to the credit-worthiness of the issuer is charged to earnings resulting in the establishment of a new cost basis for the security.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. See Note 3 for further discussion of investment securities.

(e) *Restricted Securities*

The Company holds a stock investment in Community Bankers Bank (Midlothian, VA) and is required to maintain an investment in the capital stock of the Federal Reserve Bank of Richmond and the Federal Home Loan Bank of Atlanta. No ready market exists for these securities, and they have no quoted market value. The Company's investment in these stocks is recorded at cost. See Note 3 for further discussion of restricted securities.

(f) *Loans*

The recorded investment in loans represents the principal amount outstanding net of deferred origination costs. The deferred origination costs together with loan origination fees are recognized as an adjustment of the related loan yield using the interest method. Interest on loans is credited to operations based on the principal amount outstanding. Management has the intent and ability to hold the loans for the foreseeable future or until maturity or payoff.

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines there is adequate collateral to cover the principal and interest. For loans carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance (generally six consecutive months) in accordance with the contractual terms of the loan, and there is reasonable assurance the borrower will continue to make payments as agreed.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans and homogeneous loans: residential mortgage loans, home equity loans, and all consumer loans, unless such loans were restructured in a troubled debt restructuring. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Advance payments to cover insurance and tax payments are paid into escrow for loans made to purchase 1-4 family residential properties. These accounts are held by the Bank as noninterest-bearing deposits until payments are made on behalf of the customer by the Bank. The total escrow payments held by the Bank amounted to $525,544 and $504,194 as of December 31, 2017 and 2016, respectively.

(g) *Troubled Debt Restructurings*

Troubled Debt Restructurings (TDRs) occur when the Company agrees to significantly modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. Upon designation as a TDR, the Company evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR, the Company concludes that the borrower is able to make such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modifications and may be returned to accrual status based on the policy for returning loans to accrual status. As of December 31, 2017, the Company had $6,497,339 in loans which had been modified as TDRs. As of December 31, 2016, the Company had $6,588,256 in loans which had been modified as TDRs.

(h) *Loans Held for Sale*

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, determined on an individual loan basis, and are sold with the mortgage servicing rights released by the Company. The Company enters into commitments to originate certain mortgage loans whereby the interest rate on the loans is determined prior to funding. These are known as rate lock commitments and are considered to be derivatives. The time between issuance of a loan commitment, loan closing, and the sale of the loan is generally less than 30 days. The Company mitigates the risk associated with changing interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses, nor will it realize significant gains, related to its rate lock commitments due to interest rate fluctuation. Because rate lock commitments and best efforts contracts are very similar in nature, no gain or loss occurs on the rate lock.

The Company held $1,664,625 and $335,924 in loans for sale as of December 31, 2017 and 2016, respectively and recognized $1,109,858 in gains from the sale of these loans for the year ended December 31, 2017. Total gains amounted to $1,100,478 and $1,149,349 for years ended December 31, 2016 and 2015, respectively.

(i) *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(j) *Allowance for Loan Losses*

The allowance for loan losses is a valuation reserve for probable and inherent losses in the loan portfolio. The allowance for loan losses is increased by provisions charged to expense and decreased by loan losses net of recoveries. The adequacy of the Company's loan loss reserve is calculated quarterly, based on management's detailed review of the loan portfolio in accordance with *ASC 310-10-35, Receivables – Subsequent Accounting*. Management also considers the Bank's historical loan losses and other economic conditions in accordance with *ASC 450-20, Loss Contingencies* when reviewing the loan loss reserve position. With the exception of loans secured by 1-4 family residential property, accrual of interest is discontinued on loans past due 90 days or more when collateral is inadequate to cover principal and interest or immediately if management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection is doubtful.

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. Regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations. Additional information regarding the Company's policies and methodology used to estimate the allowance for possible loan losses is presented in Note 5 – Allowance for Loan Losses.

(k) *Premises and Equipment*

Land is carried at cost whereas premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense is computed by the straight-line method over the estimated useful lives of the assets, which is 7 to 40 years for buildings and improvements and 3 to 10 years for furniture and equipment. Leasehold improvements are generally depreciated over the lesser of the lease term or the estimated useful lives of the improvements. Major improvements are capitalized while maintenance and repairs are charged to expense as incurred.

(l) *Other Real Estate Owned*

Real estate acquired through, or in lieu of, foreclosure is held for sale and is initially recorded at the lower of carrying value or fair value less cost to sell at the date of foreclosure. Following foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Adjustments to carrying value, revenue, and expenses related to holding foreclosed assets are recorded in earnings as they occur. See Note 6 for additional information.

(m) *Earnings Per Share*

Earnings per share of common stock are calculated based on the average number of shares outstanding during the period. At December 31, 2017 and 2016, the Bank had no potentially dilutive securities outstanding. All stock options, as of December 31, 2015, had either been exercised or had expired; however, all options were exercisable below the market share price of $12.06 and $12.25 as of January 31, 2015 and February 28, 2015, respectively, and were included in the computation of net income per diluted share for that year.

	2017			2016			2015		
(Actual dollars, except per share data)	Net Income	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts	Net Income	Average Number of Shares	Per Share Amounts
Basic earnings per share	$ 6,130,621	5,160,965	$ 1.19	$ 6,521,862	5,163,256	$ 1.26	$ 6,327,895	5,164,462	$ 1.23
Effect of dilutive stock options	-	-	-	-	-	-	-	313	-
Diluted earnings per share	$ 6,130,621	5,160,965	$ 1.19	$ 6,521,862	5,163,256	$ 1.26	$ 6,327,895	5,164,775	$ 1.23

(n) *Income Taxes*

Deferred income taxes are reported for temporary differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes. Deferred taxes also reflect the impact of unrealized gains and losses related to investment securities, pursuant to *ASC 320 Investments - Debt and Equity Securities*. The differences relate principally to the provision for loan losses, depreciation, deferred compensation, and the supplemental retirement plan funded by bank-owned life insurance.

With the enactment of the Tax Cuts and Jobs Act of 2017 on December 22, 2017, the corporate tax rate was reduced to 21% effective January 1, 2018; however, this new law required deferred tax assets and liabilities to be re-measured at the new tax rate at the time the law was enacted. As a result, the Bank incurred a one-time, non-cash charge of $815,974, recorded as an increase in income tax expense. A majority of this adjustment, $593,350, was related to the re-valuation of the allowance for loan losses.

Elimination of Reserve Method for "Large" Commercial Banks

For taxable years after 1986, "large banks" are no longer allowed to use the reserve method for bad debts. Instead, they must use the specific charge-off method. A "large bank" is a bank with assets in the aggregate adjusted basis of which exceed $500 million and the Bank exceeded this asset level during tax year 2015. In the year in which a bank becomes a "large bank," existing bad debt reserves must be either (1) "recaptured" or (2) "run off." The Bank has elected to recapture its bad debt reserves. The balance of the bad debt reserve as of the close of the preceding year is brought into income over a four-year period as detailed below:

Year 1 – 10 percent (the year of the change)
Year 2 – 20 percent
Year 3 – 30 percent
Year 4 – 40 percent

Per the schedule above, a total of 30% of the Company's bad debt reserve, or $294,195 was added to taxable income for tax year ended December 31, 2017.

The table following reflects the components of the Net Deferred Tax Asset account as of December 31, 2017 and 2016:

	December 31	
	2017	**2016**
Deferred Tax Assets		
Loan loss reserve	**$ 905,288**	$ 1,357,296
Supplemental retirement plan	**182,077**	332,527
Foreclosed assets (OREO)	**318,839**	316,987
Deferred compensation	**201,175**	268,459
Post-retirement benefit plan	**40,804**	74,684
Unrealized loss - AFS securities	**-**	69,707
Interest on non-accrual loans	**20,879**	26,766
Compensated absences	**12,632**	21,093
Deferred loan fees	**26,690**	14,191
Deferred Tax Assets	**1,708,384**	2,481,710
Deferred Tax Liabilities		
Unrealized gain - AFS securities	**31,506**	-
Depreciation	**92,414**	139,939
Unearned gain on sale of OREO	**713**	-
Deferred Tax Liabilities	**124,633**	139,939
Net Deferred Tax Asset	**$ 1,583,751**	$ 2,341,771

The Company has evaluated the need for a deferred tax valuation allowance for the year ended December 31, 2017 in accordance with ASC 740, Income Taxes. Based on this analysis, the Company believes that it is more likely than not that the deferred tax assets are realizable; therefore, no allowance is required.

The Bank is also subject to a Bank Franchise Tax that is imposed by the Commonwealth of Virginia. This tax is not an income tax; therefore, the cost is included in other noninterest expense. Bank franchise tax amounted to $543,193 in 2017, $491,770 in 2016, and $441,260 in 2015.

(o) *Stock Options*

There were no stock option compensation plans in place as of December 31, 2017.

(p) *Fair Value*

Fair Value Measurements and Disclosures, FASB ASC Topic 820 ("ASC 820") provides a framework for measuring and disclosing fair value under generally accepted accounting principles (GAAP). ASC 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis, such as with available-for-sale investment securities, or on a nonrecurring basis, as with impaired loans. See Note 17 for required fair value disclosures.

(q) *Valuation of Long-Lived Assets*

The Company accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

(r) Segment Reporting

FASB ASC 280, *Segment Reporting*, encourages nonpublic entities to report selected information about operating segments in its financial reports issued to its shareholders. Based on the analysis performed by the Company, management has determined that the Company only has one operating segment, which is commercial banking. The chief operating decision-makers use consolidated results to make operating and strategic decisions and, therefore, are not required to disclose any additional segment information.

(s) *Comprehensive Income*

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

Currently, the Bank's only component of other comprehensive income consists of unrealized gains and losses on available-for-sale securities. The following is the detailed reconciliation of comprehensive income for the last three years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31, 2017		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized Gain (Loss) on Securities			
Unrealized holding gain (loss) arising during period	$ 248,559	$ (84,510)	$ 164,049
Less: Reclassification adjustment for gain (loss) realized in net income	106,491	(36,207)	70,284
Net Unrealized Gain (Loss)	$ 142,068	$ (48,303)	$ 93,765

	Year Ended December 31, 2016		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized Gain (Loss) on Securities			
Unrealized holding gain (loss) arising during period	$ (1,171,303)	$ 398,243	$ (773,060)
Less: Reclassification adjustment for gain (loss) realized in net income	211,729	(71,988)	139,741
Net Unrealized Gain (Loss)	$ (1,383,032)	$ 470,231	$ (912,801)

	Year Ended December 31, 2015		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized Gain (Loss) on Securities			
Unrealized holding gain (loss) arising during period	$ (70,235)	$ 23,880	$ (46,355)
Less: Reclassification adjustment for gain (loss) realized in net income	182,641	(62,098)	120,543
Net Unrealized Gain (Loss)	$ (252,876)	$ 85,978	$ (166,898)

3 Investment Securities

The carrying amount and approximate market values of investment securities as of December 31, 2017 and 2016 are summarized in the following charts:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-Sale				
U. S. Government agencies	$ 1,327,357	$ 606	$ (6,154)	$ 1,321,809
Mortgage-backed securities	2,423,235	6,683	(39,378)	2,390,540
Tax exempt municipal securities	30,146,609	437,367	(248,846)	30,335,130
Taxable municipal securities	450,376	1,770	-	452,146
CRA Mutual Fund	699,111	(2,017)	-	697,094
Total	$ 35,046,688	$ 444,409	$ (294,378)	$ 35,196,719
Held-to-Maturity				
None	$ -	$ -	$ -	$ -

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-Sale				
U. S. Government agencies	$ 1,590,566	$ -	$ (9,410)	$ 1,581,156
Mortgage-backed securities	1,937,316	11,828	(43,912)	1,905,232
Tax exempt municipal securities	28,863,690	416,500	(599,651)	28,680,539
Taxable municipal securities	454,886	20,287	-	475,173
CRA Mutual Fund	684,165	(661)	-	683,504
Total	$ 33,530,623	$ 447,954	$ (652,973)	$ 33,325,604
Held-to-Maturity				
U. S. Government agencies	$ 1,000,000	$ -	$ (2,425)	$ 997,575

The maturities of investment securities at December 31, 2017 were as follows:

	Amortized Cost	Fair Market Value
Available-for-Sale		
Less than one year	$ 699,111	$ 697,095
One to five years	2,796,634	2,821,321
Five to ten years	11,692,430	11,828,931
Over 10 years	19,858,513	19,849,372
Total	$ 35,046,688	$ 35,196,719

Mortgage-backed securities consist of two mortgage-backed pass-through securities that are issued by the Federal National Mortgage Association (FNMA). Prepayment risk with these bonds exist because the individual mortgages underlying these securities may be called or prepaid without penalty, thus shortening the stated maturity of the bonds. Expected maturities may also differ from contractual maturities because of optionality associated with callable municipal securities. The Company has identified two types of risk that include prepayment risk and credit risk. The Company closely monitors the investment activity regarding the impact of changing interest rates as well as the quality of performance to this type of investment.

As of December 31, 2017, the Company had $5.67 million in securities pledged to secure public deposits. As of December 31, 2016, the Company had $2.04 million in securities pledged to secure public deposits. No securities were pledged as of December 31, 2015.

In the event of the sale of securities, the cost basis of the security, adjusted for the amortization of premium or discounts, will be used when calculating gains or losses. The Bank realized a total gain of $106,491 in 2017, a total gain of $211,729 in 2016, and a total gain of $182,641 in 2015.

No securities are considered impaired as of December 31, 2017. All of these securities are rated as investment grade and are backed by insurance, U.S. government agency guarantees or the full faith and credit of local municipalities across the United States. The following chart represents the gross unrealized losses and fair value of investment securities by investment category and length of time individual securities have been in continuous unrealized loss position as of December 31, 2017 and 2016:

Year Ended December 31, 2017

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale						
Municipal bonds	$ 5,825,282	$ 79,371	$ 6,491,870	$ 169,474	$ 12,317,152	$ 248,845
Mortgage-backed securities	1,329,000	14,874	776,646	24,504	2,105,646	39,378
Total AFS Securities	$ 7,154,282	$ 94,245	$ 7,268,516	$ 193,978	$ 14,422,798	$ 288,223
Held-to-Maturity						
None	$ -	$ -	$ -	$ -	$ -	$ -
Total HTM Securities	$ -	$ -	$ -	$ -	$ -	$ -

Year Ended December 31, 2016

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale						
Municipal bonds	$ 13,008,529	$ 599,652	$ 1,568,266	$ 3,668	$ 14,576,795	$ 603,320
Mortgage-backed securities	1,505,882	43,913	-	-	1,505,882	43,913
Total AFS Securities	$ 14,514,411	$ 643,565	$ 1,568,266	$ 3,668	$ 16,082,677	$ 647,233
Held-to-Maturity						
U. S. Government agencies	$ 1,000,000	$ 2,425	$ -	$ -	$ 1,000,000	$ 2,425
Total HTM Securities	$ 1,000,000	$ 2,425	$ -	$ -	$ 1,000,000	$ 2,425

Restricted securities, not shown above and included as “Other Assets” on the balance sheet, consist of the following:

	2017	2016	2015
Restricted Securities			
Federal Reserve Bank stock	$ **87,000**	$ 87,000	$ 87,000
Federal Home Loan Bank stock	**511,700**	484,900	441,000
Community Bankers Bank stock	**110,000**	110,000	110,000
Other equity securities	**89,431**	88,374	90,242
Total	$ **798,131**	$ 770,274	$ 728,242

No ready market exists for these securities, and there is no quoted market value. Federal Reserve Bank Stock, Federal Home Loan Bank Stock, and Community Bankers Bank Stock are all carried at cost. Other equity securities represent the Bank’s investment in Bankers Title, LLC, a title insurance company. The value reflects the Bank’s 7.55% ownership stake in the company. Federal Home Loan Bank (“FHLB”) stock is generally viewed as a long-term investment and as a restricted investment security which is carried at cost, because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on ultimate recoverability of the par value rather than by recognizing temporary declines in value. Other securities represent a joint ownership interest that is carried at the year-end equity position of the Company.

4 Loans

A summary of loans, net of participation-out activity, is presented in the following chart:

	December 31, 2017	December 31, 2016
	(in thousands)	
Construction and land development	$ **27,943**	$ 15,742
Residential real estate	**249,481**	240,519
Residential real estate - home equity loans	**27,782**	29,484
Multifamily real estate	**4,610**	4,820
Farmland	**14,993**	15,503
Commercial real estate	**97,935**	82,067
Commercial non-real estate	**46,575**	41,727
Consumer	**17,409**	18,495
	$ **486,728**	$ 448,357

Deferred loan fees of $975,594 and $848,501 on December 31, 2017 and 2016, respectively, are also included in total loans.

Checking and savings account overdrafts amounting to $107,673 on December 31, 2017 and $74,427 on December 31, 2016 have been reclassified as short-term loans for reporting purposes.

Related Party Loans

In the ordinary course of business, the Company grants loans to directors, executive officers, and their affiliates ("related parties"). These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than normal risk of collectibility. As of December 31, 2017, no director or executive officer had outstanding loans in excess of 5.0% of stockholders' equity. The following chart details the loan activity to related parties:

	2017	2016
Loans outstanding	$ **4,666,136**	$ 3,023,115
New loans	**5,581,075**	2,855,674
Loan repayments	**(4,550,891)**	(1,212,653)
Total Loans Outstanding	$ **5,696,320**	$ 4,666,136

Non-Accrual and Past Due Loans

All loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due in accordance with the contractual terms of the underlying loan agreement. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless if such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Aging and non-accrual loans, by individual loan class, as of December 31, 2017 and 2016 were as follows:

Non-Accrual Loans

	December 31,	
	2017	2016
	(in thousands)	
Construction and land development	$ -	$ -
Residential real estate	236	10
Residential real estate - home equity loans	-	-
Multifamily real estate	-	-
Farmland	-	689
Commercial real estate, owner occupied	671	335
Commercial real estate, non-owner occupied	385	-
Commercial non-real estate	236	586
Consumer	-	-
Total	$ 1,528	$ 1,620

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Aging Analysis of Past Due and Current Loans

	December 31, 2017					
	30-89 Days Past Due	90 Days or Greater and Accruing	Total Past Due	Current Loans	Total Loans	Nonaccrual Loans
			(in thousands)			
Construction and land development	$ 223	$ -	$ 223	$ 27,720	$ 27,943	$ -
Residential real estate	4,328	1,566	5,894	243,587	249,481	236
Residential real estate - home equity loans	61	45	106	27,676	27,782	-
Multifamily real estate	-	-	-	4,610	4,610	-
Farmland	63	-	63	14,930	14,993	-
Commercial real estate, owner occupied	880	-	880	76,621	77,501	671
Commercial real estate, non-owner occupied	167	-	167	14,700	14,867	385
Commercial non-real estate	395	-	395	51,747	52,142	236
Consumer	374	31	405	17,004	17,409	-
Total	$ 6,491	$ 1,642	$ 8,133	$ 478,595	$ 486,728	$ 1,528

	December 31, 2016					
	30-89 Days Past Due	90 Days or Greater and Accruing	Total Past Due	Current Loans	Total Loans	Nonaccrual Loans
			(in thousands)			
Construction and land development	$ -	$ -	$ -	$ 15,742	$ 15,742	$ -
Residential real estate	4,491	1,872	6,363	234,156	240,519	10
Residential real estate - home equity loans	79	37	116	29,368	29,484	-
Multifamily real estate	-	-	-	4,820	4,820	-
Farmland	41	-	41	15,462	15,503	689
Commercial real estate, owner occupied	601	41	642	61,989	62,631	335
Commercial real estate, non-owner occupied	371	-	371	16,515	16,886	-
Commercial non-real estate	356	-	356	43,950	44,306	586
Consumer	435	21	456	18,010	18,466	-
Total	$ 6,374	$ 1,971	$ 8,345	$ 440,012	$ 448,357	$ 1,620

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, which represents either the present value of estimated future cash flows using the existing interest rate or the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The recorded investment is defined as the original amount of the loan, net of any deferred costs and fees, less any principal reductions and direct chafe-offs. Impaired loans with a balance at the end of the period are reflected in the recorded investment and unpaid principal balance columns. The average recorded investment represents the Bank's average investment in those same loans during the period. The following tables present impaired loans in the segmented portfolio categories as of December 31:

Impaired Loans by Loan Type

	December 31, 2017					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Net Recorded Investment	Average Recorded Investment	Interest Income Recognized
			(in thousands)			
With an Allowance Recorded						
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate	436	457	142	294	447	25
Residential real estate - home equity loans	453	325	23	430	375	20
Multifamily real estate	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial real estate, owner occupied	166	176	34	132	170	10
Commercial real estate, non-owner occupied	-	-	-	-	-	-
Commercial non-real estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	1,055	958	199	856	992	55
With No Allowance Recorded						
Construction and land development	-	-	-	-	-	-
Residential real estate	684	718	-	684	694	41
Residential real estate - home equity loans	-	-	-	-	-	-
Multifamily real estate	-	-	-	-	-	-
Farmland	390	390	-	390	397	22
Commercial real estate, owner occupied	878	1,301	-	878	912	80
Commercial real estate, non-owner occupied	541	721	-	541	565	42
Commercial non-real estate	-	343	-	-	-	-
Consumer	-	-	-	-	-	-
Total	2,493	3,473	-	2,493	2,568	185
Grand Total	$ 3,548	$ 4,431	$ 199	$ 3,349	$ 3,560	$ 240

Impaired Loans by Loan Type

	December 31, 2016					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Net Recorded Investment	Average Recorded Investment	Interest Income Recognized
			(in thousands)			
With an Allowance Recorded						
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate	457	457	142	315	468	27
Residential real estate - home equity loans	325	325	23	302	287	16
Multifamily real estate	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial real estate, owner occupied	176	176	34	142	181	10
Commercial real estate, non-owner occupied	-	-	-	-	-	-
Commercial non-real estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	958	958	199	759	936	53
With No Allowance Recorded						
Construction and land development	-	-	-	-	-	-
Residential real estate	1,792	1,792	-	1,792	1,851	91
Residential real estate - home equity loans	-	-	-	-	-	-
Multifamily real estate	-	-	-	-	-	-
Farmland	524	1,213	-	524	532	68
Commercial real estate, owner occupied	1,210	1,346	-	1,210	1,278	82
Commercial real estate, non-owner occupied	1,003	1,003	-	1,003	1,030	57
Commercial non-real estate	2	343	-	2	29	14
Consumer	-	-	-	-	-	-
Total	4,531	5,697	-	4,531	4,720	312
Grand Total	$ 5,489	$ 6,655	$ 199	$ 5,290	$ 5,656	$ 365

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Loans by Grade

	December 31, 2017					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
			(in thousands)			
Construction and land development	$ 27,001	$ 942	$ -	$ -	$ -	$ 27,943
Residential real estate	237,509	4,658	7,314	-	-	249,481
Residential real estate - home equity loans	27,267	421	94	-	-	27,782
Multifamily real estate	4,610	-	-	-	-	4,610
Farmland	13,534	1,436	23	-	-	14,993
Commercial real estate, owner occupied	72,993	3,028	1,480	-	-	77,501
Commercial real estate, non-owner occupied	11,710	2,283	874	-	-	14,867
Commercial	51,023	712	407	-	-	52,142
Consumer	17,321	-	88	-	-	17,409
Total	$ 462,968	$ 13,480	$ 10,280	$ -	$ -	$ 486,728

Loans by Grade

	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
			(in thousands)			
Construction and land development	$ 14,693	$ 1,049	$ -	$ -	$ -	$ 15,742
Residential real estate	226,646	7,751	6,122	-	-	240,519
Residential real estate - home equity loans	28,896	514	74	-	-	29,484
Multifamily real estate	4,696	124	-	-	-	4,820
Farmland	13,935	579	989	-	-	15,503
Commercial real estate, owner occupied	57,624	2,836	2,171	-	-	62,631
Commercial real estate, non-owner occupied	15,267	662	957	-	-	16,886
Commercial	42,632	951	723	-	-	44,306
Consumer	18,399	-	67	-	-	18,466
Total	$ 422,788	$ 14,466	$ 11,103	$ -	$ -	$ 448,357

5 Allowance for Loan Losses

The following charts detail the allowance for loan losses by loan portfolio segment for the years ended December 31, 2017 and 2016. Allocation to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for Loan Losses
Dollars in Thousands

	December 31, 2017								
	Construction	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Farmland	Commercial	Consumer	Unallocated	Total
Beginning Balance	$ 8	$ 667	$ 88	$ 1,480	$ 44	$ 646	$ (78)	$ 1,824	$ 4,679
Provisions for potential losses	-	-	-	-	-	-	-	501	501
Charge offs	-	(215)	-	(16)	-	(218)	(69)	(59)	(577)
Recoveries	-	5	-	19	-	24	22	30	100
Ending Balance	$ 8	$ 457	$ 88	$ 1,483	$ 44	$ 452	$ (125)	$ 2,296	$ 4,703
Period-End Balance Allocated to									
Loans individually evaluated for impairment	$ -	$ 6	$ -	$ 2	$ -	$ -	$ -	$ -	$ 8
Loans collectively evaluated for impairment	8	451	88	1,481	44	452	(125)	2,296	4,695
Ending Balance	$ 8	$ 457	$ 88	$ 1,483	$ 44	$ 452	$ (125)	$ 2,296	$ 4,703
Total Loans									
Individually evaluated for impairment	$ -	$ 5,947	$ -	$ 2,746	$ 389	$ -	$ -	$ -	$ 9,082
Collectively evaluated for impairment	27,943	271,316	4,610	89,622	14,604	52,142	17,409	-	477,646
Total Loans	$ 27,943	$ 277,263	$ 4,610	$ 92,368	$ 14,993	$ 52,142	$ 17,409	$ -	$ 486,728

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Allowance for Loan Losses
Dollars in Thousands

	December 31, 2016								
	Construction	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Farmland	Commercial	Consumer	Unallocated	Total
Beginning Balance	$ 8	$ 714	$ 88	$ 1,482	$ 44	$ 650	$ 42	$ 1,694	$ 4,722
Provisions for potential losses	-	-	-	-	-	-	-	130	130
Charge offs	-	(79)	-	(3)	-	(15)	(178)	-	(275)
Recoveries	-	32	-	1	-	11	58	-	102
Ending Balance	$ 8	$ 667	$ 88	$ 1,480	$ 44	$ 646	$ (78)	$ 1,824	$ 4,679
Period-End Balance Allocated to									
Loans individually evaluated for impairment	$ -	$ 14	$ -	$ 46	$ -	$ 2	$ -	$ -	$ 62
Loans collectively evaluated for impairment	8	653	88	1,434	44	644	(78)	1,824	4,617
Ending Balance	$ 8	$ 667	$ 88	$ 1,480	$ 44	$ 646	$ (78)	$ 1,824	$ 4,679
Total Loans									
Individually evaluated for impairment	$ -	$ 6,405	$ -	$ 2,721	$ 1,213	$ 340	$ -	$ -	$ 10,679
Collectively evaluated for impairment	15,742	263,598	4,820	76,796	14,290	43,966	18,466	-	437,678
Total Loans	$ 15,742	$ 270,003	$ 4,820	$ 79,517	$ 15,503	$ 44,306	$ 18,466	$ -	$ 448,357

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The following chart details the activity in the allowance for loan losses for the years ended December 31, 2017, 2016, and 2015:

	2017	2016	2015
Balance - Beginning of Year	**$ 4,678,500**	$ 4,722,162	$ 4,542,460
Adjusting entry	**(25)**	-	-
Provision for loan losses	**502,306**	130,149	448,454
Recoveries on loans	**99,370**	101,354	88,244
Loans charged off	**(576,993)**	(275,165)	(356,996)
Net Charge Offs	**(477,623)**	(173,811)	(268,752)
Balance - End of Year	**$ 4,703,158**	$ 4,678,500	$ 4,722,162

6 Other Real Estate Owned

The table below presents a summary of the activity and expenses related to other real estate owned for the years ended December 31, 2017, 2016, and 2015:

	Years Ended December 31,		
	2017	2016	2015
Beginning Balance	**$ 3,798,693**	$ 3,860,983	$ 4,237,424
Additions	**837,496**	807,385	1,128,581
Sales	**(622,149)**	(665,417)	(1,083,701)
Valuation write-downs (net)	**(585,963)**	(204,258)	(421,321)
Ending Balance	**$ 3,428,077**	$ 3,798,693	$ 3,860,983
Net loss (gain) on sales of real estate	**$ 7,930**	$ (42,491)	$ (52,000)
Operating expenses	**232,589**	151,806	167,162
Total Operating Expenses	**$ 240,519**	$ 109,315	$ 115,162

7 Office Buildings, Equipment, and Leasehold Improvements

Major classifications of these assets are summarized as follows:

	2017	2016
Land	**$ 2,158,989**	$ 2,158,989
Buildings and improvements	**17,222,627**	14,859,721
Furniture and equipment	**7,805,125**	7,182,208
Leasehold improvements	**35,041**	29,841
Construction in progress	**-**	701,040
Total	**27,221,782**	24,931,799
Less: Accumulated depreciation	**(12,556,235)**	(11,689,946)
Net Premises and Fixed Assets	**$ 14,665,547**	$ 13,241,853

The cost basis of fully depreciated assets totaled $8,652,071 as of December 31, 2017 and $7,698,736 as of December 31, 2016.

Capitalized interest due to the remodeling of branch facilities amounted to $2,656 in 2017. No capitalized interest was recognized in 2016 or 2015, respectively.

8 Time Deposits

The maturities of time deposits are as follows (*dollars in thousands*):

	$250,000 or Greater	Less Than $250,000	Total
Time deposits with a remaining maturity or repricing of:			
3 months or less	$ 1,933	$ 13,278	$ 15,211
Over 3 months through 12 months	7,989	25,630	33,619
Over 1 year through 3 years	6,061	28,713	34,774
Over 3 years	1,289	21,243	22,532
Total	$ 17,272	$ 88,864	$ 106,136

As of December 31, 2017, the Bank did not hold any deposits from wholesale funding (brokered deposits).

As of December 31, 2017, the Bank held deposits of Directors, Executive Officers, and their related interest amounting to $1,216,541.

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2017 and 2016 was $17,271,898 and $19,424,142, respectively.

9 Federal Income Taxes

Allocation of income tax between current and deferred portions is as follows:

	Years Ended December 31,		
	2017	**2016**	**2015**
Currently payable	**$ 1,216**	$ 21,215	$ -
Refund due	**-**	(58,116)	(23,944)
Deferred tax (benefit)	**(1,583,751)**	(2,341,771)	(1,767,893)
Total	**$ (1,582,535)**	$ (2,378,672)	$ (1,791,837)

	Years Ended December 31,		
	2017	**2016**	**2015**
Current tax expense	**$ 3,259,996**	$ 3,459,849	$ 2,968,242
Deferred tax (benefit)	**758,020**	(573,878)	(213,961)
Total	**$ 4,018,016**	$ 2,885,971	$ 2,754,281

Temporary differences in the recognition of income and expenses for tax and financial reporting purposes resulted in the deferred income tax asset as follows:

	Years Ended December 31, 2017	2016	2015
Accelerated depreciation	$ 47,525	$ 20,137	$ 58,189
Excess (Deficiency) of provision for loan losses over deduction for Federal income tax purposes	(452,008)	51,840	94,440
Deferred compensation	(67,284)	5,219	20,451
Supplemental retirement plan liability	(150,450)	(30,453)	(35,779)
Stock-based compensation	-	-	(9,688)
Post retirement health benefit	(33,880)	(4,565)	13,785
Interest on non-accrual loans	(5,887)	3,449	3,788
Deferred loan fees	12,499	(11,342)	(20,886)
Foreclosed assets (OREO)	1,852	68,835	(26)
Unearned gain (loss) on sale of OREO	(713)	-	3,164
Compensated absences	(8,461)	526	546
Total Tax Impact of Temporary Differences in Recognition of Income and Expenses	(656,807)	103,646	127,984
Tax impact of balance sheet recognition of unrealized security gains (losses)	(101,213)	470,232	85,977
Total Change to Deferred Tax	$ (758,020)	$ 573,878	$ 213,961

The reasons for the differences between the statutory, or expected, Federal tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31, 2017	2016	2015
Statutory rates	34%	34%	34%
Computed tax expense	$ 3,450,537	$ 3,198,664	$ 3,087,940
Increase (Decrease) due to			
Tax-exempt income	(340,043)	(300,998)	(329,573)
1x charge for deferred tax adjustment due to tax reform	815,974	-	-
Other, net	91,548	(11,695)	(4,086)
	$ 4,018,016	$ 2,885,971	$ 2,754,281

As a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, the Bank re-measured its deferred tax assets and liabilities based upon the newly enacted corporate statutory federal income tax rate of 21%. As a result, the Company recognized a net deferred tax expense of $815,974, as described in the rate reconciliation table above.

Federal income tax returns are subject to examination for all years which are not barred by the statute of limitations. The Company underwent an IRS federal income tax examination during 2017 for tax years 2015 and 2014. No adjustments were required by this examination. With few exceptions, the Company is no longer subject to federal income tax examinations by tax authorities for years before 2016.

10 Commitments and Contingent Liabilities

At December 31, 2017 and 2016, commitments under standby letters of credit aggregated $625,641 and $515,975, respectively. These commitments are an integral part of the banking business and the Bank does not anticipate any losses as a result of these commitments. These commitments are not reflected in the consolidated financial statements (see Note 14). During the years ended December 31, 2017 and 2016, the Bank incurred operating lease expenses amounting to $54,024 and $51,054 for banking offices and $53,764 and $59,514 for bank equipment, respectively.

Minimum lease payment at December 31, 2017 under noncancelable real property operating lease commitments for the succeeding year is $70,989.

The Bank has options to renew the leased properties. The additional lease expense resulting from the future exercising of these options is not included in the totals listed herein.

The Bank has entered into several agreements to service and maintain equipment, including the Bank's core processing system, printers, copiers, mailing equipment, and software, such as Internet Banking services, and lending software. The amount of payments can be adjusted annually. The terms based on current rates are as follows:

	Building	Equipment
2018	$ 70,989	$ 1,407,947
2019	65,256	1,024,556
2020	61,356	975,013
2021	10,464	872,005
2022	-	870,276
2023	-	330,276
	$ 208,065	$ 5,480,073

The Bank is under contract through June of 2022 with Digital Insight to provide internet banking services and Fidelity Information Services (FIS) to provide core processing services. Should the Bank exercise early termination rights, the Bank would be required to pay fees of approximately $2,160,000 and $1,604,553, respectively, to Digital Insight and FIS. The Bank is also under contract with GCR Company to provide fiber optic communication services to the Bank through December of 2019. Should the Bank exercise early termination rights under this contract, the Bank would be required to pay a fee of approximately $152,352.

11 Retirement Plan

401(k) Plan

The Bank provides for a retirement program for all qualified employees through a 401(k) plan. The plan offers employees the opportunity to contribute up to 90 percent of their W-2 compensation, less incentive pay, to the plan, with total contributions limited to the $18,000 IRS limit in 2017. The plan also has a proportional matching feature by the Bank, whereby the Bank will match 100 percent of the first five percent of salary.

During 2017 and 2016, Bank payments through matching contributions totaled $315,511 and $308,240 while employees' salary reduction amounted to $537,407 and $482,672, respectively. The cost of administration for the 401(k) plan paid in 2017 and 2016 amounted to $13,318 and $14,888, which includes audit fees of $6,250 and $6,500, respectively.

Supplemental Retirement Plan

The Bank has adopted a non-tax qualified retirement plan for certain officers to supplement their retirement benefits. The plan is funded through split dollar insurance instruments that provide retirement as well as a death benefit. The plan was funded by a single premium payment of $3,536,000 in 2002. Additional premium payments of $120,000 and $4,500,000 were made during 2008 and 2011, respectively, to further fund this plan. The premium payment is classified as cash value of life insurance; therefore, investment risk is present. To ensure the safety of this investment, the insurance carriers holding the prepaid premiums are to be rated no lower than AA by Standard & Poor's. The Bank has contracted with an outside agency to administer and monitor the plan. The Company recorded income in the amount of $243,748 and $259,104, respectively, and expenses of $376,695 and $748,500, respectively, during 2017 and 2016 under this plan.

The Bank paid out $135,743 and $145,779 in retirement benefits during 2017 and 2016, respectively, and transferred $594,696 and $472,922 from the Bank's existing liability into a grantor trust for certain executive officers during 2017 and 2016, respectively.

Changes to Unfunded Benefit Obligation

	2017	2016
Beginning Liability Balance	**$ 1,200,909**	$ 1,067,588
Plan expenses	**396,562**	752,022
Payments to grantor trust	**(594,696)**	(472,922)
Benefits paid to retirees	**(135,743)**	(145,779)
Ending Benefit Obligation	**$ 867,032**	$ 1,200,909

Post-Retirement Health Insurance Plan

During 2011, the Board of Directors voted to implement a Post-Retirement Health Insurance Plan (PRHP). This plan is designed to provide a tax-free benefit that can be used during the retired or disabled life of a bank employee and/or spouse to pay for policies of health or long-term care insurance. All full-time employees of the Company may become eligible to participate. The total amount of the benefit is targeted to be equal to 2% of salary at Retirement or Disability multiplied by years of service. Employees must reach age 62 before retirement with a minimum of 10 to 20 years of service, or age 55 with 25 years of service, for benefit eligibility. The minimum years of service is dependent on employment class status at the time of retirement or disability.

The benefits can be used at any time during the lifetime of the participant and/or spouse following retirement or disability with a maximum of 15% per year cumulative. The Bank must pay the policy premiums directly to the policy provider.

This plan was funded by a pool of money that will result from the financial performance of a group of life insurance policies purchased by the Bank by the payment of a single premium insuring the lives of the Bank's higher-paid employees. The plan was funded by a single premium payment of $1,500,000 in October of 2011. All of the income generated from the annual increase in the cash values of these policies, minus an opportunity cost, plus an additional investment by the Bank will be expensed to the benefit liability. This structure is very similar to the current indexed retirement benefit the Bank currently provides to some key executives. The money paid as benefits will reduce benefit liability. The targeted amount of the benefit is not guaranteed, is subject to change by the Board of the Bank, and is limited to the financial performance of the pool.

Due to changes brought forth by the Affordable Care Act, the PRHP was cancelled and replaced by a new benefit in 2016. The five retirees covered by the PRHP at the time it was cancelled will be paid per the original benefit agreement. As of December 31, 2017, the Company had fully funded the benefits for these five retirees with a liability balance of $97,530. Total benefits of $19,899 and $20,198 were paid in 2017 and 2016, respectively, under this plan.

A new plan, the Post-Retirement Service Award (PRSA), was adopted by the Board of Directors to take the place of the PRHP. All full-time employees may become eligible to receive the PRSA upon retirement from the Bank. Retirement is defined as termination of employment after attainment of age 62 with a minimum of 20 years of service or age 55 with a minimum of 25 years of service. There is no disability benefit under this plan. The targeted benefit amount will be equal to a 40% percent of final salary at the time of retirement, payable in a lump sum within thirty days after retirement. By reallocating the resources previously dedicated to the PRHP to this new benefit, no additional expenses were incurred beyond what was already budgeted for the original PRHP. A total of $137,670 was reallocated from the PRHP liability to the new PRSA liability in 2016. The Company expensed $54,389 to the plan and paid out a total of $59,842 in benefits under the plan during 2017.

Post-Retirement Health Benefit

	2017	**2016**
Beginning liability balance	**$ 117,429**	$ 232,145
Reallocation to Service Award	**-**	(137,670)
Plan expenses	**-**	43,152
Benefits paid	**(19,899)**	(20,198)
Ending benefit obligation	**$ 97,530**	$ 117,429

Post-Retirement Service Award

	2017	**2016**
Beginning liability balance	**$ 102,231**	$ -
Transfer from PR Health Plan	**-**	137,670
Plan expenses	**54,389**	7,636
Benefits paid	**(59,842)**	(43,075)
Ending benefit obligation	**$ 96,778**	$ 102,231

Bank-Owned Life Insurance

In 2006, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (ETIF) consensus on *Issue 06-4, Accounting for Deferred Compensation and Post-Retirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*. The rules require that when an employer provides an insurance benefit post-retirement, the employer must recognize a liability during the employee's working years. The amount of the liability must be equal to the present value of the cost of the post-retirement benefit and must be recognized over the employee's working years.

Upon retirement, the Bank will begin reversing the liability into income until the earlier of the participant's death or projected mortality date. The Bank elected to apply "Approach A" under this standard to value the liability. Under this approach, the present value of the annual cost of insurance required to keep the policy in force during the post-retirement years was used.

Split Dollar Post-Retirement Benefit

	2017	2016
Beginning Liability Balance	**$ 407,528**	$ 411,050
Plan Expenses	**(19,867)**	(3,522)
Ending Benefit Obligation	**$ 387,661**	$ 407,528

12 Incentive Compensation

The Bank offers its employees incentive compensation and/or bonus arrangements based on the Bank's annual financial performance and other criteria such as length of service and officer classification. Incentive compensation totaled $453,498, $451,289, and $417,358 for the years ended December 31, 2017, 2016, and 2015, respectively.

13 Other Expenses

The principal components of other expenses shown in the consolidated statements of comprehensive income are:

	2017	2016	2015
ATM expense	**$ 1,031,565**	$ 1,417,134	$ 1,123,283
FDIC insurance premiums	**173,953**	250,775	277,963
Franchise taxes	**543,193**	491,770	441,260
Postage and printing	**311,098**	291,071	258,310
Other asset expense	**818,552**	356,064	588,483
Internet banking expense	**524,055**	490,847	467,941
Telephone and data	**326,427**	281,482	217,504
Audit fees	**181,500**	181,500	181,179
Director fees	**215,352**	195,997	202,218
Stationery and supplies	**125,428**	121,456	188,356
Information systems	**536,622**	526,269	459,199
Other*	**1,786,197**	1,443,455	1,334,413
Total Other Expenses	**$ 6,573,942**	$ 6,047,820	$ 5,740,109

*Other expenses include no items in excess of 1% of total revenue.

14 Off-Balance-Sheet Instruments/Credit Concentrations

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. Unless noted otherwise, the Bank does not require collateral or other security to support these financial instruments. 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 facilitate the transaction of business between these parties where the exact financial amount of the transaction is unknown but a limit can be projected. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. There is a fee charged for this service.

As of December 31, 2017 and 2016, the Bank had the following off-balance-sheet commitments:

	December 31, 2017	December 31, 2016
	(in thousands)	
Commitments secured by 1-4 family residential (Home Equity Lines)	**$ 25,971**	$ 26,515
Standby letters of credit	**626**	516
Credit card lines of credit	**5,219**	5,058
Commitments to fund commercial real estate, construction, and land development loans		
Secured by real estate		
1-4 Family residential construction loan commitments	**11,106**	11,075
Commercial real estate, other construction/development commitments	**1,110**	2,007
Not secured by real estate	**1,909**	1,990
Commercial and industrial loans	**14,350**	13,197
Other unused commitments	**9,558**	6,719
Total	**$ 69,849**	$ 67,077

The Bank also has a $30,000,000 letter of credit issued on its behalf by the Federal Home Loan Bank of Atlanta. This letter of credit is pledged to the Treasury Board of Virginia to secure public unit deposits held at the Bank.

For related information concerning contract commitments not reflected in the balance sheet, refer to Note 10.

Concentrations

The Bank has no concentrations of credit concerning an individual borrower or economic segment. The Bank generally confines its lending activities to within the state and more specifically its local geographic areas. The concentrations of credit by loan type are set forth in Note 4. Regulatory requirements limit the Bank's aggregate loans to any one borrower to a level of approximately $10.2 million.

15 Regulatory Matters

Investments in state and municipal securities, as well as loans to municipalities, involve governmental entities within and outside the Bank's market.

The Bank may, at times, have cash and cash equivalents on deposit with financial institutions which exceed the FDIC insured limitation of $250,000.

16 Capital

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain result in mandatory actions and, in some cases, additional discretionary actions by regulators. These actions may have a material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory reporting requirements. The capital amounts and classification under the prompt corrective 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 (set forth in the table below) of Total Capital, Tier 1 Capital, and Tier 1 Common Equity Capital to risk-weighted assets, and of Tier 1 Leverage Capital to average assets, as all those terms are defined in the regulations.

As of December 31, 2017 and 2016, the Bank was categorized as "well capitalized" as defined by applicable regulations. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 Common Equity, and Tier 1 Leverage ratios as set forth in the table below.

BASEL III regulatory capital guidance established the capital conservation buffer phase-in beginning January 1, 2016. The capital conservation buffer requirement, which is 1.25% for 2017, will be gradually phased in until it is fully implemented at 2.5% in 2019. The Bank must maintain the required capital conservation buffer to avoid restrictions on payments of dividends, discretionary bonuses, and capital repurchases. At December 31, 2017, the Bank met the capital conservation buffer requirement, and there are no conditions or events since that date that management believes have changed the Bank's category. The Bank maintained the following capital ratios as of December 31:

			Regulatory Minimum with Capital Conservation Buffer		**Capital Required to be Considered Well-Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2017						
Total Capital *to Risk-Weighted Assets*	**$ 71,971**	**17.03%**	**$ 39,066**	**9.25%**	**$ 42,234**	**10.00%**
Tier 1 Capital *to Risk-Weighted Assets*	**67,238**	**15.92%**	**30,620**	**7.25%**	**33,787**	**8.00%**
Tier 1 Common Equity *to Risk-Weighted Assets*	**67,238**	**15.92%**	**24,284**	**5.75%**	**27,452**	**6.50%**
Tier 1 Capital to Avg. Assets *to Average Assets*	**67,238**	**11.61%**	**23,167**	**4.00%**	**28,959**	**5.00%**
December 31, 2016						
Total Capital *to Risk-Weighted Assets*	68,373	17.81%	33,120	8.625%	38,400	10.00%
Tier 1 Capital *to Risk-Weighted Assets*	63,694	16.59%	25,440	6.625%	30,720	8.00%
Tier 1 Common Equity *to Risk-Weighted Assets*	63,694	16.59%	19,680	5.125%	24,960	6.50%
Tier 1 Capital to Avg. Assets *to Average Assets*	63,694	11.38%	22,390	4.000%	27,988	5.00%

The Company does not have a dividend reinvestment plan.

The Company has a stock buyback program, allowing management to repurchase up to 50,000 annually. Through this repurchase program, the Company bought back 13,094 and 8,799 shares of common stock in 2017 and 2016, respectively.

For 2017, the Company also paid outside directors in both cash and common stock. A total of 5,435 shares were issued to the Company's 10 outside directors (515 shares to 9 directors and 800 shares to the Chairman of the Board). The result was an increase in paid-in capital of $95,054. These shares are issued as restricted shares and are fully vested 12 months from the date of issue; however, directors receive dividends for these shares and can vote these shares during the vesting period. Upon issuance, the shares are legally outstanding and are included in total shares outstanding. The resulting impact on capital when these shares are issued and upon vesting is shown in the Consolidated Statements of Changes in Stockholders' Equity on Page 4.

The Company is authorized to issue 200,000 shares of preferred stock with a par value of $25.00. To date, no preferred stock has been issued by the Company. Currently, management has no plans to utilize this second class of stock.

17 Disclosures About Fair Value of Financial Instruments

Fair Value Measurements and Disclosures, FASB ASC Topic 820 ("ASC 820") provides a framework for measuring and disclosing fair value under generally accepted accounting principles (GAAP). ASC 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis, such as with available-for-sale investment securities, or on a nonrecurring basis, as with impaired loans.

Fair Value Hierarchy

ASC 820 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 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: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U. S. Treasury, other U. S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Assets and Liabilities Recorded as Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Loans held for sale	$ -	$ 1,664,625	$ -	$ 1,664,625
Investment Securities, Available-for-Sale				
U. S. Government agencies	1,321,809	-	-	1,321,809
Mortgage-backed securities	-	2,390,540	-	2,390,540
Tax exempt municipal securities	-	30,335,130	-	30,335,130
Taxable municipal securities	-	452,146	-	452,146
CRA Mutual Fund	697,094	-	-	697,094
Total Assets at Fair Value	$ 2,018,903	$ 34,842,441	$ -	$ 36,861,344

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Loans held for sale	$ -	$ 335,924	$ -	$ 335,924
Investment Securities, Available-for-Sale				
U. S. Government agencies	1,581,156	-	-	1,581,156
Mortgage-backed securities	-	1,905,232	-	1,905,232
Tax exempt municipal securities	-	28,680,539	-	28,680,539
Taxable municipal securities	-	475,173	-	475,173
CRA Mutual Fund	683,504	-	-	683,504
Total Assets at Fair Value	$ 2,264,660	$ 31,396,868	$ -	$ 33,661,528

Investment Securities Available-for-Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, when 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, U. S. Treasury securities that are traded by dealers or brokers in active or over-the-counter markets, and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Assets and Liabilities Recorded as Fair Value on a Nonrecurring Basis

The Company may be required from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U. S. Generally Accepted Accounting Principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Impaired Loans, Net of Allowance				
Construction	$ -	$ -	$ -	$ -
Residential real estate	-	978	-	978
Residential real estate - home equity loans	-	430	-	430
Multifamily real estate	-	-	-	-
Farmland	-	390	-	390
Nonfarm, nonresidential real estate	-	1,551	-	1,551
Commercial	-	-	-	-
Consumer	-	-	-	-
Total Impaired Loans	-	3,349	-	3,349
Other real estate owned	-	3,428	-	3,428
Total Assets at Fair Value	$ -	$ 6,777	$ -	$ 6,777

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Impaired Loans, Net of Allowance				
Construction	$ -	$ -	$ -	$ -
Residential real estate	-	2,107	-	2,107
Residential real estate - home equity loans	-	302	-	302
Multifamily real estate	-	-	-	-
Farmland	-	524	-	524
Nonfarm, nonresidential real estate	-	1,352	-	1,352
Commercial	-	1,003	-	1,003
Consumer	-	2	-	2
Total Impaired Loans	-	5,290	-	5,290
Other real estate owned	-	3,799	-	3,799
Total Assets at Fair Value	$ -	$ 9,089	$ -	$ 9,089

Transfers into Level 3 are typically related to management's decision to adjust third party appraisals. There were no such adjustments in 2017 or 2016.

The Company has no liabilities carried at fair value or measured at fair value on a recurring or nonrecurring basis.

Other Real Estate Owned

Foreclosed assets are recorded at the lower of investment in the loan or fair value at the time of acquisition. During the holding phase, foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based on independent observable market prices or appraised values of the collateral, which the Company considers to be Level 2 inputs. When the 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 Company records the foreclosed asset as nonrecurring Level 3.

Loans

The Company does not record loans at fair value on a recurring basis; however, loans deemed to be impaired may have a loan loss reserve allowance. Impaired loans are those where it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan. Once a loan is identified as impaired, management measures impairment in accordance with the guidance on Receivables. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2017 and 2016, substantially all impaired loans were evaluated based upon the fair value of collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the 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 Company records the loan as nonrecurring Level 3.

18 Quantitative and Qualitative Disclosures About Market Risk

The Company does not currently utilize derivatives as part of its investment strategy.

19 New Accounting Pronouncements

Recently Issued Accounting Standards

ASU 2016-01 — Applicable to entities that hold financial assets or owe financial liabilities:
In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for *fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.* The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2016-02 — Applicable to lessee and lessor entities:
In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for *fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.* Early adoption is permitted.

The Bank expects to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for any qualifying lessees. The Bank will evaluate our existing leasing contracts and activities. The amendments will be effective January 1, 2019. Early adoption is permitted. The Bank does not expect a material change to the timing of expense recognition.

ASU 2017-07 — Applicable to entities that offer defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under ASC 715:
In March 2017, the FASB amended the requirements in the Compensation—Retirement Benefits Topic of the Accounting Standards Codification related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments will be effective for the Company for *annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-08 — Applicable to entities that hold investments in callable debt securities held at a premium:
In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for *annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-09 — Applicable to entities with stock compensation plans:
In May 2017, the FASB amended the requirements in the Compensation—Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

20 Subsequent Events

Branch Application

On February 8, 2018, the Bank applied for permission to establish a branch office in Emporia, VA. The application was approved by the Federal Reserve Bank March 13, 2018.

FHLB Letter of Credit

On February 14, 2018 the Bank received approval from the Federal Home Loan bank to increase an existing letter of credit, pledged to the Treasury Board of Virginia to secure public unit deposits held at the Bank, from $30 million to $35 million.

The Company has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 20, 2018, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined no other material subsequent events, except those mentioned above, have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

21 Parent Company

Financial statements for Benchmark Bankshares, Inc. (not consolidated) are herein presented. Since the parent company has not entered into any substantial transactions, only the parent company's statements are presented.

Benchmark Bankshares, Inc.
(Parent Company Only)

Balance Sheets

Years Ended December 31, 2017 and 2016

	2017	**2016**
Assets		
Cash	**$ 1,712,256**	$ 1,391,810
Investment in subsidiary	**67,317,113**	63,558,583
Total Assets	**$ 69,029,369**	$ 64,950,393
Liabilities and Stockholders' Equity		
Liabilities		
Dividends payable	**$ 1,186,378**	$ 1,084,823
Stockholders' Equity		
Common stock[(1)(2)]	**1,082,073**	1,083,241
Capital surplus	**4,714,536**	4,637,433
Retained earnings	**61,966,865**	58,280,208
Unrealized securities gain (loss)	**79,517**	(135,312)
Total Stockholders' Equity	**67,842,991**	63,865,570
Total Liabilities and Stockholders' Equity	**$ 69,029,369**	$ 64,950,393

(1)Common Stock, $0.21 par value and 8,000,000 shares authorized. 5,158,165 shares issued and outstanding as of December 31, 2017; 5,165,824 shares issued and outstanding as of December 31, 2016.

(2)5,435 of the shares outstanding in 2017 are restricted shares that vest in 2018. 7,537 of the shares outstanding in 2016 were restricted shares that vested in 2017.

Benchmark Bankshares, Inc.
(Parent Company Only)

Statements of Comprehensive Income

	Years Ended December 31, 2017	2016	2015
Income			
Miscellaneous income	$ 350	$ -	$ -
Dividends from subsidiary	2,683,600	2,135,000	1,930,000
Total Income	2,683,950	2,135,000	1,930,000
Expenses			
Director fees	95,052	79,397	71,968
Supplies, printing, and postage	24,352	22,133	7,261
Miscellaneous	-	2,200	-
Total Expenses	119,404	103,730	79,229
Income before Equity in Undistributed Income of Subsidiary	2,564,546	2,031,270	1,850,771
Equity in Income of Subsidiary (includes tax benefit of parent company operating loss)	3,566,075	4,490,592	4,477,124
Net Income	6,130,621	6,521,862	6,327,895
Other Comprehensive Income, Net of Tax			
Unrealized gains (losses) on securities during period	164,049	(773,060)	(46,355)
(Gain) loss included in net income	(70,284)	(139,741)	(120,543)
Reclassification due to tax reform impact on AFS securities	(19,504)	-	-
Other Comprehensive Income (Loss), Net of Tax	74,261	(912,801)	(166,898)
Comprehensive Income	$ 6,204,882	$ 5,609,061	$ 6,160,997

Benchmark Bankshares, Inc.
(Parent Company Only)

Statements of Changes in Stockholders' Equity

Years Ended December 31, 2017, 2016, and 2015

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Securities Gain (Loss) Net of Tax	Total
Balance - December 31, 2014	5,158,650.000	$ 1,082,583	$ 4,433,559	$ 49,615,300	$ 944,387	$ 56,075,829
Net Income						
Parent Company				(51,867)		(51,867)
Subsidiary (Benchmark Community Bank)				6,379,762		6,379,762
Sale of stock	8,000.000	1,771	72,629	(5,739)		68,661
Stock issuance - directors' annual retainer	6,180.000	643	71,325			71,968
Stock repurchases	(5,744.000)	(1,206)	(7,180)	(54,336)		(62,722)
Adjustment for expired stock options				(6,039)		(6,039)
Semi-Annual Cash Dividend Declared						
June 18, 2015; $0.18 per share				(930,663)		(930,663)
December 17, 2015; $0.19 per share				(981,746)		(981,746)
Other Comprehensive Income (Net of Tax)						
Unrealized security losses					(46,355)	(46,355)
Less: Reclassification adjustment for loss on sale					(120,543)	(120,543)
Balance - December 31, 2015	5,167,086.000	1,083,791	4,570,333	53,964,672	777,489	60,396,285
Net Income						
Parent Company				(71,609)		(71,609)
Subsidiary (Benchmark Community Bank)				6,593,471		6,593,471
Stock issuance - directors' annual retainer	7,537.000		79,397			79,397
Recognition of vested shares - directors' annual retainer		1,298	(1,298)			-
Stock repurchases	(8,799.000)	(1,848)	(10,999)	(88,330)		(101,177)
Semi-Annual Cash Dividend Declared						
June 16, 2016; $0.20 per share				(1,033,173)		(1,033,173)
December 15, 2016; $0.21 per share				(1,084,823)		(1,084,823)
Other Comprehensive Income (Net of Tax)						
Unrealized security losses					(773,060)	(773,060)
Less: Reclassification adjustment for loss on sale					(139,741)	(139,741)
Balance - December 31, 2016	5,165,824.000	1,083,241	4,637,433	58,280,208	(135,312)	63,865,570
Net Income						
Parent Company				(77,176)		(77,176)
Subsidiary (Benchmark Community Bank)				6,207,797		6,207,797
Stock issuance - directors' annual retainer	5,435.000		95,054			95,054
Recognition of vested shares - directors' annual retainer		1,583	(1,583)			-
Stock repurchases	(13,094.000)	(2,751)	(16,368)	(193,749)		(212,868)
Semi-Annual Cash Dividend Declared						
June 15, 2017; $0.21 per share				(1,083,340)		(1,083,340)
December 21, 2017; $0.23 per share				(1,186,379)		(1,186,379)
Other Comprehensive Income (Net of Tax)						
Unrealized security gains					164,049	164,049
One-time adjustment due to change in tax law				19,504	(19,504)	-
Less: Reclassification adjustment for gain on sale				-	70,284	70,284
Balance - December 31, 2016	5,158,165.000	$ 1,082,073	$ 4,714,536	$ 61,966,865	$ 79,517	$ 67,842,991

Benchmark Bankshares, Inc.
(Parent Company Only)

Statements of Cash Flows

	Years Ended December 31,		
	2017	**2016**	**2015**
Cash Flows from Operating Activities			
Net income	**$ 6,130,621**	$ 6,521,862	$ 6,327,895
Equity based compensation - director fees	**95,052**	79,397	71,968
Tax benefit of operating loss paid by subsidiary	**41,879**	32,122	27,360
Net Cash Provided by Operating Activities	**6,267,552**	6,633,381	6,427,223
Cash Flows from Investing Activities			
Undistributed earnings of subsidiary	**(3,566,075)**	(4,490,592)	(4,477,124)
Net Cash Used in Investing Activities	**(3,566,075)**	(4,490,592)	(4,477,124)
Cash Flows from Financing Activities			
Proceeds from sale of common stock	**-**	-	74,400
Purchases of common stock	**(212,867)**	(101,177)	(62,573)
Dividends paid	**(2,168,164)**	(2,014,920)	(1,807,632)
Net Cash Used in Financing Activities	**(2,381,031)**	(2,116,097)	(1,795,805)
Net Increase in Cash	**320,446**	26,692	154,294
Cash - Beginning of Year	**1,391,810**	1,365,118	1,210,824
Cash - End of Year	**$ 1,712,256**	$ 1,391,810	$ 1,365,118

Management's Representations Regarding Responsibilities

Financial Statement Disclosure

Statement of Management's Responsibilities

The management of Benchmark Community Bank (the "Institution") is responsible for preparing the Institution's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income ("Call Report"); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of Benchmark Community Bank (the "Institution") has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2017.

Management's Assessment of Internal Control over Financial Reporting

Benchmark Community Bank's (the "Institution") internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, Consolidated Reports of Condition and Income ("Call Report"). The Institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Institution are being made only in accordance with authorizations of management and directors of the Institution; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income ("Call Report"), as of December 31, 2017, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based upon its assessment, management has concluded that, as of December 31, 2017, the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income ("Call Report"), is effective based on the criteria established in *Internal Control—Integrated Framework*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income ("Call Report"), as of December 31, 2017, has been audited by Creedle, Jones & Alga, P.C., an independent public accounting firm, as stated in their report dated March 20, 2018.

Benchmark Bankshares, Inc.

Jay A. Stafford Chief Executive Officer	March 20, 2018 Date
E. Neil Burke Treasurer	March 20, 2018 Date

Benchmark Community Bank

Jay A. Stafford Chief Executive Officer	March 20, 2018 Date
E. Neil Burke Chief Financial Officer	March 20, 2018 Date

EXHIBIT 2a

ORGANIZATIONAL CHART – DECEMBER 2017

BENCHMARK BANKSHARES, INC
LEI 549300JJ8BTDDILW4H12
KENBRIDGE, LUNENBURG COUNTY, VIRGINIA
INCORPORATED IN VIRGINIA

BENCHMARK COMMUNITY BANK
NO LEI
KENBRIDGE, LUNENBURG COUNTY, VIRGINIA
INCORPORATED IN VIRGINIA
(WHOLLY-OWNED SUBSIDIARY 100%)

Bankers Title, LLC
No LEI
Richmond, Va.
Operating in Virginia
Limited Partner
Not Reportable on Y-10

Results: A list of branches for your depository institution: BENCHMARK COMMUNITY BANK (ID_RSSD: 94522).
This depository institution is held by BENCHMARK BANKSHARES, INC. (1141441) of KENBRIDGE, VA.
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	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	Head Office	Head Office ID_RSSD *
OK	Full Service (Head Of	94522	BENCHMARK COMMUNITY BANK	204 S BROAD STREET	KENBRIDGE	VA	23944	LUNENBURG	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	4950804	HENDERSON BRANCH	1775 GRAHAM AVE SUITE 204	HENDERSON	NC	27536	VANCE	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	4763107	WAKE FOREST BRANCH	12335 WAKE UNION CHURCH ROAD, SUITE 206	WAKE FOREST	NC	27587	WAKE	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	3177891	BLACKSTONE BRANCH	400 CHURCH ST	BLACKSTONE	VA	23824	NOTTOWAY	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	2882013	CHASE CITY BRANCH	845 EAST SECOND ST	CHASE CITY	VA	23924	MECKLENBURG	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	2841579	CLARKSVILLE BRANCH	133 COLLEGE ST	CLARKSVILLE	VA	23927	MECKLENBURG	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	2468202	CREWE BRANCH	1500 W VIRGINIA AVE	CREWE	VA	23930	NOTTOWAY	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	1400193	FARMVILLE DOWNTOWN BRANCH	203 E THIRD STREET	FARMVILLE	VA	23901	PRINCE EDWARD	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	2029742	FARMVILLE MAIN STREET BRANCH	1577 S MAIN STREET	FARMVILLE	VA	23901	PRINCE EDWARD	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	3921209	HALIFAX BRANCH	290 SOUTH MAIN STREET	HALIFAX	VA	24558	HALIFAX	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	2841588	LAWRENCEVILLE BRANCH	220 W FIFTH AVE	LAWRENCEVILLE	VA	23868	BRUNSWICK	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	3494646	SOUTH BOSTON BRANCH	1135 HUELL MATTHEWS HIGHWAY	SOUTH BOSTON	VA	24592	HALIFAX	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	1401248	SOUTH HILL BRANCH	905 NORTH MECKLENBURG AVENUE	SOUTH HILL	VA	23970	MECKLENBURG	UNITED STATES	BENCHMARK COMMUNITY BANK	94522
OK	Full Service	169523	VICTORIA BRANCH	1910 MAIN STREET	VICTORIA	VA	23974	LUNENBURG	UNITED STATES	BENCHMARK COMMUNITY BANK	94522

Exhibit 3

Benchmark Bankshares Inc.
Fiscal Year Ending December 31, 2017

(1) NAME, CITY, STATE, COUNTRY	(2) PRINCIPAL OCCUPATION IF OTHER THAN WITH HOLDING CO.	(3a) TITLE & POSITION WITH HOLDING COMPANY	(3b) TITLE & POSITION WITH SUBSIDIARY	(3c) TITLE & POSITION WITH OTHER BUSINESSESS	(4a) BHC % SHARES	(4b) % OF VOTING SHARES	Number of Shares	(4c) OTHER BUSINESSES AND % OF OWNERSHIP
David K. Biggs Wake Forest, NC 27587 USA	Construction	Director	None	Owner Biggs Construction Kenbridge, VA	0.60%	NONE	30,939	Biggs Construction Co., Inc. 100% North Hill Properties, LLC 25% Weaver's Lowground, LLC 25% North Hill Properties II, LLC 25% Sea Toy, LLC 25% Buck Water Plantation, LLC 25% Brocklyn, LLC 44%
Ernest R. Lail Kenbridge, VA 23944 USA	Retired Businessman	Director/Chairman	None	N/A	0.22%	NONE	11,173	NONE
Earl H. Carter, Jr. Farmville, VA 23901 USA	Heavy Equipment Dealer	Director	None	President/General Manager Taylor-Forbes Equipment Co Farmville, VA	0.62%	NONE	31,869	Taylor-Forbes Equipment Co Inc 72% 1102 East Third Street LLC 100%
Mary Jane Elkins South Hill, VA 23970 USA	College Administrator	Director/Vice Chairman	None	Dir. Of Institutional Advancement Southside VA Community College Alberta, VA	0.31%	NONE	15,859	NONE
Mark F. Bragg South Hill, VA 23970 USA	Medical Supplies	Director/Secretary	None	Owner Atlantic Medical, Inc.	0.59%	NONE	30,653	Crestview Farms 50% Chase Hill Inc 100% Professional Wear Inc 100%
Charles F. Simmons Clarksville, VA 23927 USA	Realty	Director	None	Owner Simmons and Associates Realty Clarksville, VA	0.13%	NONE	6,569	Simmons and Associates Realty 100% Simmons Contruction Co 100% Charles F. Simmons/Terraces Rentals 100%
Elizabeth M. Winn Blackstone, VA 23824 USA	Furniture Dealer	Director	None	Owner Winn Blackstone Properties LLC Blackstone, VA	0.13%	NONE	6,459	Winn Blackstone Properties LLC 50% Blackstone Emporium Inc 50%
Calvin S. Spencer Kenbridge, VA 23844 USA	Attorney	Director	None	Attorney Harris, Matthews & Crowder, P.C. Kenbridge, VA	0.10%	NONE	5,023	NONE

Exhibit 3

(1) NAME, CITY, STATE, COUNTRY	(2) PRINCIPAL OCCUPATION IF OTHER THAN WITH HOLDING CO.	(3a) TITLE & POSITION WITH HOLDING COMPANY	(3b) TITLE & POSITION WITH SUBSIDIARY	(3c) TITLE & POSITION WITH OTHER BUSINESSESS	(4a) BHC % SHARES	(4b) % OF VOTING SHARES	Number of Shares	(4c) OTHER BUSINESSES AND % OF OWNERSHIP
Mark D. Southall Farmville, VA 23901 USA	Electrician	Director	None	Owner Creative Electrical Contractors Inc Farmville, VA	0.11%	NONE	5,863	Creative Electrical Contractors Inc 100%
Al Roberts Alberta, VA 23821 USA	College Administrator	Director	None	President Southside Virginia Community College Alberta, VA	0.08%	NONE	4,344	NONE
Jay A. Stafford Lunenburg, VA 23952 USA	Banker	Director/President & CEO	CEO/President (Benchmark Community Bank)	N/A	0.43%	NONE	22,300	NONE
E. Neil Burke South Hill, VA 23970 USA	Banker	Cashier/Assistant Secretary	EVP/CFO (Benchmark Community Bank)	N/A	0.16%	NONE	8,215	NONE
Leanne R. Emert Farmville, VA 23901 USA	Banker	N/A	EVP/Retail Banking (Benchmark Community Bank)	N/A	0.03%	NONE	1,313	Emert Enterprises LLC 100% D and M Recycling LLC 50% Poor Boys Trucking LLC 50%

*No principal shareholder