**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, Susan A. Barber
Name of the Holding Company Director and Official

President
Title of the Holding Company Director and Official

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

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

Susan A. Barber
Signature of Holding Company Director and Official

2/15/19
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, 2018**
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Community Bankshares, Inc.
Legal Title of Holding Company

PO Box 988
(Mailing Address of the Holding Company) Street / P.O. Box

| Parkersburg | WV | 26101 |
|---|---|---|
| City | State | Zip Code |

631 Juliana Street, Parkersburg, WV 26101
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Lorie A. Webb | Vice President |
|---|---|
| Name | Title |

304-420-5549
Area Code / Phone Number / Extension

304-424-9459
Area Code / FAX Number

lwebb@communitybankpkbg.com
E-mail Address

www.communitybankpkbg.com
Address (URL) for the Holding Company's web page

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

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

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

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

**COMMUNITY BANKSHARES, INC.**
**PARKERSBURG, WV**
**Form FR Y-6**

**December 31, 2018**

| | |
|---|---|
| ITEM 1 | Annual Report to Shareholders |
| ITEM 2. | Organization Chart |
| ITEM 3. | Securities Holders |
| ITEM 4. | Insiders |

**COMMUNITY BANKSHARES, INC.**
**Form FR Y-6**

**ITEM 2.a.**
**Organizational Chart of Holding Company Ownership**

**December 31, 2018**

COMMUNITY BANKSHARES, INC.
NO LEI
PARKERSBURG, WV
*Incorporated in WV*

| 100 % OWNERSHIP | 100 % OWNERSHIP |
|---|---|
| COMMUNITY BANK OF PARKERSBURG<br>549300RMW817W08PUN16<br>PARKERSBURG, WV<br>Incorporated in WV | COMMUNITY BANKSHARES STATUTORY TRUST I<br>NO LEI<br>PARKERSBURG, WV<br>Incorporated in WV |

ITEM 2.B. Domestic Branch Listing **Submitted via email on 1/31/2019**

**COMMUNITY BANKSHARES, INC.**
**Form FRY-6**
**ITEM 3: SHAREHOLDERS**

**December 31, 2018**

**ITEM 3.(1)** Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of year end.

| (1)(a) NAME/CITY/STATE | (1)(b) Citizenship | (1)(c) Number and % of each class of voting securities | | |
|---|---|---|---|---|
| Alfred or Connie Phillips<br>St. Petersburg, FL | USA | 26,240 | Common Stock | 15.15% |
| Diana K. Everett<br>Lewisburg, WV | USA | 12,808 | Common Stock | 7.39% |
| Randall E. Snider<br>Parkersburg, WV | USA | 12,921 | Common Stock | 7.46% |

**ITEM 3.(2)** Shareholders not listed in 3.(1) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year.

| (2)(a) NAME/ADDRESS | (2)(b) Citizenship | (2)(c) Number and % of each class of voting securities |
|---|---|---|

None

**COMMUNITY BANKSHARES, INC.**
**Form FRY-6**
**ITEM 4: PRINCIPAL SHAREHOLDERS/EXECUTIVE OFFICERS/DIRECTORS**

**December 31, 2018**

| (1) Name/City/State | (2) Principal Occupation if other than w/BHC | (3)(a) Title & Position with BHC | (3)(b) Title & Position with subsidiaries (include names of subsidiares) | (3)(c) Title & position with other businesses (include names of other businesses) | (4)(a) % of voting shares in BHC | (4)(b) % of voting shares in subsidiaries (include names of subsidiaries) | (4)(c) Names of other companies if 25% or more of voting securities are held (list % of voting securities held) |
|---|---|---|---|---|---|---|---|
| Alfred or Connie Phillips St. Petersburg, FL | N/A | N/A (Principal Shareholder) | N/A | N/A | 15.15% | N/A | N/A |
| Randy L. Brooks Vienna, WV | N/A | Executive Vice President | Executive Vice President Community Bank | N/A | 2.60% | N/A | N/A |
| David R. Hines Vienna, WV | N/A | Sr VP & Cashier | Sr VP & Cashier Community Bank | N/A | 1.21% | N/A | N/A |
| Lorie A. Webb Williamstown, WV | N/A | Vice President | Vice President Community Bank | N/A | 0.01% | N/A | N/A |
| Randall E. Snider Parkersburg, WV | N/A | President & CEO Director | President & CEO Director Community Bank | N/A | 7.46% | N/A | N/A |
| Diana K. Everett Lewisburg, WV | Attorney | Director | Director Community Bank | President-Baileanna Foundation | 7.39% | N/A | Baileanna Foundation-100% |
| Raymond Fanta Vienna, WV | Insurance Agent | Director | Director Community Bank | President-Waters Insurance | 0.35% | N/A | Landfried Fanta Ins- 50% Waters Insurance - 50% |
| Paul C. Hoblitzell III Parkersburg, WV | President Schneider Construction Co. | Director | Director Community Bank | Retired Partner-Camp Hobbyville Ent | 0.96% | N/A | Camp Hobbyville Ent 50% |
| Edward P. McDonough Parkersburg, WV | President McDonough, Eddy, Parsons & Baylous | Director & Chairman | Director & Chairman Community Bank | President- McDonough, Eddy Parsons & Baylous | 0.60% | N/A | McDonough, Eddy, Parsons & Baylous 45% |
| R Joe Weaver Vienna, WV | Doctor of Optometry | Director | Director Community Bank | Owner-Vienna Eye Clinic Partner-U-Store-II Vice President-N-Focus Optical | 1.28% | N/A | Vienna Eye Clinic 100% Weaver Mohr Property Inv -100% |

Item 2.B

Results: A list of branches for your depository institution: COMMUNITY BANK OF PARKERSBURG (ID_RSSD: 901134)
This depository institution is held by COMMUNITY BANKSHARES, INC. (1475144) of PARKERSBURG, WV.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/08/2019.

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

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

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

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

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

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

| Data Action | Effective Date | Branch Service Type | Branch ID_RSSD* | Popular Name | Street Address | City | State | Zip Code | County | Country | FDIC UNINUM* | Office Number* | Head Office | Head Office ID_RSSD* | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OK | | Full Service (Head Office) | 901134 | COMMUNITY BANK OF PARKERSBURG | 611 JULIANA STREET | PARKERSBURG | WV | 26101 | WOOD | UNITED STATES | Not Required | Not Required | COMMUNITY BANK OF PARKERSBURG | 901134 | |
| OK | | Full Service | 2448897 | EMERSON AVENUE BRANCH | 1906 EMERSON AVENUE | PARKERSBURG | WV | 26104 | WOOD | UNITED STATES | Not Required | Not Required | COMMUNITY BANK OF PARKERSBURG | 901134 | |
| OK | | Full Service | 3388601 | SOUTH PARKERSBURG BRANCH | 1620 BLIZZARD DR | PARKERSBURG | WV | 26101 | WOOD | UNITED STATES | Not Required | Not Required | COMMUNITY BANK OF PARKERSBURG | 901134 | |
| OK | | Full Service | 1182044 | VIENNA BRANCH | 1400 GRAND CENTRAL AVENUE | VIENNA | WV | 26105 | WOOD | UNITED STATES | Not Required | Not Required | COMMUNITY BANK OF PARKERSBURG | 901134 | |

Item 1

**COMMUNITY BANKSHARES, INC.**
**AND SUBSIDIARY**
**(An S-Corporation)**

Community Bank®

**www.communitybankpkbg.com**

***Consolidated Financial Report***
***December 31, 2018***

Arnett
Carbis
Toothman llp
CPAs & Advisors

# CONTENTS

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
Community Bankshares, Inc.,
(an S-Corporation) and Subsidiary
Parkersburg, West Virginia

We have audited the accompanying consolidated financial statements of Community Bankshares Inc., (an S-Corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Bankshares, Inc., (an S Corporation) and subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in accordance with the accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP

Charleston, West Virginia
February 5, 2019

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS
## December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 5,421,070 | $ 5,562,369 |
| Federal funds sold | - | 3,914,000 |
| Securities available for sale | 29,956,625 | 31,489,580 |
| Loans, less allowance for loan losses of $1,362,049 and $1,244,157 respectively | 202,608,352 | 189,167,636 |
| Bank premises and equipment, net | 2,950,438 | 2,971,011 |
| Accrued interest receivable | 609,240 | 590,619 |
| Other assets | 3,009,380 | 1,985,464 |
| **Total assets** | $ 244,555,105 | $ 235,680,679 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Deposits: | | |
| Non interest bearing | $ 45,465,418 | $ 49,920,560 |
| Interest bearing | 129,621,703 | 140,537,274 |
| **Total deposits** | 175,087,121 | 190,457,834 |
| Short-term borrowings | 36,407,191 | 17,539,287 |
| Long-term borrowings | 8,029,528 | 3,046,725 |
| Other liabilities | 1,441,686 | 1,326,067 |
| **Total liabilities** | 220,965,526 | 212,369,913 |
| **Shareholders' equity** | | |
| Common stock, $.50 par value, authorized $1,000,000 shares, issued 200,000 shares | 100,000 | 100,000 |
| Capital surplus | 1,207,264 | 1,207,264 |
| Retained earnings | 26,489,277 | 25,851,901 |
| Less cost of shares acquired for the treasury 2018, 26,774; 2017, 26,774 | (3,889,527) | (3,889,527) |
| Accumulated other comprehensive income | (317,435) | 41,128 |
| **Total shareholders' equity** | 23,589,579 | 23,310,766 |
| **Total liabilities and shareholders' equity** | $ 244,555,105 | $ 235,680,679 |

**See Notes to Consolidated Financial Statements**

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME
### For the Years Ended December 31, 2018, 2017, and 2016

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Interest income:** | | | |
| Interest and fees on loans | $ 9,475,171 | $ 9,174,868 | $ 9,131,811 |
| Interest and dividends on securities: | | | |
| Taxable | 864,234 | 866,170 | 883,787 |
| Interest on Federal funds sold | 37,320 | 27,389 | 11,226 |
| **Total interest income** | 10,376,725 | 10,068,427 | 10,026,824 |
| **Interest expense:** | | | |
| Interest expense on deposits | 492,553 | 551,557 | 361,194 |
| Interest on other borrowings | 784,542 | 472,133 | 481,311 |
| **Total interest expense** | 1,277,095 | 1,023,690 | 842,505 |
| **Net interest income** | 9,099,630 | 9,044,737 | 9,184,319 |
| Provision for loan losses | 156,000 | 186,000 | 152,500 |
| **Net interest income after provision for loan losses** | 8,943,630 | 8,858,737 | 9,031,819 |
| **Other income:** | | | |
| Service fees on deposit accounts | 521,110 | 558,994 | 565,160 |
| Gain (loss) on sale of other assets, net | 5,116 | (1,930) | (8,509) |
| Gain on sale of securities | - | - | 147,832 |
| Charge card discounts and fees | 196,682 | 184,779 | 176,940 |
| Other fees and commissions | 1,131,006 | 1,093,257 | 1,128,579 |
| | 1,853,914 | 1,835,100 | 2,010,002 |
| **Other expenses:** | | | |
| Salaries and employee benefits | 3,818,930 | 3,729,533 | 3,579,314 |
| Pension plan expense | 278,487 | 258,182 | 291,388 |
| Net occupancy expense | 474,905 | 453,891 | 449,214 |
| Equipment rentals, depreciation and maintenance | 500,752 | 527,249 | 510,504 |
| Debit card processing | 301,974 | 278,607 | 291,650 |
| Advertising | 352,049 | 413,272 | 267,012 |
| Postage and freight | 84,492 | 94,327 | 91,128 |
| Charge card processing | 225,518 | 191,350 | 186,075 |
| Legal, accounting and consulting | 294,917 | 247,443 | 288,032 |
| Forms and supplies | 102,330 | 105,930 | 106,022 |
| Telephone | 66,586 | 65,207 | 43,147 |
| Insurance | 53,469 | 59,680 | 68,763 |
| Business, occupancy and franchise taxes | 61,285 | 61,581 | 64,705 |
| Other expenses | 1,050,019 | 1,062,931 | 1,029,961 |
| | 7,665,713 | 7,549,183 | 7,266,915 |
| **Net income** | $ 3,131,831 | $ 3,144,654 | $ 3,774,906 |
| **Basic earnings per common share** | $ 18.08 | $ 18.15 | $ 21.79 |

**See Notes to Consolidated Financial Statements**

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## For the Years Ended December 31, 2018, 2017, and 2016

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Net income** | $ 3,131,831 | $ 3,144,654 | $ 3,774,906 |
| Other comprehensive income: | | | |
| Gross unrealized gains (losses) arising during the period | (358,563) | 17,429 | (847,565) |
| Less: Reclassification adjustments for gains (losses) included in net income | - | - | 147,832 |
| Change in net unrealized gains (losses) | (358,563) | 17,429 | (699,733) |
| Other comprehensive (loss) income | (358,563) | 17,429 | (699,733) |
| **Comprehensive income** | $ 2,773,268 | $ 3,162,083 | $ 3,075,173 |

## COMMUNITY BANKSHARES, INC.
## (AN S-CORPORATION) AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
### For the Years Ended December 31, 2018, 2017, and 2016

| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Other Accum-ulated Compre-hensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | $ 100,000 | $ 1,207,264 | $ 24,418,408 | $ (3,889,527) | $ 723,432 | $ 22,559,577 |
| Net income | - | - | 3,774,906 | - | - | 3,774,906 |
| Cash dividend declared on common stock ($15.60 per share) | - | - | (2,702,326) | - | - | (2,702,326) |
| Change in net unrealized gain (loss) on securities | - | - | - | - | (699,733) | (699,733) |
| **Balance, December 31, 2016** | 100,000 | 1,207,264 | 25,490,988 | (3,889,527) | 23,699 | 22,932,424 |
| Net income | - | - | 3,144,654 | - | - | 3,144,654 |
| Cash dividend declared on common stock ($16.07 per share) | - | - | (2,783,741) | - | - | (2,783,741) |
| Change in net unrealized gain (loss) on secutities | - | - | - | - | 17,429 | 17,429 |
| **Balance, December 31, 2017** | 100,000 | 1,207,264 | 25,851,901 | (3,889,527) | 41,128 | 23,310,766 |
| Net income | - | - | 3,131,831 | - | - | 3,131,831 |
| Cash dividend declared on common stock ($14.40 per share) | - | - | (2,494,455) | - | - | (2,494,455) |
| Change in net unrealized gain (loss) on secutities | - | - | - | - | (358,563) | (358,563) |
| **Balance, December 31, 2018** | $ 100,000 | $ 1,207,264 | $ 26,489,277 | $ (3,889,527) | $ (317,435) | $ 23,589,579 |

**See Notes to Consolidated Financial Statements**

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## For the Years Ended December 31, 2018, 2017, and 2016

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 3,131,831 | $ 3,144,654 | $ 3,774,906 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 322,890 | 333,144 | 356,319 |
| Provision for loan losses | 156,000 | 186,000 | 152,500 |
| Loss (gain) on sale of other assets, net | (5,116) | 1,930 | 8,509 |
| Gain on sale of securities | - | - | (147,832) |
| Amortization of security premiums and (accretion) of discounts, net | 289,061 | 310,180 | 261,464 |
| (Increase) decrease in accrued interest receivable | (18,621) | 15,798 | (46,297) |
| (Increase) decrease in other assets | (1,028,116) | 1,051,979 | (94,925) |
| Increase (decrease) in other liabilities | 115,619 | 148,954 | 381,679 |
| **Net cash provided by operating activities** | 2,963,548 | 5,192,639 | 4,646,323 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sales, maturities and calls of securities available for sale | - | - | 2,830,052 |
| Principal payments received on securities available for sale | 6,983,102 | 7,872,402 | 9,186,474 |
| Purchases of securities available for sale | (6,097,771) | (4,114,235) | (12,723,775) |
| Loans made to customers, net | (13,596,716) | 801,178 | (7,936,703) |
| Proceeds from sale of other real estate | 9,316 | 10,000 | 130,291 |
| Proceeds from sale of bank premises and equipment | - | 33,000 | 7,500 |
| Purchases of bank premises and equipment, net | (302,317) | (99,403) | (320,830) |
| Decrease (increase) in Federal funds sold, net | 3,914,000 | (3,221,000) | 1,911,000 |
| **Net cash (used in) provided by investing activities** | (9,090,386) | 1,281,942 | (6,915,991) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| (Decrease) increase in non interest bearing demand deposit accounts | (4,455,142) | 7,393,818 | (599,356) |
| Increase (decrease) in interest bearing demand deposit accounts and savings accounts | 133,570 | 4,581,069 | 3,786,811 |
| Payments for matured (proceeds from the sales of) time deposits, net | (11,049,141) | 11,387,195 | (2,896,810) |
| Net increase (decrease) in short-term borrowings | 23,850,707 | (26,175,403) | 5,782,112 |
| Dividends paid | (2,494,455) | (2,783,741) | (2,702,326) |
| **Net cash provided by (used in) financing activities** | 5,985,539 | (5,597,062) | 3,370,431 |

**See Notes to Consolidated Financial Statements**

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS-Continued
For the Years Ended December 31, 2018, 2017, and 2016

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Increase (decrease) in cash and cash equivalents | (141,299) | 877,519 | 1,100,763 |
| **Cash and cash equivalents** | | | |
| Beginning | 5,562,369 | 4,684,850 | 3,584,087 |
| Ending | $ 5,421,070 | $ 5,562,369 | $ 4,684,850 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | | |
| Cash payments for: | | | |
| Interest on deposits and other borrowings | $ 1,297,109 | $ 916,363 | $ 837,630 |
| **SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | | |
| Other real estate and repossessed assets acquired in settlement of loans | $ - | $ 4,200 | $ 17,300 |
| Reclassification of long-term borrowings to short-term borrowings | $ 32,582,400 | $ 5,000,000 | $ - |

**See Notes to Consolidated Financial Statements**

# COMMUNITY BANKSHARES, INC.
# (AN S-CORPORATION) AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies

**Nature of business**: Community Bankshares, Inc., (an S-Corporation) (the Company) is a bank holding company. The wholly-owned subsidiary, Community Bank of Parkersburg (the Bank), is a commercial bank with operations in Wood County, West Virginia. The Bank provides retail and commercial loans and deposit services principally to customers in Wood County and adjacent counties in West Virginia and Ohio.

**Basis of financial statement presentation**: The accounting and reporting policies of Community Bankshares, Inc., and its wholly-owned subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**Principles of consolidation**: The accompanying consolidated financial statements include the accounts of Community Bankshares, Inc., and its wholly-owned subsidiary, Community Bank of Parkersburg. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Accounting estimates**: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For the year ended December 31, 2018, we evaluated subsequent events through February 5, 2019, the date the financial statements were available to be issued.

**Presentation of cash flows**: For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts and savings accounts are reported net since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported at net.

**Securities**: Securities are classified as "held to maturity", "available for sale" or "trading" at the time of purchase of each security according to management's intent. The appropriate classification is re-evaluated at each reporting date. The classification is determined as follows:

Securities held to maturity - Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. At December 31, 2018 and 2017, the Company does not hold any securities classified as held to maturity.

Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale". Securities classified as "available for sale" are those securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.

Trading securities - There are no securities classified as "trading" in the accompanying financial statements. At December 31, 2018 and 2017, the Company does not hold any securities classified as trading securities.

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

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**Other than temporary impairment**: Declines in the fair value of available for sale and held to maturity securities that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuers, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value. In addition, the risk of future other than temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes to real estate values, interest deferrals and whether the Federal government provides assistance to financial institutions. The Company has not recognized any impairment changes on its securities for the three year period ended December 31, 2018.

**Loans and allowance for loan losses**: Loans are stated at the amount of unpaid principal, net of unearned discounts and loan fees or costs, less the allowance for loan losses.

Interest on loans is accrued daily and credited to operations on the outstanding balances. Certain direct loan origination fees and costs are deferred and amortized as adjustments of the related loan yield over the contractual life of the loan.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The subsidiary bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes collectability to be unlikely. 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 conditions.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance, homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

For purposes of ASC Topic 310-10-35, *Receivables – Subsequent Measurement*, the Company considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, small balance commercial loans, and installment and credit card loans to individuals.

Generally, after management's evaluation, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payment of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method.

**Bank premises and equipment**: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using primarily the straight-line method for bank premises and equipment over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

**Other real estate**: Other real estate consists primarily of real estate held for resale which was acquired through foreclosure of loans secured by such real estate. At the time of acquisition, these properties are recorded at fair value with any write-down being charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Expenses incurred in connection with operating these properties which are generally not significant are charged to losses on foreclosed real estate. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

**Restricted investment securities**: The subsidiary bank is a member of the Federal Home Loan Bank (FHLB) system and the Kentucky Independent Bank (KIB) federal funds program. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. KIB program participants are required to own a certain amount of stock based on various factors tied to quarterly financial analysis. FHLB stock and KIB stock are equity securities which are included in other assets in the accompanying consolidated financial statements. Such securities are carried at cost since they may only be sold back to the respective issuer or another member at par value. These securities are classified as restricted securities and are periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

**Income taxes**: The Company elected S-Corporation status effective January 1, 2006. As an S-Corporation, the earnings and losses after that date are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company does not incur additional income tax obligations, and future financial statements will not include a provision for income taxes except to the extent that any "built-in gains" taxes are incurred.

**Earnings per share**: Earnings per common share are computed based upon the weighted average shares outstanding. The weighted average shares outstanding was 173,226 for the three year period ended December 31, 2018.

**Advertising**: The Company expenses advertising costs as incurred.

**Significant Authoritative Guidance**: In January 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments for entities that hold financial assets or owe financial liabilities. The guidance will require: (a) certain equity investments to be measured at fair value with changes recognized in net income; (b) a qualitative assessment to identify impairment of equity investments without readily determinable fair value; (c) elimination of disclosures of the fair value of financial instruments measured at amortized costs and method(s) and significant assumptions used to estimate the fair value; (d) the exit price notion be used when measuring fair value; (e) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability; (f) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (g) clarification of how to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, and for other entities, including not-for-profit entities and employee benefit plans within the scope of Topic 960 through 965 on plan accounting, for fiscal years beginning after December 15, 2018. Early adoption is not permitted except for certain exceptions for public entities. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

In February 2016, the FASB issued ASU *2016-02 – Leases (Topic 842),* guidance related to recognition by a lessee of assets and liabilities on leases with terms of more than 12 months on the balance sheet. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease; however, unlike current U.S. GAAP, which requires that only capital leases be recognized on the balance sheet, the ASU requires that both types of leases be recognized on the balance sheet. The ASU also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Lessor accounting remains largely unchanged from current U.S. GAAP, but the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in May 2014. Transition guidance is provided within the ASU and generally requires a retrospective approach. This guidance is effective for public entities with annual reporting periods beginning after December 15, 2018. For all other entities (nonpublic entities), the amendments in these ASUs will be effective for annual reporting periods beginning after December 15, 2019. Early application of the amendments in this guidance is permitted for all entities. The Company is evaluating the impact, if any, that adoption will have on its consolidated financial statements.

In June 2016, the FASB issued *ASU 2016-13 (Topic 326): Measurement of Credit Losses on Financial Instruments* to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The guidance will require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The guidance will eliminate the probable initial recognition threshold in current GAAP, and instead, reflect an entity's current estimate of all expected credit losses. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. An entity will be able to record reversals of credit losses in current period net income, which, in turn, should align the income statement recognition of credit losses within the reporting period in which changes occur. The guidance affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. This guidance is effective for all public entities that are U.S. Securities Exchange Commission (SEC) filers for fiscal years beginning after December 15, 2019. For all other entities, guidance is effective for fiscal years beginning after December 15, 2020. All entities may adopt the amendments in this ASU as of the fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

In August 2016, the FASB issued *ASU 2016-15 (Topic 230): Classification of Certain Cash Receipts and Cash Payments* to address eight specific cash flow issues with the objective of reducing the existing diversity in the practice. This guidance is effective for all public entities for fiscal years beginning after December 15, 2017. For all other entities, this guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

In January 2017, the FASB issued *ASU 2017-01 – Business Combinations (Topic 805): Clarifying the Definition of a Business,* amendments to Topic 805 to clarify the definition of a business relative to adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments in this ASU provide a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If the screen is not met, it (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and (2) removes the evaluation of whether a market participant could replace the missing elements. This guidance is effective for public entities with fiscal years ending after December 15, 2017, and for all other entities for fiscal years ending after December 15, 2018. Early adoption is permitted, under certain circumstances and amendments should be applied on a prospective basis. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

In March 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This guidance is effective for public entities for fiscal years beginning after December 15, 2018, and for all other entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact, if any, that adoption will have on its consolidated financial statements.

**Reclassifications:** Certain accounts in the consolidated financial statements for 2017 and 2016, as previously presented, have been reclassified to conform to current year classifications.

**Note 2. Cash Concentrations and Restrictions**

The subsidiary bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2018 and 2017, the reserve requirement approximated $2,082,000 and $1,919,000, respectively. The Bank does not earn interest on such balances.

**Note 3. Securities**

The amortized cost, unrealized gains and losses and estimated fair values of securities at December 31, 2018 and 2017, are summarized as follows:

| | 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Carrying Value (Estimated Fair Value) |
| **Available for sale** | | | | |
| **Taxable:** | | | | |
| Mortgage-backed securities - U.S. Government agencies and corporations | $ 30,274,059 | $ 126,866 | $ 444,300 | $ 29,956,625 |
| **Total** | $ 30,274,059 | $ 126,866 | $ 444,300 | $ 29,956,625 |

| | 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Carrying Value (Estimated Fair Value) |
| **Available for sale** | | | | |
| **Taxable:** | | | | |
| Mortgage-backed securities - U.S. Government agencies and corporations | $ 31,448,451 | $ 274,098 | $ 232,969 | $ 31,489,580 |
| **Total** | $ 31,448,451 | $ 274,098 | $ 232,969 | $ 31,489,580 |

Mortgage backed obligations of U.S. Government agencies and corporations are included in securities at December 31, 2018 and 2017. These obligations, having contractual remaining maturities ranging from 2 to 25 years, are reflected in the following maturity distribution schedule based on their anticipated average remaining life to maturity, which ranges from 9 months to 8 years. Accordingly, discounts are accreted or premiums are amortized over the anticipated average remaining life to maturity of the specific obligations.

The maturities, amortized cost and estimated fair values of securities at December 31, 2018, are summarized as follows:

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Carrying Value (Estimated Fair Value) |
| Due within one year | $ 200,830 | $ 201,243 |
| Due after one through five years | 18,484,387 | 18,298,164 |
| Due after five through ten years | 11,588,842 | 11,457,218 |
| Due after ten years | - | - |
| | $ 30,274,059 | $ 29,956,625 |

The proceeds from sales, calls and maturities of securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, are as follows:

| | Proceeds From | | | Gross | |
|---|---|---|---|---|---|
| For the Years Ended December 31, | Sales | Calls and Maturities | Principal Payments | Gains Realized | Losses Realized |
| **2018** | | | | | |
| Securities available for sale | $ - | $ - | $ 6,983,102 | $ - | $ - |
| **2017** | | | | | |
| Securities available for sale | $ - | $ - | $ 7,872,402 | $ - | $ - |
| **2016** | | | | | |
| Securities available for sale | $ 2,830,052 | $ - | $ 9,186,474 | $ 147,832 | $ - |

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At December 31, 2018 and 2017, securities carried at $15,876,033 and $19,325,266, respectively, with estimated fair values of $15,697,526 and $19,405,979 were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes required or permitted by law.

Impairment is evaluated considering numerous factors, and their relative significance varies case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Company has twenty-seven securities in an unrealized loss position as of December 31, 2018. These securities are investment grade securities (AA or better) and the unrealized losses are due to overall increases in market interest rates and not due to any underlying credit concerns of the issuer. The Company has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Company has concluded that none of the securities in its investment portfolios is other-than-temporarily impaired at December 31, 2018.

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2018 and 2017, respectively.

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities - U.S. government agencies and corporations | $ 11,288,478 | $ 118,124 | $ 11,654,174 | $ 326,176 | $ 22,942,652 | $ 444,300 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities - U.S. government agencies and corporations | $ 4,685,018 | $ 37,613 | $ 11,095,300 | $ 195,356 | $ 15,780,318 | $ 232,969 |

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## Note 4. Loans

Loans are summarized as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial, financial and agricultural | $ 61,488,668 | $ 58,398,864 |
| Real estate | 124,695,968 | 115,465,239 |
| Installment loans | 15,724,968 | 14,262,558 |
| Charge card loans | 2,213,285 | 2,314,513 |
| Other | 151,583 | 223,283 |
| Total loans | 204,274,472 | 190,664,457 |
| Less allowance for loan losses | (1,362,049) | (1,244,157) |
| Unamortized loan costs (fees), net | (304,071) | (252,664) |
| **Loans, net** | $ 202,608,352 | $ 189,167,636 |

The contractual maturities of loans at December 31, 2018, are as follows:

| | Within 1 Year | After 1 But Within 5 Years | After 5 Years |
|---|---|---|---|
| Commercial, financial and agricultural | $ 6,194,338 | $ 5,601,668 | $ 49,692,661 |
| Real estate | 7,821,544 | 3,826,284 | 113,048,140 |
| Installment loans | 2,673,967 | 8,878,729 | 4,171,522 |
| Charge card loans | 2,213,285 | - | - |
| Other | - | - | 152,334 |
| **Total** | $ 18,903,134 | $ 18,306,681 | $ 167,064,657 |

**Loans due after one year with:**

| | |
|---|---|
| Variable rates | $ 89,168,288 |
| Fixed rates | 96,203,050 |
| **Total** | $ 185,371,338 |

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The following tables present the contractual aging of the recorded investment in past due loans, segregated by class of loans.

At December 31, 2018

| | Past Due | | | | | | Recorded Investment ≥ 90 days |
|---|---|---|---|---|---|---|---|
| | 30-59 days | 60-89 days | ≥ 90 days | Total | Current | Total Loans | and Accruing |
| Commercial | $ 364,793 | $ 28,413 | $ 126,947 | $ 520,153 | $ 60,968,514 | $ 61,488,667 | $ 51,874 |
| Real Estate | 1,043,921 | 229,865 | - | 1,273,786 | 123,422,182 | 124,695,968 | 36,638 |
| Installment Loans | 88,813 | 3,376 | 36,638 | 128,827 | 15,595,391 | 15,724,218 | - |
| Charge card loans | - | - | - | - | 2,213,285 | 2,213,285 | - |
| Other | - | - | - | - | 152,334 | 152,334 | - |
| **Total** | $ 1,497,527 | $ 261,654 | $ 163,585 | $ 1,922,766 | $ 202,351,706 | $ 204,274,472 | $ 88,512 |

At December 31, 2017

| | Past Due | | | | | | Recorded Investment ≥ 90 days |
|---|---|---|---|---|---|---|---|
| | 30-59 days | 60-89 days | ≥ 90 days | Total | Current | Total Loans | and Accruing |
| Commercial | $ 45,405 | $ - | $ 112,873 | $ 158,278 | $ 58,240,586 | $ 58,398,864 | $ - |
| Real Estate | 828,067 | 15,499 | 87,372 | 930,938 | 114,534,301 | 115,465,239 | 87,372 |
| Installment Loans | 66,711 | 26,624 | - | 93,335 | 14,169,223 | 14,262,558 | - |
| Charge card loans | - | - | - | - | 2,314,513 | 2,314,513 | - |
| Other | - | - | - | - | 223,283 | 223,283 | - |
| **Total** | $ 940,183 | $ 42,123 | $ 200,245 | $ 1,182,551 | $ 189,481,906 | $ 190,664,457 | $ 87,372 |

The following tables set forth impaired loan information by class of loan.

December 31, 2018

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Income Recognized |
|---|---|---|---|---|---|
| **With no related allowance** | | | | | |
| Commercial | $ 1,309,463 | $ 1,309,463 | $ - | $ 1,351,257 | $ 67,529 |
| Real estate | 156,645 | 156,645 | - | 157,819 | 7,713 |
| Installment loans | 17,454 | 17,454 | - | 28,196 | 1,291 |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total with no related allowance** | $ 1,483,562 | $ 1,483,562 | $ - | $ 1,537,272 | $ 76,533 |
| **With a related allowance** | | | | | |
| Commercial | $ 123,769 | $ 117,046 | $ 6,723 | $ 125,816 | $ 6,797 |
| Real estate | 266,505 | 255,219 | 11,286 | 260,482 | 12,375 |
| Installment loans | - | - | - | - | - |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total with a related allowance** | $ 390,274 | $ 372,265 | $ 18,009 | $ 386,298 | $ 19,172 |

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| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Income Recognized |
| **Total** | | | | | |
| Commercial | $ 1,433,232 | $ 1,426,509 | $ 6,723 | $ 1,477,073 | $ 74,326 |
| Real estate | 423,150 | 411,864 | 11,286 | 418,301 | 20,088 |
| Installment loans | 17,454 | 17,454 | - | 28,196 | 1,291 |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total** | $ 1,873,836 | $ 1,855,827 | $ 18,009 | $ 1,923,570 | $ 95,705 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Income Recognized |
| **With no related allowance** | | | | | |
| Commercial | $ 988,682 | $ 988,682 | $ - | $ 1,023,906 | $ 50,701 |
| Real estate | 680,931 | 680,931 | - | 693,135 | 34,117 |
| Installment loans | 19,381 | 19,381 | - | 18,195 | 2,210 |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total with no related allowance** | $ 1,688,994 | $ 1,688,994 | $ - | $ 1,735,236 | $ 87,028 |
| **With a related allowance** | | | | | |
| Commercial | $ 116,142 | $ 117,290 | $ 1,148 | $ 124,959 | $ 6,278 |
| Real estate | 329,999 | 344,511 | 14,512 | 335,452 | 19,738 |
| Installment loans | 15,262 | 15,838 | 576 | 17,131 | 1,010 |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total with a related allowance** | $ 461,403 | $ 477,639 | $ 16,236 | $ 477,542 | $ 27,026 |
| **Total** | | | | | |
| Commercial | $ 1,104,824 | $ 1,105,972 | $ 1,148 | $ 1,148,865 | $ 56,979 |
| Real estate | 1,010,930 | 1,025,442 | 14,512 | 1,028,587 | 53,855 |
| Installment loans | 34,643 | 35,219 | 576 | 35,326 | 3,220 |
| Charge card loans | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Total** | $ 2,150,397 | $ 2,166,633 | $ 16,236 | $ 2,212,778 | $ 114,054 |

Included in impaired loans are troubled debt restructurings of $554,345 and $795,977 as of December 31, 2018 and 2017, respectively.

In the past, the subsidiary bank has made loans, in the normal course of business, to its directors, officers and employees, and will continue to make such loans in the future. At December 31, 2018 and 2017, outstanding loans to directors and officers with original balances of $60,000 or more totaled $2,172,109 and $1,531,573, respectively.

The following presents the activity with respect to related party loans with original balances aggregating $60,000 or more to any one related party during the years ended December 31, 2018 and 2017.

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| | 2018 | 2017 |
|---|---|---|
| **Balance, beginning** | $ 1,531,573 | $ 1,543,336 |
| Additions | 1,139,241 | 578,775 |
| Amounts collected | (498,705) | (590,538) |
| **Balance, ending** | $ 2,172,109 | $ 1,531,573 |

The following table presents the non-accrual loans included in the net balance of loans at December 31, 2018 and 2017, respectively.

| | 2018 | 2017 |
|---|---|---|
| Commercial | $ 333,607 | $ 388,737 |
| Real estate | 160,492 | 168,861 |
| Installment loans | - | - |
| Total | $ 494,099 | $ 557,598 |

If interest on non-accrual loans had been accrued, such income would have approximated $26,600, $27,600 and $27,900, for each of the three years in the period ended December 31, 2018, 2017, and 2016 respectively.

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debts such as current financial information, historical payment experience, credit documentation, and current economic trends, among other factors. The loans are analyzed individually by classifying the loans as to credit risk. The Company internally grades all new loans. In addition, the Company performs an annual loan review on all non-homogeneous commercial loans exceeding $300,000, at which time these loans are re-graded.

The following definition of risk grades are as follows:

**Pass:** Loans that are secured by cash and cash equivalents or have characteristics that reduce credit risk in the transaction, as well as minimal documentation exceptions or no identification risk of collection. The loan would not subsequently introduce loan-loss risk. They are loans that do not fit any of the other categories described below.

**Substandard:** Loans inadequately protected by the current sound net worth and paying capacity of the obligor, or pledged collateral, if any. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

**Doubtful:** Loans that will have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where collection or liquidation in full is highly improbable.

**Loss:** Loans that are considered to be uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This assignment does not mean that an asset has absolutely no recovery or salvage value, but simply that is not practicable or desirable to defer writing off the basically worthless asset, even though partial recovery may be affected in the future.

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The following table presents the recorded investment in loans that are graded based on the risk associated with the loan.

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Commercial | Real Estate | Installment | Charge Card Loans | Other |
| Pass | $ 60,934,195 | $ 123,684,470 | $ 15,673,030 | $ 2,213,285 | $ 151,583 |
| Substandard | 554,473 | 1,011,498 | 51,938 | - | - |
| Doubtful | - | - | - | - | - |
| **Total** | $ 61,488,668 | $ 124,695,968 | $ 15,724,968 | $ 2,213,285 | $ 151,583 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial | Real Estate | Installment | Charge Card Loans | Other |
| Pass | $ 57,797,162 | $ 114,485,719 | $ 14,222,417 | $ 2,314,513 | $ 223,283 |
| Substandard | 601,702 | 979,520 | 40,141 | - | - |
| Doubtful | - | - | - | - | - |
| **Total** | $ 58,398,864 | $ 115,465,239 | $ 14,262,558 | $ 2,314,513 | $ 223,283 |

The following tables present by class the subsidiary bank's troubled debt restructurings (TDR) for the years ended December 31, 2018 and 2017.

| | December 31, 2018 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Consumer | 1 | $ 6,966 | $ 6,966 |
| Residential Real Estate | 1 | 50,976 | 50,976 |
| Commercial | 3 | 1,710,746 | 1,710,746 |
| Other | 0 | - | - |
| **Total** | 5 | $ 1,768,688 | $ 1,768,688 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Consumer | 1 | $ 6,966 | $ 6,966 |
| Residential Real Estate | 1 | 50,976 | 50,976 |
| Commercial Real Estate | 5 | 2,104,784 | 2,104,784 |
| Other | 0 | - | - |
| **Total** | 7 | $ 2,162,726 | $ 2,162,726 |

At December 31, 2018 and 2017, the subsidiary bank's restructured loans were primarily modified by a reduction in the monthly payment amount and an extension of the maturity date. None of the modifications resulted in the forgiveness of amounts contractually due. The loans were evaluated individually for allocation within the Bank's allowance for loan losses. The modifications had an immaterial impact on the financial condition and results of operations for the Bank.

With regard to troubled debt restructurings, the Bank follows its charge-off policy to define default. There were no troubled debt restructuring on which the bank noted payment default during the years ended December 31, 2018 and 2017.

**Concentrations of credit risk**: The subsidiary bank grants a majority of its commercial, financial, agricultural, real estate, installment and charge card loans to individuals and customers throughout Wood County, West Virginia and adjacent counties.

**Note 5. Allowance for Loan Losses**

An analysis of the allowance for loan losses for the years ended December 31, 2018, 2017 and 2016, is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Balance, beginning of year** | $ 1,244,157 | $ 1,271,947 | $ 1,202,516 |
| **Losses:** | | | |
| Commercial, financial and agricultural | - | 14,033 | - |
| Real estate | 6,454 | 48,787 | 13,795 |
| Installment loans | - | 105,985 | 33,392 |
| Other | 73,750 | 74,742 | 78,453 |
| **Total** | 80,204 | 243,547 | 125,640 |
| **Recoveries:** | | | |
| Commercial, financial and agricultural | 156 | 340 | 105 |
| Real estate | 1,231 | 2,068 | 1,649 |
| Installment loans | 9,047 | 7,314 | 13,810 |
| Other | 31,662 | 20,035 | 27,007 |
| **Total** | 42,096 | 29,757 | 42,571 |
| Net losses | (38,108) | (213,790) | (83,069) |
| Provision for loan losses | 156,000 | 186,000 | 152,500 |
| **Balance, end of year** | $ 1,362,049 | $ 1,244,157 | $ 1,271,947 |

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology the Bank employs on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is as follows.

**Specific Reserve for Loans Individually Evaluated**

The Bank identifies loan relationships that may have credit weaknesses. Such loan relationships are identified primarily through the analysis of internal loan evaluations, past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events; it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. The Bank measures impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

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**Quantitative Reserve for Loans Collectively Evaluated**

Second, the Bank stratifies the loan portfolio into the following loan pools: commercial, real estate, installment loans, charge card loans and other. Loans within each pool are then further segmented between (1) loans which were individually evaluated for impairment and not deemed to be impaired, (2) smaller-balance homogenous loans.

Quantitative reserves relative to each loan pool are established using an allocation equaling 100% of the respective pool's average 12 month historical net loan charge-off rate (determined based upon the most recent twelve quarters) which is applied to the aggregate recorded investment in the smaller-balance homogenous pool of loans.

**Qualitative Reserve for Loans Collectively Evaluated**

Third, the Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

For purposes of evaluating impairment, the Bank considers groups of smaller-balance, homogeneous loans to include; mortgage loans secured by residential property, other than those which significantly exceed the bank's typical residential mortgage loan amount; and installment loans to individuals.

Activity in the allowance for loan losses by loan class during the year ended December 31, 2018 and 2017, is as follows:

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Commercial | Real Estate | Installment Loans | Charge Card and Other Loans | Total |
| **Allowance for credit losses:** | | | | | |
| Beginning balance | $ 1,090,308 | $ 266,208 | $ (21,314) | $ (91,045) | $ 1,244,157 |
| Charge-offs | - | 6,454 | - | 73,750 | 80,204 |
| Recoveries | 156 | 1,231 | 9,047 | 31,662 | 42,096 |
| Provision | 22,895 | 106,268 | 23,630 | 3,207 | 156,000 |
| **Ending balance** | $ 1,113,359 | $ 367,253 | $ 11,363 | $ (129,926) | $ 1,362,049 |
| **Allowance related to:** | | | | | |
| Individually evaluated for impairment | $ 309 | $ 6,595 | $ 11,105 | $ - | $ 18,009 |
| Collectively evaluated for impairment | 1,113,050 | 360,658 | 258 | (129,926) | 1,344,040 |
| **Total** | $ 1,113,359 | $ 367,253 | $ 11,363 | $ (129,926) | $ 1,362,049 |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 1,426,509 | $ 411,864 | $ 17,454 | $ - | $ 1,855,827 |
| Collectively evaluated for impairment | 60,062,159 | 124,284,104 | 15,707,514 | 2,364,868 | 202,418,645 |
| **Total** | $ 61,488,668 | $ 124,695,968 | $ 15,724,968 | $ 2,364,868 | $ 204,274,472 |

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| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial | Real Estate | Installment Loans | Charge Card and Other Loans | Total |
| **Allowance for credit losses:** | | | | | |
| Beginning balance | $ 1,076,918 | $ 183,670 | $ 52,305 | $ (40,946) | $ 1,271,947 |
| Charge-offs | 14,033 | 48,787 | 105,985 | 74,742 | 243,547 |
| Recoveries | 340 | 2,068 | 7,314 | 20,035 | 29,757 |
| Provision | 27,083 | 129,257 | 25,052 | 4,608 | 186,000 |
| **Ending balance** | $ 1,090,308 | $ 266,208 | $ (21,314) | $ (91,045) | $ 1,244,157 |
| **Allowance related to:** | | | | | |
| Individually evaluated for impairment | $ 1,148 | $ 14,512 | $ 576 | $ - | $ 16,236 |
| Collectively evaluated for impairment | 1,089,160 | 251,696 | (21,890) | (91,045) | 1,227,921 |
| **Total** | $ 1,090,308 | $ 266,208 | $ (21,314) | $ (91,045) | $ 1,244,157 |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 1,153,966 | $ 124,929 | $ 63,843 | $ - | $ 1,342,738 |
| Collectively evaluated for impairment | 57,244,898 | 115,340,310 | 14,198,715 | 2,537,796 | 189,321,719 |
| **Total** | $ 58,398,864 | $ 115,465,239 | $ 14,262,558 | $ 2,537,796 | $ 190,664,457 |

For quarterly loan review purposes, the bank selects loans or relationships that may have credit weaknesses. The above balances for loans individually evaluated for impairment include only such loan balances and related allowances. The bank does, however, review a larger number of loans on a recurring basis for internal purposes.

**Note 6. Bank Premises and Equipment**

The major categories of bank premises and equipment and accumulated depreciation at December 31, 2018 and 2017 are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 1,084,028 | $ 1,084,028 |
| Buildings and improvements | 4,464,355 | 4,356,577 |
| Furniture and equipment | 3,559,392 | 3,818,644 |
| | 9,107,775 | 9,259,249 |
| Less accumulated depreciation | 6,157,337 | 6,288,238 |
| **Bank premises and equipment, net** | $ 2,950,438 | $ 2,971,011 |

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 totaled $322,890, $333,144 and $356,319, respectively.

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## Note 7. Deposits

The following is a summary of interest bearing deposits by type as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| NOW and Super NOW accounts | $ 41,038,066 | $ 38,419,035 |
| Money market accounts | 12,046,694 | 15,483,259 |
| Savings deposits | 42,301,243 | 41,350,139 |
| Time Deposits | 34,235,700 | 45,284,841 |
| **Total** | $ 129,621,703 | $ 140,537,274 |

Time certificates of deposit in denominations equal to or exceeding the federal depository (FDIC) insured limit of $250,000 totaled $4,520,198 and $4,985,187 at December 31, 2018 and 2017, respectively. Interest on time certificates of deposit in denominations of $250,000 or more was $36,852, $41,128 and $39,318 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following is a summary of the maturity distribution of certificates of deposit in denominations of $250,000 or more as of December 31, 2018:

| | Amount | Percent |
|---|---|---|
| Three months or less | $ 671,205 | 14.85% |
| Three through six months | 1,712,942 | 37.90% |
| Six through twelve months | 251,877 | 5.57% |
| Over twelve months | 1,884,174 | 41.68% |
| **Total** | $ 4,520,198 | 100% |

At December 31, 2018, the scheduled maturities of time deposits are as follows:

| Year | Amount |
|---|---|
| 2019 | $ 20,521,200 |
| 2020 | 8,288,187 |
| 2021 | 3,630,494 |
| 2022 | 896,692 |
| 2022 and thereafter | 899,127 |
| | $ 34,235,700 |

Included in time deposits are deposits acquired through a third party ("brokered deposits") maturing on April 27, 2018 totaling $0 and $15 million at December 31, 2018 and 2017, respectively. Interest on these brokered deposits was $54,333, $160,308, and $0 for the years ended December 31, 2018, 2017, and 2016, respectively.

At December 31, 2018 and 2017, deposits of related parties including directors, executive officers and their related interests of Community Bankshares, Inc., and subsidiary approximated $1,795,708 and $1,977,834, respectively.

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## Note 8. Other Borrowings and Long-Term Debt

**Short-term borrowings:** Federal funds purchased and securities sold under agreements to repurchase mature the next business day. The securities underlying the repurchase agreements are under the subsidiary bank's control and secure the total outstanding daily balances. Other short-term borrowings consist of lines of credit from the Federal Home Loan Bank (FHLB) under its RepoPlus Program. Borrowings under this arrangement will be granted for terms of 1 to 364 days and will bear interest at both fixed and variable rates set at the time of the funding request with variable rates subject to change each month. Also, included in other borrowings are borrowings from the FHLB under its Mid Term Repo-Fixed and RepoPlus-Fixed Programs that will mature during the year ending December 31, 2018. These lines of credit are secured by a blanket lien on all unpledged and unencumbered assets of the subsidiary bank.

Additional details regarding short-term borrowings during the years ended December 31, 2018 and 2017 are presented below:

| | 2018 | | |
|---|---|---|---|
| | Federal Funds Purchased | Repurchase Agreements | FHLB Borrowings |
| Outstanding at year end | $ 607,000 | $ 3,217,791 | $ 32,582,400 |
| Average amount outstanding | 101,000 | 4,254,187 | 24,635,254 |
| Maximum amount outstanding at any month end | 607,000 | 6,102,104 | 32,582,400 |
| Weighted average interest rate | 2.07% | 0.14% | 2.58% |

| | 2017 | | |
|---|---|---|---|
| | Federal Funds Purchased | Repurchase Agreements | FHLB Borrowings |
| Outstanding at year end | $ - | $ 4,335,087 | $ 13,204,200 |
| Average amount outstanding | 27,917 | 4,489,471 | 17,381,708 |
| Maximum amount outstanding at any month end | - | 5,222,486 | 13,204,200 |
| Weighted average interest rate | 1.58% | 0.16% | 1.73% |

**FHLB Long-term Borrowings:** As a member of the Federal Home Loan Bank of Pittsburgh (FHLB), the subsidiary bank obtained borrowings from the FHLB under various lending programs to finance loan growth and/or meet liquidity needs as necessary. All such borrowings are secured by a lien on all unpledged and unencumbered assets of the subsidiary bank.

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A summary of the Company's FHLB borrowings at December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Note payable, dated July 29, 2008 to FHLB, at 4.360%. Matured. | $ - | $ 5,000,000 |
| Note payable, dated December 4, 2017, to FHLB, at 1.54%. Matured. | - | 8,204,200 |
| Note payable, dated October 2, 2018, to FHLB, at 2.52%. Due January 2, 2019. | 5,000,000 | - |
| Note payable, dated December 26, 2018, to FHLB, at 2.77%. Due January 4, 2019. | 1,165,700 | - |
| Note payable, dated November 26, 2018, to FHLB, at 2.64%. Due January 25, 2019. | 5,208,400 | - |
| Note payable, dated November 29, 2018, to FHLB, at 2.67%. Due January 28, 2019. | 5,208,300 | - |
| Note payable, dated December 18, 2018, to FHLB, at 2.72%. Due March 18, 2019. | 5,000,000 | - |
| Note payable, dated December 20, 2018, to FHLB, at 2.72%. Due March 19, 2019. | 4,000,000 | - |
| Note payable, dated December 26, 2018, to FHLB, at 2.83%. Due June, 29 2019. | 2,000,000 | - |
| Note payable, dated September 5, 2018, to FHLB, at 2.72%. September 5, 2019. | 5,000,000 | |
| Note payable, dated October 5, 2018, to FHLB, at 3.02%. Due October 5, 2020. | 5,000,000 | - |
| | 37,582,400 | 13,204,200 |
| Less short-term portion of FHLB borrowings | (32,582,400) | (13,204,200) |
| | $ 5,000,000 | $ - |

A summary of the maturities of FHLB borrowings over the next five years are as follows:

| Years Ending December 31, | Amount |
|---|---|
| 2019 | $ 32,582,400 |
| 2020 | 5,000,000 |
| **Total** | $ 37,582,400 |

**Other Long-term Borrowings:** In conjunction with the acquisition of land for a branch banking facility, the subsidiary bank entered into a $270,000 long-term note payable with an individual. The note, which bears interest at 6%, is repayable in 26 equal annual installments of $20,000 through January 2, 2019, with a final installment of $13,226 due January 2, 2020. The note is secured by a deed of trust on the subsidiary bank's branch facility land with a carrying value of $384,451.

A summary of the maturities of this long-term note over the next five years follows:

| Years Ending December 31, | Amount |
|---|---|
| 2019 | 18,228 |
| 2020 | 11,300 |
| **Total** | $ 29,528 |

**Trust Preferred Securities Statutory Trust I:** On December 15, 2005 the Company formed Community Bankshares Statutory Trust I. The Trust is a 100% owned subsidiary of the Company and exists for the purpose of (1) issuing trust preferred capital securities (Capital Securities) and (2) using the proceeds from the sale of the Capital Securities to acquire subordinated debentures issued by the Company. The debentures are the sole assets of the Trust and the Company's payments under the debentures are the sole source of revenue of the Trust. Three thousand Capital Securities ($1,000 liquidation value per Capital Security) were issued in the aggregate liquidation amount of $3,000,000 and 93 common securities were also issued in the aggregate amount of $93,000.

The Company has irrevocably and unconditionally guaranteed with respect to the Capital Securities and to the extent not paid by the Trust, accrued and unpaid distributions on the Capital Securities and the redemption price payable to the holders of the Capital Securities. The Company has the option to defer payment of the distributions for an extended period up to five years, so long as the Company is not in default of the terms of the debentures.

The Capital Securities term is 30 years; however, effective December 15, 2010, the Capital Securities and, debentures are redeemable at par value. Interest is payable quarterly during the 30-year term. The interest rate is variable based on the three-month LIBOR rate plus 1.40%. The interest rate was 4.19% and 3.09% as of December 31, 2018 and 2017, respectively.

**Note 9. Commitments and Contingencies**

**Litigation:** Due to the nature of business of the subsidiary bank, which involves extension of credit and collection of loans and the enforcement of liens, security interest and mortgages, the Bank is the plaintiff or defendant in various legal proceedings from time to time. Management does not anticipate the outcome of such claims or actions to have a significant effect on the subsidiary bank's financial position.

**Note 10. Employee Benefit Plans**

The Company's subsidiary bank has a non-qualified Incentive Bonus Plan. The purpose of the Plan is to provide a cash bonus to employees of Community Bank of Parkersburg as an incentive to maximize profits of the Bank. The bonus is based on the Bank attaining specified levels of profitability and is primarily measured by the Bank's return on equity. The participants and the amounts distributed to each participant are determined by the Board of Directors in December of each year and are based on the individual's performance, contributions to the profits for the year and other factors which the Board of Directors may consider relevant.

The Company and its subsidiary have a change in control agreement with its Chief Executive Officer. This agreement contains provisions that would entitle the officer to receive certain benefits if there is a change in control in the Company (as defined) and a termination of his employment.

The Company's subsidiary bank also has a 401(k) Profit Sharing Plan. The Plan, which was established January 1, 2015, is a defined contribution 401(k) safe harbor plan that provides both employee salary deferral contributions and employer contributions under Section 401(k) of the Internal Revenue Code. Within the provisions of Plan documentation, Bank employees are eligible to make elective contributions once they have attained age twenty-one and have completed one year of service. Employees are eligible to receive employer contributions upon hire. Employee contributions are generally limited to 100 percent of annual compensation or the IRS approved limit. The Company may make two types of contributions to the Plan: (1) Matching Contributions (Company matches, up to a certain percentage, Salary Reduction Contributions made by the participant), and (2) Profit Sharing Contributions (additional discretionary contributions made by the Company as determined by the Board of Directors, which is subject to vesting). The employee may make (1) Salary Deferral Contributions and/or (2) Rollover Contributions. Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' non-vested accounts. Voluntary Bank matching contributions are limited to 3.0 percent of total annual compensation.

Contributions of $278,487, $258,182, and $291,388 were made to the Plan for the years ended December 31, 2018, 2017, and 2016 respectively.

**Note 11. Regulatory Restrictions on Capital and Dividends**

The primary source of funds for the dividends paid by the Company is dividends received from its subsidiary bank. Dividends paid by the subsidiary bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. During 2019, the net retained profits available for distribution to Community Bankshares, Inc., as dividends without regulatory approval are undistributed net profits for the prior two years, as defined, plus net income for the interim periods through the date of declaration.

Community Bankshares, Inc. and the subsidiary bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Community Bankshares, Inc. and the subsidiary bank must meet specific capital guidelines that involve quantitative measures of Community Bankshares, Inc.'s and subsidiary bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require Community Bankshares, Inc. and the subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes that as of December 31, 2018, Community Bankshares, Inc. and the subsidiary bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Deposit Insurance Corporation categorized Community Bankshares, Inc. and the subsidiary bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Community Bankshares, Inc. and the subsidiary bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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Community Bankshares, Inc.'s and the subsidiary banks and actual capital amounts and ratios are presented in the following table:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Actions Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2018:** | | | | | | |
| Common Equity Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,833,848 | 19.4% | $ 6,939,257 | 4.5% | $ 10,023,371 | 6.5% |
| Community Bank of Parkersburg | $ 26,833,848 | 17.4% | $ 6,939,014 | 4.5% | $ 10,023,020 | 6.5% |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 31,195,896 | 20.2% | $ 12,336,456 | 8.0% | $ 15,420,570 | 10.0% |
| Community Bank of Parkersburg | $ 28,195,896 | 18.3% | $ 12,336,024 | 8.0% | $ 15,420,031 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,833,848 | 19.4% | $ 9,252,342 | 6.0% | $ 12,336,456 | 8.0% |
| Community Bank of Parkersburg | $ 26,833,848 | 17.4% | $ 9,252,018 | 6.0% | $ 12,336,024 | 8.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,833,848 | 12.4% | $ 9,647,736 | 4.0% | $ 12,059,670 | 5.0% |
| Community Bank of Parkersburg | $ 26,833,848 | 11.1% | $ 9,647,736 | 4.0% | $ 12,059,670 | 5.0% |

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| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Actions Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2017:** | | | | | | |
| Common Equity Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,186,932 | 19.8% | $ 6,642,691 | 4.5% | $ 9,594,998 | 6.5% |
| Community Bank of Parkersburg | $ 26,186,932 | 17.7% | $ 6,642,506 | 4.5% | $ 9,594,731 | 6.5% |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 30,431,089 | 20.6% | $ 11,809,228 | 8.0% | $ 14,761,535 | 10.0% |
| Community Bank of Parkersburg | $ 27,431,089 | 18.6% | $ 11,808,899 | 8.0% | $ 14,761,124 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,186,932 | 19.8% | $ 8,856,921 | 6.0% | $ 11,809,228 | 8.0% |
| Community Bank of Parkersburg | $ 26,186,932 | 17.7% | $ 8,856,675 | 6.0% | $ 11,808,899 | 8.0% |
| Tier I Capital (to Average Assets) | | | | | | |
| Community Bankshares, Inc. | $ 29,186,932 | 12.5% | $ 9,338,763 | 4.0% | $ 11,673,454 | 5.0% |
| Community Bank of Parkersburg | $ 26,186,932 | 11.2% | $ 9,338,763 | 4.0% | $ 11,673,454 | 5.0% |

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## Note 12. Financial Instruments with Off-Balance Sheet Risk

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. A substantial portion of these financial instruments include commitments to extend credit and credit card commitments. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

| Financial instuments whose contract amounts represent credit risk | Contract Amount 2018 | Contract Amount 2017 |
|---|---|---|
| Performance and standby letters of credit | $ 235,627 | $ 120,127 |
| Commitments to extend credit | 15,584,815 | 17,026,554 |
| Credit card commitments | 7,822,734 | 6,606,234 |
| **Total** | $ 23,643,176 | $ 23,752,915 |

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; income-producing commercial properties and residential real estate. The credit card commitments are unsecured lines of credit.

## Note 13. Fair Value of Financial Instruments

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

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

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

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

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

**Accrued interest receivable and payable**: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

**Deposits**: The estimated fair values of demand deposits (i.e., noninterest bearing checking NOW, Super NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

**Short-term borrowings**: The carrying values of short-term borrowings approximate their estimated fair values.

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

**Off-balance sheet instruments**: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

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

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Financial Assets:** | | | | |
| Cash and due from banks | $ 5,421,070 | $ 5,421,070 | $ 5,562,369 | $ 5,562,369 |
| Federal funds sold | - | - | 3,914,000 | 3,914,000 |
| Securities available for sale | 29,956,625 | 29,956,625 | 31,489,580 | 31,489,580 |
| Loans | 202,608,352 | 201,049,685 | 189,167,636 | 189,002,032 |
| Accrued interest receivable | 609,240 | 609,240 | 590,619 | 590,619 |
| | $ 238,595,287 | $ 237,036,620 | $ 230,724,204 | $ 230,558,600 |
| **Financial liabilites:** | | | | |
| Deposits | $ 175,087,121 | $ 175,125,626 | $ 190,457,834 | $ 190,501,913 |
| Short-term borrowings | 36,407,191 | 36,405,025 | 17,539,287 | 17,624,805 |
| Long-term borrowings | 8,029,528 | 8,029,528 | 3,046,725 | 3,046,725 |
| Accrued interest payable | 167,149 | 167,149 | 187,163 | 187,163 |
| | $ 219,690,989 | $ 219,727,328 | $ 211,231,009 | $ 211,360,606 |

## Note 14. Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures,* 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 (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

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

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

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

**Available-for-Sale Securities:** Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds.

**Impaired Loans:** Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans. As such, the Company classifies loans subject to nonrecurring fair value adjustments as Level 2 based on a current appraisal. If there is not a current appraisal these loans are classified as Level 3. The value of real estate collateral is determined utilizing an appraisal conducted by an independent, licensed appraiser outside of the Company using comparable property sales (Level 2). The appraisals are typically adjusted for cash to sell and liquidation factors for foreclosed properties resulting in level 3 classification.

**Other Real Estate Owned ("OREO"):** OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). OREO valued by an original appraisal discounted for known deterioration is Level 3. Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest income in the consolidated statements of income.

**Assets at Fair Value on a Recurring Basis**

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

| Available for Sale Securities | Total at December 31, 2018 | Fair Value Measurements Using: Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Mortgage-backed securities- U.S. Government agencies and corporations | $ 29,956,625 | $ - | $ 29,956,625 | $ - |
| | $ 29,956,625 | $ - | $ 29,956,625 | $ - |

| Available for Sale Securities | Total at December 31, 2017 | Fair Value Measurements Using: Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Mortgage-backed securities- U.S. Government agencies and corporations | $ 31,489,580 | $ - | $ 31,489,580 | $ - |
| | $ 31,489,580 | $ - | $ 31,489,580 | $ - |

**Assets Recorded at 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. As of December 31, 2018 and 2017, the Company did not have any assets measured at fair value on a nonrecurring basis.

**Note 15. Condensed Financial Statements of Parent Company**

The investment of the Company in its wholly-owned subsidiaries, Community Bank of Parkersburg and Community Bankshares Statutory Trust I, is presented on the equity method of accounting. The Company's balance sheets at December 31, 2018 and 2017, and the related statements of income and cash flows for the years ended December 31, 2018, 2017 and 2016, are presented below:

| Balance Sheets | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash | $ 80,231 | $ 88,520 |
| Investment in subsidiaries, eliminated in consolidation | 26,516,414 | 26,228,060 |
| Other assets | 93,162 | 93,124 |
| **Total assets** | $ 26,689,807 | $ 26,409,704 |
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities** | | |
| Other liabilities | $ 7,228 | $ 5,938 |
| Long-term borrowings | 3,093,000 | 3,093,000 |
| **Total liabilities** | 3,100,228 | 3,098,938 |

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| **Shareholders' Equity** | **2018** | **2017** |
|---|---|---|
| Common stock, $.50 par value, authorized 1,000,000 shares, issued 200,000 shares | $ 100,000 | $ 100,000 |
| Capital surplus | 1,207,264 | 1,207,264 |
| Retained earnings | 26,489,277 | 25,851,901 |
| Accumulated other comprehensive income | | |
| Unrealized gains/(losses) on investment securities | (317,435) | 41,128 |
| Less cost of shares acquired for the treasury of 2018, 26,774; 2017, 26,774 | (3,889,527) | (3,889,527) |
| **Total shareholders' equity** | 23,589,579 | 23,310,766 |
| **Total liabilities and shareholders' equity** | $ 26,689,807 | $ 26,409,704 |

| **Statements of Income** | **2018** | **2017** | **2016** |
|---|---|---|---|
| Income-dividends from subsidiary | $ 2,615,000 | $ 2,865,000 | $ 2,760,000 |
| Interest income | 3,357 | 2,450 | 1,963 |
| Expenses-operating | 133,442 | 85,472 | 68,744 |
| Income before undistributed (distributed) income | 2,484,915 | 2,781,978 | 2,693,219 |
| Equity in undistributed (distributed) income in subsidiary | 646,916 | 362,676 | 1,081,687 |
| **Net income** | $ 3,131.831 | $ 3,144,654 | $ 3,774,906 |

| **Statements of Cash Flows** | **2018** | **2017** | **2016** |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 3,131,831 | $ 3,144,654 | $ 3,774,906 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in (undistributed) distributed net income of subsidiary | (646,918) | (362,676) | (1,081,687) |
| Increase (decrease) in other liabilities | 1,290 | 1,023 | 457 |
| (Increase) decrease in other assets | (37) | (31) | (13) |
| **Net cash provided by operating acitivites** | 2,486,166 | 2,782,970 | 2,693,663 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid to shareholders | (2,494,455) | (2,783,741) | (2,702,326) |
| **Net cash (used in) financing activities** | (2,494,455) | (2,783,741) | (2,702,326) |
| (Decrease) increase in cash | (8,289) | (771) | (8,663) |
| Cash: | | | |
| Beginning | 88,520 | 89,291 | 97,954 |
| Ending | $ 80,231 | $ 88,520 | $ 89,291 |

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Community Bankshares, Inc., accounts for its investment in its bank subsidiaries by the equity method. During the years ended December 31, 2018, 2017 and 2016, changes were as follows:

| | | |
|---|---|---|
| **Number of shares owned -Community Bank of Parkersburg** | | 10,000 |
| **Percent of shares owned- Community Bank of Parkersburg** | | 100% |
| **Number of shares owned- Community Bankshares Statutory Trust I** | | 93 |
| **Percent of shares owned- Community Bankshares Statutory Trust I** | | 100% |
| **Balance at December 31, 2015** | $ | 25,466,002 |
| Add (deduct): | | |
| Equity in net income | | 3,841,687 |
| Dividends declared by subsidiary | | (2,760,000) |
| Change in net unrealized gain (loss) on secruities | | (699,733) |
| Change in funded pension asset | | - |
| **Balance at December 31, 2016** | | 25,847,956 |
| Add (deduct): | | |
| Equity in net income | | 3,227,675 |
| Dividends declared by subsidiary | | (2,865,000) |
| Change in net unrealized gain (loss) on secruities | | 17,429 |
| Change in funded pension asset | | - |
| **Balance at December 31, 2017** | | 26,228,060 |
| Add (deduct): | | |
| Equity in net income | | 3,261,917 |
| Dividends declared by subsidiary | | (2,615,000) |
| Change in net unrealized gain (loss) on secruities | | (358,563) |
| **Balance at December 31, 2018** | $ | 26,516,414 |