

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**

**GRANTSVILLE, WEST VIRGINIA**

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

**DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Calhoun Bankshares, Inc. and Subsidiary  
Grantsville, West Virginia

We have audited the accompanying consolidated financial statements of Calhoun Bankshares, Inc. and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free 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 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 Calhoun Bankshares, Inc. and its Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior period financial statements**

Calhoun Bankshares, Inc. and its Subsidiary's consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2014, were audited by other auditors whose report dated February 8, 2015, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Suttle & Stalaker, PLLC".

Parkersburg, West Virginia  
March 15, 2017

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2016 AND 2015**

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	2016	2015
<b>ASSETS</b>		
Cash and due from banks	\$ 5,182,978	\$ 7,167,901
Interest-earning deposits in other banks	1,414,577	1,016,092
Federal funds sold	531,000	182,000
Cash and cash equivalents	7,128,555	8,365,993
Time deposits	3,486,000	3,486,000
Investment securities		
Securities available-for-sale, at fair value	13,836,056	18,533,839
Other securities	297,700	214,000
Loans	98,321,845	97,026,785
Less: allowance for loan losses	(1,288,063)	(1,208,939)
Loans - net	97,033,782	95,817,846
Accrued interest receivable	419,630	443,720
Premises and equipment - net	1,924,349	1,965,901
Other real estate owned	115,000	316,500
Cash surrender value - bank owned life insurance	3,271,157	3,165,564
Deferred income taxes	1,221,380	1,109,456
Other assets	183,683	303,826
<b>Total assets</b>	<b>\$ 128,917,292</b>	<b>\$ 133,722,645</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Demand - noninterest-bearing	\$ 30,771,585	\$ 35,634,897
Demand - interest-bearing	8,409,031	8,131,050
Savings	35,041,966	33,470,405
Time	34,828,504	39,565,681
Total deposits	109,051,086	116,802,033
Federal Home Loan Bank advances	4,000,000	2,000,000
Accrued interest payable	39,108	50,483
Other liabilities	1,833,420	2,022,956
Total liabilities	114,923,614	120,875,472
Shareholders' equity		
Common stock (par value \$1; 3,000,000 shares authorized; 306,850 shares issued; 292,351 and 279,609 shares outstanding as of December 31, 2016 and 2015, respectively)	306,850	306,850
Additional paid in capital	550,486	556,037
Retained earnings	14,260,960	13,525,179
Less: treasury stock, at cost (14,499 and 27,241 as of December 31, 2016 and 2015, respectively)	(420,972)	(870,633)
Accumulated other comprehensive income (loss)	(703,646)	(670,260)
Total shareholders' equity	13,993,678	12,847,173
<b>Total liabilities and shareholders' equity</b>	<b>\$ 128,917,292</b>	<b>\$ 133,722,645</b>

The accompanying notes are an integral part of these financial statements.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**

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**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016**

	2016	2015	2014
Interest income			
Interest and fees on loans	\$ 5,556,483	\$ 5,523,982	\$ 5,538,952
Interest on deposits in other banks	50,732	44,204	23,352
Interest on federal funds sold	2,496	12,314	14,622
Interest and dividends on investment securities	293,632	285,752	282,159
Total interest income	<u>5,903,343</u>	<u>5,866,252</u>	<u>5,859,085</u>
Interest expense			
Interest on deposits	491,029	585,746	748,191
Interest on borrowings	27,058	2,879	-
Total interest expense	<u>518,087</u>	<u>588,625</u>	<u>748,191</u>
Net interest income	5,385,256	5,277,627	5,110,894
Provision for loan losses	225,000	240,000	105,029
Net interest income after provision for loan losses	<u>5,160,256</u>	<u>5,037,627</u>	<u>5,005,865</u>
Noninterest income			
Service charges and fees on deposits	473,943	413,837	360,901
Other service charges, commissions and fees	348,653	344,700	364,235
Increase in cash surrender value - bank owned life insurance	105,593	103,984	101,992
Net realized gains from sales of investment securities available-for-sale	-	33,802	-
Other income	114,177	118,780	116,408
Total noninterest income	<u>1,042,366</u>	<u>1,015,103</u>	<u>943,536</u>
Noninterest expense			
General and administrative			
Compensation and benefits	2,551,686	2,553,391	2,231,124
Occupancy and equipment	450,396	459,470	470,014
Data processing	311,136	359,766	372,086
Director and committee fees	97,294	92,841	100,563
Equipment, software, and network maintenance	167,496	127,827	114,510
Regulatory fees	208,501	271,412	261,453
Postage and courier	77,429	68,892	78,800
Other expenses	921,419	924,227	913,431
Total noninterest expense	<u>4,785,357</u>	<u>4,857,826</u>	<u>4,541,981</u>
Income before income tax expense	1,417,265	1,194,904	1,407,420
Income tax expense	437,996	347,248	467,000
<b>Net income</b>	<b><u>\$ 979,269</u></b>	<b><u>\$ 847,656</u></b>	<b><u>\$ 940,420</u></b>
Net income available for common shareholders	\$ 979,269	\$ 847,656	\$ 940,420
Per common share data			
Net income	3.46	3.02	3.40
Cash dividend	0.85	0.80	0.80
Average common shares outstanding	283,243	280,411	276,594

The accompanying notes are an integral part of these financial statements.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016**

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	2016	2015	2014
Net income	\$ 979,269	\$ 847,656	\$ 940,420
Other comprehensive income			
Change in unrecognized actuarial gain (loss) of pension plan	204,141	(64,323)	(557,187)
Adjustment for income tax (expense) benefit	(81,657)	25,730	222,880
	<u>122,484</u>	<u>(38,593)</u>	<u>(334,307)</u>
Unrealized gains (losses) on investment securities available-for-sale arising during the period	(259,783)	224,333	608,902
Adjustment for income tax (expense) benefit	103,913	(89,734)	(243,560)
	<u>(155,870)</u>	<u>134,599</u>	<u>365,342</u>
Reclassification adjustment for (gains) losses on investment securities available-for-sale included in net income	-	(33,802)	-
Adjustment for income tax (expense) benefit	-	13,521	-
	<u>-</u>	<u>(20,281)</u>	<u>-</u>
Other comprehensive income (loss), net of income tax	<u>(33,386)</u>	<u>75,725</u>	<u>31,035</u>
<b>Comprehensive income</b>	<b><u>\$ 945,883</u></b>	<b><u>\$ 923,381</u></b>	<b><u>\$ 971,455</u></b>

The accompanying notes are an integral part of these financial statements.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016**

	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as of December 31, 2013	\$ 306,850	\$ 556,037	\$ 12,183,222	\$ (1,065,080)	\$ (777,020)	\$ 11,204,009
Comprehensive income	-	-	940,420	-	31,035	971,455
Purchases of treasury stock (336 shares)	-	-	-	(10,980)	-	(10,980)
Sales of treasury stock (3,995 shares)	-	-	-	123,845	-	123,845
Cash dividends declared (\$0.80 per share)	-	-	(221,585)	-	-	(221,585)
Balance as of December 31, 2014	306,850	556,037	12,902,057	(952,215)	(745,985)	12,066,744
Comprehensive income	-	-	847,656	-	75,725	923,381
Purchases of treasury stock (3,616 shares)	-	-	-	(115,150)	-	(115,150)
Sales of treasury stock (6,236 shares)	-	-	-	196,732	-	196,732
Cash dividends declared (\$0.80 per share)	-	-	(224,534)	-	-	(224,534)
Balance as of December 31, 2015	306,850	556,037	13,525,179	(870,633)	(670,260)	12,847,173
Comprehensive income	-	-	979,269	-	(33,386)	945,883
Purchases of treasury stock (822 shares)	-	-	-	(28,770)	-	(28,770)
Sales of treasury stock (13,564 shares)	-	(5,551)	-	478,431	-	472,880
Cash dividends declared (\$0.85 per share)	-	-	(243,488)	-	-	(243,488)
<b>Balance as of December 31, 2016</b>	<b>\$ 306,850</b>	<b>\$ 550,486</b>	<b>\$ 14,260,960</b>	<b>\$ (420,972)</b>	<b>\$ (703,646)</b>	<b>\$ 13,993,678</b>

The accompanying notes are an integral part of these financial statements.



**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities			
Net income	\$ 979,269	\$ 847,656	\$ 940,420
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation	229,667	254,761	294,254
Provision for loan losses	225,000	240,000	105,029
Provision for deferred income tax	(89,668)	(159,876)	(51,000)
Amortizations (accretions) on investments - net	12,025	22,249	(11,056)
Net realized (gains) losses from sales of investment securities available-for-sale	-	(33,802)	-
Net realized (gains) losses from disposal of premises and equipment	-	3,425	-
Net realized (gains) losses from sales of other real estate owned	2,741	14,387	20,155
Other real estate owned writedown	36,500	80,000	39,000
(Increase) decrease in accrued interest receivable	24,090	(13,673)	(20,806)
(Increase) decrease in cash surrender value - bank owned life insurance	(105,593)	(103,984)	(101,992)
(Increase) decrease in other assets	120,143	(9,674)	39,866
Increase (decrease) in accrued interest payable	(11,375)	(26,471)	(1,452)
Increase (decrease) in other liabilities	14,605	10,312	(153,825)
Total adjustments	<u>458,135</u>	<u>277,654</u>	<u>158,173</u>
Net cash flows provided (used) by operating activities	<u>1,437,404</u>	<u>1,125,310</u>	<u>1,098,593</u>
Cash flows from investing activities			
Net (increase) decrease in time deposits	-	249,000	(2,241,000)
Purchases of investment securities available-for-sale	(10,280,965)	(7,749,849)	(2,708,250)
Proceeds from maturities and calls of investment securities available-for-sale	13,813,953	4,250,000	1,664,972
Proceeds from principal payments on mortgage-backed securities available-for-sale	892,987	536,814	-
Proceeds from sales of investment securities available-for-sale	-	3,030,000	-
Purchases of other investment securities	-	(66,000)	-
Purchase of Federal Home Loan Bank stock	(163,700)	(83,800)	-
Redemption of Federal Home Loan Bank stock	80,000	-	147,800
Loan originations and principal payment on loans	(1,578,693)	(3,851,069)	(1,055,428)
Proceeds from sales of other real estate owned	300,016	76,310	111,674
Capital expenditures	(188,115)	(85,402)	(72,768)
Net cash flows provided (used) by investing activities	<u>2,875,483</u>	<u>(3,693,996)</u>	<u>(4,153,000)</u>
Cash flows from financing activities			
Net increase (decrease) in total deposits	(7,750,947)	(408,382)	4,335,344
Net increase (decrease) in Federal Home Loan Bank advances	2,000,000	2,000,000	-
Purchases of treasury stock	(28,770)	(115,150)	(10,980)
Sales of treasury stock	472,880	196,732	123,845
Cash dividends paid	(243,488)	(224,534)	(221,585)
Net cash flows provided (used) by financing activities	<u>(5,550,325)</u>	<u>1,448,666</u>	<u>4,226,624</u>
Net increase (decrease) in cash and cash equivalents	(1,237,438)	(1,120,020)	1,172,217
Cash and cash equivalents at beginning of year	<u>8,365,993</u>	<u>9,486,013</u>	<u>8,313,796</u>
<b>Cash and cash equivalents at end of year</b>	<u><b>\$ 7,128,555</b></u>	<u><b>\$ 8,365,993</b></u>	<u><b>\$ 9,486,013</b></u>

The accompanying notes are an integral part of these financial statements.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2016**  
**(Continued)**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Supplemental schedule of noncash investing and financing activities			
Loans transferred to other real estate owned	\$ 174,757	\$ 54,058	\$ 30,000
Sales of other real estate owned financed through loans	\$ 37,000	\$ 10,000	\$ -
Supplemental disclosure of cash flows information			
Cash paid during the year for			
Interest	\$ 529,462	\$ 615,096	\$ 749,643
Income taxes	\$ 496,164	\$ 568,000	\$ 563,187

The accompanying notes are an integral part of these financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

Nature of operations - Calhoun Bankshares, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned Subsidiary, Calhoun County Bank, Inc. (the Bank). The Bank provides banking services to domestic markets with the primary market areas being Calhoun, Gilmer, and Wirt counties, and the secondary market area being all of the contiguous counties. To a large extent, the operations of the Company and its Subsidiary Bank, such as loan portfolio management and deposit growth, are directly affected by the market area economy.

Basis of financial statement presentation - The accounting and reporting policies of the Company and its Subsidiary conform with accounting principles generally accepted in the United States of America and with general practices followed within the banking industry.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Subsidiary, Calhoun County Bank, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates - The preparation of consolidated financial statements 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. Estimates, such as the allowance for loan losses, are based on known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. In addition, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other-than-temporary impairment on investments. Actual results could differ from those estimates.

Presentation of cash flows - For the purpose of reporting cash flows, the Company and its Subsidiary have defined cash and cash equivalents as those amounts included in the consolidated balance sheets captions "Cash and due from banks" and "Interest-earning deposits in other banks," which have original maturities of ninety (90) days or less, and "Federal funds sold." Generally, federal funds are sold for one-day periods.

Investment securities - It is the policy of the Bank to prohibit the use of their respective investment accounts to maintain a trading account or to speculate in securities that would demonstrate management's intent to profit from short-term price movements.

Debt securities are classified as held-to-maturity when management has both the intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts computed by the interest method from purchase date to maturity. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES  
(Continued)

Securities not classified as held-to-maturity or as trading are classified as available-for-sale. Securities available-for-sale are carried at estimated fair value based on information provided by a third party pricing service, with unrealized gains and losses, net of the deferred income tax effect, reported in accumulated other comprehensive income. Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of income tax, in other comprehensive income. The cost of securities sold is determined on the specific-identification method. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the contractual terms of the securities.

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

Loans and allowance for loan losses - Loans are stated at the amount of unpaid principal, less the allowance for loan losses. Interest on loans is accrued daily based on principal amounts outstanding. Accrual of interest is discontinued on an impaired loan when management believes, after consideration of economic and business conditions and collections efforts, the borrowers' financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent of cash payments received.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb possible losses on existing loans that may become uncollectable based on evaluations of the collectability of loans and prior loan loss experience.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES  
(Continued)

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, management does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or are substantially different from the homogeneous loan pool.

Troubled debt restructurings (TDRs) - A restructuring of debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The determination of whether a concession has been granted includes an evaluation of the debtor's ability to access funds at a market rate for debt with similar risk characteristics and among other things, the significance of the modification relative to unpaid principal or collateral value of the debt, and/or the significance of a delay in the timing of payments relative to the frequency of payments, original maturity date or the expected duration of the loan. The most common concessions granted generally include one or more modifications to the terms of the debt such as a reduction in the interest rate for the remaining life of the debt, an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reduction of the unpaid principal or interest. All TDRs are considered impaired loans.

Premises and equipment - Land is carried at cost. Bank buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using straight-line or a declining-balance method for financial reporting purposes over the estimated useful lives of the respective assets. Useful lives are revised when a change in life expectancy becomes apparent.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations as realized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES  
(Continued)

Other real estate owned - Real estate acquired through, or in lieu of, loan foreclosure is held-for-sale and is initially recorded at the lower of the Bank's cost (book value) or fair value less estimated selling costs at the date of foreclosure. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower new fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed.

Advertising - It is the policy to expense advertising costs as incurred. Advertising expense for the years ended December 31, 2016, 2015, and 2014 were \$55,110, \$50,915, and \$30,286, respectively.

Income taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of securities available-for-sale, unrecognized actuarial loss of the pension plan, supplemental employee benefit plans, subsequent loss writedowns on other real estate owned, the allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation limitation reserves are established, as deemed necessary, and adjusted periodically on certain deferred tax assets to reflect estimated recoverability of the asset in a reasonable time period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and its Subsidiary file consolidated federal and state tax returns. Tax allocation arrangements between the Company and its Subsidiary follow the policy of determining federal and state income taxes as if the Subsidiary filed separate federal and state income tax returns with consolidation surtax eliminations at the Company's level.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES  
(Continued)

The accumulated other comprehensive income component of shareholders' equity results from the following:

	December 31,	
	2016	2015
Unrealized (gains) losses on available-for-sale securities	\$ (182,715)	\$ (26,845)
Unrecognized actuarial loss of the defined benefit plan	(520,931)	(643,415)
Accumulated other comprehensive income (loss)	\$ (703,646)	\$ (670,260)

Net income per common share - Net income per common share amounts are computed based on the weighted average number of common shares outstanding during the period.

Reclassification of prior years' statements - Certain amounts in the consolidated financial statements for 2015 and 2014, as previously presented, have been reclassified to conform with the 2016 financial statement presentation. The reclassifications had no effect on net income, comprehensive income, or shareholders' equity.

Date of management's review of subsequent events - Management has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 15, 2017, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Subsidiary Bank met the requirement to maintain reserve funds by either cash on hand or cash on deposit with the Federal Reserve Bank as of December 31, 2016 and 2015. In addition, the Bank is required to maintain a reserve with a correspondent bank in the amount of \$250,000 and \$250,000 as of December 31, 2016 and 2015, respectively.

**NOTE 3 - INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities available-for-sale as of December 31, 2016 and 2015 are summarized as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
<u>December 31, 2016</u>				
U.S. government and federal agencies	\$ 8,678,512	\$ 5,824	\$ (172,862)	\$ 8,511,474
Mortgage backed	5,462,069	6,315	(143,802)	5,324,582
<b>Total</b>	<b>\$ 14,140,581</b>	<b>\$ 12,139</b>	<b>\$ (316,664)</b>	<b>\$ 13,836,056</b>
<u>December 31, 2015</u>				
U.S. government and federal agencies	\$ 15,953,555	\$ 35,257	\$ (83,154)	\$ 15,905,658
Mortgage backed	2,625,026	12,730	(9,575)	2,628,181
<b>Total</b>	<b>\$ 18,578,581</b>	<b>\$ 47,987</b>	<b>\$ (92,729)</b>	<b>\$ 18,533,839</b>

The caption "Other securities" in the consolidated balance sheets consists of CBB Financial Corporation stock and Federal Home Loan of Pittsburgh stock, which are restricted equity securities carried at cost because no ready market exists since it is restricted as to their marketability.

Other securities consist of the following:

	December 31,	
	2016	2015
CBB Financial Corporation	\$ 66,000	\$ 66,000
Federal Home Loan Bank of Pittsburgh	231,700	148,000
<b>Total</b>	<b>\$ 297,700</b>	<b>\$ 214,000</b>

The amortized cost and fair value of securities as of December 31, 2016, are summarized by contractual maturity as follows:

	Amortized Costs	Fair Value
Due within one year or less	\$ -	\$ -
Due after one year through five years	4,670,448	4,650,475
Due after five years through ten years	5,091,105	4,947,197
Due after ten years	4,379,028	4,238,384
<b>Total</b>	<b>\$ 14,140,581</b>	<b>\$ 13,836,056</b>



**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3 - INVESTMENT SECURITIES (Continued)

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. The amortized cost and fair value of mortgage-backed securities are presented in the available-for-sale category by contractual maturity in the preceding table.

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The following is a summary of the proceeds from the sales or calls of investment securities available-for-sale, which resulted in realized gains and losses:

	Proceeds	Gross Realized Gains	Gross Realized Losses
For the year ended December 31,			
2016	\$ -	\$ -	\$ -
2015	\$ 3,030,000	\$ 33,802	\$ -
2014	\$ -	\$ -	\$ -

Investment securities with a carrying amount of approximately \$3,896,000 and \$4,971,000 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to investment securities available-for-sale with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in continuous loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>December 31, 2016</u>						
U.S. government and federal agencies	\$ 6,507,001	\$ (172,862)	\$ -	\$ -	\$ 6,507,001	\$ (172,862)
Mortgage backed	4,607,113	(143,802)	-	-	4,607,113	(143,802)
Total	\$11,114,114	\$ (316,664)	\$ -	\$ -	\$11,114,114	\$ (316,664)
<u>December 31, 2015</u>						
U.S. government and federal agencies	\$ 8,913,944	\$ (72,005)	\$ 987,255	\$ (11,149)	\$ 9,901,199	\$ (83,154)
Mortgage backed	1,249,424	(9,575)	-	-	1,249,424	(9,575)
Total	\$10,163,368	\$ (81,580)	\$ 987,255	\$ (11,149)	\$11,150,623	\$ (92,729)

NOTE 3 - INVESTMENT SECURITIES (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is evaluated considering numerous factors and their relative significance varies from case to case. Factors considered include the length of time and extent to which the fair 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 fair value.

As of December 31, 2016, the sixteen (16) debt securities with unrealized losses have depreciated approximately 2.77% from the Bank's amortized cost basis. These debt securities are predominately rated investment grade securities (A3 or better) and the unrealized losses are due to the current interest rate environment and not due to any underlying credit concerns of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of recorded investment in loans by segment is as follows:

	2016	2015
Commercial	\$ 8,480,935	\$ 8,256,378
Commercial real estate	16,756,570	16,782,474
Residential real estate	64,052,884	61,668,565
Consumer and other	9,031,456	10,319,368
 Total loans	 98,321,845	 97,026,785
Less: allowance for loan losses	(1,288,063)	(1,208,939)
 Loans - net	 \$ 97,033,782	 \$ 95,817,846

As of December 31, 2016 and 2015, overdrafts from deposit accounts of \$18,506 and \$10,923, respectively, are included within the appropriate loan segment above.

Loans and loan commitments, which are comprised primarily of loans to borrowers in Calhoun, Gilmer, and Wirt counties, and all contiguous counties, are in oil and gas, residential real estate, health care, and retail/service industries.

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

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest, unless the loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days). When interest accruals are discontinued, unpaid interest is reversed against interest income. The Bank's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Bank's age analysis of the past due loans, segregated by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
<u>December 31, 2016</u>							
Secured by real estate							
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 693,559	\$ 693,559	\$ -
Residential	1,587,390	490,088	373,117	2,450,595	60,072,419	62,523,014	249,504
Commercial	161,641	342,502	139,691	643,834	15,769,769	16,413,603	-
Commercial and industry	115,931	30,346	123,699	269,976	9,299,697	9,569,673	55,584
Consumer and other	125,431	98,749	27,230	251,410	8,870,586	9,121,996	27,230
Total	<u>\$ 1,990,393</u>	<u>\$ 961,685</u>	<u>\$ 663,737</u>	<u>\$ 3,615,815</u>	<u>\$ 94,706,030</u>	<u>\$ 98,321,845</u>	<u>\$ 332,218</u>
<u>December 31, 2015</u>							
Secured by real estate							
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 550,256	\$ 550,256	\$ -
Residential	1,682,807	478,385	491,535	2,652,727	58,465,582	61,118,309	130,667
Commercial	145,374	134,099	341,156	620,629	16,161,845	16,782,474	-
Commercial and industry	28,007	95,239	24,500	147,746	8,108,632	8,256,378	24,500
Consumer and other	215,076	88,026	130,219	433,321	9,886,047	10,319,368	130,219
Total	<u>\$ 2,071,264</u>	<u>\$ 795,749</u>	<u>\$ 987,410</u>	<u>\$ 3,854,423</u>	<u>\$ 93,172,362</u>	<u>\$ 97,026,785</u>	<u>\$ 285,386</u>

Loans are placed on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, or part of the principal balance has been charged off and no restructuring has occurred.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

When a loan is placed on nonaccrual status, accrued unpaid interest receivable is reversed against interest income and future interest is recognized on the cash method until the loan qualifies for return to accrual status. Generally, a loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectibility is no longer in doubt.

The following table sets forth the Bank's nonaccrual loans, segregated by class loans:

	2016	2015
Secured by real estate		
Construction and land development	\$ -	\$ -
Residential	190,748	421,486
Commercial	239,735	458,167
Commercial and industry	68,115	-
Consumer and other	-	-
	\$ 498,598	\$ 879,653

Information on troubled debt restructuring (TDRs) modified during December 31, 2016 and 2015 is as follows:

	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>December 31, 2016</u>			
Commercial and industry	1	\$ 129,439	\$ 129,644
Consumer and other	2	46,579	47,228
	3	\$ 176,018	\$ 176,872
<u>December 31, 2015</u>			
Secured by real estate			
Commercial	1	\$ 19,491	\$ 19,491

During 2016, the TDRs shown in the table were modified by capitalizing the accrued interest to the loan balance and extending the term.

The TDR shown in the table was modified during 2015 by changing the single repayment to monthly payments and an extension of the term.

There have been no loans modified as TDRs within the previous twelve months that have subsequently re-defaulted as of December 31, 2016.

As of December 31, 2016, there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables represent credit exposures by creditworthiness category for the year ended December 31, 2016 and 2015. The use of creditworthiness categories to grade loans permits management to assess individual risk categories separately to estimate the respective portion of credit risk. The Bank's internal creditworthiness grading system is based on experience with similarly graded loans. Category ratings are reviewed each quarter, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration from one loan risk rating to another. Loans that trend upward toward better ratings generally have a lower risk factor associated; whereas, loans that migrate toward a poorer rating generally will result in a higher risk factor being applied to those related loan balances. Loans are graded on a scale of 1 through 9 with a grade of 5 or below classified as "Pass" rated credits. The following is a description of the general characteristics of risk grades 6 through 9:

6 - Special mention – This is an early warning assessment reserved for loans currently adequately protected, but portraying one or more deficiencies that may not be tolerable over the intermediate to long term. These loans may possess deteriorating financial characteristics, significant legal or documentation exceptions as measured by loan policy, and any other items noted which are worthy of immediate attention and/or correction.

7 - Substandard – These loans have well defined weaknesses, which could lead to impairment of the loan. These loans have had serious deterioration of borrower or guarantor financial condition, which could result in the Bank not collecting all principal and interest in a timely manner as defined by the loan agreement.

8 - Doubtful – These loans have characteristics such that collection of principal is highly unlikely. While the possibility of loss is high, sufficient contingencies exist to warrant deferral of charge off pending the outcome of the contingency. Possibilities still exist which may strengthen or enhance the collection process. Generally these loans are on nonaccrual status.

9 - Loss – These loans are judged to be uncollectible and of such value that carrying the loan as an asset is not warranted. Loans in this category may still have recoverability of some or all principal, however it is not practical or desirable to defer such a charge off pending recovery.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table sets forth the Bank's credit quality indicators information, segregated by class of loans:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
<u>December 31, 2016</u>						
Secured by real estate						
Construction and land						
development	\$ 693,559	\$ -	\$ -	\$ -	\$ -	\$ 693,559
Residential	61,168,506	826,985	381,734	145,789	-	62,523,014
Commercial	14,544,270	1,071,364	466,556	331,413	-	16,413,603
Commercial and industry	8,090,896	1,257,191	205,211	16,375	-	9,569,673
Consumer and other	8,996,590	86,308	39,098	-	-	9,121,996
Total	<u>\$ 93,493,821</u>	<u>\$ 3,241,848</u>	<u>\$ 1,092,599</u>	<u>\$ 493,577</u>	<u>\$ -</u>	<u>\$ 98,321,845</u>
<u>December 31, 2015</u>						
Secured by real estate						
Construction and land						
development	\$ 550,256	\$ -	\$ -	\$ -	\$ -	\$ 550,256
Residential	59,402,120	985,650	285,049	445,490	-	61,118,309
Commercial	14,686,435	1,076,111	461,375	558,553	-	16,782,474
Commercial and industry	6,615,126	1,480,698	21,718	138,836	-	8,256,378
Consumer and other	10,120,584	145,520	23,490	29,774	-	10,319,368
Total	<u>\$ 91,374,521</u>	<u>\$ 3,687,979</u>	<u>\$ 791,632</u>	<u>\$ 1,172,653</u>	<u>\$ -</u>	<u>\$ 97,026,785</u>

The Bank considers a loan to be impaired when, based on current information and events, management determines that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Bank identifies a loan as impaired, the Bank measures the impairment based primarily on the estimated net liquidation value of the collateral. In these cases, the Bank uses the current fair value of the collateral, less estimated selling cost. If the estimated value of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectibility of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal. When the ultimate collectibility of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table sets forth the recorded investment and unpaid principal balances for impaired loans by class of loans. Also presented is the average recorded investment of the impaired loans and related amount of interest recognized during the time period that the impaired loans were impaired. The average balances are calculated based on month-end balances of the loans for the period reported.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2016</u>					
With no related allowance recorded					
Secured by real estate					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	267,965	267,965	-	97,713	8,337
Commercial	239,735	239,735	-	327,473	-
Commercial and industry	39,209	39,209	-	44,832	5,205
Consumer and other	26,933	26,933	-	12,285	3,128
With an allowance recorded					
Secured by real estate					
Construction and land development	-	-	-	-	-
Residential	411,668	411,668	153,607	268,285	17,704
Commercial	352,636	352,636	89,561	305,687	24,126
Commercial and industry	205,044	205,044	64,990	100,038	6,391
Consumer and other	-	-	-	-	-
<b>Total</b>	<b>\$ 1,543,190</b>	<b>\$ 1,543,190</b>	<b>\$ 308,158</b>	<b>\$ 1,156,313</b>	<b>\$ 64,891</b>
<u>December 31, 2015</u>					
With no related allowance recorded					
Secured by real estate					
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	433,962	433,962	-	283,307	9,857
Commercial	117,011	117,011	-	123,389	-
Commercial and industry	-	-	-	-	-
Consumer and other	130,220	130,220	-	45,290	8,126
With an allowance recorded					
Secured by real estate					
Construction and land development	-	-	-	-	-
Residential	324,755	324,755	84,806	266,487	15,815
Commercial	796,884	796,884	227,121	655,872	27,102
Commercial and industry	129,669	129,669	75,096	137,212	5,886
Consumer and other	-	-	-	-	-
<b>Total</b>	<b>\$ 1,932,501</b>	<b>\$ 1,932,501</b>	<b>\$ 387,023</b>	<b>\$ 1,511,557</b>	<b>\$ 66,786</b>

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The Bank has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank segments certain loans in its portfolio by product type. The loans are segmented into the following pools: commercial, commercial real estate, residential real estate, and consumer and other loans. Each segment of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of the portfolio segment. The Bank uses internally developed financial models in this process. Management must use judgment in establishing additional input matrix for the estimation process. The following are the factors management uses to determine the balance of the allowance account for each segment of loans.

Commercial and commercial real estate loans - Management maintains a watch list for those non-performing loans for which there is a possible current or future impairment. This list is updated quarterly and is considered in the quarterly loan loss reserve review. Quarterly, the Bank contracts an independent third party to assist management in performing a detail loan review. The quarterly loan review is scheduled so that all commercial borrower relationships in excess of \$250,000 are reviewed at least annually.

The loan review process includes the following:

- Verifying the individual risk rating assigned by the Bank's loan officers.
- Reviewing and verifying the Bank's documentation control system.
- Preparing a detail assessment of loan quality, adequacy of loan documentation, and compliance with bank policy.
- Verifying the loan officers are identifying and reporting problem loans so that adequate measures can be taken to avoid (or reduce) future loan losses.

Performing commercial loans with borrower relationships less than \$250,000 are pooled and a historical loss percentage is applied to the loan pool.



NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Residential real estate - Residential real estate and home equity loans are pooled and a historical loss percentage is applied to the pool.

Consumer and other loans - Consumer and other loans are pooled and a historical loss percentage is applied to the pool.

In addition to the historical loss percentages applied to the homogeneous loan pools, an additional loss percentage is applied for a number of qualitative factors. Factors considered include the following:

- Levels / trends in past due loans
- Levels / trends in charge-offs and recoveries
- Trends in volumes and terms of loans
- Changes in lending policies, procedures, and practices
- Experience, ability, and depth of lending management and staff
- Regional and local economic trends and conditions
- Industry trends and conditions
- Changes in credit concentrations

The required additions to the reserve for loan loss is determined on a quarterly basis based on all of the information gathered by the individual loan review, assessment of potential losses based on borrower financial strength, loan collateral, and qualitative and quantitative factors. Management's recommendation relating to changes in the allowance for loan losses is approved quarterly by the Board of Directors.

The total allowance reflects management's estimate of the loan loss inherent in the loan portfolio at the balance sheet date. Management considers the allowance for loan losses adequate to cover the loan losses in the loan portfolio as of December 31, 2016 and 2015.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of December 31, 2016 and 2015.

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
<u>December 31, 2016</u>						
Allowance for loan losses						
Beginning balance	\$ 106,216	\$ 332,681	\$ 146,428	\$ 72,159	\$ 551,455	\$ 1,208,939
Charge-offs	-	-	(101,641)	(113,735)	-	(215,376)
Recoveries	40,000	-	-	29,500	-	69,500
Provision	(56,105)	(170,089)	186,628	107,629	156,937	225,000
Ending balance	<u>90,111</u>	<u>162,592</u>	<u>231,415</u>	<u>95,553</u>	<u>708,392</u>	<u>1,288,063</u>
Ending balance - individually evaluated for impairment	<u>64,990</u>	<u>89,561</u>	<u>153,607</u>	<u>-</u>	<u>-</u>	<u>308,158</u>
Ending balance - collectively evaluated for impairment	<u>25,121</u>	<u>73,031</u>	<u>77,808</u>	<u>95,553</u>	<u>708,392</u>	<u>979,905</u>
Financing receivables						
Ending balance	<u>8,480,935</u>	<u>16,756,570</u>	<u>64,052,884</u>	<u>9,031,456</u>		<u>98,321,845</u>
Ending balance - individually evaluated for impairment	<u>205,044</u>	<u>352,636</u>	<u>411,668</u>	<u>-</u>		<u>969,348</u>
Ending balance - collectively evaluated for impairment	<u>\$ 8,275,891</u>	<u>\$ 16,403,934</u>	<u>\$ 63,641,216</u>	<u>\$ 9,031,456</u>		<u>\$97,352,497</u>
<u>December 31, 2015</u>						
Allowance for loan losses						
Beginning balance	\$ 144,017	\$ 273,430	\$ 124,002	\$ 90,640	\$ 460,965	\$ 1,093,054
Charge-offs	-	-	(85,385)	(84,914)	-	(170,299)
Recoveries	7,000	-	-	39,184	-	46,184
Provision	(44,801)	59,251	107,811	27,249	90,490	240,000
Ending balance	<u>106,216</u>	<u>332,681</u>	<u>146,428</u>	<u>72,159</u>	<u>551,455</u>	<u>1,208,939</u>
Ending balance - individually evaluated for impairment	<u>75,096</u>	<u>227,196</u>	<u>84,731</u>	<u>-</u>	<u>-</u>	<u>387,023</u>
Ending balance - collectively evaluated for impairment	<u>31,120</u>	<u>105,485</u>	<u>61,697</u>	<u>72,159</u>	<u>551,455</u>	<u>821,916</u>
Financing receivables						
Ending balance	<u>8,256,378</u>	<u>16,782,474</u>	<u>61,668,565</u>	<u>10,319,368</u>		<u>97,026,785</u>
Ending balance - individually evaluated for impairment	<u>162,423</u>	<u>1,000,166</u>	<u>930,645</u>	<u>-</u>		<u>2,093,234</u>
Ending balance - collectively evaluated for impairment	<u>\$ 8,093,955</u>	<u>\$ 15,782,308</u>	<u>\$ 60,737,920</u>	<u>\$ 10,319,368</u>		<u>\$94,933,551</u>

**NOTE 5 - RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company and its Subsidiary have and expect to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers and did not involve more than a normal credit risk of collectibility or present any other unfavorable features to the Company and its Subsidiary. Loans to such borrowers are summarized as follows:

	December 31,	
	2016	2015
Balance at beginning of year	\$ 2,093,490	\$ 1,558,014
Repayments	(133,515)	(224,806)
Borrowings	901,915	206,349
Change in status	(1,487,520)	553,933
	<u>\$ 1,374,370</u>	<u>\$ 2,093,490</u>

**NOTE 6 - ACCRUED INTEREST RECEIVABLE**

Accrued interest receivable consists of the following:

	December 31,	
	2016	2015
Time deposits	\$ 12,607	\$ 11,559
Investment securities	41,027	42,280
Loans	365,996	389,881
	<u>\$ 419,630</u>	<u>\$ 443,720</u>

**NOTE 7 - PREMISES AND EQUIPMENT**

The major categories of premises and equipment are as follows:

	December 31,	
	2016	2015
Bank premises	\$ 4,078,320	\$ 3,916,904
Equipment, furniture, and fixtures	2,167,470	2,140,771
	<u>6,245,790</u>	<u>6,057,675</u>
Allowance for depreciation	(4,321,441)	(4,091,774)
	<u>\$ 1,924,349</u>	<u>\$ 1,965,901</u>

NOTE 7 - PREMISES AND EQUIPMENT (Continued)

Depreciation expense for the years ended December 31, 2016, 2015, and 2014 included in the "Occupancy and equipment" caption on the consolidated statements of income totaled \$229,667, \$254,761, and \$294,254, respectively.

NOTE 8 - OTHER REAL ESTATE OWNED

The following is a summary of activity of other real estate owned, expected to be disposed of in the near term, for the years ended:

	December 31,	
	2016	2015
Balance at beginning of year	\$ 316,500	\$ 447,197
Loan foreclosures and in lieu of foreclosures	262,785	84,815
Adjustment to carrying value		
At date of foreclosed or repossession	(79,785)	(30,757)
Additional valuation adjustments	(36,500)	(80,000)
Insurance reimbursement	(8,243)	(7,000)
Other foreclosure costs	-	2,942
	454,757	417,197
Total foreclosed properties for disposition		
Sales of other real estate owned	337,016	86,310
Net realized (gains) losses on sales	2,741	14,387
	339,757	100,697
Total basis of other real estate owned sold		
Balance at end of year	\$ 115,000	\$ 316,500

Subsequent writedowns and realized gains and losses on the sale of other real estate owned are recognized in the "Other expense" caption on the consolidated statements of income.

NOTE 9 - DEPOSITS

Time deposits issued in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 or more totaled \$8,690,064 and \$10,644,451 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the maturity distribution of time deposits is as follows:

2017	\$ 16,134,886
2018	8,988,748
2019	1,248,898
2020	3,083,526
2021 and thereafter	5,372,446
	\$ 34,828,504

NOTE 9 - DEPOSITS (Continued)

The Bank held related party deposits of approximately \$322,000 and \$498,300 as of December 31, 2016 and 2015, respectively.

NOTE 10 - SHORT - TERM BORROWING

The Bank has obtained an unsecured, uncommitted, borrowing facility for the purchase of federal funds in the amount of \$3,000,000 from Community Bankers Bank. Any borrowings bear an interest rate which is determined at the time of each advance. Request for advances under the facility is subject to Community Bankers Bank's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2016 and 2015, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has available short-term borrowings from collateralized advances. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and may be subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 to 4 family mortgages made by the Bank and other eligible collateral. As of December 31, 2016, no loans were pledged for collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately \$48,550,100 based on qualifying loan collateral. The borrowings outstanding are as follows:

	Amount	Interest Rate	Maturity Date
<u>December 31, 2016</u>			
Advance	\$ 2,000,000	0.75600%	February 13, 2017
Advance	2,000,000	0.90867%	May 15, 2017
Balance at end of year	\$ 4,000,000		
<u>December 31, 2015</u>			
Advance	\$ 2,000,000	0.56331%	February 18, 2016

NOTE 11 - OTHER NONINTEREST EXPENSE

The following items of other noninterest expense exceeded one percent of total revenue for the years indicated:

	December 31,		
	2016	2015	2014
Other noninterest expense			
ATM expenses	\$ 282,185	\$ 232,495	\$ 268,854
Insurance and bonds	N/A	72,408	72,702
Losses from OREO	N/A	94,387	N/A
Management service fees	100,111	120,875	103,477
Telephone	73,057	N/A	N/A

NOTE 12 - INCOME TAXES

The consolidated provision for income taxes consists of the following for the years ended:

	December 31,		
	2016	2015	2014
Current			
Federal	\$ 485,164	\$ 476,250	\$ 471,000
State	42,500	30,874	47,000
	<u>527,664</u>	<u>507,124</u>	<u>518,000</u>
Deferred (benefit)			
Federal	(76,215)	(135,898)	(46,000)
State	(13,453)	(23,978)	(5,000)
	<u>(89,668)</u>	<u>(159,876)</u>	<u>(51,000)</u>
Total income tax expense	<u>\$ 437,996</u>	<u>\$ 347,248</u>	<u>\$ 467,000</u>

The consolidated provision for income taxes differs from the amounts computed by applying the U.S. federal statutory income tax rates to income before income tax expense as a result of the following:

	December 31,					
	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Federal statutory tax rate	\$ 471,994	34.0%	\$ 403,923	34.0%	\$ 480,700	34.0%
Tax effect of						
Tax exempt income	(44,950)	(3.7)	(41,800)	(3.6)	(37,300)	(2.6)
State income taxes, net of federal tax benefit	19,170	1.3	4,550	0.4	24,000	1.7
Other items	(8,218)	(0.7)	(19,425)	(1.7)	(400)	-
Reported effective tax rate	<u>\$ 437,996</u>	<u>30.9%</u>	<u>\$ 347,248</u>	<u>29.1%</u>	<u>\$ 467,000</u>	<u>33.1%</u>

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

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the need for a valuation allowance and will recognize tax benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

NOTE 12 - INCOME TAXES (Continued)

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

	December 31,	
	2016	2015
Deferred tax assets		
Allowance for loan losses	\$ 381,862	\$ 350,210
Defined benefit plan – minimum pension liability	347,287	428,944
Supplemental executives and directors benefit plan	280,890	279,020
Other real estate owned	-	32,000
Nonaccrual loan interest	45,914	9,500
Accumulated depreciation	44,885	-
Unrealized losses on investment securities available-for-sale	121,810	17,897
Total deferred tax assets	1,222,648	1,117,571
Deferred tax liabilities		
Accumulated depreciation	-	(3,830)
Other items	(1,268)	(4,285)
Total deferred tax liabilities	(1,268)	(8,115)
Net deferred tax assets	\$ 1,221,380	\$ 1,109,456

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and its Subsidiary and recognize a tax liability (or asset) if the Company and its Subsidiary have taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Company and its Subsidiary, and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Company files income tax returns in the United States federal jurisdiction and West Virginia state jurisdiction, and is subject to examination of those filings by the authorities representing those jurisdictions. There are no current examinations in process for any filings, and management believes that the Company is not subject to audit for any years prior to 2013.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined benefit pension plan - The Company has a defined benefit plan covering full-time employees hired before March 14, 2013. Benefits are based on final average earnings and years of service. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of Employee Retirement Income Security Act of 1974 (ERISA) and that is tax deductible under the Internal Revenue Code. Plan assets are held by a trust and are invested in a variety of equity and fixed income securities.

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Generally Accepted Accounting Principles (GAAP) requires an employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Total recorded pension liability included in other liabilities as of December 31, 2016 and 2015 is \$806,389 and \$1,072,359, respectively.

Information regarding the Company's pension benefits is presented below:

The weighted average assumptions used to develop the net periodic pension cost and the calculation of plan liabilities are as follows:

	December 31,	
	2016	2015
Discount rate	4.25%	4.50%
Long term rate of return	6.50%	6.50%
Rate of compensation increase	3.00%	4.00%

The assumed long term rate of return is based on the approximate historical performance of plan assets.

Net periodic pension cost includes the following components:

	December 31,	
	2016	2015
Service cost - benefit earned during the period	\$ 142,746	\$ 142,434
Interest cost on projected benefit obligation	117,033	102,590
Expected return on plan assets	(106,531)	(103,633)
Amortization of transition obligation	-	4,651
Recognized net actuarial loss	48,095	39,547
Net periodic pension cost	\$ 201,343	\$ 185,589



NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The following table sets forth the pension plan's funded status as of the latest available actuarial valuations with measurement dates of December 31:

	December 31,	
	2016	2015
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$1,791,977- 2016 and \$1,589,033 - 2015	\$ 1,942,078	\$ 1,752,031
Projected benefits obligation for service rendered to date	(2,559,891)	(2,610,873)
Plan assets at fair value	1,753,502	1,538,514
Projected benefit of obligation in excess of plan assets	\$ (806,389)	\$ (1,072,539)

Asset allocations for the plan assets by asset categories are as follows:

	December 31,	
	2016	2015
Cash and cash equivalents	16%	30%
Preferred stocks	1	1
Common stocks	-	18
Corporate bonds	-	1
Mutual funds	83	50
Total assets	100%	100%

Management's investment policy provides for a balanced risk approach which results in an approximate equal allocation between common stock, mutual funds, and fixed income government obligations. It is management's policy not to acquire common stock of Calhoun Bankshares, Inc. for investment by the pension plan.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the Company's pension plan assets by asset categories is as follows:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2016</u>				
Cash and cash equivalents	\$ 276,277	\$ 276,277	\$ -	\$ -
Preferred stock	8,065	8,065	-	-
Mutual funds	1,469,160	-	1,469,160	-
	<u>\$ 1,753,502</u>	<u>\$ 284,342</u>	<u>\$ 1,469,160</u>	<u>\$ -</u>
<u>December 31, 2015</u>				
Cash and cash equivalents	\$ 467,597	\$ 467,597	\$ -	\$ -
Preferred stock	8,283	8,283	-	-
Common stock	283,444	283,444	-	-
Mutual funds	767,303	-	767,303	-
Corporate bonds	11,887	-	11,887	-
	<u>\$ 1,538,514</u>	<u>\$ 759,324</u>	<u>\$ 779,190</u>	<u>\$ -</u>

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The change in benefit obligation and change in plan assets are as follows:

	December 31,	
	2016	2015
<u>Change in benefit obligation</u>		
Benefit obligation at beginning of year	\$ 2,610,873	\$ 2,424,024
Service cost	142,746	142,434
Interest cost	117,033	102,590
Benefits paid	(106,617)	(18,347)
Actuarial (gain) loss	(204,144)	(39,828)
	<u>\$ 2,559,891</u>	<u>\$ 2,610,873</u>
<u>Change in plan assets</u>		
Fair value of plan assets at beginning of year	\$ 1,538,514	\$ 1,380,098
Actual return on plan assets	95,991	(43,817)
Employer contribution	240,000	240,000
Benefits paid	(106,617)	(18,347)
Administrative expenses	(14,386)	(19,420)
	<u>\$ 1,753,502</u>	<u>\$ 1,538,514</u>

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid in the years:

2017	\$	51,937
2018		51,203
2019		50,381
2020		49,474
2021		65,976
2022-2026		435,837
		<u>704,808</u>
Total	\$	<u>704,808</u>

The Company expects to contribute \$240,000 to the pension plan in 2017. The net periodic pension cost for 2017 is expected to be \$137,041.

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Defined contributions pension plan - In addition to the above pension plan, the Company has adopted a contributory 401(k) retirement plan, whereby eligible participants may make contributions, up to fifteen percent of compensation, and the Company will match up to six percent of this limit during the plan year for eligible employees hired after March 13, 2013 and will match thirty-five cents on the dollar up to six percent of compensation for eligible employees who were hired prior to March 13, 2013. The Company may make additional discretionary contributions to eligible participants unrelated to participant contributions. During 2016, 2015, and 2014, the Company made approximately \$36,075, \$34,000, and \$24,000, respectively, of matching contributions in each year to eligible participants.

Executive and director retirement - In prior years, the Board of Directors instituted an executive and director supplemental retirement and life insurance plan for the benefit of an executive and certain directors of the Subsidiary Bank. Under the terms of the plans, benefits are paid to the covered individuals based on an index as defined in the plan, over a period of fifteen years for the executive and ten years for certain directors after retirement with additional death benefits paid at death. The Company's obligations under the retirement benefit portion of these plans are unfunded; however, the Bank has purchased life insurance policies on the participants that are actuarially designed to offset the annual expenses associated with the plans and will, given reasonable actuarial assumptions, offset all of the plan costs during the lives of the participants and will provide a complete recovery of all plan costs at the deaths of the participants. The investment in the remaining life insurance contracts of the plan was funded by premiums of \$2,210,903. The total cash surrender value of these contracts was \$3,271,157 and \$3,165,564 as of December 31, 2016 and 2015, respectively. Cash surrender value increases to the carrying amounts of the life insurance contracts are recognized as income of \$105,593, \$103,984, and \$101,992 for 2016, 2015, and 2014, respectively. The liability of this plan amounted to \$702,223 and \$697,554 as of December 31, 2016 and 2015, respectively. Expense associated with these benefits amounted to \$69,792, \$66,732, and \$53,620 for the years ended December 31, 2016, 2015, and 2014, respectively.

Stock Award Incentive Plan - During 2013, the Company adopted a Stock Award Incentive Plan, the purpose of which is to assist in recruiting and retaining individuals who provide services to the Company and to enable such individuals to participate in the future success of the Company. Any employee of the Company or members of the Board of Directors are eligible to participate in the plan. Stock awards under the plan are made as determined solely by the Administrator appointed by the Board of Directors. Stock awards under the plan are without cost to the recipient and are considered taxable compensation at the date of the award based on the fair value of the stock at the date of the award and recorded as expense by the Company. At the option of the Administrator, benefits of any stock issued under the plan may include vesting provisions and restrictions on transfer of the stock during the vesting period. There has been no stock issued under the Plan during the years ended December 31, 2016 and 2015.

**NOTE 14 - RESTRICTIONS ON BANK DIVIDENDS**

The payment of dividends to shareholders by the Company is not encumbered by any restrictive provisions. There are, however, limitations set by law on the amount of funds available to the Company from its Subsidiary Bank. Dividends may be paid out of funds legally available therefore subject to the restrictions set forth in West Virginia Code, Section 31-A-4-25, which provides that prior approval of the West Virginia Commissioner of Financial Institutions is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank's net profits for that year combined with its retained net profits for the preceding two years. The amount of funds legally available for distribution of dividends by the Bank to the Company without prior approval from regulatory authorities for 2016 was \$2,193,293, less \$393,488, which was distributed by December 31, 2016.

**NOTE 15 - REGULATORY CAPITAL MATTERS**

The Company is a bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. As a bank holding company, the Company's activities and those of its Subsidiary Bank are limited to the business of banking and activities closely related or incidental to banking.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, tier 1 capital, and common equity tier 1 capital to risk-weighted assets (as defined in the regulations), and leverage capital, which is tier 1 capital to adjusted average total assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2016 and 2015, the most recent notification from the FDIC, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total capital, common equity tier 1 capital, tier 1 capital, and leverage capital ratios as disclosed in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 15 - REGULATORY CAPITAL MATTERS (Continued)

The following table outlines the regulatory components of the Company and the Bank's capital and capital ratios as of December 31, 2016 and 2015, respectively.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio
<u>As of December 31, 2016</u>						
Total capital (to risk-weighted assets)						
Consolidated	\$ 15,674	20.13%	\$ 6,229	≥ 8.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 14,735	18.92%	\$ 6,229	≥ 8.00%	\$ 7,786	≥ 10.00%
Tier I capital (to risk-weighted assets)						
Consolidated	\$ 14,697	18.88%	\$ 4,672	≥ 6.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,758	17.67%	\$ 4,672	≥ 6.00%	\$ 6,229	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Consolidated	\$ 14,697	18.88%	\$ 3,504	≥ 4.50%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,758	17.67%	\$ 3,504	≥ 4.50%	\$ 5,061	≥ 6.50%
Leverage capital (to adjusted average total assets)						
Consolidated	\$ 14,697	10.38%	\$ 5,220	≥ 4.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,758	10.54%	\$ 5,220	≥ 4.00%	\$ 6,526	≥ 5.00%
<u>As of December 31, 2015</u>						
Total capital (to risk-weighted assets)						
Consolidated	\$ 14,492	18.64%	\$ 6,218	≥ 8.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 14,141	18.19%	\$ 6,218	≥ 8.00%	\$ 7,773	≥ 10.00%
Tier I capital (to risk-weighted assets)						
Consolidated	\$ 13,517	17.39%	\$ 4,664	≥ 6.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,166	16.94%	\$ 4,664	≥ 6.00%	\$ 6,218	≥ 8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Consolidated	\$ 13,517	17.39%	\$ 3,498	≥ 4.50%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,166	16.94%	\$ 3,498	≥ 4.50%	\$ 5,052	≥ 6.50%
Leverage capital (to adjusted average total assets)						
Consolidated	\$ 13,517	10.07%	\$ 5,369	≥ 4.00%	\$ N/A	≥ N/A
Subsidiary Bank	\$ 13,166	9.81%	\$ 5,369	≥ 4.00%	\$ 6,711	≥ 5.00%

**NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES**

Commitments under servicing agreement - The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments may become due if the agreement is terminated before December 2021. As of December 31, 2016, the contingent liability to the Bank's service center is estimated to be approximately \$666,000 plus the actual costs incurred in connection with the termination.

Other commitments and contingencies - The Company and its Subsidiary are subject to claims and lawsuits which arise from time to time in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position or results of operations of the Company and its Subsidiary.

**NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the Bank has outstanding commitments, contingent liabilities, and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit and standby letters of credit, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

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

Commitments to extend credit - The Bank has outstanding firm commitments to extend credit as follows:

	December 31,	
	2016	2015
Available on lines of credit	\$ 5,805,000	\$ 4,508,000
Other loan commitments	1,718,000	1,580,000
Total	\$ 7,523,000	\$ 6,088,000

**NOTE 17 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)**

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. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon, accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment, or real estate.

Standby letters of credit - The Bank had commitments under standby letters of credit that totaled \$575,000 and \$500,000 as of December 31, 2016 and 2015, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

**NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets and liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.



NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Investment securities available-for-sale - 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. Third-party vendors compile prices from various sources and may determine fair value of identical or similar securities by using pricing models that consider observable market data. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or traded by dealers or brokers in active over-the-counter markets. Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities, and municipal bonds. Level 3 securities include those with unobservable inputs. Transfers between levels can occur due to changes in the observability of significant inputs.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2016</u>				
Securities available-for-sale				
U.S. government and federal agencies	\$ 8,511,474	\$ -	\$ 8,511,474	\$ -
Mortgage backed	<u>5,324,582</u>	<u>-</u>	<u>5,324,582</u>	<u>-</u>
Total securities available-for-sale	<u>\$ 13,836,056</u>	<u>\$ -</u>	<u>\$ 13,836,056</u>	<u>\$ -</u>
<u>December 31, 2015</u>				
Securities available-for-sale				
U.S. government and federal agencies	\$ 15,905,658	\$ -	\$ 15,905,658	\$ -
Mortgage backed	<u>2,628,181</u>	<u>-</u>	<u>2,628,181</u>	<u>-</u>
Total securities available-for-sale	<u>\$ 18,533,839</u>	<u>\$ -</u>	<u>\$ 18,533,839</u>	<u>\$ -</u>

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses may need to be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The measurement of loss associated with impaired loans can be based on the observable market price of the loan, the present value of cash flows expected to be realized from the loan, or the fair value of the collateral. As of December 31, 2016, the fair value of substantially all of the impaired loans was estimated based on the fair value of the collateral. Collateral may be in the form of real estate or business / personal assets, including vehicles, equipment, inventory, and accounts receivable. The majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is real estate with an appraisal over two years old, then the fair value is considered Level 3. The value of business equipment is based on an outside appraisal, if available, or the net book value on the business' financial statement both of which are Level 2. For those loans for which Level 1 or Level 2 is not applicable, the valuation is based on a financial statement, prior appraisal, or other available information and is reduced to an estimated net realizable value by management, which is Level 3. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Other real estate owned (OREO) - OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the consolidated 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). However, if the appraisal is over two years old, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (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 expense in the consolidated statements of income.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2016</u>				
Impaired loans				
Secured by real estate				
Residential	\$ 526,026	\$ -	\$ -	\$ 526,026
Commercial	502,810	-	-	502,810
Commercial and industry	179,263	-	-	179,263
Consumer and other	26,933	-	-	26,933
Total impaired loans	<u>\$ 1,235,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,235,032</u>
Other real estate owned				
Residential	\$ 115,000	\$ -	\$ -	\$ 115,000
Total other real estate owned	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,000</u>
<u>December 31, 2015</u>				
Impaired loans				
Secured by real estate				
Residential	\$ 673,911	\$ -	\$ -	\$ 673,911
Commercial	686,774	-	-	686,774
Commercial and industry	54,573	-	-	54,573
Consumer and other	130,220	-	-	130,220
Total impaired loans	<u>\$ 1,545,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,545,478</u>
Other real estate owned				
Residential	\$ 5,000	\$ -	\$ -	\$ 5,000
Commercial	311,500	-	311,500	-
Total other real estate owned	<u>\$ 316,500</u>	<u>\$ -</u>	<u>\$ 311,500</u>	<u>\$ 5,000</u>

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The quantitative information about Level 3 fair value measurements for financial assets and liabilities measured at fair value on a nonrecurring basis is as follows:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range
<u>December 31, 2016</u>				
Impaired loans				
Secured by real estate				
Residential	\$ 526,026	Appraisal of collateral	Appraisal adjustment	*
Commercial	\$ 502,810	Appraisal of collateral	Appraisal adjustment	*
Commercial and industry	\$ 179,263	Appraisal of collateral	Appraisal adjustment	*
Consumer and other	\$ 26,933	Appraisal of collateral	Appraisal adjustment	**
Other real estate owned				
Residential	\$ 115,000	Appraisal of property	Appraisal adjustment	**
<u>December 31, 2015</u>				
Impaired loans				
Secured by real estate				
Residential	\$ 673,911	Appraisal of collateral	Appraisal adjustment	*
Commercial	\$ 686,774	Appraisal of collateral	Appraisal adjustment	*
Commercial and industry	\$ 54,573	Appraisal of collateral	Appraisal adjustment	*
Consumer and other	\$ 130,220	Appraisal of collateral	Appraisal adjustment	**
Other real estate owned				
Residential	\$ 5,000	Appraisal of property	Appraisal adjustment	*

*\*The base calculation for impairment on real estate secured loans is collateral valued for 2016 and 2015 at 52% and 65%, respectively of the most recent appraisal. Ranges for this type of input are not useful because each collateral property is unique.*

*\*\*There are no related allowances for this asset classification.*

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used to estimate the fair value disclosures for other financial instruments as of December 31, 2016 and 2015:

Cash and cash equivalents - The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Time deposits - The fair value of time deposits is estimated to approximate the carrying amounts.

Other securities - Other securities consist of restricted equity securities in the Federal Home Loan Bank (FHLB) and CBB Financial Corporation, and both are carried at cost. Because there is no market, the carrying values of restricted equity securities approximate fair values based on the redemption provisions.

Loans - The estimated fair values for loans are computed based on the scheduled principal maturity, discounted at interest rates currently offered for loans with similar terms made to borrowers of similar credit quality. No prepayments of principal are assumed.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Accrued interest receivable and payable - The fair value of accrued interest approximates the carrying amounts.

Bank owned life insurance - The fair value of bank owned life insurance approximates the cash surrender value of the policies.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing and interest-bearing demand deposits, regular savings, and certain types of money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings - The fair value of short-term borrowings approximates the carrying amounts.

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 agreements and the present credit standing of the counterparties. The amounts of fees currently charged on commitments to extend credit and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair value of the financial instruments is as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and due from banks	\$ 5,182,978	\$ 5,182,978	\$ 7,167,901	\$ 7,167,901
Interest-earning deposits in other banks	1,414,577	1,414,577	1,016,092	1,016,092
Federal funds sold	531,000	531,000	182,000	182,000
Time deposits	3,486,000	3,486,000	3,486,000	3,486,000
Securities available-for-sale	13,836,056	13,836,056	18,533,839	18,533,839
Other securities	297,700	297,700	214,000	214,000
Loans - net	97,033,782	99,312,936	95,817,846	98,437,070
Accrued interest receivable	419,630	419,630	443,720	443,720
Bank owned life insurance	3,271,157	3,271,157	3,165,564	3,165,564
<b>Financial liabilities</b>				
Deposits	109,051,086	109,104,985	116,802,033	116,903,485
Short-term borrowings	4,000,000	4,000,000	2,000,000	2,000,000
Accrued interest payable	39,108	39,108	50,483	50,483

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

Calhoun Bankshares, Inc. was organized in 1988 and acquired Calhoun County Bank, Inc. on October 3, 1988, as a wholly-owned subsidiary in a pooling of interests transaction whereby stockholders retained the same ownership in Calhoun Bankshares, Inc. as in Calhoun County Bank, Inc. prior to reorganization.

The following financial statements reflect the financial position, results of operations, and cash flows of Calhoun Bankshares, Inc. (Parent Company Only).

CONDENSED BALANCE SHEETS

	December 31,	
	2016	2015
Assets		
Cash and due from banks (all from subsidiary)	\$ 939,904	\$ 351,312
Investment in subsidiary (equity basis)	13,053,774	12,495,961
Total assets	\$ 13,993,678	\$ 12,847,273
Liabilities and shareholders' equity		
Accounts payable	\$ -	\$ 100
Total liabilities	-	100
Shareholders' equity		
Total shareholders' equity	13,993,678	12,847,173
Total liabilities and shareholders' equity	\$ 13,993,678	\$ 12,847,273



**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2016	2015	2014
Income			
Dividend income from subsidiary	\$ 393,488	\$ 324,534	\$ 271,584
Total income	393,488	324,534	271,584
Expenses			
Interest	-	7,123	-
Other	5,418	4,840	4,685
Total expense	5,418	11,963	4,685
Income before income tax expense and equity in undistributed earnings of subsidiary	388,070	312,571	266,899
Income tax expense	-	-	-
Income before equity in undistributed earnings of subsidiary	388,070	312,571	266,899
Equity in undistributed earnings of subsidiary	591,199	535,085	673,521
Net income	\$ 979,269	\$ 847,656	\$ 940,420

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net income	<u>\$ 979,269</u>	<u>\$ 847,656</u>	<u>\$ 940,420</u>
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Equity in undistributed earnings of subsidiary	(591,199)	(535,085)	(673,521)
(Increase) decrease in other assets	-	15	2
Increase (decrease) in other liabilities	<u>(100)</u>	<u>(11,900)</u>	<u>-</u>
Total adjustments	<u>(591,299)</u>	<u>(546,970)</u>	<u>(673,519)</u>
Net cash flows provided (used) by operating activities	<u>387,970</u>	<u>300,686</u>	<u>266,901</u>
Cash flows from financing activities			
Purchases of treasury stock	(28,770)	(115,150)	(10,980)
Sales of treasury stock	472,880	196,732	123,845
Cash dividends paid	<u>(243,488)</u>	<u>(224,534)</u>	<u>(221,585)</u>
Net cash flows provided (used) by financing activities	<u>200,622</u>	<u>(142,952)</u>	<u>(108,720)</u>
Net increase (decrease) in cash and cash equivalents	588,592	157,734	158,181
Cash and cash equivalents at beginning of year	<u>351,312</u>	<u>193,578</u>	<u>35,397</u>
Cash and cash equivalents at end of year	<u>\$ 939,904</u>	<u>\$ 351,312</u>	<u>\$ 193,578</u>

The principal source of income for the Company is dividends received from its Subsidiary. State law imposes limitations on the payment of dividends by the Subsidiary Bank of the Company. A dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net profits combined with the retained net profits of the two preceding years unless the bank obtains regulatory approval.

Loans and extensions of credit must be secured in specified amounts. The Company had no borrowings outstanding from its Subsidiary Bank as of December 31, 2016.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 19 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

The Company accounts for its investments in its Subsidiary by the equity method. During the years ended December 31, 2016, 2015, and 2014, changes in the investments were as follows:

	<u>Calhoun County Bank, Inc.</u>
Percent to total shares	100%
Balance at December 31, 2013	\$ 11,180,595
Add (deduct)	
Equity in net income	945,105
Equity in other comprehensive income	31,035
Dividends declared	(271,584)
Balance at December 31, 2014	11,885,151
Add (deduct)	
Equity in net income	859,619
Equity in other comprehensive income	75,725
Dividends declared	(324,534)
Balance at December 31, 2015	12,495,961
Add (deduct)	
Equity in net income	984,687
Equity in other comprehensive income (loss)	(33,386)
Dividends declared	(393,488)
Balance at December 31, 2016	\$ 13,053,774

**SUPPLEMENTARY  
INFORMATION**



INDEPENDENT AUDITOR'S REPORT ON  
CONSOLIDATING INFORMATION

To the Board of Directors  
Calhoun Bankshares, Inc. and Subsidiary  
Grantsville, West Virginia

We have audited the consolidated financial statements of Calhoun Bankshares, Inc. and Subsidiary as of and for the year ended December 31, 2016, and have issued our report thereon dated March 15, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads 'Suttle &amp; Stalnaker, PLLC'.

Parkersburg, West Virginia  
March 15, 2017

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**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2016**

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	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
<b>ASSETS</b>				
Cash and due from banks	\$ 939,904	\$ 5,182,978	\$ (939,904)	\$ 5,182,978
Interest-earning deposits in other banks	-	1,414,577	-	1,414,577
Federal funds sold	-	531,000	-	531,000
Cash and cash equivalents	939,904	7,128,555	(939,904)	7,128,555
Time deposits	-	3,486,000	-	3,486,000
Investment securities				
Securities available-for-sale, at fair value	-	13,836,056	-	13,836,056
Other securities	-	297,700	-	297,700
Investment in subsidiary	13,053,774	-	(13,053,774)	-
Loans	-	98,321,845	-	98,321,845
Less: allowance for loan losses	-	(1,288,063)	-	(1,288,063)
Loans - net	-	97,033,782	-	97,033,782
Accrued interest receivable	-	419,630	-	419,630
Premises and equipment - net	-	1,924,349	-	1,924,349
Other real estate owned	-	115,000	-	115,000
Cash surrender value - bank owned life insurance	-	3,271,157	-	3,271,157
Deferred income taxes	-	1,221,380	-	1,221,380
Other assets	-	183,683	-	183,683
<b>Total assets</b>	<b>\$ 13,993,678</b>	<b>\$ 128,917,292</b>	<b>\$ (13,993,678)</b>	<b>\$ 128,917,292</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits				
Demand - noninterest-bearing	\$ -	\$ 31,711,489	\$ (939,904)	\$ 30,771,585
Demand - interest-bearing	-	8,409,031	-	8,409,031
Savings	-	35,041,966	-	35,041,966
Time	-	34,828,504	-	34,828,504
Total deposits	-	109,990,990	(939,904)	109,051,086
Federal Home Loan Bank advances	-	4,000,000	-	4,000,000
Accrued interest payable	-	39,108	-	39,108
Other liabilities	-	1,833,420	-	1,833,420
Total liabilities	-	115,863,518	(939,904)	114,923,614
Shareholders' equity				
Common stock	306,850	306,850	(306,850)	306,850
Additional paid in capital	550,486	556,037	(556,037)	550,486
Retained earnings	14,260,960	12,894,533	(12,894,533)	14,260,960
Less: treasury stock, at cost	(420,972)	-	-	(420,972)
Accumulated other comprehensive income (loss)	(703,646)	(703,646)	703,646	(703,646)
Total shareholders' equity	13,993,678	13,053,774	(13,053,774)	13,993,678
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,993,678</b>	<b>\$ 128,917,292</b>	<b>\$ (13,993,678)</b>	<b>\$ 128,917,292</b>

Refer to the auditor's report on consolidating information.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2016**

55

	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
Interest income				
Interest and fees on loans	\$ -	\$ 5,556,483	\$ -	\$ 5,556,483
Interest on deposits in other banks	-	50,732	-	50,732
Interest on federal funds sold	-	2,496	-	2,496
Interest and dividends on investment securities	-	293,632	-	293,632
Total interest income	-	5,903,343	-	5,903,343
Interest expense				
Interest on deposits	-	491,029	-	491,029
Interest on borrowings	-	27,058	-	27,058
Total interest expense	-	518,087	-	518,087
Net interest income	-	5,385,256	-	5,385,256
Provision for loan losses	-	225,000	-	225,000
Net interest income after provision for loan losses	-	5,160,256	-	5,160,256
Noninterest income				
Dividend income from subsidiary	393,488	-	(393,488)	-
Equity in undistributed earnings of subsidiary	591,199	-	(591,199)	-
Service charges and fees on deposits	-	473,943	-	473,943
Other service charges, commissions, and fees	-	348,653	-	348,653
Increase in cash surrender value - bank owned life insurance	-	105,593	-	105,593
Other income	-	114,177	-	114,177
Total noninterest income	984,687	1,042,366	(984,687)	1,042,366
Noninterest expense				
General and administrative				
Compensation and benefits	-	2,551,686	-	2,551,686
Occupancy and equipment	-	450,396	-	450,396
Data processing	-	311,136	-	311,136
Director and committee fees	-	97,294	-	97,294
Equipment, software, and network maintenance	-	167,496	-	167,496
Regulatory fees	-	208,501	-	208,501
Postage and courier	-	77,429	-	77,429
Other expenses	5,418	916,001	-	921,419
Total noninterest expense	5,418	4,779,939	-	4,785,357
Income before income tax expense	979,269	1,422,683	(984,687)	1,417,265
Income tax expense	-	437,996	-	437,996
<b>Net income</b>	<b>\$ 979,269</b>	<b>\$ 984,687</b>	<b>\$ (984,687)</b>	<b>\$ 979,269</b>

Refer to the auditor's report on consolidating information.

**CALHOUN BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

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	Calhoun Bankshares, Inc.	Calhoun County Bank, Inc.	Consolidating Eliminations	Consolidated Totals
Cash flows from operating activities				
Net income	\$ 979,269	\$ 984,687	\$ (984,687)	\$ 979,269
Adjustments to reconcile net income to net cash provided (used) by operating activities				
Equity in undistributed earnings of subsidiary	(591,199)	-	591,199	-
Depreciation	-	229,667	-	229,667
Provision for loan losses	-	225,000	-	225,000
Provision for deferred income tax	-	(89,668)	-	(89,668)
Amortizations (accretions) on investments - net	-	12,025	-	12,025
Net realized (gains) losses from sales of other real estate owned	-	2,741	-	2,741
Other real estate owned writedown	-	36,500	-	36,500
(Increase) decrease in accrued interest receivable	-	24,090	-	24,090
(Increase) decrease in cash surrender value - bank owned life insurance	-	(105,593)	-	(105,593)
Increase (decrease) in other assets	-	120,143	-	120,143
Increase (decrease) in accrued interest payable	-	(11,375)	-	(11,375)
Increase (decrease) in other liabilities	(100)	14,705	-	14,605
Total adjustments	(591,299)	458,235	591,199	458,135
Net cash flows provided (used) by operating activities	387,970	1,442,922	(393,488)	1,437,404
Cash flows from investing activities				
Purchases of investment securities available-for-sale	-	(10,280,965)	-	(10,280,965)
Proceeds from maturities and calls of investment securities available-for-sale	-	13,813,953	-	13,813,953
Proceeds from principal payments on mortgage-backed securities available-for-sale	-	892,987	-	892,987
Purchase of Federal Home Loan Bank stock	-	(163,700)	-	(163,700)
Redemption of Federal Home Loan Bank stock	-	80,000	-	80,000
Loan originations and principal payment on loans	-	(1,578,693)	-	(1,578,693)
Proceeds from sales of other real estate owned	-	300,016	-	300,016
Capital expenditures	-	(188,115)	-	(188,115)
Net cash flows provided (used) by investing activities	-	2,875,483	-	2,875,483
Cash flows from financing activities				
Net increase (decrease) in total deposits	-	(7,162,355)	(588,592)	(7,750,947)
Net increase (decrease) in Federal Home Loan Bank advances	-	2,000,000	-	2,000,000
Purchases of treasury stock	(28,770)	-	-	(28,770)
Sales of treasury stock	472,880	-	-	472,880
Cash dividends paid	(243,488)	(393,488)	393,488	(243,488)
Net cash flows provided (used) by financing activities	200,622	(5,555,843)	(195,104)	(5,550,325)
Net increase (decrease) in cash and cash equivalents	588,592	(1,237,438)	(588,592)	(1,237,438)
Cash and cash equivalents at beginning of year	351,312	8,365,993	(351,312)	8,365,993
<b>Cash and cash equivalents at end of year</b>	<b>\$ 939,904</b>	<b>\$ 7,128,555</b>	<b>\$ (939,904)</b>	<b>\$ 7,128,555</b>
Supplemental schedule of noncash investing and financing activities				
Loans transferred to other real estate owned	\$ -	\$ 174,757	\$ -	\$ 174,757
Sales of other real estate owned financed through loans	\$ -	\$ 37,000	\$ -	\$ 37,000
Supplemental disclosure of cash flows information				
Cash paid during the year for				
Interest	\$ -	\$ 529,462	\$ -	\$ 529,462
Income taxes	\$ -	\$ 496,164	\$ -	\$ 496,164

Refer to the auditor's report on consolidating information.