

Board of Governors of the Federal Reserve System



# Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, William A. Loving, Jr.

Name of the Holding Company Director and Official

President & CEO

Title of the Holding Company Director and Official

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

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

[Signature]  
 Signature of Holding Company Director and Official

3/23/18  
 Date of Signature

For holding companies not registered with the SEC—  
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

**For Federal Reserve Bank Use Only**

RSSD ID \_\_\_\_\_

C.I. \_\_\_\_\_

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

December 31, 2017

Month / Day / Year

N/A

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

Reporter's Name, Street, and Mailing Address

Allegheny Bancshares, Inc.

Legal Title of Holding Company

P.O. Box 487

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

Franklin

WV

26807

City

State

Zip Code

128 North Main Street

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Erin Sites

VP-Asst CFO

Name

Title

304-358-2311 1105

Area Code / Phone Number / Extension

304-358-7997

Area Code / FAX Number

esites@yourbank.com

E-mail Address

www.yourbank.com

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

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

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

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

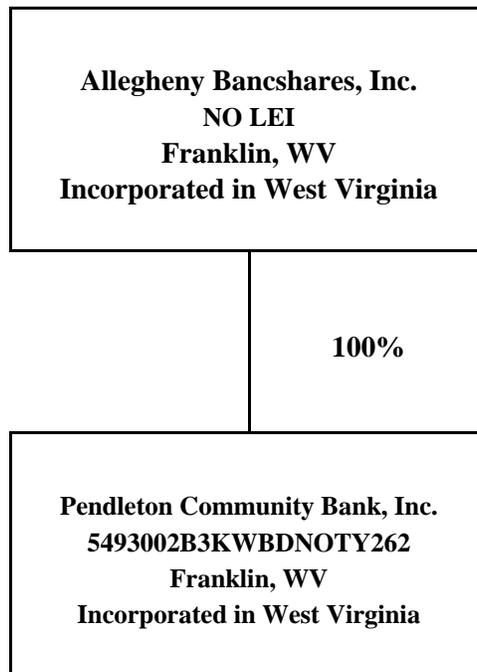
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

**Form FRY-6**  
**Allegheny Bancshares, Inc.**  
**Franklin, West Virginia**  
**Fiscal Year Ending December 31, 2017**

**Report Item**

- 1. The bank holding company prepares an annual report for its shareholders and is not registered with the SEC. Two copies will be sent separately when available.**

**2a. Organizational Chart**



**2b. Domestic Branch Listing**

Submitted early via email on February 26, 2018.

**Form FR Y-6**  
**Allegheny Bancshares, Inc.**  
Fiscal Year Ending December 31, 2017

**Report Item 3: Securities holders**  
(1)(a) (1)(b) (1)(c) (2)(a) (2)(b) (2)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of 12-31-2017			Securities holders not listed in (3)(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(1)(a) Name and Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Mary C. Homan San Diego, CA	USA	51,560 – 7.09% Common Stock	None		

**Form FR Y-6**  
**Allegheny Bancshares, Inc.**  
Fiscal Year Ending December 31, 2017

**Report Item 4: Insiders**

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

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Each Class of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
William S. Beard, Jr. Hillsboro, WV USA	Farmer	Director	Director (Pendleton Community Bank)	N/A	0.13% Common	None	N/A
William G. Bosley, III Maysville, WV USA	Optometrist	Director	Director (Pendleton Community Bank)	N/A	.07% Common	None	Bosley Eye Care, Inc. (50%)
Chad G. Branson Harrisonburg, VA USA	Associate Broker	Director	Director (Pendleton Community Bank)	N/A	0.09% Common	None	JCM Development, LLC(33%),WRP LLC (45%), Deer Creek Properties(33%), Blakely LLC(33%), Old Furnace LLC(33%)
Roger D. Champ Moorefield, WV, USA	Retired	Director & Secretary	Director (Pendleton Community Bank)	N/A	0.71% Common	None	N/A
John E. Glover Petersburg, WV, USA	Retired	Director & Vice Chairman	Director (Pendleton Community Bank)	N/A	0.86% Common	None	N/A
Laura S. Evick Bridgewater, VA, USA	Attorney	Director	Director (Pendleton Community Bank)	N/A	0.07% Common	None	N/A
Carole H. Hartman Franklin, WV, USA	Retired	Director & Chairman	Director (Pendleton Community Bank)	N/A	0.36% Common	None	N/A

**Form FR Y-6**  
**Allegheny Bancshares, Inc.**  
Fiscal Year Ending December 31, 2017

**Report Item 4: Insiders**

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Each Class of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
John D. Heavner Upper Tract, WV, USA	Farmer	Director Emeritus	Director Emeritus(Pendleton Community Bank)	N/A	0.33% Common	None	N/A
William A. Loving, Jr. Franklin, WV, USA	N/A	Director, President and CEO	Director, President and CEO (Pendleton Community Bank)	N/A	0.17%Common 0.10%Class A 0.34%Class B	None	N/A
Richard C. Phares Onego, WV, USA	Merchant, Farmer	Director	Director (Pendleton Community Bank)	N/A	2.34%Common	None	N/A
L. Kirk Billingsley Monterey, VA, USA	N/A	VP-Finance/CFO	VP-Finance/CFO	N/A	0.99%Class B	None	Big Fish Cider Co.(60%), Billingsley & Billingsley, CPA(50%), Spruce Properties, LLC(50%), Sinking Springs Timber Co.(50%)



**Results: A list of branches for your holding company: ALLEGHENY BANCSHARES, INC. (3137082) of FRANKLIN, WV.**

The data are as of 12/31/2017 . Data reflects information that was received and processed through 01/04/2018.

**Reconciliation and Verification Steps**

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

**Actions**

**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.

**Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date**

**Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.

**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.

**Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

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

**Submission Procedure**

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.

If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:

To satisfy the **FR Y-10 reporting requirements** , you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of **Change, Close, Delete,** or **Add.**

The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code
OK		Full Service (Head Office)	370020	PENDLETON COMMUNITY BANK, INC.	128 NORTH MAIN STREET	FRANKLIN	WV	26807
OK		Full Service	3679322	HARRISONBURG BRANCH	41 MONTE VISTA DR	HARRISONBURG	VA	22802
OK		Full Service	5045752	HARRISONBURG DOWNTOWN OFFICE	57 SOUTH MAIN STREET	HARRISONBURG	VA	22801
OK		Full Service	3540048	MARLINTON BRANCH	900 SENECA TRAIL SOUTH	MARLINTON	WV	24954
OK		Full Service	3540057	MOOREFIELD BRANCH	402 SOUTH MAIN STREET	MOOREFIELD	WV	26836
OK		Full Service	2497266	PETERSBURG BRANCH	102 VIRGINIA AVE	PETERSBURG	WV	26847

column.

<b>County</b>	<b>Country</b>	<b>FDIC UNINUM*</b>	<b>Office Number*</b>	<b>Head Office</b>	<b>Head Office ID_RSSD*</b>	<b>Comments</b>
PENDLETON	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	
ROCKINGHAM	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	
ROCKINGHAM	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	
POCAHONTAS	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	
HARDY	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	
GRANT	UNITED STATES	Not Required	Not Required	PENDLETON COMMUNITY BANK, INC.	370020	

**PENDLETON COMMUNITY BANK**, an Independent Community Bank, is **DEDICATED** to providing products and services that facilitate financial success of our customers, **ENCOURAGING** professional success for our team members, and **STIMULATING ECONOMIC GROWTH** in our communities, thereby enhancing the value of “YourBank”.



**our  
mission**

# letter to our shareholders



## DEAR SHAREHOLDER:

Safe....Sound....Secure. These are words that come to mind when I see bank vaults. And in the case of the picture preceding this letter, these words ring true both in relationship to the vault's structure and to the financial condition of Allegheny Bancshares and its subsidiary, Pendleton Community Bank. A lot has transpired over the 92 years that we have been in operation. Throughout those 92 years, regardless of market conditions or the economic environment- these three adjectives remained true. . . "Safe. Sound. Secure."

I stated in last year's letter, as I described our move into downtown Harrisonburg, that *"we are always mindful of the need for future growth to support increased earnings; and, thus, our philosophy is and has been to take advantage of opportunities when they present themselves"*. I am happy to report that this strategic decision, along with the continued exceptional performance of our other financial centers, has resulted in another record year high posting net income of \$3,316,000. These results were \$99,000 above 2016's level and after a one-time charge of approximately \$110,000 to account for the change in tax laws pursuant to the Tax Cuts and Jobs Act that was signed into law in December of 2017. However, the reduction in the corporate tax rate will provide an immediate recovery of this amount while providing for greater income going forward from our operations.

We continued to see growth across the organization with total assets ending the year at \$288,858,000, which represents a \$12.5 million (4.51 %) increase over the previous year end level of \$276,381,000. Capital, which is an indicator of the strength and security of an institution, continued to grow and remains at levels that will allow us to take advantage of opportunities when they present themselves without stressing the strength of our organization.

I alluded to the fact that we have seen a lot of change over the past 92 years. Banking has changed dramatically. I have witnessed this change over my career and the speed of change has only grown exponentially. Just look at the "smart phone". The world, banking, and the consumer's mindset was changed a mere 10 years ago (June 2007) when the iPhone was introduced.

Looking ahead, I believe we are well positioned to take advantage of opportunities and the changing market forces. Our strategic emphasis on our net interest margin, efficiency ratio, and diverse banking delivery channels, will pay dividends going forward and will only be enhanced as we operate in a reduced income tax environment. This continued improvement in profit will allow us to invest strategically into our future and provide the highest level of customer service regardless of the method customers choose to use. I am confident in this because of these three words-"Safe, Sound, and Secure", combined with the contributions that our dedicated team members make each and every day, as well as the Board of Directors who tirelessly work to protect your interest and position us for the future. I will tell you that none of this year's results would be possible without them and you, the Shareholder.

Each year I have the unique opportunity to address the shareholders through this publication, the annual dividend letter, and a brief presentation that I like to call the "State of the Bank", and by extension, Allegheny Bancshares. This is truly an opportunity I look forward to and do not take lightly.

I thank you for the opportunity I have and look forward to seeing you at our Annual Shareholder's meeting.

Respectfully,



William A. Loving, Jr., CLBB  
President/CEO

2017



# board of directors

“As we reflect on 2017, I would like to extend my sincerest appreciation to the BOARD OF DIRECTORS, OFFICERS, and TEAM MEMBERS who are committed to our MISSION STATEMENT - *to enhance the value of “Your Bank”*. Without the continued support and direction of the Board of Directors and the dedication of our Officers and Staff, record setting outcomes like those highlighted in this annual report would not be possible.”

*-William A. Loving, Jr., CLBB, President/CEO*

# 2017



# our directors

**SEATED (L TO R)**

**WILLIAM A. LOVING, JR. CLBB** - *President/CEO*

**JOHN E. GLOVER, DDS** - *Vice Chair-Board of Directors, Dentist*

**STANDING (L TO R)**

**ROGER CHAMP** - *Secretary-Board of Directors, Contractor*

**WILLIAM BOSLEY, OD** - *Doctor of Optometry*

**WILLIAM BEARD, JR.** - *Pocahontas County Commissioner, Farmer*

**LAURA SIMPSON EVICK** - *Attorney*

**CHAD BRANSON** - *Associate Broker/Old Dominion Realty*

**CAROLE HARTMAN** - *Chair-Board of Directors, Farmer*

**NOT PICTURED: RICHARD PHARES** - *Farmer*

# our team

**William A Loving, Jr., CLBB, *President/CEO***  
**L. Kirk Billingsley, CPA, SR. *VP-Finance/CFO***  
**Erin Sites, CPA, *VP-Assistant CFO***  
**Sheldon Arbaugh, *VP-Area Executive, Moorefield, Petersburg & Wardsville***  
**Josh Byers, *VP-Area Executive, Franklin & Marlinton***  
**Dan Withers, *VP-Area Executive, Harrisonburg***  
**Sylvia Smith, *VP-Loan Operations***  
**Amanda Smith, *VP-Market Manager***  
**Amy Channell, *VP-Market Manager/Financial Center Manager Harrisonburg Downtown***  
**Mark Williams, *VP-Director of Compliance/CIS, CRA & BSA Officer/Privacy Officer***  
**Danielle Sisson, *VP-Operations Manager/Acting CIO***  
**Kathy Parker, *VP-Executive Assistant/Investor Relations/Ethics Officer***  
**Tammy Smith, *AVP-Electronic Branch Manager***  
**Monika Eckard, CPA, *AVP-Director of Human Resources/Affirmative Action Officer***  
**Darla Jones, *Collections Officer***  
**Evelyn Simmons, *Accounting Assistant/BSA Auditor***  
**Brittany Mitters, *Credit Analyst***  
**Laura Roadcap, *Internal Auditor***  
**Lori Roberson, *Loan Review/Compliance Assistant***  
**Stephanie Butler, *Assistant Operations Manager***  
**Tammy Clutter, *Assistant Loan Operations Manager***  
**Clay Richardson, *Public Relations Coordinator***  
**Hannah Cook, *Credit Analyst***  
**Holly Beachler**  
**Brianna Bruns**  
**Sarah Burns**  
**Tammy Davis**  
**Kim Fox**  
**Jenny Hartwell**  
**Renee Hedrick**  
**Joy Hersey**  
**Emily Hull**  
**Debbie Propst**  
**Samantha Puchany**  
**Kitty Rexrode**  
**Rachel Ruddle**  
**Vicky Simmons**  
**Judy Snyder**  
**Lisa Sponaughle**  
**Diana Thompson**  
**Stephanie Walker**

**FRANKLIN FINANCIAL CENTER**

Dayne Davis, *AVP-Financial Center Manager/Business Development Officer*

Jessica Alt

Jessica Basagic, *Universal Banker*

Missy Bennett

Trish Flynn

Claire Heavner

Teresa Heavner, *Universal Banker*

Nancy Mallow

Nicole Marsh

Sharon Morford

Jamie Varner

Wells Warner

**HARRISONBURG WEST FINANCIAL CENTER**

Katie Brill, *AVP-Financial Center Manager*

Patsy Campbell

Kathy Dove

Craig Orndorff, *Universal Banker*

Susan Payne

Rachael Simmons

Sharon Stickle

Denise Streets

**HARRISONBURG DOWNTOWN FINANCIAL CENTER**

Amy Channell, *VP-Market Manager/Financial Center Manager*

Melissa Elliott

Karmen Heatwole

Natasha Simmons, *Universal Banker*

Katie Sinnett

Joan Taylor

Carly Watson

**MARLINTON FINANCIAL CENTER**

Selina King, *AVP-Financial Center Manager*

Hope Spencer, *Assistant Financial Center Manager*

Kendall Beverage, *Universal Banker*

Lauren Dunbrack

Rebekah Friel

Steven Gravely

Ashley Moore

**MOOREFIELD FINANCIAL CENTER**

Margaret Shriver, *AVP-Financial Center Manager*

Joey Vetter, *AVP-Business Development Officer*

Sarah Barnes

Beverly Berg

Christina Branham, *Universal Banker*

Suzanne George

Amanda McDonald

Nicole Ours

**PETERSBURG FINANCIAL CENTER**

Nick Yoder, *Universal Banker/Acting Financial Center Manager*

Tony Calhoun

Richard Cardot

Lori Carr

Casey Goldizen

Suenette Hardy

Donna Idleman

Misty Taylor

**LOAN PRODUCTION OFFICE, WARDENSVILLE**

Luke Kesner, *AVP-LPO Manager/Business Development Officer*

Ashley Delawder

**ALLEGHENY MORTGAGE COMPANY**

Cindy Rader, *VP-Allegheny Mortgage*

Teri Stearn

# financial highlights

Years ended December 31,  
2017      2016      2015      2014      2013  
 (Dollars in thousands except per share data)

## RESULTS OF OPERATIONS

Interest Income	\$ 12,730	\$ 12,238	\$ 12,070	\$ 11,730	\$ 11,666
Interest Expense	(1,062)	(996)	(1,141)	(1,467)	(1,822)
Net Interest Income	11,668	11,242	10,929	10,263	9,844
Provisions for Loan Losses	(450)	(720)	(900)	(750)	(900)
Noninterest Income	2,350	2,407	2,231	2,411	2,253
Noninterest Expenses	(8,759)	(8,400)	(7,711)	(7,802)	(7,432)
Income Taxes	(1,493)	(1,312)	(1,280)	(1,120)	(1,049)
Net Income	\$ 3,316	\$ 3,217	\$ 3,269	\$ 3,002	\$ 2,716

## PROFITABILITY RATIOS

Return on Average Assets	1.16%	1.17%	1.22%	1.13%	1.04%
Return on Average Equity	9.05%	8.93%	9.60%	9.33%	8.72%

## PER COMMON SHARE

Net Income	\$3.90	\$3.74	\$3.80	\$3.47	\$3.13
Cash Dividends Declared	1.88	1.80	1.78	1.70	1.62
Book Value	43.33	41.40	40.27	38.22	35.74
Last Reported Market Price	72.00	72.00	72.00	72.00	72.00
Dividend Payout Ratio	47.90%	47.98%	47.11%	49.03%	51.65%

## AT YEAR END

Assets	\$288,858	\$276,381	\$269,459	\$267,652	\$262,393
Deposits	245,880	236,542	230,171	226,062	226,628
Loans, Net	225,636	212,396	205,668	198,285	184,376
Long-term Debt	2,334	2,515	2,687	2,851	3,007
Stockholders' Equity	36,360	35,109	34,598	32,845	30,738
Equity to Assets Ratio	12.59%	12.70%	12.84%	12.27%	11.71%

# financials

# 2017

Allegheny  
*Bancshares*

Pendleton  
*Community* Bank



# financial statements

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as of December 31, 2017 and 2016

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for the years ended December 31, 2017 and 2016

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 14  
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CONSOLIDATED STATEMENTS OF CASH FLOWS 15  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
Allegheny Bancshares, Inc.  
Franklin, West Virginia

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Allegheny Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Bancshares, Inc. and its subsidiary as of December 31, 2017 and 2016, 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.

*Yount, Hyde & Barbour, P.C.*

Roanoke, Virginia  
February 23, 2018

# ALLEGHENY BANCSHARES, INC.

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,406,252	\$ 7,669,337
Interest bearing deposits in banks	3,194,776	5,915,654
Investment securities available for sale, at fair value	35,274,045	32,776,336
Restricted equity securities	227,495	232,295
Loans receivable, net of allowance for loans losses of \$2,628,218 in 2017 and \$2,238,969 in 2016	225,635,938	212,396,350
Bank premises and equipment, net	5,482,120	5,863,527
Interest receivable	1,252,937	1,164,270
Goodwill	1,086,732	1,086,732
Bank owned life insurance	7,305,923	7,140,473
Other real estate owned, net of valuation allowance of \$221,250 in 2017 and \$259,878 in 2016	821,100	1,097,875
Other assets	1,170,615	1,038,233
Total Assets	<u>\$ 288,857,933</u>	<u>\$ 276,381,082</u>
<b>LIABILITIES</b>		
Deposits		
Noninterest bearing	\$ 58,632,011	\$ 56,807,529
Interest bearing		
Demand	47,486,746	45,679,014
Savings	56,742,425	48,268,692
Time deposits over \$250,000	9,820,722	7,789,848
Other time deposits	73,197,788	77,996,549
Total Deposits	<u>245,879,692</u>	<u>236,541,632</u>
Securities sold under agreements to repurchase	1,869,924	616,823
Accrued expenses and other liabilities	2,414,085	1,598,422
Long-term debt	2,334,343	2,515,227
Total Liabilities	<u>252,498,044</u>	<u>241,272,104</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock; \$1 par value, 2,000,000 shares authorized, 784,554 shares issued in 2017 and 2016	784,554	784,554
Class A Common stock; \$1 par value, 2,000,000 shares authorized, 108,872 shares issued in 2017 and 2016	108,872	108,872
Class B Common stock, \$1 par value, 2,000,000 shares authorized, 6,574 shares issued in 2017 and 2016	6,574	6,574
Additional paid in capital	900,000	900,000
Retained earnings	37,837,683	36,149,547
Accumulated other comprehensive income	240,913	135,978
Common Treasury stock (at cost, 57,723 shares and 49,487 shares, respectively)	(3,327,787)	(2,833,627)
Class A Treasury stock (at cost, 3,165 shares and 2,365 shares, respectively)	(189,900)	(141,900)
Class B Treasury stock (at cost, 17 shares)	(1,020)	(1,020)
Total Stockholders' Equity	<u>36,359,889</u>	<u>35,108,978</u>
Total Liabilities and Stockholders' Equity	<u>\$ 288,857,933</u>	<u>\$ 276,381,082</u>

See accompanying notes to consolidated financial statements

# ALLEGHENY BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Interest Income:</b>		
Loans and fees	\$ 11,742,821	\$ 11,321,111
Interest bearing deposits in banks	109,934	113,473
Investment securities – taxable	320,390	278,770
Investment securities – nontaxable	<u>556,650</u>	<u>524,301</u>
Total Interest Income	<u>12,729,795</u>	<u>12,237,655</u>
<b>Interest Expense:</b>		
Interest on deposits	929,799	857,875
Interest on borrowings	<u>132,243</u>	<u>137,875</u>
Total Interest Expense	<u>1,062,042</u>	<u>995,750</u>
<b>Net Interest Income</b>	11,667,753	11,241,905
<b>Provision for loan losses</b>	<u>450,000</u>	<u>720,000</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>11,217,753</u>	<u>10,521,905</u>
<b>Noninterest Income:</b>		
Service charges, fees and commissions	1,218,413	1,186,344
Increase in cash value of bank owned life insurance	165,450	173,280
Gain on sale of available for sale securities	9,475	86,426
Other income	<u>956,325</u>	<u>961,315</u>
Total Noninterest Income	<u>2,349,663</u>	<u>2,407,365</u>
<b>Noninterest Expense:</b>		
Salaries and benefits	4,609,049	4,424,904
Occupancy expenses	730,630	589,363
Equipment expenses	1,042,230	939,289
Director's fees	309,266	305,911
Losses on sale and writedowns of other real estate owned, net	47,076	65,940
Other expenses	<u>2,020,732</u>	<u>2,074,237</u>
Total Noninterest Expenses	<u>8,758,983</u>	<u>8,399,644</u>
<b>Income before Income Taxes</b>	4,808,433	4,529,626
Income Tax Expense	<u>1,492,395</u>	<u>1,312,752</u>
<b>Net Income</b>	<u>\$ 3,316,038</u>	<u>\$ 3,216,874</u>
Net Income per share of Common, basic and diluted	\$ 3.90	\$ 3.74
Net Income per share of Common Class A, basic and diluted	\$ 4.10	\$ 3.93
Net Income per share of Common Class B, basic and diluted	\$ 4.29	\$ 4.12
Cash dividends paid per share of Common	\$ 1.88	\$ 1.80
Cash dividends paid per share of Common Class A	\$ 1.97	\$ 1.89
Cash dividends paid per share of Common Class B	\$ 2.07	\$ 1.98
Weighted Average Shares Outstanding, Common	731,663	741,001
Weighted Average Shares Outstanding, Common Class A	105,849	106,725
Weighted Average Shares Outstanding, Common Class B	6,557	6,557

See accompanying notes to consolidated financial statements

# ALLEGHENY BANCSHARES, INC.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Net Income	\$ 3,316,038	\$ 3,216,874
Other Comprehensive Income (Loss)		
Unrealized gains (losses) arising during the period on available for sale securities	108,400	(664,686)
Adjustments for income tax benefit (expense)	<u>(36,856)</u>	<u>225,993</u>
	<u>71,544</u>	<u>(438,693)</u>
Reclassification adjustment for net gains included in net income	(9,475)	(86,426)
Adjustment for income tax expense	<u>3,222</u>	<u>29,385</u>
	<u>(6,253)</u>	<u>(57,041)</u>
Total other comprehensive income (loss)	<u>65,291</u>	<u>(495,734)</u>
Total comprehensive income	<u>\$ 3,381,329</u>	<u>\$ 2,721,140</u>

See accompanying notes to consolidated financial statements

# ALLEGHENY BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 3,316,038	\$ 3,216,874
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	450,000	720,000
Depreciation and amortization	539,956	506,393
Net amortization of securities	383,766	364,861
(Gain) on sale of available for sale securities	(9,475)	(86,426)
Loss on sale of bank premises and equipment	22,519	737
Deferred income tax expense	123,856	142,251
Increase in bank owned life insurance	(165,450)	(173,280)
Loss on sale and writedowns of other real estate owned	47,076	65,940
Net change in:		
Interest receivable	(88,667)	(162,631)
Other assets	(405,872)	(898,594)
Accrued expense and other liabilities	815,663	434,224
Net Cash Provided by Operating Activities	<u>5,029,410</u>	<u>4,130,349</u>
<b>Cash Flows from Investing Activities:</b>		
Net change in interest bearing deposits in banks	2,720,878	1,002,313
Proceeds from sales, calls and maturities of available for sale securities	4,946,950	5,781,189
Purchase of available for sale securities	(7,720,025)	(6,846,170)
Purchase of restricted investments	(2,900)	(900)
Proceeds from redemption of restricted investments	7,700	6,800
Proceeds from sale of other real estate owned	345,699	364,688
Purchase of bank premises and equipment	(181,068)	(554,525)
Net changes in loans	(13,689,588)	(7,447,889)
Net Cash (Used in) Investing Activities	<u>(13,572,354)</u>	<u>(7,694,494)</u>
<b>Cash Flows from Financing Activities:</b>		
Net change in:		
Demand and savings deposits	12,105,947	9,958,780
Time deposits	(2,767,887)	(3,587,780)
Securities sold under agreements to repurchase	1,253,101	194,970
Curtailements of long-term borrowings	(180,884)	(172,065)
Purchase of treasury stock	(542,160)	(666,240)
Cash dividends paid	(1,588,258)	(1,543,556)
Net Cash Provided by Financing Activities	<u>8,279,859</u>	<u>4,184,109</u>
<b>Cash and Cash Equivalents</b>		
Net (decrease) increase in cash and cash equivalents	(263,085)	619,964
Cash and cash equivalents, January 1	7,669,337	7,049,373
Cash and cash equivalents, December 31	<u>\$ 7,406,252</u>	<u>\$ 7,669,337</u>
<b>Supplemental Disclosure of Cash Paid During the Year for:</b>		
Interest	\$ 1,052,214	\$ 1,002,055
Income taxes	\$ 1,534,259	\$ 856,859
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Other real estate acquired in settlement of loans	\$ 116,000	\$ 807,838
Unrealized (losses) gains on securities available for sale	\$ 98,925	\$ (751,112)
Reclassification of stranded tax effects from change in tax rate	\$ 39,644	\$ -

See accompanying notes to consolidated financial statements

# ALLEGHENY BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Total</u>	<u>Common Stock</u>	<u>Class A Common Stock</u>	<u>Class B Common Stock</u>
<b>Balance December 31, 2015</b>	\$ 34,597,634	\$ 784,554	\$ 108,872	\$ 6,574
Net Income	3,216,874	--	--	--
Other Comprehensive Loss	(495,734)	--	--	--
Purchase of Treasury Stock	(666,240)	--	--	--
Dividends Paid	(1,543,556)	--	--	--
<b>Balance December 31, 2016</b>	\$ 35,108,978	\$ 784,554	\$ 108,872	\$ 6,574
Net Income	3,316,038	--	--	--
Other Comprehensive Income	65,291	--	--	--
Reclassification of Stranded Tax Effects from Change in Tax Rate	--	--	--	--
Purchase of Treasury Stock	(542,160)	--	--	--
Dividends Paid	(1,588,258)	--	--	--
<b>Balance December 31, 2017</b>	<u>\$ 36,359,889</u>	<u>\$ 784,554</u>	<u>\$ 108,872</u>	<u>\$ 6,574</u>

# ALLEGHENY BANCSHARES, INC.

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Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Common Treasury Stock	Class A Treasury Stock	Class B Treasury Stock
\$ 900,000	\$ 34,476,229	\$ 631,712	\$ (2,181,067)	\$ (128,220)	\$ (1,020)
--	3,216,874	--	--	--	--
--	--	(495,734)	--	--	--
--	--	--	(652,560)	(13,680)	--
--	(1,543,556)	--	--	--	--
\$ 900,000	\$ 36,149,547	\$ 135,978	\$ (2,833,627)	\$ (141,900)	\$ (1,020)
--	3,316,038	--	--	--	--
--	--	65,291	--	--	--
--	(39,644)	39,644	--	--	--
--	--	--	(494,160)	(48,000)	--
--	(1,588,258)	--	--	--	--
<u>\$ 900,000</u>	<u>\$ 37,837,683</u>	<u>\$ 240,913</u>	<u>\$ (3,327,787)</u>	<u>\$ (189,900)</u>	<u>\$ (1,020)</u>

See accompanying notes to consolidated financial statements

# ALLEGHENY BANCSHARES, INC.

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## Notes to Consolidated Financial Statements

### *Note 1*            **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Allegheny Bancshares (“Company”) is a bank holding company and operates under a charter issued by the state of West Virginia. The Company owns all of the outstanding stock of Pendleton Community Bank (“Bank”), which operates under a charter issued by the State of West Virginia and provides commercial banking services to customers located primarily in Pendleton County, West Virginia and adjacent counties. As a state chartered bank, the Bank is subject to regulation by the Department of Banking for the State of West Virginia and the Federal Deposit Insurance Corporation. The Bank is engaged in the general commercial banking business offering a full range of banking services focused primarily towards serving individuals, small businesses, the agricultural industry, local government entities, and the professional community.

The Bank’s primary trade area includes the West Virginia localities of Pendleton, Grant, Hardy and Pocahontas counties, including the towns of Franklin, Marlinton, Moorefield, and Petersburg. In Virginia, the Bank has two full service offices, one in downtown Harrisonburg, Virginia and one just outside the city of Harrisonburg. In addition, the bank operates a loan production office in the town of Wardensville, West Virginia.

The accounting and reporting policies of the Company and its subsidiary conform to the U.S. generally accepted accounting principles and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

***Classes of Commons Stock*** –The Company has three classes of common stock as follows: Common Stock, Class A Common Stock and Class B Common Stock. Common Stock has full voting rights on any and all matters that come before a vote of the Company’s shareholders.

Class A Common Stock shareholders receive a 5% premium over the dividend paid on Common Stock, and Class A shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class A Common Stock will have a liquidation preference over Common Stock and Class B Common Stock.

Class B Common Stock shareholders receive a 10% premium over the dividend paid on Common Stock, and Class B shareholders are only allowed to vote if shareholders are being asked to approve a merger, consolidation, conversion or sale of assets outside the normal course of business. Class B Common Stock will have a liquidation preference over Common Stock, but after Class A Common Stock.

***Consolidation Policy*** – The consolidated financial statements include Allegheny Bancshares, Inc. and Pendleton Community Bank. All significant intercompany balances and transactions have been eliminated.

***Use of Estimates*** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate in connection with foreclosures or in satisfaction of loans. In connection with the determination for the allowances for loan loss and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize loan losses, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company’s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

# ALLEGHENY BANCSHARES, INC.

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## *Note 1*                    **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents** – Cash and cash equivalents as used in the consolidated balance sheets and consolidated cash flow statements is defined as cash on hand and noninterest bearing funds at correspondent institutions.

**Investment Securities** – Investment securities which the Company intends to hold for indefinite periods of time, including investment securities used as part of the Company’s asset/liability management strategy, are classified as available for sale. These investment securities are carried at fair value.

Interest and dividends on securities and amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains and losses on the sale of investment securities are determined using the specific identification method.

Declines in the fair value of available-for-sale securities below their cost that are determined to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent of the Bank to sell the security, (2) whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, and (3) whether the Bank expects to recover the security’s entire amortized cost basis regardless of the Bank’s intent to sell the security. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**Loans** – Loans are intended to be held until maturity and are shown on the consolidated balance sheets net of the allowance for loan losses. Interest is computed by using an effective interest method which generally results in level rates of return on principal. Interest income generally is not recognized on loans classified as nonaccrual loans. Payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received. Loans will remain in nonaccrual status unless the loans are brought current per the loan contract and financial conditions have improved to a point that the likelihood of further loss is remote.

In the normal course of business, to meet the credit needs of its customers, the Company has made commitments to extend credit. These commitments represent a credit risk, which is not recognized in the Company’s consolidated balance sheets. The Company uses the same credit policies in making commitments as it does for other loans. Commitments to extend credit are generally made for a period of one year or less and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements. See Note 21 for lending commitments as of December 31, 2017 and 2016.

The accrual of interest on all loans is discontinued when in management’s opinion the borrower may be unable to meet payments as they become due. These loans are considered nonaccrual loans, and all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

**Allowance for Loan Losses** – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the non-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

During these evaluations, particular characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

# ALLEGHENY BANCSHARES, INC.

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## *Note 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):*

- Commercial loans not secured by real estate, carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor is unable to finish the project as planned due to financial pressures unrelated to the project.
- Residential real estate loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Non profit and tax exempt loans are predominately loans made either to municipalities, or to emergency service organizations such as rescue squads or fire departments. These organizations rely on tax collections in the case of municipalities and often contributions for the rescue organizations. These loans are typically secured by equipment and sometimes real estate. The inherent risk is economic downturn that can hurt contributions or tax receipts.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are either demonstrating signs of becoming problematic or currently considered problem loans. Changes to the report must have the concurrence of the Chief Credit Officer and the Chief Executive Officer.

Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.

- Loans classified as substandard, doubtful or loss by bank examiners, external auditors or loan review based upon financial trends.
- Loans on nonaccrual status.
- Loans more than 90 days delinquent.
- Loans judgmentally selected by executive management or the Board of Directors, due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

When a loan is added to the watch list report, the Chief Credit Officer and the Chief Executive Officer will assess the need for updated valuations. Upon receipt of current value updates, if necessary, these individuals along with the Chief Financial Officer will estimate the need for a specific loss to be allocated in the Bank's loan loss allowance.

The following guidance has been given as an aid to loan officers in detecting problem loans.

- Financial Statement Analysis – As customer financial statements are received, they should be immediately analyzed to see if there are any significant changes in financial position or operating results.
- Delayed Financial Statements – If we are having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. We carefully review each loan as soon as it becomes past due.
- Marital Difficulties – Marital difficulties often cause businesses financial stress and are a major cause of problem loans.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.
- Other Red Flags – The following are additional red flags which could mean a problem situation is developing: more than two extension payments within the past 12 months, illness or death of a principal or key employee, overdrafts, unexpected renewals or unanticipated new borrowing, deteriorating financial ratios, irresponsible behavior on the part of a borrower or cancellation of insurance.

# ALLEGHENY BANCSHARES, INC.

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## *Note 1*            **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful or substandard or loans exceeding 90 days past due that exceed \$100,000. For such loans, that are also classified as impaired, an allowance is established when the collateral value less estimated costs to sell, or observable market price (or discounted cash flows) of the impaired loan is lower than that carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors including current economic conditions and volume and mix of the existing loan portfolio.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. Credits are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

Risk Grades 1 through 4 (Pass): There are five different risk grades considered to be “Pass” grades. The first four grades are considered those performing credits that presently are considered lesser risk to the Bank. Credits in the Risk Grade 1 category are virtually risk-free and are well-collateralized by deposit accounts held by the Bank. The repayment program is well-defined and achievable and repayment sources are numerous. Risk Grade 2 is reserved for loans secured by readily marketable collateral, or loans within guidelines to borrowers with liquid financial statements with excellent sources of repayment, no significant identifiable risk of collection, and conformity in all respects to Bank policy guidelines, underwriting standards, and Federal and State regulations. A Risk Grade of 3 is reserved for the Bank’s loans that are considered average credit risk, meet all the loan policy guidelines, and with no apparent weakness. These loans have no significant identifiable risk of collection. Generally, loans assigned this grade have documented historical cash flow that meets or exceeds required minimum Bank guidelines or that can be supplemented with verifiable cash flow from other sources as well as adequate secondary sources to liquidate debt. Finally, debts with a Risk Grade of 4 are loans considered to be slightly more than average credit risk. They meet the credit guidelines; however, they have certain characteristics which call into question the borrower’s financial well-being. It may be elevated debt to income ratio, high loan to value ratio, balance sheet weakness or a cash flow weakness that is deemed to be temporary in nature. These are credits that may require more frequent monitoring.

Risk Grade 5 – Special Mention: The fifth and lowest pass grade is given to this level of risk. These loans have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Bank’s credit position at some future date. These loans are not adversely classified and do not expose the Bank to a sufficient risk to warrant adverse classification. Failure to properly monitor such loans or to correct deficiencies could result in greater credit risk in the future.

Risk Grade 6 – Substandard: A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the possibility that the institution may sustain some loss if the deficiencies are not corrected. Loans in this category are characterized by deterioration in the quality exhibited by any number of well-defined weaknesses requiring corrective action.

Such loans are no longer considered to be adequately protected due to the borrower’s declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and renewals.

Risk Grade 7 – Doubtful: Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of current existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as a loss because certain events may occur which would salvage the debt.

# ALLEGHENY BANCSHARES, INC.

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## *Note 1*            **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Risk Grade 8 – Loss: Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are in excess of \$100,000.

In connection with the evaluation of the collectability of all classes of loans which are greater than 90 days past due as to principal or interest for nonaccrual status, any amounts not deemed well secured or otherwise collectible shall be recommended for charge-off at that time. Additionally, charge-off consideration shall be given to loans evaluated in connection with the Bank's loan review policy and procedures and loans identified for repossession or foreclosure or those that meet the criteria for classification as an in-substance foreclosure. In any event, it shall be the policy of the Bank to charge-off amounts deemed uncollectible in the periods when identified. All charge-off amounts are approved by the Board of Directors.

***Troubled Debt Restructuring*** – In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider. The related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

***Transfers of Financial Assets*** – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

***Other Real Estate Owned*** – Asset acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Physical possession of residential real estate collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of a foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar loan agreement. Subsequent to foreclosure,

# ALLEGHENY BANCSHARES, INC.

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## *Note 1*      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

management periodically performs valuations, and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in valuation allowance are included in other operating expenses.

**Bank Premises and Equipment** – Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets principally on a straight-line method.

For buildings and improvements the estimated useful lives are between 10 and 50 years, the estimated lives for furniture and equipment are 5 to 10 years.

**Bank Owned Life Insurance** – The Company has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other amounts due that are probable at settlement.

**Goodwill** – The Company follows FASB ASC 350-20, *Intangibles-Goodwill and Other* which gives the Company the option to qualitatively determine whether they can bypass the two-step goodwill impairment test. The Company continues to perform the two step process under ASC 350-20. Provisions within this statement require at least annual impairment review or more often if certain impairment conditions exist. The Goodwill resulted from a branch acquisition in 2009.

**Income Taxes** – Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with the unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. At December 31, 2017 and 2016, the Company has not identified and recorded any uncertain tax positions.

**Net Income per Share** – Basic earnings per common share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Bank had no potential common shares during the calendar years 2017 and 2016. Earnings per common share is computed using the two-class method. The Class A Common shares carry a 5% dividend preference over common shares, and Class B shares carry a 10% dividend preference over Common shares.

**Fair Value of Financial Instruments** – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully discussed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumption or in market conditions significantly affect the estimates.

**Advertising** – The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2017 and 2016 was \$122,441 and \$136,686, respectively.

# ALLEGHENY BANCSHARES, INC.

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## *Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):*

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

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“AOCI”). The Company early adopted this new standard in the current year. ASU 2018-01 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was \$39,644.

### **Recent Accounting Pronouncements**

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 3) Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The amendments within this ASU are effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

During February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15,

# ALLEGHENY BANCSHARES, INC.

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## *Note 1           SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):*

2021. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact that ASU 2016-15 will have on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this ASU are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact that ASU 2017-04 will have on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

During February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in the consolidated financial statements for the period ending December 31, 2017.

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## Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

**Subsequent Events** – The Company evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through February 23, 2018, the date financial statements were available to be issued. Based on the evaluation, the Company did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure to the audited financial statements.

**Reclassifications** – Some items in prior year financial statements were reclassified to conform to the current presentation. Reclassifications were insignificant and had no effect on prior year net income or stockholders' equity.

## NOTE 2 RESTRICTIONS ON CASH:

The Company is required by the Federal Reserve to maintain a reserve balance based upon a percentage of deposits. The Company can meet this requirement through cash on hand, balances held with its correspondent bank, and cash held on reserve with Federal Reserve Bank. At December 31, 2017 and 2016, no balance was required to be on reserve with the Federal Reserve Bank.

## NOTE 3 INVESTMENT SECURITIES:

The amortized cost and fair values of securities in thousands are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2017</b>				
<b>Securities available for sale:</b>				
Mortgage backed obligations of federal agencies	\$ 5,932	\$ 1	\$ 93	\$ 5,840
Government sponsored enterprises	5,576	33	12	5,597
Obligations of states and political subdivisions	23,458	451	72	23,837
Total	<u>\$ 34,966</u>	<u>\$ 485</u>	<u>\$ 177</u>	<u>\$ 35,274</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2016</b>				
<b>Securities available for sale:</b>				
Mortgage backed obligations of federal agencies	\$ 4,704	\$ 2	\$ 90	\$ 4,616
Government sponsored enterprises	4,862	54	-	4,916
Obligations of states and political subdivisions	23,001	407	164	23,244
Total	<u>\$ 32,567</u>	<u>\$ 463</u>	<u>\$ 254</u>	<u>\$ 32,776</u>

For the years ended December 31, 2017 and 2016, proceeds from sales, calls and maturities of securities available for sale amounted to \$4,946,950 and \$5,781,189, respectively. Gross gains on sale of investment securities totaled \$10,924 in 2017 and \$88,082 in 2016. Gross losses on sale of securities totaled \$1,449 in 2017 and \$1,656 in 2016.

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position at December 31. The unrealized losses on the Company's investment securities were caused primarily by increase in interest rates, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and believes it is more likely than not that it

# ALLEGHENY BANCSHARES, INC.

## NOTE 3 INVESTMENT SECURITIES (CONTINUED):

will hold those investments until a recovery of fair value, which may be maturity, the Company feels that unrealized losses are temporary. The Company has 22 investments that have unrealized losses at December 31, 2017 and it considers them to be temporarily impaired.

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2017</b>				
<b>Description of Securities:</b>				
Mortgage backed obligations of federal agencies	\$ 2,517	\$ 21	\$ 3,287	\$ 72
Government sponsored enterprises	3,491	12	--	--
Obligations of states and political subdivisions	2,532	21	1,357	51
Total	<u>\$ 8,540</u>	<u>\$ 54</u>	<u>\$ 4,644</u>	<u>\$ 123</u>
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2016</b>				
<b>Description of Securities:</b>				
Mortgage backed obligations of federal agencies	\$ 4,549	\$ 90	\$ --	\$ --
Government sponsored enterprises	--	--	--	--
Obligations of states and political subdivisions	5,342	164	--	--
Total	<u>\$ 9,891</u>	<u>\$ 254</u>	<u>\$ --</u>	<u>\$ --</u>

A maturity schedule of securities in thousands as of December 31, 2017, by contractual maturity, is shown below. Actual maturities may differ because borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
<b>Due:</b>		
In one year or less	\$ 1,537	\$ 1,554
After one year through five years	10,836	10,994
After five years through ten years	9,093	9,203
Over ten years	13,500	13,523
	<u>\$ 34,966</u>	<u>\$ 35,274</u>

The carrying value of securities pledged by the Company to secure deposits, repurchase agreements and for other purposes amounted to \$25,462,878 and \$20,769,386 at December 31, 2017 and 2016, respectively. The fair value of these pledged securities approximates the carrying value.

## NOTE 4 RESTRICTED EQUITY SECURITIES:

Restricted equity securities are considered restricted due to lack of marketability. They consist of stock in the Federal Home Loan Bank (FHLB), stock in Federal Agricultural Mortgage Corporation (Farmer Mac) and stock in ICBA Reinsurance Company, LTD. Investment in the FHLB stock is determined by the level of the Bank's participation with FHLB's various products and is collateral against outstanding borrowings from that institution. The FHLB stock is carried at cost of \$211,000 at December 31, 2017. The Farmer Mac stock and the ICBA Reinsurance Company stock is the level of stock required to participate in their programs. The Farmer Mac stock is carried at its cost of \$14,000 and the ICBA Reinsurance Company stock is carried at its cost of \$2,495 at December 31, 2017. Management evaluates these restricted securities for other-than-temporary impairment on an annual basis, and more often when conditions warrant.

# ALLEGHENY BANCSHARES, INC.

## NOTE 5 LOANS RECEIVABLE:

Loans receivable outstanding as of December 31, are summarized in thousands:

	<u>2017</u>	<u>2016</u>
Real Estate:		
Commercial:		
Construction and land development	\$ 25,959	\$ 19,893
Agriculture	18,616	18,295
Other commercial	31,202	37,028
Residential:		
Construction	7,785	6,039
Consumer residential	103,926	96,163
Non Real Estate:		
Commercial and industrial	16,923	16,727
Consumer	11,414	11,615
Nonprofit and tax exempt loans	12,439	8,875
Total Loans	<u>228,264</u>	<u>214,635</u>
Less Allowance for Loan Losses	2,628	2,239
Loans Receivable	<u>\$ 225,636</u>	<u>\$ 212,396</u>

Demand deposit accounts that are overdrawn have been reclassified as a loan since they represent an amount owed to the Bank. The amount of overdrawn accounts included in the loan balance are \$175,083 and \$232,671 at December 31, 2017 and 2016, respectively, and are included in the non-real estate consumer loan balance above.

Substantially all of our 1-4 family mortgages as well as our multi-family residential mortgages are covered under a blanket lien with the Federal Home Loan Bank for borrowings.

Loans accounted for on a nonaccrual basis were \$865,880 and \$1,799,420 at December 31, 2017 and 2016 (0.38% and 0.84% of total loans), respectively. Accruing loans which are contractually past due 90 days or more as to principal or interest totaled \$806,524 and \$1,199,054 December 31, 2017 and 2016 (0.35% and 0.56% of total loans), respectively. Past due status is determined based on the contractual terms of the loan agreement.

The past due and nonaccrual status of loans as of year-end were as follows (in thousands):

December 31, 2017	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Nonaccrual Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real Estate:								
Commercial:								
Construction and land development	\$ --	\$ --	\$ 656	\$ 656	25,303	\$ 25,959	\$ 631	\$ 25
Agriculture	139	--	306	445	18,171	18,616	--	306
Other commercial	2,020	390	28	2,438	28,764	31,202	--	28
Residential:								
Construction	182	--	--	182	7,603	7,785	--	--
Consumer residential	1,467	512	622	2,601	101,325	103,926	206	438
Non Real Estate:								
Commercial and industrial	152	29	--	181	16,742	16,923	--	--
Consumer	66	--	18	84	11,330	11,414	29	10
Non profit and tax exempt loans	174	--	--	174	12,265	12,439	--	--
Total	<u>\$ 4,200</u>	<u>\$ 931</u>	<u>\$ 1,630</u>	<u>\$ 6,761</u>	<u>\$ 221,503</u>	<u>\$ 228,264</u>	<u>\$ 866</u>	<u>\$ 807</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 5 LOANS RECEIVABLE (CONTINUED):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded Investment >90 Days and Accruing
<b>December 31, 2016</b>								
Real Estate:								
Commercial:								
Construction and land development	\$ --	\$ 15	\$ 9	\$ 24	19,869	\$ 19,893	\$ 1,328	\$ 9
Agriculture	19	--	655	674	17,621	18,295	--	655
Other commercial	28	--	501	529	36,499	37,028	128	373
Residential:								
Construction	--	--	--	--	6,039	6,039	--	--
Consumer residential	1,044	521	454	2,019	94,144	96,163	309	145
Non Real Estate:								
Commercial and industrial	1	--	16	17	16,710	16,727	7	9
Consumer	86	11	8	105	11,510	11,615	27	8
Non profit and tax exempt loans	--	--	--	--	8,875	8,875	--	--
Total	<u>\$ 1,178</u>	<u>\$ 547</u>	<u>\$ 1,643</u>	<u>\$ 3,368</u>	<u>\$ 211,267</u>	<u>\$ 214,635</u>	<u>\$ 1,799</u>	<u>\$ 1,199</u>

Impaired loans, which include TDRs of \$4,024,403 and \$4,043,629 as of December 31, 2017 and 2016 respectively, were as follows:

<b>December 31, 2017</b>	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
<b>With no related allowance:</b> <i>(Dollars in Thousands)</i>					
Commercial:					
Construction and land development	\$ 2,196	\$ 2,196	\$ --	\$ 611	\$ 9
Agriculture	640	640	--	698	42
Other commercial	2,245	2,245	--	893	51
Residential:					
Construction	--	--	--	--	--
Consumer residential	1,706	1,706	--	1,584	69
Non Real Estate:					
Commercial and industrial	270	270	--	279	12
Consumer	--	--	--	--	--
Non profit and tax exempt loans	--	--	--	--	--
Total	<u>\$ 7,057</u>	<u>\$ 7,057</u>	<u>\$ --</u>	<u>\$ 4,065</u>	<u>\$ 183</u>

<b>December 31, 2016</b>	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance Total Loans	Interest Income Recognized
<b>With no related allowance:</b> <i>(Dollars in Thousands)</i>					
Commercial:					
Construction and land development	\$ 1,328	\$ 1,328	\$ --	\$ 1,439	\$ 5
Agriculture	433	433	--	433	18
Other commercial	1,377	1,377	--	957	37
Residential:					
Construction	--	--	--	--	--
Consumer residential	527	527	--	761	18
Non Real Estate:					
Commercial and industrial	287	287	--	235	12
Consumer	--	--	--	--	--
Non profit and tax exempt loans	--	--	--	--	--
Total	<u>\$ 3,952</u>	<u>\$ 3,952</u>	<u>\$ --</u>	<u>\$ 3,825</u>	<u>\$ 90</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 5 LOANS RECEIVABLE (CONTINUED):

December 31, 2017	Recorded	Unpaid		Average	Interest
With an allowance recorded:	Investment	Principal	Related	Balance	Income
(Dollars in Thousands)	in Loans	Balance	Allowance	Total	Recognized
				Loans	
Commercial:					
Construction and land development	\$ 2,342	\$ 2,342	\$ 845	\$ 1,638	\$ 69
Agriculture	--	--	--	--	--
Other commercial	1,266	1,266	109	253	16
Residential:					
Construction	182	182	25	144	6
Consumer residential	970	970	373	831	36
Non Real Estate:					
Commercial and industrial	175	175	58	219	9
Consumer	--	--	--	--	--
Non profit and tax exempt loans	--	--	--	--	--
Total	<u>\$ 4,935</u>	<u>\$ 4,935</u>	<u>\$ 1,410</u>	<u>\$ 3,085</u>	<u>\$ 136</u>
December 31, 2016	Recorded	Unpaid		Average	Interest
With an allowance recorded:	Investment	Principal	Related	Balance	Income
(Dollars in Thousands)	in Loans	Balance	Allowance	Total	Recognized
				Loans	
Commercial:					
Construction and land development	\$ --	\$ --	\$ --	\$ 399	\$ --
Agriculture	221	266	2	217	14
Other commercial	142	142	9	149	3
Residential:					
Construction	--	--	--	--	--
Consumer residential	930	930	312	761	41
Non Real Estate:					
Commercial and industrial	69	69	57	67	10
Consumer	--	--	--	--	--
Non profit and tax exempt loans	--	--	--	--	--
Total	<u>\$ 1,362</u>	<u>\$ 1,407</u>	<u>\$ 380</u>	<u>\$ 1,593</u>	<u>\$ 68</u>

The recorded investment is defined as the principal balance, less principal payments and charge-offs.

### Troubled Debt Restructurings

Included in certain loan categories in the impaired loans table above are troubled debt restructurings (“TDRs”) that were classified as impaired. TDRs at December 31, 2017 are comprised of 17 loans totaling \$4,024,403. A restructured loan is considered in default when it becomes 90 days past due. The 17 loans classified as TDRs are performing in accordance with their restructured terms and are not on nonaccrual status. This compares with 15 loans totaling \$4,043,629 in restructured loans at December 31, 2016. The amount of the valuation allowance related to total TDRs was \$247,319 and \$196,024 as of December 31, 2017 and December 31, 2016, respectively. There were no charge-offs of restructured loans during 2017. Charge-offs of \$554,914 of previously restructured loans occurred during 2016.

The 17 loans totaling \$4,024,403 in TDRs which were performing as agreed under restructured terms as of December 31, 2016 are represented by one commercial construction and development loan, two agricultural loans, four commercial real estate loans, six consumer real estate loans, three commercial and industrial loans and one consumer loan.

# ALLEGHENY BANCSHARES, INC.

## NOTE 5 LOANS RECEIVABLE (CONTINUED):

During 2017, no restructured loans went into default. During the year 2016, two loans that had previously been restructured went into default. The following table shows these loan that subsequently defaulted in thousands:

Class of Loan	Number of Contracts	For the Year Ended December 31, 2016	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	--	\$ --	\$ --
Agriculture	--	--	--
Other commercial	2	655	655
Residential Real Estate:			
Construction	--	--	--
Consumer Residential	--	--	--
Non Real Estate:			
Commercial and industrial	--	--	--
Consumer	--	--	--
Non profit and tax exempt entities	--	--	--
Total	<u>2</u>	<u>\$ 655</u>	<u>\$ 655</u>

During 2017 the bank restructured 3 loans that were considered to be troubled debt restructurings. These loans totaled \$218,375, one of which was a residential real estate loan, one commercial and industrial loan, and one consumer loan. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following table presents by class of loan, information related to loans modified in a TDR during 2017 in thousands:

Class of Loan	Number of Contracts	For the Year Ended December 31, 2017	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	--	\$ --	\$ --
Agriculture	--	--	--
Other commercial	--	--	--
Residential Real Estate:			
Construction	--	--	--
Consumer Residential	1	89	89
Non Real Estate:			
Commercial and industrial	1	92	40
Consumer	1	89	89
Non profit and tax exempt entities	--	--	--
Total	<u>3</u>	<u>\$ 270</u>	<u>\$ 218</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 5 LOANS RECEIVABLE (CONTINUED):

During 2016 the bank restructured 2 loans that were considered to be troubled debt restructurings. These loans totaled \$712,278, one of which was a commercial real estate loan and one residential real estate loan. These modifications included rate adjustments, revisions to the amortization schedule, and capitalizing interest, or any combination thereof. The following table presents by class of loan, information related to loans modified in a TDR during 2016 in thousands:

Class of Loan	Number of Contracts	For the Year Ended December 31, 2016	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate:			
Construction and land development	--	\$ --	\$ --
Agriculture	--	--	--
Other commercial	1	637	637
Residential Real Estate:			
Construction	--	--	--
Consumer Residential	1	75	75
Non Real Estate:			
Commercial and industrial	--	--	--
Consumer	--	--	--
Non profit and tax exempt entities	--	--	--
Total	<u>2</u>	<u>\$ 712</u>	<u>\$ 712</u>

Management considers troubled debt restructurings and subsequent defaults in restructured loans in the determination of the adequacy of the Company's allowance for loan losses. When identified as a TDR, a loan is evaluated for potential loss based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs if the loan is collateral dependent. Loans identified as TDRs frequently are on non-accrual status at the time of the restructuring and, in some cases, partial charge-offs may have already been taken against the loan and a specific allowance may have already been established for the loan. As a result of any modification as a TDR, the specific reserve associated with the loan may be increased. Additionally, loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future defaults. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. As a result, any specific allowance may be increased, adjustments may be made in the allocation of the total allowance balance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Management exercises significant judgment in developing estimates for potential losses associated with TDRs.

# ALLEGHENY BANCSHARES, INC.

## NOTE 6 ALLOWANCE FOR LOAN LOSSES:

The following table presents, as of December 31, 2017 and 2016, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment) in thousands:

December 31, 2017

	Real Estate Secured					Non Real Estate			
	Commercial			Residential		Commercial & Industrial	Consumer	Non Profit & Tax Exempt	Total
	Construction and Land Development	Agricultural	Other Commercial	Construction	Consumer Residential				
Beginning Balance	\$ 72	\$ 107	\$ 1,180	\$ 24	\$ 709	\$ 69	\$ 50	\$ 28	\$ 2,239
Charge-offs	--	--	--	--	(33)	(16)	(136)	--	(185)
Recoveries	8	40	--	--	4	--	72	--	124
Provision	972	(94)	(562)	37	(13)	43	61	6	450
Ending Balance	\$ 1,052	\$ 53	\$ 618	\$ 61	\$ 667	\$ 96	\$ 47	\$ 34	\$ 2,628
Ending Balance individually valued for impairment	845	--	109	25	373	58	--	--	1,410
Ending balance collectively evaluated for impairment	207	53	509	36	294	38	47	34	1,218
Loans:									
Ending Balance individually evaluated for impairment	4,538	640	3,511	182	2,676	446	--	--	11,993
Ending balance collectively evaluated for impairment	21,421	17,976	27,691	7,603	101,250	16,477	11,414	12,439	216,271
Total Loans	\$ 25,959	\$ 18,616	\$ 31,202	\$ 7,785	\$ 103,926	\$ 16,923	\$ 11,414	\$ 12,439	\$ 228,264

December 31, 2016

	Real Estate Secured					Non Real Estate			
	Commercial			Residential		Commercial & Industrial	Consumer	Non Profit & Tax Exempt	Total
	Construction and Land Development	Agricultural	Other Commercial	Construction	Consumer Residential				
Beginning Balance	\$ 244	\$ 141	\$ 709	\$ 23	\$ 724	\$ 137	\$ 116	\$ 75	\$ 2,169
Charge-offs	(371)	--	(75)	--	(166)	--	(157)	--	(769)
Recoveries	--	--	25	--	--	7	87	--	119
Provision	199	(34)	521	1	151	(75)	4	(47)	720
Ending Balance	\$ 72	\$ 107	\$ 1,180	\$ 24	\$ 709	\$ 69	\$ 50	\$ 28	\$ 2,239
Ending Balance individually valued for impairment	--	2	9	--	312	57	--	--	380
Ending balance collectively evaluated for impairment	72	105	1,171	24	397	12	50	28	1,859
Loans:									
Ending Balance individually evaluated for impairment	1,328	654	1,519	--	1,457	356	--	--	5,314
Ending balance collectively evaluated for impairment	18,565	17,641	35,509	6,039	94,706	16,371	11,615	8,875	209,321
Total Loans	\$ 19,893	\$ 18,295	\$ 37,028	\$ 6,039	\$ 96,163	\$ 16,727	\$ 11,615	\$ 8,875	\$ 214,635

# ALLEGHENY BANCSHARES, INC.

## NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Loans by credit quality indicators as of December 31, 2017 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	21,318	\$ 1,710	\$ 2,931	\$ --	\$ 25,959
Agriculture	18,244	334	37	1	18,616
Other commercial	27,969	28	3,205	--	31,202
Residential Real Estate:					
Construction	7,603	--	182	--	7,785
Consumer Residential	98,738	3,548	1,640	--	103,926
Non Real Estate:					
Commercial and industrial	16,106	628	189	--	16,923
Consumer	11,306	44	64	--	11,414
Non Profit and Tax Exempt Entities	12,439	--	--	--	12,439
Total	<u>\$ 213,723</u>	<u>\$ 6,292</u>	<u>\$ 8,248</u>	<u>\$ 1</u>	<u>\$ 228,264</u>

Loans by credit quality indicators as of December 31, 2016 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and land development	16,945	\$ 1,219	\$ 1,729	\$ --	\$ 19,893
Agriculture	17,604	433	258	--	18,295
Other commercial	32,966	3,934	128	--	37,028
Residential Real Estate:					
Construction	6,039	--	--	--	6,039
Consumer Residential	92,098	3,201	769	95	96,163
Non Real Estate:					
Commercial and industrial	15,967	303	457	--	16,727
Consumer	11,531	43	41	--	11,615
Non Profit and Tax Exempt Entities	8,875	--	--	--	8,875
Total	<u>\$ 202,025</u>	<u>\$ 9,133</u>	<u>\$ 3,382</u>	<u>\$ 95</u>	<u>\$ 214,635</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 7 OTHER REAL ESTATE OWNED:

Changes in other real estate owned for 2017 were as follows (in thousands):

	<u>Other Real Estate Owned</u>	<u>Valuation Allowance</u>	<u>Net</u>
Balance at the beginning of the year	\$ 1,358	\$ (260)	\$ 1,098
Additions	116	--	116
Loss on sales and writedowns, net	(33)	(14)	(47)
Sales	<u>(399)</u>	<u>53</u>	<u>(346)</u>
Balance at the end of the year	<u>\$ 1,042</u>	<u>\$ (221)</u>	<u>\$ 821</u>

Changes in other real estate owned for 2016 were as follows (in thousands):

	<u>Other Real Estate Owned</u>	<u>Valuation Allowance</u>	<u>Net</u>
Balance at the beginning of the year	\$ 938	\$ (217)	\$ 721
Additions	808	--	808
Loss on sales and writedowns, net	(14)	(53)	(67)
Sales	<u>(374)</u>	<u>10</u>	<u>(364)</u>
Balance at the end of the year	<u>\$ 1,358</u>	<u>\$ (260)</u>	<u>\$ 1,098</u>

The major classifications of other real estate owned in the consolidated balance sheets at December 31, 2017 and December 31, 2016 were as follows (in thousands):

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Commercial Real Estate:		
Construction and land development	\$ 551	\$ 672
Other commercial	191	176
Residential Real Estate:		
Residential	<u>79</u>	<u>250</u>
	<u>\$ 821</u>	<u>\$ 1,098</u>

## NOTE 8 BANK PREMISES AND EQUIPMENT:

(In thousands)

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Bank buildings and improvements	\$ 7,201	\$ 7,201
Furniture and equipment	<u>3,852</u>	<u>4,872</u>
	11,053	12,073
Less accumulated depreciation	<u>5,571</u>	<u>6,209</u>
Bank premises and equipment	<u>\$ 5,482</u>	<u>\$ 5,864</u>

Depreciation expense on these premises and equipment totaled \$539,956 and \$506,393 for the years ended December 31, 2017 and 2016, respectively.

# ALLEGHENY BANCSHARES, INC.

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## **NOTE 9**      **GOODWILL:**

The Company follows FASB ASC 350-20 *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within ASC 350-20 require the Company to discontinue any amortization of goodwill and intangible assets with indefinite lives, and require at least annual impairment review or more often if certain impairment conditions exist. With the purchase in 2009 of two Citizens National Bank branches there was \$1,086,732 of goodwill recorded. Goodwill was evaluated for impairment as of March 31, 2017 and it was determined that no impairment existed. No events have taken place since the date of the impairment testing that would suggest impairment exists at December 31, 2017.

## **NOTE 10**      **BANK OWNED LIFE INSURANCE:**

The Bank, in an effort to attract and retain employees, offers a variety of benefits to full time employees. The costs of these benefits continue to grow faster than inflation. In order to offset some of these costs and to offer other benefits the Bank has invested in a Bank Owned Life Insurance (BOLI) contract. Earnings on these contracts are tax exempt.

## **NOTE 11**      **TIME DEPOSITS:**

At December 31, 2017, the scheduled maturities of time deposits in thousands are as follows:

2018	\$	36,137
2019		12,715
2020		12,147
2021		10,739
2022		10,556
Thereafter		<u>725</u>
Total	\$	<u><u>83,019</u></u>

## **NOTE 12**      **SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:**

Securities sold under agreements to repurchase generally mature within one day from the transaction date, unless classified as a term repurchase agreement. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company has a total of \$1,802,645 and \$2,103,622, at December 31, 2017 and 2016, respectively, in market value of securities pledged to secure these agreements. The weighted average interest rate on these agreements was 0.43% during 2017. The highest month end balance during 2017 was \$1,889,924. For 2016, the highest month end balance was \$1,105,075 and the average interest rate was 0.36%.

## **NOTE 13**      **LINES OF CREDIT:**

The Bank has lines of credit with correspondent banks totaling \$15,400,000. At December 31, 2017 and 2016 the Bank had no outstanding balances on these lines. These lines of credit are unsecured. The lenders may withdraw these lines at their discretion and without notice.

# ALLEGHENY BANCSHARES, INC.

## NOTE 14 LONG-TERM DEBT:

The Company has borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB). The interest rates on all of the notes payable as of December 31, 2017 and December 31, 2016 were fixed at the time of the advance, and ranged from 4.58% to 5.61%. The FHLB notes are secured by FHLB Stock, as well as investment securities and mortgage loans. The weighted average interest rate is 5.27% at December 31, 2017. The Company has additional available borrowing capacity from the FHLB of \$95,957,857.

Repayments of long-term debt are due monthly. Interest expense of \$126,406 and \$135,363 was incurred on these debts in 2017 and 2016, respectively. The maturities of long-term debt as of December 31, 2017 are as follows:

2018	\$	190,158
2019		199,911
2020		210,167
2021		183,760
2022		180,308
Thereafter		<u>1,370,039</u>
Total	\$	<u>2,334,343</u>

## NOTE 15 DIVIDEND LIMITATIONS:

The principal source of funds of Allegheny Bancshares, Inc., is dividends paid by its subsidiary bank. The Code of West Virginia imposes certain restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits of the current year and the combined retained profits of the previous two years. As of January 1, 2018, the Bank could pay dividends of up to \$2,445,516 without permission of the authorities. Dividends paid by the Bank to the Company totaled \$1,788,258 in 2017 and \$2,400,000 in 2016.

## NOTE 16 INCOME TAXES:

The current and deferred components of income tax expense in thousands are as follows:

	<u>2017</u>	<u>2016</u>
Current component of income tax expense	\$ 1,368	\$ 1,171
Deferred income tax expense	\$ 14	\$ 142
Deferred tax asset adjustment for enacted change in tax rate	<u>110</u>	<u>--</u>
Income tax expense	<u>\$ 1,492</u>	<u>\$ 1,313</u>

Income Tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of \$110,000, recorded as a result of the enactment of H.R. 1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

A reconciliation between the provision for income taxes and the amount computed by multiplying income by the statutory federal income tax rate is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Income taxes computed at the applicable		
Federal income tax rate	\$ 1,635	\$ 1,540
Increase (decrease) resulting from:		
Tax exempt interest income	(382)	(355)
Non-deductible interest expense	8	7
State tax expense, net of federal taxes	118	109
Tax impact from enacted change in tax rate	110	--
Other	<u>3</u>	<u>12</u>
Income tax expense	<u>\$ 1,492</u>	<u>\$ 1,313</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 16 INCOME TAXES (CONTINUED):

The net deferred tax asset arising from temporary differences in thousands as of December 31 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Deferred Tax Asset:		
Provision for loan losses	\$ 344	\$ 746
Accrued expenses on long term benefits	346	424
Allowance for other real estate owned	54	96
Interest on nonaccrual loans	<u>120</u>	<u>21</u>
Total Assets	<u>864</u>	<u>1,287</u>
Deferred Tax Liabilities:		
Unrealized gain on securities available for sale	64	70
Depreciation	371	618
Intangible amortization	155	207
Other	<u>44</u>	<u>44</u>
Total Liabilities	<u>634</u>	<u>939</u>
Net Deferred Tax Asset	<u>\$ 230</u>	<u>\$ 348</u>

## NOTE 17 EMPLOYEE BENEFITS:

*Defined Contribution Plan:* The Bank has a defined contribution plan with 401(k) provisions that is funded with discretionary contributions by the bank that covers substantially all full time employees at the bank. There is a one year waiting period prior for admission to the plan. Contributions to the plan are based on a percentage of each employee's salary plus matching contributions. Investment of employee balances is done through the direction of each employee. Plan contributions by the employer are fully invested in the year of contribution. The amount of contributions by the Company into employees' accounts in the plan was \$219,108 and \$199,296 for the years ending December 31, 2017 and 2016, respectively.

*Supplemental Retirement Agreement:* The Bank has a non-qualified Supplemental Retirement Agreement ("SERP") with the CEO, that provides for the payment of a monthly supplemental executive retirement benefit equal to annual payments of \$105,051 for a 15 year period. Such benefit shall be payable for a period of fifteen years, or under certain circumstances prior to age 65. For each full calendar year the CEO completes with the Bank without separation of service, the CEO shall be credited with 8.33% of this benefit, toward 100% after 12 years. The SERP assumes a 6.25% discount rate. The Company has incurred an employee benefit expense of \$114,761 and \$103,606 during 2017 and 2016 respectively for this plan. At December 31, 2017 and 2016, the total amount accrued for this obligation was \$743,332 and \$628,571 respectively. The plan is unfunded. However, life insurance has been acquired on the life of the CEO in amounts sufficient to discharge the obligations of this agreement.

*Director Deferred Fee Plan:* The Bank adopted a Deferred Fee Plan (DFP) for its directors beginning February 13, 2013. This plan allows the directors to defer any or all of their director fees into this DFP where it will earn interest at a rate as set forth in the plan document. Currently this rate is 6%. In addition to the amounts contributed by the directors, the Bank can also contribute each year on behalf of the directors, the total expense for the bank including discretionary contributions and accrued interest on the deferred account balances totaled \$51,197 and \$42,236 for 2017 and 2016, respectively. Liability recorded under this plan at yearend totaled \$525,373 for 2017 and \$367,337 for 2016.

*Survivor Income Plan:* The Bank adopted a Survivor Income Agreement with certain key management employees in January 2008. The bank will provide death benefits to the employee's beneficiary in the amount ranging from \$500,000 to \$100,000 for pre separation of duty death benefit and an amount half of that for post separation of duty death benefit. There is a vesting schedule based upon employee reaching normal retirement age (age 62) combined with ten 10 years of service. Expense to the bank totaled \$57,768 and \$54,265 for 2017 and 2016 respectively. Liability recorded under this plan at yearend totaled \$149,086 for 2017 and \$154,718 for 2016.

# ALLEGHENY BANCSHARES, INC.

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## **NOTE 18 RELATED PARTY TRANSACTIONS:**

During the year, officers, directors, principal stockholders and their affiliates (related parties) were customers of and had transactions with the Company in the ordinary course of business. In management's opinion, these transactions were made on substantially the same terms as those prevailing for other customers for comparable transactions and did not involve more than normal risks.

Deposits for officers and directors totaled \$2,992,602 and \$3,198,913 for year end 2017 and 2016, respectively.

Loan activity to related parties is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Beginning of Year	\$ 4,810	\$ 3,991
Additional borrowings	1,727	1,574
Repayments	<u>(762)</u>	<u>(755)</u>
End of Year	<u>\$ 5,775</u>	<u>\$ 4,810</u>

## **NOTE 19 FAIR VALUE:**

FASB ASC 820-10, *Fair Value Measurements*, provides a definition of fair value for accounting purposes, establishes a framework for measuring fair value and expands related financial disclosures. Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This statement establishes a hierarchy that prioritizes the use of fair value inputs used in valuation methodologies into the following three levels.

Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is based upon significant inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

At December 31, 2017 and 2016, the Company had no liabilities subject to fair value. The following is a description of valuation methodologies used for assets recorded at fair values.

*Securities available for sale:* Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, when available. If quoted prices are not available, fair values are measured using independent pricing models. Level 1 securities include those traded by dealers or brokers in an active market. The Company has no Level 1 securities at December 31, 2017 or 2016. For the Company, our Level 2 securities include securities issued by government sponsored entities, mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include other equities that do not have an active market.

*Impaired Loans:* The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made when due in accordance with the contractual terms of the loan agreement are considered impaired. If a loan is considered impaired, an allowance for loan loss is established in accordance with FASB ASC 310-10 *Accounting by Creditors for Impairment of a Loan*, by utilizing market price (if available), or at the fair value of the loans' collateral less selling costs (if the loan is collateral dependent). The fair value is determined by the measurement of the fair value of the underlying collateral less estimated costs to sell.

# ALLEGHENY BANCSHARES, INC.

## NOTE 19 FAIR VALUE (CONTINUED)

Typically the collateral value is determined by applying a discount to an appraisal that was performed at or about the date of the loan. Due to the age of appraisals, the age of the related comparative property sales used for appraisals and the changing market conditions of real estate, the Company considers its impaired loans to be Level 3 assets which are measured on a nonrecurring basis.

*Other Real Estate Owned:* Certain assets such as other real estate owned (OREO) are measured at the lower of carrying value or fair value less estimated holding costs and cost to sell. We believe that the fair value component in its valuation follows the provisions of FASB ASC 820-10. Due to age of some appraisals, the age of the related comparative property sales used for appraisals and changing real estate market conditions, the Company considers its OREO to be Level 3 assets and is measured on a nonrecurring basis.

The following table presents the recorded amount of assets measured at fair value (in thousands of dollars):

	Level 1	Level 2	Level 3	Balance 2017
<b>Assets recorded at fair value on a recurring basis:</b>				
Mortgage backed obligations of federal agencies	\$ --	\$ 5,840	\$ --	\$ 5,840
Government sponsored enterprises	--	5,597	--	5,597
Obligations of states and political subdivisions	--	23,837	--	23,837
Total	<u>\$ --</u>	<u>\$ 35,274</u>	<u>\$ --</u>	<u>\$ 35,274</u>
<b>Assets recorded at fair value on a nonrecurring basis:</b>				
Impaired loans	\$ --	\$ --	\$ 3,525	\$ 3,525
Other real estate owned	--	--	821	821
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,346</u>	<u>\$ 4,346</u>

	Level 1	Level 2	Level 3	Balance 2016
<b>Assets recorded at fair value on a recurring basis:</b>				
Mortgage backed obligations of federal agencies	\$ --	\$ 4,616	\$ --	\$ 4,616
Government sponsored enterprises	--	4,916	--	4,916
Obligations of states and political subdivisions	--	23,244	--	23,244
Total	<u>\$ --</u>	<u>\$ 32,776</u>	<u>\$ --</u>	<u>\$ 32,776</u>
<b>Assets recorded at fair value on a nonrecurring basis:</b>				
Impaired loans	\$ --	\$ --	\$ 982	\$ 982
Other real estate owned	--	--	1,098	1,098
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,080</u>	<u>\$ 2,080</u>

### Qualitative Information About Level 3 Fair Value Measurements for December 31, 2017

(in thousands)

Assets	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired Loans	\$ 3,525	Discounted appraised value	Selling Cost Discount for lack of marketability and age of appraisal	5%-10% (6%) 10%-40% (14%)
Other Real Estate Owned	\$ 821	Discounted appraised value	Selling Cost Discount for lack of marketability and age of appraisal	5%-10% (6%) 10%-60% (64%)

### Qualitative Information About Level 3 Fair Value Measurements for December 31, 2016

(in thousands)

Assets	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired Loans	\$ 982	Discounted appraised value	Selling Cost Discount for lack of marketability and age of appraisal	5%-10% (6%) 10%-40% (14%)
Other Real Estate Owned	\$ 1,098	Discounted appraised value	Selling Cost Discount for lack of marketability and age of appraisal	5%-10% (6%) 10%-60% (26%)

# ALLEGHENY BANCSHARES, INC.

## NOTE 20 REGULATORY MATTERS:

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios, which are substantially the same as those of the Company on a consolidated basis, are presented below (in thousands).

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<b>As of December 31, 2017</b>					
Total Capital Risk Weighted Assets	\$ 37,547	17.28%	\$ 20,101	9.250%	\$ 21,731	10.00%
Tier I Capital Risk Weighted Assets	34,919	16.07%	15,755	7.250%	17,384	8.00%
Tier I Common Equity	34,919	16.07%	12,495	5.750%	14,125	6.50%
Tier I Capital Average Assets	34,919	11.98%	11,659	4.000%	14,573	5.00%

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<b>As of December 31, 2016:</b>					
Total Capital Risk Weighted Assets	\$ 35,608	17.44%	\$ 17,613	8.625%	\$ 20,421	10.00%
Tier I Capital Risk Weighted Assets	33,369	16.34%	13,529	6.625%	16,337	8.00%
Tier I Common Equity	33,369	16.34%	10,466	5.125%	13,273	6.50%
Tier I Capital Average Assets	33,369	11.93%	11,188	4.000%	13,981	5.00%

## NOTE 21 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK:

The Company makes commitments to extend credit in the normal course of business and issue standby letters of credit to meet the financing needs of their customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the consolidated balance sheet.

The Company uses the same credit policies in making commitments and issuing letters of credit as used for the loans reflected on the consolidated balance sheet. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

# ALLEGHENY BANCSHARES, INC.

## NOTE 21 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK (CONTINUED):

As of December 31, 2017 and 2016, the Company had outstanding the following commitments (in thousands):

	<u>2017</u>	<u>2016</u>
Home equity lines of credit	\$ 11,919	\$ 10,845
Commitments to fund commercial real estate and construction	5,967	2,538
Other unused commitments	23,321	19,316
Performance standby letters of credit	540	615
	<u>\$ 41,747</u>	<u>\$ 33,314</u>

## NOTE 22 CONCENTRATIONS:

The Bank operates as a community bank in the areas that it serves. As such, the loan portfolio consists of commercial, residential real estate and consumer loans to individuals and businesses located primarily in the areas surrounding our six offices. In addition, the collateral for our loans is secured primarily by real estate and personal property located in this same area.

## NOTE 23 PARENT CORPORATION ONLY CONDENSED FINANCIAL STATEMENTS:

### BALANCE SHEETS DECEMBER 31, 2017 AND 2016

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 67,699	\$ 201,397
Investment in subsidiary	36,261,951	34,614,117
Other assets	30,239	293,465
<b>Total Assets</b>	<u>\$ 36,359,889</u>	<u>\$ 35,108,979</u>
<b>STOCKHOLDERS' EQUITY</b>	<u>36,359,889</u>	<u>35,108,979</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 36,359,889</u>	<u>\$ 35,108,979</u>

# ALLEGHENY BANCSHARES, INC.

## NOTE 23 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

### STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31,	
	2017	2016
<b>INCOME</b>		
Dividends from subsidiary	\$ 1,788,258	\$ 2,400,000
Gain on sale of securities	--	--
<b>Total Income</b>	<u>1,788,258</u>	<u>2,400,000</u>
<b>EXPENSES</b>		
Professional fees	62,731	57,608
Director fees	--	--
Annual shareholder meeting	18,165	16,119
Other expenses	<u>4,407</u>	<u>6,526</u>
<b>Total Expenses</b>	<u>85,303</u>	<u>80,253</u>
<b>INCOME BEFORE INCOME TAX BENEFIT AND UNDISTRIBUTED INCOME OF SUBSIDIARY</b>		
	1,702,955	2,319,747
Income tax benefit	30,539	34,154
<b>UNDISTRIBUTED INCOME OF SUBSIDIARY</b>	<u>1,582,544</u>	<u>862,973</u>
<b>NET INCOME</b>	<u>\$ 3,316,038</u>	<u>\$ 3,216,874</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 3,381,329</u>	<u>\$ 2,721,140</u>

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,316,038	\$ 3,216,874
Adjustments:		
Undistributed subsidiary income	(1,582,544)	(862,973)
Decrease (Increase) in other assets	<u>263,226</u>	<u>(14,079)</u>
Net Cash Provided by Operating Activities	<u>1,996,720</u>	<u>2,339,822</u>
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury stock	(542,160)	(666,240)
Cash dividends paid	<u>(1,588,258)</u>	<u>(1,543,556)</u>
Net Cash (Used in) Financing Activities	<u>(2,130,418)</u>	<u>(2,209,796)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(133,698)	130,026
Cash and equivalents, January 1	201,397	71,371
Cash and equivalents, December 31	<u>\$ 67,699</u>	<u>\$ 201,397</u>

**ALLEGHENY BANCSHARES, INC.  
ANNUAL DISCLOSURE STATEMENT**

December 31, 2017

This **ANNUAL DISCLOSURE STATEMENT** is being provided by the management of the bank. The information is the representation of management and is correct in all material respects to the best of management's knowledge.

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Loving", written in a cursive style.

W.A. "Bill" Loving, Jr., CLBB  
President / CEO

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