

RECEIVED

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

APR 2 - 2018

Board of Governors of the Federal Reserve System



FRB RICHMOND

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, T. Bart Willis

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.

T. Bart Willis

Signature of Holding Company Director and Official

03/30/2018

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.

1133259

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

Logan County BancShares, Inc.

Legal Title of Holding Company

PO Box 597

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

Logan

WV

25601

City

State

Zip Code

43 Washington Ave., Logan, WV 25601

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Mark A. Mareske

Senior Vice President/CFO

Name

Title

304-752-1166

Area Code / Phone Number / Extension

304-752-4649

Area Code / FAX Number

mmareske@lbandt.com

E-mail Address

www.lbandt.com

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

Is confidential treatment requested for any portion of this report submission? .....

0=No

1=Yes

0

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

1. a letter justifying this request is being provided along with the report..... ☐

2. a letter justifying this request has been provided separately ... ☐

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

**FORM FR Y-6**  
**LOGAN COUNTY BANCSHARES, INC.**  
**LOGAN, WEST VIRGINIA**  
**FISCAL YEAR ENDING DECEMBER 31, 2017**

|                    |   |
|--------------------|---|
| <b>REPORT ITEM</b> | <b>1: Annual report is included with the FR Y-6 Report</b>  |
| <b>REPORT ITEM</b> | <b>2a: Organization Chart<br/>Logan County BancShares, Inc.<br/>Legal Entity Identifier: None<br/>Logan, WV 25601<br/>Incorporated in West Virginia<br/>Owns: 100% Logan Bank &amp; Trust Company<br/>Legal Entity Identifier: None<br/>Logan, WV 25601<br/>Incorporated in West Virginia</b> |
| <b>REPORT ITEM</b> | <b>2b: Domestic Branch Listing<br/>Submitted via email on 3/23/2018</b>   |
| <b>REPORT ITEM</b> | <b>3(1): Shareholders list attached</b>   |
| <b>REPORT ITEM</b> | <b>3(2): None</b>   |
| <b>REPORT ITEM</b> | <b>4: Insiders list attached</b>  |

Results: A list of branches for your depository institution: LOGAN BANK & TRUST COMPANY (ID\_RSSD: 164331).  
This depository institution is held by LOGAN COUNTY BANCSHARES, INC. (1133259) of LOGAN, WV.  
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

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

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

| Data Action | Effective Date | Branch Service Type        | Branch ID_RSSD* | Popular Name               | Street Address                 | City         | State | Zip Code | County | Country       | FDIC UNINUM* | Office Number* | Head Office                | Head Office ID_RSSD* | Comments |
|-------------|----------------|----------------------------|-----------------|----------------------------|--------------------------------|--------------|-------|----------|--------|---------------|--------------|----------------|----------------------------|----------------------|----------|
| ok          |                | Full Service (Head Office) | 164331          | LOGAN BANK & TRUST COMPANY | 43 WASHINGTON AVENUE           | LOGAN        | WV    | 25601    | LOGAN  | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |
| ok          |                | Full Service               | 888721          | CHAPMANVILLE BRANCH        | RAILROAD AVENUE & SIXTH STREET | CHAPMANVILLE | WV    | 25508    | LOGAN  | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |
| ok          |                | Full Service               | 2518321         | HARTS BRANCH               | 1218 MCCLELLAN HIGHWAY         | HARTS        | WV    | 25524    | UNCOLN | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |
| ok          |                | Full Service               | 3677784         | FOUNTAIN PLACE MALL BRANCH | ONE LB&T WAY                   | LOGAN        | WV    | 25601    | LOGAN  | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |
| ok          |                | Limited Service            | 163839          | MINI BRANCH                | 512-514 STRATTON STREET        | LOGAN        | WV    | 25601    | LOGAN  | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |
| ok          |                | Full Service               | 2428608         | MAN BRANCH                 | 200 HUFF CREEK HIGHWAY         | MAN          | WV    | 25635    | LOGAN  | UNITED STATES | Not Required | Not Required   | LOGAN BANK & TRUST COMPANY | 164331               |          |

**REPORT ITEM 3 (1):**

| <b><u>NAME</u></b>  | <b><u>ADDRESS</u></b> | <b><u>COUNTRY OF<br/>CITIZENSHIP</u></b> | <b><u>SHARES</u></b> | <b><u>PERCENTAGE</u></b> |
|---------------------|-----------------------|--|----------------------|--------------------------|
| David L. McCormick  | Logan, WV; USA        | USA                                      | 40,020               | 5.8% Common Stock        |
| Paul Clinton Winter | Fort Myers, FL; USA   | USA                                      | 130,294              | 18.8% Common Stock       |
| Michael Matteson    | Franklin, TN; USA     | USA                                      | 82,645               | 11.9% Common Stock       |

**REPORT ITEM 3 (2):**

| <b>NAME</b> | <b>ADDRESS</b> | <b>COUNTRY OF<br/>CITIZENSHIP</b> | <b>SHARES</b> | <b>PERCENTAGE</b> |
|-------------|----------------|-----------------------------------|---------------|-------------------|
|-------------|----------------|-----------------------------------|---------------|-------------------|

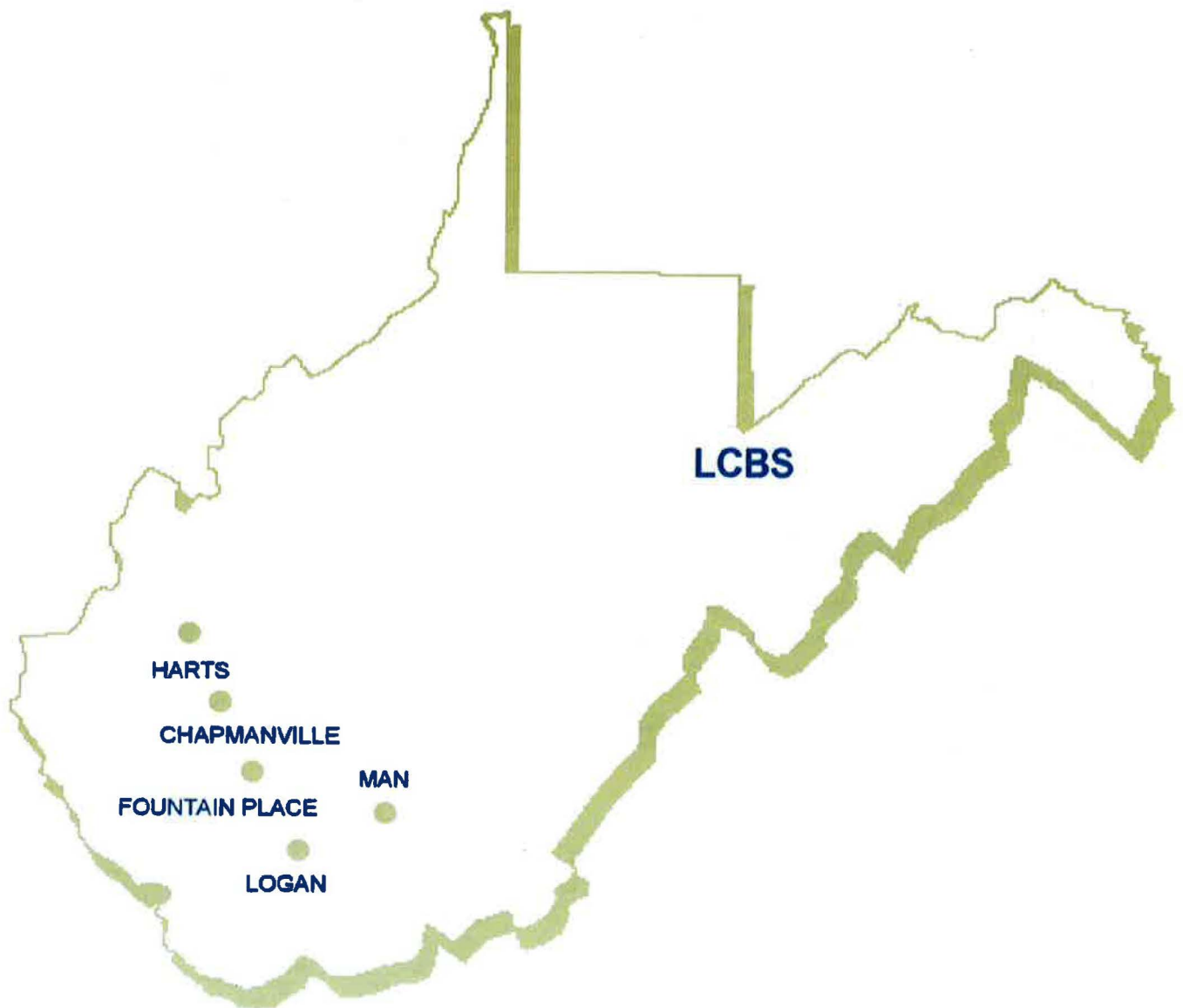
None

Form FR Y-6  
Logan County BancShares, Inc.  
Fiscal Year Ending December 31, 2017

| (1)<br>Names and Address<br>(City, State, Country) | (2)<br>Principal Occupation if<br>other than with Bank<br>Holding Company | (3)(a)<br>Title & Position with<br>Bank Holding Company | (3)(b)<br>Title & Position with<br>Subsidiaries<br>(include names of<br>Subsidiaries | (3)©<br>Title & Position with<br>Other Businesses<br>(include names of<br>other businesses) | (4)(a)<br>Percentage of Voting<br>Shares in Bank Holding<br>Company | (4)(b)<br>Percentage of Voting<br>Shares in Subsidiaries<br>(include names of<br>subsidiaries) | (4)©<br>List names of other companies<br>(includes partnerships) if 25% or<br>of voting securities are held<br>(List names of companies<br>and percentage of voting<br>securities held) |      |
|--|---|---|--|---|---|--|---|------|
|  |   |   |  |   |   |  |   |      |
| Clell Peyton<br>Chapmanville, WV, USA              | Retired<br>Nationwide<br>Insurance Company                                | Director  | Director<br>Logan Bank & Trust   | N/A   | 1.8%  | N/A  | N/A   |      |
| Earle B. Queen<br>Logan, WV, USA                   | Retired<br>Management<br>Funeral Home                                     | Director  | Director<br>Logan Bank & Trust   | N/A   | 4.5%  | NA   | N/A   |      |
| LaVeta Jean Ray<br>Chapmanville, WV, USA           | Retired<br>Counselor  | Director  | None   | N/A   | 1.1%  | N/A  | N/A   |      |
| Eddie Canterbury<br>Logan, WV, USA                 | Retired<br>Former President/CEO<br>Logan Bank & Trust                     | Director  | None   | Managing Member<br>Canterbury Investments,LLC   | 4.4%  | N/A  | Canterbury<br>Investments, LLC  | 100% |
| David F. Oakley<br>El Centro, CA, USA              | Retired<br>Supervising Auditor Appraiser<br>Imperial County, CA           | Chairman<br>Director                                    | Director<br>Logan Bank & Trust   | N/A   | 3.9%  | N/A  | N/A   |      |

| (1)<br>Names and Address<br>(City, State, Country)   | (2)<br>Principal Occupation if<br>other than with Bank<br>Holding Company | (3)(a)<br>Title & Position with<br>Bank Holding Company | (3)(b)<br>Title & Position with<br>Subsidiaries<br>(include names of<br>Subsidiaries) | (3)(c)<br>Title & Position with<br>Other Businesses<br>(include names of<br>other businesses) | (4)(a)<br>Percentage of Voting<br>Shares in Bank Holding<br>Company | (4)(b)<br>Percentage of Voting<br>Shares in Subsidiaries<br>(include names of<br>subsidiaries) | (includes partnerships) if 25% or<br>of voting securities are held<br>(List names of companies<br>and percentage of voting<br>securities held) |                   |
|--|---|---|---|---|---|--|--|-------------------|
| Glenn T. Yost<br>Charleston, WV, USA   | Management<br>Land Company  | Director  | Director<br>Logan Bank & Trust  | N/A   | 4.4%  | N/A  | N/A  |                   |
| David McCormick<br>Logan, WV, USA  | Retail<br>Furniture & Clothing  | Director  | Director<br>Logan Bank & Trust  | President<br>McCormick's, Inc.  | 5.8%  | N/A  | McCormick's, Inc.<br>Bodaco Company  | 75%<br>51%        |
| Michael Winter<br>Charleston, WV, USA  | Insurance<br>Agent  | Director  | Director<br>Logan Bank & Trust  | Vice President<br>Bray & Oakley<br>Insurance Agency   | 0.4%  | N/A  | Bray & Oakley Ins Agency<br>FPF, LLC<br>Insurance Premium Solutio  | 48%<br>50%<br>50% |
| T. Bart Willis<br>Logan, WV, USA   | N/A   | President/CEO<br>Director                               | President/<br>CEO & Director<br>Logan Bank & Trust                                    | N/A   | 0.1%  | N/A  | N/A  |                   |
| Paul Clinton Winter<br>Fort Myers, FL, USA   | N/A   | N/A   | N/A   | N/A   | 18.8%   | N/A  | N/A  |                   |
| Michael Matteson, Trustee<br>Sarah O. Matteson Florida<br>Irrevocable Trust<br>Franklin, TN, USA | N/A   | N/A   | N/A   | N/A   | 11.9%   | N/A  | N/A  |                   |

**Annual Report**  
**2017**  
**Logan County**  
**BancShares, Inc.**



# Logan County BancShares, Inc. and Subsidiary

## **BOARD OF DIRECTORS**

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**David F. Oakley**  
Chairman, Logan Bank & Trust  
Retired, Supervising Auditor  
Appraiser, Imperial Co., CA  
Assessor's Office  
Director, Logan Bank & Trust

**T. Bart Willis**  
President / CEO  
Logan Bank & Trust  
Director, Logan Bank & Trust

**Eddie Canterbury**  
Retired, Logan Bank & Trust

**David McCormick**  
President, McCormicks, Inc.  
President, Bodaco Company  
Director, Logan Bank & Trust

**Clell Peyton**  
Retired, Nationwide Insurance Company  
Director, Logan Bank & Trust

**Earle B. Queen**  
Retired, James Funeral Home  
Retired, Queen Brothers Inc.  
Retired, West Logan Water Co.  
Director, Logan Bank & Trust

**LaVeta Jean Ray**  
Retired Counselor, Chapmanville High School

**Michael P. Winter**  
Vice President, Bray & Oakley Insurance Co.  
Director, Logan Bank & Trust

**Glenn T. Yost**  
President, W.W. McDonald Land Co.  
President, Bruce McDonald Holding Co.  
President, Triadelphia Land Co.  
Director, Logan Bank & Trust

## **OFFICERS**

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**David F. Oakley**  
Chairman

**T. Bart Willis**  
President / CEO

**Eddie Joe Canterbury**  
Vice President

**Mark A. Mareske**  
Vice President / CFO  
Secretary

# Logan County BancShares, Inc.

POST OFFICE BOX 597 Δ LOGAN, WEST VIRGINIA 25601 Δ (304) 752-0280 Δ (304) 752-4649

To Our Shareholders:

On behalf of the Board of Directors, the employees and myself, I am pleased to present the 2017 annual report of Logan County Bancshares, Inc. and its subsidiary, Logan Bank & Trust.

The Tax and Jobs Act signed into law in late 2017 had a significant impact on our current year earnings. This Act required an accounting adjustment that increased our tax expense by \$779,844. This was a one-time event that will not affect the bank going forward. The lower tax rate will have a positive impact on future earnings.

Our pre-tax income for 2017 was \$2,210,832 compared to \$2,025,391 for 2016. After the tax adjustment, our net income for 2017 was \$786,242, compared to \$1,320,390 for 2016.

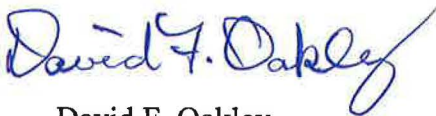
Your bank continues to remain well capitalized with leveraged capital ratio of 9.04% and a tier 1 capital ratio of 20.49%, both significantly above the regulatory requirements to be classified as well capitalized.

As we move into 2018, we will focus on improving customer service through the use of better technology and improving bank products to retain and attract customers. As always, our goal is to continue to provide value to you, our shareholder.

As a shareholder, you are also invested in our goals. You can help us by trying one of our new products, opening a new account or referring a friend to us. By us all working together, we can achieve great things.

With the help of our talented and dedicated employees, we will rise to meet the challenges that are ahead and keep Logan County BancShares moving forward.

Respectively,



David F. Oakley  
Chairman



T. Bart Willis  
President/CEO

**Logan Bank & Trust**  
**LB & T**  
Logan, WV 25601

**Fountain Place Bank Of**  
**LB & T**  
Logan, WV 25601

**Chapmanville Bank Of**  
**LB & T**  
Chapmanville, WV 25508

**Man Bank Of**  
**LB & T**  
Man, WV 25635

**Harts Bank Of**  
**LB & T**  
Harts, WV 25524



**ZENO, POCKL, LILLY AND COPELAND, A.C.**  
Certified Public Accountants & Advisors

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholders  
Logan County BancShares, Inc.  
Logan, West Virginia

### **Report on the Financial Statements**

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

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

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

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logan County BancShares, Inc. and 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.

*Jens, Pockl, Lilly & Cornelius, A. C.*

Wheeling, West Virginia  
March 9, 2018

**Logan County BancShares, Inc. and Subsidiary**  
**CONSOLIDATED BALANCE SHEETS**

|  | December 31,          |                       |
|--|-----------------------|-----------------------|
|  | 2017                  | 2016                  |
| <b>ASSETS</b>  |                       |                       |
| Cash and cash equivalents  | \$ 11,080,612         | \$ 30,672,374         |
| Interest-bearing deposits  | 9,281,000             | 8,289,000             |
| Investment securities  |                       |                       |
| Available-for-sale (at fair value)   | 126,384,048           | -                     |
| Held-to-maturity (at amortized cost)   | -                     | 112,970,000           |
| Loans  | 99,179,529            | 95,436,880            |
| Allowance for loan losses  | (1,093,165)           | (1,163,038)           |
| Net loans  | 98,086,364            | 94,273,842            |
| Premises and equipment, net  | 1,789,013             | 1,863,934             |
| Accrued income receivable  | 967,301               | 732,169               |
| Bank-owned life insurance  | 6,719,448             | 6,602,906             |
| Other assets   | 2,348,706             | 2,999,665             |
| <b>TOTAL ASSETS</b>  | <b>\$ 256,656,492</b> | <b>\$ 258,403,890</b> |
| <b>LIABILITIES</b>   |                       |                       |
| Deposits:  |                       |                       |
| Noninterest-bearing  | \$ 64,091,606         | \$ 59,465,183         |
| Interest-bearing   | 167,449,750           | 171,043,608           |
| Total deposits   | 231,541,356           | 230,508,791           |
| Other liabilities  | 2,669,281             | 2,946,715             |
| <b>TOTAL LIABILITIES</b>   | <b>234,210,637</b>    | <b>233,455,506</b>    |
| <b>STOCKHOLDERS' EQUITY</b>  |                       |                       |
| Common stock - 780,000 shares authorized and issued<br>at \$1.67 par value; 691,650 shares outstanding | 1,300,000             | 1,300,000             |
| Surplus  | 2,408,186             | 2,408,186             |
| Retained earnings  | 22,787,374            | 23,374,766            |
| Accumulated other comprehensive income (loss)  | (1,915,137)           | -                     |
| Treasury Stock - 88,350 shares at cost   | (2,134,568)           | (2,134,568)           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>22,445,855</b>     | <b>24,948,384</b>     |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>  | <b>\$ 256,656,492</b> | <b>\$ 258,403,890</b> |

The accompanying notes are an integral part of the consolidated financial statements.

**Logan County BancShares, Inc. and Subsidiary**  
**CONSOLIDATED STATEMENTS OF INCOME**

|  | <b>Year Ended December 31,</b> |                     |
|--|--------------------------------|---------------------|
|  | <b>2017</b>                    | <b>2016</b>         |
| <b>INTEREST AND DIVIDEND INCOME</b>                    |                                |                     |
| Interest and fees on loans                             | \$ 4,793,979                   | \$ 4,973,139        |
| Interest-bearing deposits                              | 445,725                        | 300,342             |
| Interest and dividends on securities:                  |                                |                     |
| Taxable  | 1,764,171                      | 2,064,724           |
| Tax-exempt   | 377,014                        | 8,603               |
| Total interest and dividend income                     | <u>7,380,889</u>               | <u>7,346,808</u>    |
| <b>INTEREST EXPENSE</b>                                |                                |                     |
| Deposits   | 593,204                        | 722,003             |
| Total interest expense                                 | <u>593,204</u>                 | <u>722,003</u>      |
| Net interest income                                    | 6,787,685                      | 6,624,805           |
| <b>PROVISION FOR LOAN LOSSES</b>                       | <u>-</u>                       | <u>-</u>            |
| Net interest income after provision<br>for loan losses | <u>6,787,685</u>               | <u>6,624,805</u>    |
| <b>NONINTEREST INCOME</b>                              |                                |                     |
| Service charges and other fees                         | 774,736                        | 831,139             |
| Securities gains (losses), net                         | (74,703)                       | -                   |
| Bank-owned life insurance                              | 116,542                        | 127,571             |
| Other operating income                                 | 677,263                        | 708,113             |
| Total noninterest income                               | <u>1,493,838</u>               | <u>1,666,823</u>    |
| <b>NONINTEREST EXPENSE</b>                             |                                |                     |
| Salary and employee benefits                           | 3,209,267                      | 3,280,313           |
| Taxes - other  | 89,359                         | 81,097              |
| Depreciation   | 114,628                        | 141,459             |
| Repairs and maintenance                                | 281,238                        | 293,307             |
| Fees paid to Directors                                 | 153,450                        | 130,000             |
| FDIC and Fidelity insurance                            | 192,178                        | 287,977             |
| Data processing  | 1,042,290                      | 990,835             |
| Bank stationery and printing                           | 87,657                         | 98,028              |
| Professional fees                                      | 161,865                        | 185,010             |
| Other operating expenses                               | 738,759                        | 778,211             |
| Total noninterest expense                              | <u>6,070,691</u>               | <u>6,266,237</u>    |
| Income before income taxes                             | 2,210,832                      | 2,025,391           |
| <b>INCOME TAXES</b>                                    | <u>1,442,590</u>               | <u>705,001</u>      |
| Net income   | <u>\$ 768,242</u>              | <u>\$ 1,320,390</u> |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>             | <u>691,650</u>                 | <u>691,650</u>      |
| <b>EARNINGS PER COMMON SHARE</b>                       | <u>\$ 1.11</u>                 | <u>\$ 1.91</u>      |

The accompanying notes are an integral part of the consolidated financial statements.

**Logan County BancShares, Inc. and Subsidiary**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

|   | <b>Year Ended December 31,</b> |                            |
|---|--------------------------------|----------------------------|
|   | <b>2017</b>                    | <b>2016</b>                |
| <b>NET INCOME</b>   | <u>\$ 768,242</u>              | <u>\$ 1,320,390</u>        |
| <b>OTHER COMPREHENSIVE INCOME</b>                           |                                |                            |
| Investment securities available-for-sale:                   |                                |                            |
| Unrealized holding gains (losses) arising during the period | (2,484,762)                    | 71,649                     |
| Income tax effect   | 521,800                        | (24,361)                   |
| Reclassification of losses recognized in earnings           | 74,703                         | -                          |
| Income tax effect   | (26,878)                       | -                          |
| Total other comprehensive income (loss)                     | <u>(1,915,137)</u>             | <u>47,288</u>              |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                          | <u><u>\$ (1,146,895)</u></u>   | <u><u>\$ 1,367,678</u></u> |

The accompanying notes are an integral part of the consolidated financial statements.

**Logan County BancShares, Inc. and Subsidiary**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

|   | <u>Common<br/>Stock</u> | <u>Surplus</u>      | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> | <u>Treasury<br/>Stock</u> | <u>Total</u>         |
|---|-------------------------|---------------------|------------------------------|--|---------------------------|----------------------|
| <b>BALANCE,<br/>DECEMBER 31, 2015</b>     | \$ 1,300,000            | \$ 2,408,186        | \$ 23,396,177                | \$ (47,288)  | \$ (2,134,568)            | \$ 24,922,507        |
| Net income - 2016                         | -                       | -                   | 1,320,390                    | -  | -                         | 1,320,390            |
| Other comprehensive<br>income, net of tax | -                       | -                   | -                            | 47,288   | -                         | -                    |
| Cash dividend<br>(\$1.94 per share)       | -                       | -                   | (1,341,801)                  | -  | -                         | (1,341,801)          |
| <b>BALANCE,<br/>DECEMBER 31, 2016</b>     | 1,300,000               | 2,408,186           | 23,374,766                   | -  | (2,134,568)               | 24,948,384           |
| Net income - 2017                         | -                       | -                   | 768,242                      | -  | -                         | 768,242              |
| Other comprehensive<br>loss, net of tax   | -                       | -                   | -                            | (1,915,137)  | -                         | (1,915,137)          |
| Cash dividend<br>(\$1.96 per share)       | -                       | -                   | (1,355,634)                  | -  | -                         | (1,355,634)          |
| <b>BALANCE<br/>DECEMBER 31, 2017</b>      | <u>\$ 1,300,000</u>     | <u>\$ 2,408,186</u> | <u>\$ 22,787,374</u>         | <u>\$ (1,915,137)</u>  | <u>\$ (2,134,568)</u>     | <u>\$ 22,445,855</u> |

The accompanying notes are an integral part of the consolidated financial statements.

**Logan County BancShares, Inc. and Subsidiary**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Year Ended December 31,</b> |                      |
|---|--------------------------------|----------------------|
|   | <b>2017</b>                    | <b>2016</b>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                |                      |
| Net income  | \$ 768,242                     | \$ 1,320,390         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                |                      |
| Depreciation  | 114,628                        | 141,459              |
| Earnings on bank-owned life insurance   | (116,542)                      | (127,571)            |
| Premium amortization and accretion on investment securities                                 | 118,104                        | (6,512)              |
| Loss on investment securities, net  | 74,703                         | -                    |
| Net change in deferred tax asset  | 1,376,064                      | -                    |
| Net change in accrued income and other assets   | (235,132)                      | (52,340)             |
| Net change in other liabilities   | (10,816)                       | (269,427)            |
| Net cash provided by operating activities   | <u>2,089,251</u>               | <u>1,005,999</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                |                      |
| Proceeds from sales of securities available-for-sale  | 18,001,239                     | -                    |
| Proceeds from maturities/calls of securities available-for-sale                             | -                              | 14,485,000           |
| Purchases of securities available-for-sale  | (34,515,810)                   | -                    |
| Proceeds from maturities/calls of securities held-to-maturity                               | -                              | 109,627,727          |
| Purchases of securities held-to-maturity  | -                              | (128,675,000)        |
| Proceeds from maturities of certificates of deposit   | -                              | 1,612,000            |
| Purchases of certificates of deposit  | (1,240,000)                    | (2,480,000)          |
| Proceeds from sales of certificates of deposit  | 248,856                        | -                    |
| Net change in loans   | (3,812,522)                    | 326,813              |
| Purchase of bank premises and equipment   | (39,707)                       | (24,184)             |
| Net cash used in investing activities   | <u>(21,357,944)</u>            | <u>(5,127,644)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                |                      |
| Net change in deposits  | 1,032,565                      | (3,945,266)          |
| Dividends paid  | (1,355,634)                    | (1,341,801)          |
| Net cash used in financing activities   | <u>(323,069)</u>               | <u>(5,287,067)</u>   |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>  | (19,591,762)                   | (9,408,712)          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <u>30,672,374</u>              | <u>40,081,086</u>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <u>\$ 11,080,612</u>           | <u>\$ 30,672,374</u> |
| <b>Supplemental Disclosures:</b>  |                                |                      |
| Cash paid for interest  | \$ 548,830                     | \$ 723,656           |
| Cash paid for income taxes  | 711,944                        | 722,410              |

The accompanying notes are an integral part of the consolidated financial statements.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations - Logan County BancShares, Inc. (the "Company") is a West Virginia corporation. The Company provides a variety of banking services to individuals and businesses through the branch network of its subsidiary, Logan Bank and Trust (the "Bank"). The Bank operates four full-service locations in Logan County, West Virginia and one in Lincoln County, West Virginia. Primary deposit products consist of checking accounts, savings accounts, and certificates of deposit. Primary lending products consist of commercial and residential real estate loans, consumer loans, and business loans.

Principles of Consolidation - The consolidated financial statements of the Company include the financial statements of the parent and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to material change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand, amounts due from banks, and federal funds sold.

Investment Securities - The Company classifies investment securities, at purchase, as either held-to-maturity or available-for-sale. Debt securities acquired with the positive intent and ability to hold to maturity are carried at amortized cost. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of shareholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

All investment securities, regardless of classification, are monitored and tested for impairment. An investment security is considered to be impaired when the unrealized loss is considered to be other than temporary. When this occurs, the investment is written down to the current fair market value with the write-down being reflected as a realized loss.

Premiums and discounts on securities are recognized in interest income utilizing the level yield method over the period to maturity.

Investment securities fair values are based on observed market prices. Certain investment securities do not have observed bid prices and their fair value is based on instruments with similar risk elements.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Federal Home Loan Bank (FHLB) Stock - The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Stock in the FHLB of Pittsburgh is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as income.

Loans - Loans are reported at the amount of unpaid principal, net of deferred loan fees and costs and an allowance for loan losses.

Interest income on loans is recognized on the accrual basis except for those loans in a nonaccrual status. The accrual of interest on an impaired loan is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all payments are applied to principal.

Certain loan origination fees and direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

Allowance for Loan and Lease Losses - The allowance for loan and lease losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan and lease losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, historical loan loss experience, and general economic conditions. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan and lease losses is adequate at December 31, 2017, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, rising unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increased levels of nonperforming assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of the periodic regulatory examination process is the review of the adequacy of the Bank's loan loss allowance. The regulatory agencies could require the Bank, based on their evaluation of information available at the time of their examination, to provide additional loan loss provisions to further supplement the allowance.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Impaired loans are commercial and commercial real estate loans for which it is probable the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of “impaired loans” is not the same as the definition of “nonaccrual loans,” although the two categories overlap. The Bank may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateral-dependent loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one- to four-family properties and all consumer loans are large groups of smaller balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all of the circumstances concerning the loan, the credit worthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Troubled Debt Restructurings (“TDRs”)

In situations where, for economic or legal reasons related to a borrower’s financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify 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.

Bank Premises and Equipment – Bank premises and equipment are stated at cost, less accumulated depreciation. Major improvements and additions to premises and equipment are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets as indicated in Note 7. Repairs and maintenance expenditures are charged to operating expenses as incurred. When units of property are disposed of, the premises and equipment accounts are relieved of the cost and accumulated depreciation related to such units. Any resulting gains or losses are credited to, or charged against, income.

Marketing and Advertising Costs – Marketing and advertising costs are expensed as incurred. These costs amounted to \$24,328 and \$43,381 for the years ended December 31, 2017, and December 31, 2016, respectively.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Real Estate Acquired Through Foreclosure – Real estate acquired through foreclosure is carried at its fair value less estimated disposition costs. The value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged to operating expenses.

Income Taxes – The Company's income tax expense consists of a current and a deferred component. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination.

The term "more-likely-than-not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The Company follows the provisions of ASC 740 – Accounting for Income Taxes related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. During the years ended December 31, 2017 and 2016, the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2017 and 2016. The Company files income tax returns in the U. S. federal jurisdiction and the state of West Virginia. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by the relevant taxing authorities for tax years 2014 and forward.

The Company files a consolidated federal income tax return which includes its subsidiary's income tax expense. The expense is allocated between the parent company and its subsidiary as if each had filed a separate return.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Earnings Per Common Share – Earnings per common share are calculated by dividing net income by the weighted-average number of common stock shares outstanding during the year.

Equity – The Company had 88,350 shares of stock held in Treasury and 691,650 shares outstanding at December 31, 2017 and 2016.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as a separate component of equity.

**NOTE 2 – INVESTMENT SECURITIES**

The carrying amounts of investment in securities as shown in the consolidated balance sheets of the Bank and their approximate fair values at December 31 are as follows:

| December 31, 2017              |                       |                              |                               |                       |
|--------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
|                                | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         |
| Securities available-for-sale: |                       |                              |                               |                       |
| Federal agency securities      | \$ 95,455,000         | \$ -                         | \$ 2,776,773                  | \$ 92,678,227         |
| Municipal securities           | 31,512,597            | 81,590                       | 213,058                       | 31,381,129            |
| Mortgage-backed securities     | 2,028,338             | -                            | 24,698                        | 2,003,640             |
| Equity securities              | 294,973               | 26,198                       | 119                           | 321,052               |
| Total                          | <u>\$ 129,290,908</u> | <u>\$ 107,788</u>            | <u>\$ 3,014,648</u>           | <u>\$ 126,384,048</u> |

| December 31, 2016            |                       |                              |                               |                       |
|------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
|                              | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         |
| Securities held-to-maturity: |                       |                              |                               |                       |
| Federal agency securities    | <u>\$ 112,970,000</u> | <u>\$ -</u>                  | <u>\$ 4,109,924</u>           | <u>\$ 108,860,076</u> |
| Total                        | <u>\$ 112,970,000</u> | <u>\$ -</u>                  | <u>\$ 4,109,924</u>           | <u>\$ 108,860,076</u> |

In April 2017, management transferred to available-for-sale status all securities that were classified at the time as held-to-maturity. The transfer to available-for-sale status provides management with the flexibility to more appropriately manage its interest rate risk for possible changes in market rates. The net carrying amount of the securities transferred was \$119,499,000. The net unrealized loss on these securities at the date they were transferred was \$2,309,700.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 2 – INVESTMENT SECURITIES (CONTINUED)**

The following table shows the Company's gross unrealized losses and fair value aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

|                     | 2017                    |                         |                          |                         |                |                         |
|---------------------|-------------------------|-------------------------|--------------------------|-------------------------|----------------|-------------------------|
|                     | Less than Twelve Months |                         | Twelve Months or Greater |                         | Total          |                         |
|                     | Fair Value              | Gross Unrealized Losses | Fair Value               | Gross Unrealized Losses | Fair Value     | Gross Unrealized Losses |
| Available-for-sale: |                         |                         |                          |                         |                |                         |
| Federal agency      | \$ -                    | \$ -                    | \$ 92,678,227            | \$ 2,776,773            | \$ 92,678,227  | \$ 2,776,773            |
| Municipal           | -                       | -                       | 22,851,475               | 213,058                 | 22,851,475     | 213,058                 |
| Mortgage-backed     | -                       | -                       | 2,003,640                | 24,698                  | 2,003,640      | 24,698                  |
| Equity              | -                       | -                       | 49,861                   | 119                     | 49,861         | 119                     |
| Total               | \$ -                    | \$ -                    | \$ 117,583,203           | \$ 3,014,648            | \$ 117,583,203 | \$ 3,014,648            |

|                   | 2016                    |                         |                          |                         |                |                         |
|-------------------|-------------------------|-------------------------|--------------------------|-------------------------|----------------|-------------------------|
|                   | Less than Twelve Months |                         | Twelve Months or Greater |                         | Total          |                         |
|                   | Fair Value              | Gross Unrealized Losses | Fair Value               | Gross Unrealized Losses | Fair Value     | Gross Unrealized Losses |
| Held-to-maturity: |                         |                         |                          |                         |                |                         |
| Federal agency    | \$ 108,860,076          | \$ 4,109,924            | \$ -                     | \$ -                    | \$ 108,860,076 | \$ 4,109,924            |
| Total             | \$ 108,860,076          | \$ 4,109,924            | \$ -                     | \$ -                    | \$ 108,860,076 | \$ 4,109,924            |

The Company's investment securities portfolio contains unrealized losses on U. S. Government agency securities and mortgage-backed securities, which are generally viewed as having the implied guarantee of the U. S. Government. In 2017, the Company purchased several securities of state and local government entities, which have an element of credit risk. The Company evaluates the severity and duration of impairment for its investment securities portfolio on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary, but is the result of interest rate changes that are not expected to result in the loss of principal. There are 117 positions that are temporarily impaired at December 31, 2017.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 2 – INVESTMENT SECURITIES (CONTINUED)**

The amortized cost and fair market value of investment in debt securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call as prepayment penalties.

|                              | Securities<br>Available-for-Sale |                       |
|------------------------------|----------------------------------|-----------------------|
|                              | Amortized<br>Cost                | Fair<br>Value         |
| Due in 1 year or less        | \$ -                             | \$ -                  |
| Due from 1 year to 5 years   | 511,568                          | 508,745               |
| Due from 5 years to 10 years | 70,634,343                       | 68,737,390            |
| Due after 10 years           | <u>57,850,024</u>                | <u>56,816,861</u>     |
| Total                        | <u>\$ 128,995,935</u>            | <u>\$ 126,062,996</u> |

In 2017, the Company realized proceeds of \$18,250,095 from securities sold after the transfer to available for sale. Gross gains of \$85,642 and gross losses of \$10,939 were realized on those sales. The Company sold no securities during 2016.

The par value of securities pledged to secure public deposits and for other purposes amounted to \$44,211,947 in 2017 and \$43,247,000 in 2016.

**NOTE 3 – RESTRICTION ON CASH, DUE FROM BANKS**

The Bank is required to maintain reserve balances in cash and/or on deposit with the Federal Reserve Bank. The required reserve balances were \$2,344,000 and \$2,116,000 at December 31, 2017 and 2016, respectively.

**NOTE 4 – LOANS**

Major classifications of loans at December 31, 2017 and 2016, are as follows:

|                               | 2017                 | 2016                 |
|-------------------------------|----------------------|----------------------|
| Commercial and other loans    | \$ 35,534,225        | \$ 32,233,082        |
| Residential real estate loans | 54,211,825           | 54,252,315           |
| Installment loans             | <u>9,326,205</u>     | <u>8,847,726</u>     |
| Total                         | 99,072,255           | 95,333,123           |
| Deferred loan expense, net    | 107,274              | 103,757              |
| Allowance for loan losses     | <u>(1,093,165)</u>   | <u>(1,163,038)</u>   |
| Net loans                     | <u>\$ 98,086,364</u> | <u>\$ 94,273,842</u> |

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 – LOANS (CONTINUED)**

The Company's primary business activity is with customers located within its local trade area. Residential real estate, personal, and commercial loans are granted. The Company also selectively funds loans originated outside of its trade area provided such loans meet its credit policy guidelines. Although the Company has a diversified loan portfolio at December 31, 2017 and 2016, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The residential real estate loan segment is further disaggregated into three classes: revolving open-end loans, closed-end loans secured by first liens, and closed-end loans secured by second liens. The consumer loan segment consists primarily of installment loans. The commercial loan segment is further disaggregated into four classes: commercial construction loans and land development, owner occupied non-farm non-residential loans, other non-farm non-residential loans, and commercial and industrial loans.

Management evaluates individual loans for possible impairment. Loans are considered to be 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 evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 – LOANS (CONTINUED)**

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2017, and December 31, 2016:

|  | (Expressed in thousands) |                 |
|--|--------------------------|-----------------|
|  | December 31,             |                 |
|  | <u>2017</u>              | <u>2016</u>     |
| Impaired loans without a valuation allowance | \$ -                     | \$ -            |
| Impaired loans with a valuation allowance    | <u>1,444</u>             | <u>1,423</u>    |
| Total impaired loans                         | <u>\$ 1,444</u>          | <u>\$ 1,423</u> |

|   | (Expressed in thousands) |             |
|---|--------------------------|-------------|
|   | December 31,             |             |
|   | <u>2017</u>              | <u>2016</u> |
| Valuation allowance related to impaired loans | \$ 86                    | 39          |
| Average investment in impaired loans          | 1,434                    | 1,403       |
| Interest recognized on impaired loans         | -                        | 19          |

|             | (Expressed in thousands)                |  |   |  |                              |
|-------------|---|--|---|--|------------------------------|
|             | December 31, 2017                       |  |   |  |                              |
|             | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Recorded<br/>Investment<br/>with No<br/>Allowance</u> | <u>Recorded<br/>Investment<br/>with<br/>Allowance</u> | <u>Total<br/>Recorded<br/>Investment</u> | <u>Related<br/>Allowance</u> |
| Commercial  | \$ 83                                   | \$ -   | \$ 83   | \$ 83                                    | \$ 11                        |
| Residential | 1,346                                   | -  | 1,346   | 1,346                                    | 74                           |
| Installment | <u>15</u>                               | <u>-</u>   | <u>15</u>   | <u>15</u>                                | <u>1</u>                     |
| Total       | <u>\$ 1,444</u>                         | <u>\$ -</u>  | <u>\$ 1,444</u>                                       | <u>\$ 1,444</u>                          | <u>\$ 86</u>                 |

|             | (Expressed in thousands)                |  |   |  |                              |
|-------------|---|--|---|--|------------------------------|
|             | December 31, 2016                       |  |   |  |                              |
|             | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Recorded<br/>Investment<br/>with No<br/>Allowance</u> | <u>Recorded<br/>Investment<br/>with<br/>Allowance</u> | <u>Total<br/>Recorded<br/>Investment</u> | <u>Related<br/>Allowance</u> |
| Commercial  | \$ 678                                  | \$ -   | \$ 678  | \$ 678                                   | \$ 5                         |
| Residential | 745                                     | -  | 745   | 745                                      | 34                           |
| Installment | <u>-</u>                                | <u>-</u>   | <u>-</u>  | <u>-</u>                                 | <u>-</u>                     |
| Total       | <u>\$ 1,423</u>                         | <u>\$ -</u>  | <u>\$ 1,423</u>                                       | <u>\$ 1,423</u>                          | <u>\$ 39</u>                 |

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 – LOANS (CONTINUED)**

The following tables present loans that are troubled debt restructurings as of December 31, 2017, and December 31, 2016. Six additional commercial troubled debt restructuring contracts in the amount of \$415,840 were executed during the period ended December 31, 2017. There were no troubled debt restructurings that subsequently defaulted. No additional funds are committed to be advanced to customers whose loans were classified as troubled debt restructurings.

| (Expressed in thousands)            |                            |   |  |
|-------------------------------------|----------------------------|---|--|
| December 31, 2017                   |                            |   |  |
| <u>Troubled Debt Restructurings</u> | <u>Number of Contracts</u> | <u>Pre-Modification Outstanding Recorded Investment</u> | <u>Post Modification Outstanding Recorded Investment</u> |
| Commercial                          | -                          | \$ -  | \$ -   |
| Residential                         | 11                         | 829   | 829  |
| Installment                         | 1                          | <u>15</u>   | <u>15</u>  |
| Total                               |                            | <u>\$ 844</u>   | <u>\$ 844</u>  |

| (Expressed in thousands)            |                            |   |  |
|-------------------------------------|----------------------------|---|--|
| December 31, 2016                   |                            |   |  |
| <u>Troubled Debt Restructurings</u> | <u>Number of Contracts</u> | <u>Pre-Modification Outstanding Recorded Investment</u> | <u>Post Modification Outstanding Recorded Investment</u> |
| Commercial                          | 3                          | \$ 594  | \$ 594   |
| Residential                         | 6                          | 462   | 462  |
| Installment                         | -                          | <u>-</u>  | <u>-</u>   |
| Total                               |                            | <u>\$ 1,056</u>   | <u>\$ 1,056</u>  |

Management uses an eight-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. Loans in the Substandard category have well-defined weaknesses that jeopardize the repayment of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. Loans in the Doubtful category have inherent weaknesses which make collection or liquidation in full questionable.

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 4 – LOANS (CONTINUED)**

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Substandard and Doubtful within the internal risk rating system as of December 31, 2017 and 2016. Included in the Pass category are loans that have not been individually reviewed and graded on an annual basis:

| (Expressed in thousands) |                  |                    |                 |                  |
|--------------------------|------------------|--------------------|-----------------|------------------|
| December 31, 2017        |                  |                    |                 |                  |
|                          | <u>Pass</u>      | <u>Substandard</u> | <u>Doubtful</u> | <u>Total</u>     |
| Commercial               | \$ 32,458        | \$ 3,076           | \$ -            | \$ 35,534        |
| Residential              | 52,006           | 2,122              | 84              | 54,212           |
| Installment              | <u>9,282</u>     | <u>44</u>          | <u>-</u>        | <u>9,326</u>     |
| Total                    | <u>\$ 93,746</u> | <u>\$ 5,242</u>    | <u>\$ 84</u>    | <u>\$ 99,072</u> |

| (Expressed in thousands) |                  |                    |                 |                  |
|--------------------------|------------------|--------------------|-----------------|------------------|
| December 31, 2016        |                  |                    |                 |                  |
|                          | <u>Pass</u>      | <u>Substandard</u> | <u>Doubtful</u> | <u>Total</u>     |
| Commercial               | \$ 31,003        | \$ 1,230           | \$ -            | \$ 32,233        |
| Residential              | 52,170           | 1,995              | 87              | 54,252           |
| Installment              | <u>8,792</u>     | <u>56</u>          | <u>-</u>        | <u>8,848</u>     |
| Total                    | <u>\$ 91,965</u> | <u>\$ 3,281</u>    | <u>\$ 87</u>    | <u>\$ 95,333</u> |

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2017 and 2016:

| (Expressed in thousands) |                  |  |  |                           |                        |   |                   |
|--------------------------|------------------|--|--|---------------------------|------------------------|---|-------------------|
| December 31, 2017        |                  |  |  |                           |                        |   |                   |
|                          | <u>Current</u>   | <u>Loans<br/>30-89 Days<br/>Past Due</u> | <u>Loans<br/>90 or More<br/>Past Due</u> | <u>Total<br/>Past Due</u> | <u>Total<br/>Loans</u> | <u>90 or More<br/>Past Due<br/>and<br/>Accruing</u> | <u>Nonaccrual</u> |
| Commercial               | \$ 33,341        | \$ 1,413                                 | \$ 780                                   | \$ 2,193                  | \$ 35,534              | \$ 17   | \$ 679            |
| Residential              | 51,543           | 2,216                                    | 453                                      | 2,669                     | 54,212                 | -   | 534               |
| Installment              | <u>9,205</u>     | <u>121</u>                               | <u>-</u>                                 | <u>121</u>                | <u>9,326</u>           | <u>-</u>  | <u>-</u>          |
| Total                    | <u>\$ 94,089</u> | <u>\$ 3,750</u>                          | <u>\$ 1,233</u>                          | <u>\$ 4,983</u>           | <u>\$ 99,072</u>       | <u>\$ 17</u>  | <u>\$ 1,213</u>   |

**Logan County BancShares, Inc. and Subsidiary**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 17 – FAIR VALUE MEASUREMENTS (CONTINUED)**

| (Expressed in thousands)                 |                |                |                |              |
|--|----------------|----------------|----------------|--------------|
| December 31, 2016                        |                |                |                |              |
|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets measured on a nonrecurring basis: |                |                |                |              |
| Impaired loans                           | \$ -           | \$ -           | \$ 367         | \$ 367       |
| Other real estate owned                  | -              | -              | 742            | 742          |

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2017 and 2016, the significant observable inputs used in the fair value measurements were as follows (dollars in thousands):

|                         | Fair Value at<br>December 31,<br><u>2017</u> | Fair Value at<br>December 31,<br><u>2016</u> | <u>Valuation<br/>Technique</u> | <u>Significant<br/>Unobservable<br/>Inputs</u> | <u>Significant<br/>Unobservable<br/>Input Value</u> |
|-------------------------|--|--|--------------------------------|--|---|
| Impaired loans          | \$ 599                                       | \$ 367                                       | Appraisal of collateral (1)    | N/A  | N/A   |
| Other real estate owned | 517  | 742  | Appraisal of collateral (1)    | N/A  | N/A   |

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not identifiable.

**NOTE 18 – OPERATING LEASE**

The Company's Branch in Man, West Virginia is located on land that is leased. The operating lease expires on December 31, 2020, and the Company has an option to renew for an additional term of 5 years.

Rent expense recognized under this lease was \$13,248 for each of the years ended December 31, 2017 and 2016. Minimum future rental payments under this operating lease are \$13,248 per year through December 31, 2021.

**NOTE 19 – SUBSEQUENT EVENTS**

The Company assessed events occurring subsequent to December 31, 2017, through March 9, 2018, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to, or disclosure in, the consolidated financial statements which were available to be issued on March 9, 2018.

# Logan County BancShares, Inc. and Subsidiary

## Logan Bank & Trust Co. BOARD OF DIRECTORS

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**David F. Oakley**  
Chairman, Logan Bank & Trust  
Retired, Supervising Auditor  
Appraiser, Imperial Co., CA  
Assessor's Office  
Director, Logan County BancShares, Inc.

**T. Bart Willis**  
President / CEO  
Logan Bank & Trust  
Director, Logan County BancShares, Inc.

**David McCormick**  
President, McCormicks, Inc.  
President, Bodaco Company  
Director, Logan County BancShares, Inc.

**Clell Peyton**  
Retired, Nationwide Insurance Company  
Director, Logan County BancShares, Inc.

**Earle B. Queen**  
Retired, James Funeral Home  
Retired, Queen Brothers Inc.  
Retired, West Logan Water Co.  
Director, Logan County BancShares, Inc.

**Michael P. Winter**  
Vice President, Bray & Oakley Insurance Co.  
Director, Logan County BancShares, Inc.

**Glenn T. Yost**  
President, W.W. McDonald Land Co.  
President, Bruce McDonald Holding Co.  
President, Triadelphia Land Co.  
Director, Logan County BancShares, Inc.

## Logan Bank & Trust Co. OFFICERS

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**David F. Oakley**  
Chairman

**T. Bart Willis**  
President / CEO

**Eddie Joe Canterbury**  
Senior Vice President / CLO

**Mark A. Mareske**  
Senior Vice President / CFO / Cashier

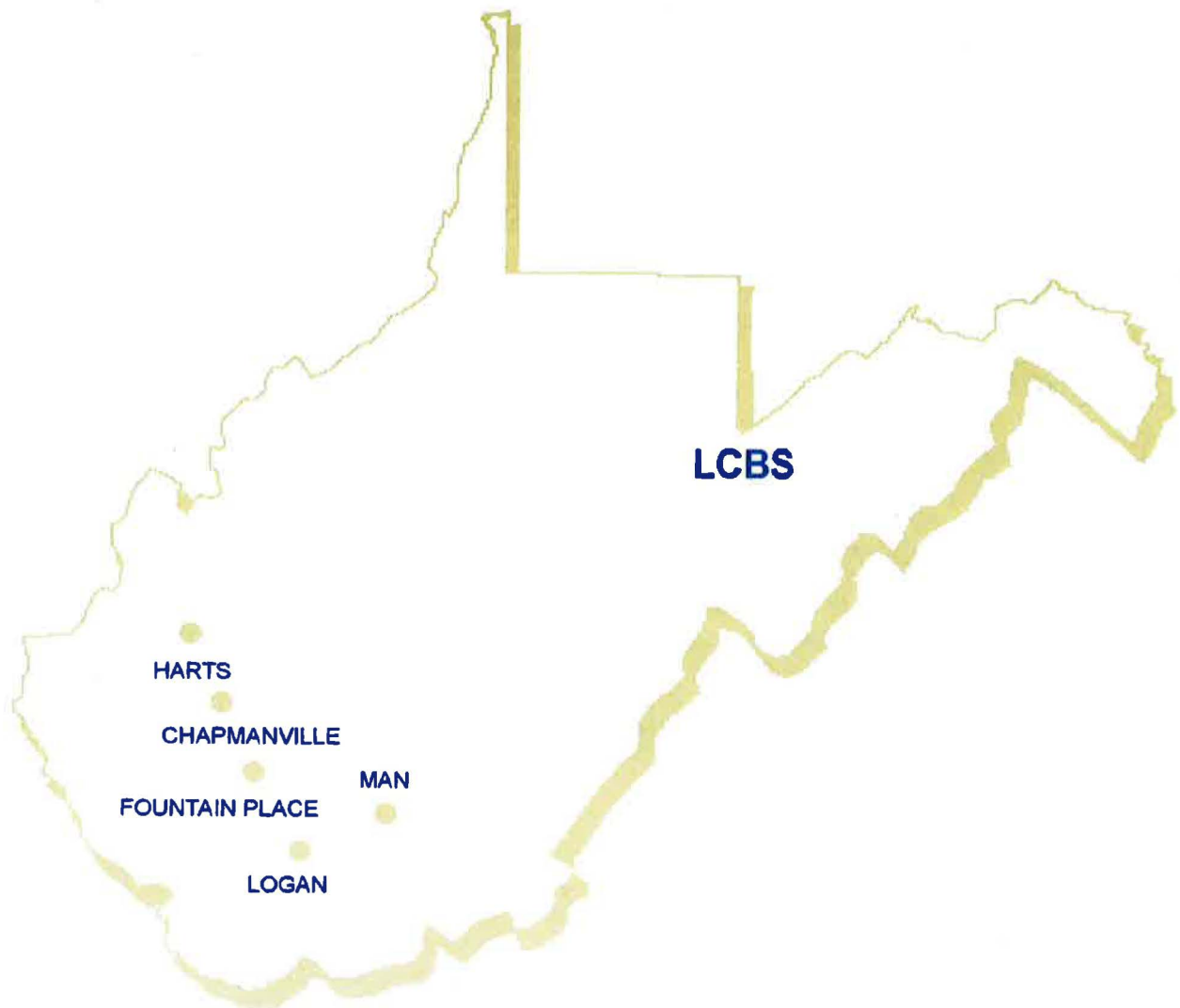
**Gary Wilson**  
Vice President

# Annual Report

## 2017

### Logan County

### BancShares, Inc.



**Logan Bank & Trust**

**LB & T**

**Logan, WV 25601**

**Fountain Place Bank Of**

**LB & T**

**Logan, WV 25601**

**Chapmanville Bank Of**

**LB & T**

**Chapmanville, WV 25508**

**Man Bank Of**

**LB & T**

**Man, WV 25635**

**Harts Bank Of**

**LB & T**

**Harts, WV 25524**