COPY

RECEIVED

MAR 27 2015



**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)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. 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 and top-tier savings and loan 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.

I, Virgil L. McNemar
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 of Holding Company Director and Official

3-23-15
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 1249178
C.I.

**Date of Report** (top-tier holding company's fiscal year-end):
**December 31, 2014**
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address
Harrison Bankshares, Inc.
Legal Title of Holding Company

P.O. Box 98
(Mailing Address of the Holding Company) Street / P.O. Box

| Lost Creek | WV | 26385 |
|---|---|---|
| City | State | Zip Code |

Main Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Tasha R. Hartley | CPA |
|---|---|
| Name | Title |

304-624-5564
Area Code / Phone Number / Extension

304-624-5582
Area Code / FAX Number

thartley@tetrickbartlett.com
E-mail Address

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

*Does the reporter request confidential treatment for any portion of this submission?*

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

# FORM FR Y-6

**Harrison Bankshares, Inc.**
**P.O. Box 98**
**Lost Creek, WV 26385**
**Fiscal year ending December 31, 2014**

Report Item

1:

The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, two copies are enclosed.

2a: Organizational Chart

Harrison Bankshares, Inc.
PO Box 98
Main Street
Lost Creek WV 26385
Incorporated in West Virginia

**100%**

The Harrison County Bank
PO Box 98
Main Street
Lost Creek WV 26385
1600 Shares
100% Owned by Harrison Bankshares, Inc.
Incorporated in West Virginia

2b: Domestic branch listing provided to the Federal Reserve Bank.

**Results:** A list of branches for your depository institution: HARRISON COUNTY BANK, THE (ID_RSSD: 104234).
This depository institution is held by HARRISON BANKSHARES, INC. (1249178) of LOST CREEK, WV.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

**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) | 104234 | HARRISON COUNTY BANK, THE | MAIN STREET | LOST CREEK | WV | 26385 | HARRISON | UNITED STATES | 5771 | 0 | HARRISON COUNTY BANK, THE | 104234 | |
| OK | | Full Service | 2529934 | BRIDGEPORT BRANCH | 1215 JOHNSON AVENUE | BRIDGEPORT | WV | 26330 | HARRISON | UNITED STATES | 219318 | 2 | HARRISON COUNTY BANK, THE | 104234 | |
| OK | | Full Service | 3677382 | CLARKSBURG BRANCH | 3 ARMORY RD | CLARKSBURG | WV | 26301 | HARRISON | UNITED STATES | 464971 | 4 | HARRISON COUNTY BANK, THE | 104234 | |
| OK | | Full Service | 3293429 | NUTTER FORT BRANCH | 1506 BUCKHANNON PIKE | CLARKSBURG | WV | 26301 | HARRISON | UNITED STATES | 429548 | 3 | HARRISON COUNTY BANK, THE | 104234 | |
| OK | | Full Service | 2448615 | WEST MILFORD BRANCH | MAIN AND VISTA STREETS | WEST MILFORD | WV | 26451 | HARRISON | UNITED STATES | 219317 | 1 | HARRISON COUNTY BANK, THE | 104234 | |

**FORM FR Y-6**

**Harrison Bankshares, Inc.**
**Fiscal Year Ending December 31, 2014**

**Report Item 3: Shareholders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2014 | | | 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 12-31-2014 | | |
|---|---|---|---|---|---|
| (1)(a) Name City, State, Country | (1)(b) Country of Citizenship or Incorporation | (1)(c) Number and Percentage of Each Class of Voting Securities | (2)(a) Name City, State, Country | (2)(b) Country of Citizenship or Incorporation | (2)(c) Number and Percentage of Each Class of Voting Securities |
| Mary Thrash Clarksburg, WV | USA | 340 - 5.82% Common Stock | None | | |
| Walter E. Buck & David H. Nutter Foundation, Inc. Lost Creek, WV | USA | 650 - 11.13% Common Stock | | | |

## FORM FR Y-6

**Harrison Bankshares, Inc.**
**Fiscal Year Ending December 31, 2014**

**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 Holding Company | (3)(a) Title & Position with 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 Voting Shares in Holding Company | (4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Isaac H. Maxwell III<br>Lost Creek, WV | Retired<br>Farmer | Director/Chairman | Director<br>(The Harrison County Bank) | Retired | 4.85% | None | N/A |
| James H. Atkinson<br>Bridgeport, WV | Retired | Director | Director<br>(The Harrison County Bank) | Retired | 1.71% | None | N/A |
| Randy Williams<br>Flemington, WV | Pharmacist<br>Village Pharmacy | Director | Director<br>(The Harrison County Bank) | Pharmacist | 3.31% | None | Village Pharmacy<br>(25%) |
| John F. McCuskey<br>Charleston, WV | Attorney | Director | Director<br>(The Harrison County Bank) | Attorney | 4.52% | None | N/A |
| David J. Griffith<br>Clarksburg, WV | Retired | Director | Director<br>(The Harrison County Bank) | Retired | 1.46% | None | N/A |
| Kermit P. Stutler<br>Lost Creek, WV | Salesman | Director | Director<br>(The Harrison County Bank) | VP/ Secretary<br>Bykota, Inc. | 0.38% | None | N/A |
| Michael T. Marsh<br>Mt. Claire, WV | Insurance claim specialist<br>Farmers Mechanics | Director | Director<br>(The Harrison County Bank) | Insurance claim specialist | 0.43% | None | N/A |
| Virgil McNemar<br>Lost Creek, WV | N/A | Director/CEO | President & CEO<br>(The Harrison County Bank) | N/A | 0.10% | None | N/A |
| Walter E. Buck & David H. Nutter Foundation, Inc.<br>Lost Creek, WV | N/A | N/A | N/A | N/A | 11.13% | None | N/A |

# HARRISON BANKSHARES, INC.
# AND SUBSIDIARY

**************

# INDEPENDENT AUDITOR'S REPORT AND
# RELATED FINANCIAL STATEMENTS

**************************

## DECEMBER 31, 2014 AND 2013

# INDEX

Tetrick & Bartlett, PLLC
Certified Public Accountants
Consultants
122 N. Oak St. • PO Box 1916 • Clarksburg, WV 26302-1916 • (304) 624-5564 • Fax: (304) 624-5582 • www.tetrickbartlett.com
1517 Mary Lou Retton Drive • Fairmont, WV 26554 • (304) 366-2992 • Fax: (304) 366-2370

# INDEPENDENT AUDITOR'S REPORT

Directors and Stockholders
Harrison Bankshares, Inc.
Lost Creek, West Virginia

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Harrison Bankshares, Inc. and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2014 and 2013, 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 financial statements.

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

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harrison Bankshares, Inc. and Subsidiary as of December 31, 2014 and 2013, 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? — Hetrick & Bartlett, PLLC

February 20, 2015

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
# DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | | |
| Noninterest-bearing | $ 7,176,093 | $ 5,814,251 |
| Interest bearing | 294,765 | 1,005,779 |
| Total cash and due from banks | 7,470,858 | 6,820,030 |
| Investment securities (note 3) | 41,729,612 | 38,985,870 |
| Loans, net (note 4) | 48,869,366 | 45,532,076 |
| Interest receivable | 361,369 | 305,579 |
| Bank premises and equipment, net (note 5) | 3,410,968 | 3,375,624 |
| Deferred income taxes (benefits) (note 14) | 10,071 | 346,533 |
| Restricted investments – stock in Federal Home Loan Bank, at cost | 51,100 | 178,500 |
| Other assets (note 6) | 139,632 | 241,602 |
| **TOTAL ASSETS** | $ 102,042,976 | $ 95,785,814 |

| | 2014 | 2013 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Deposits (note 7): | | |
| Noninterest-bearing | $ 28,591,468 | $ 24,937,719 |
| Interest-bearing | 63,384,703 | 61,767,810 |
| Total deposits | 91,976,171 | 86,705,529 |
| Interest payable | 11,580 | 12,877 |
| Federal funds purchased (note 8) | - | - |
| Advances from Federal Home Loan Bank (note 9) | - | - |
| Other liabilities (note 10) | 144,588 | 160,629 |
| Total liabilities | 92,132,339 | 86,879,035 |
| **Stockholders' Equity** | | |
| Common stock (note 11) | 1,600 | 1,600 |
| Additional paid-in capital | 1,110,839 | 1,110,839 |
| Retained earnings | 9,475,279 | 9,070,763 |
| Accumulated other comprehensive income (loss) | (24,033) | (623,375) |
| Treasury stock (note 11) | (653,048) | (653,048) |
| Total stockholders' equity | 9,910,637 | 8,906,779 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 102,042,976 | $ 95,785,814 |

The accompanying notes are an integral part of these statements.

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF INCOME
# FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **Interest Income** | | |
| Interest and fees on loans | $ 2,762,492 | $ 2,636,759 |
| Interest and dividends on investment securities | 759,101 | 693,469 |
| Interest on federal funds sold | 23 | 62 |
| Total interest income | 3,521,616 | 3,330,290 |
| **Interest Expense** | | |
| Interest on time certificates of deposit of $100,000 or more | 117,621 | 160,657 |
| Interest on other deposits | 201,450 | 203,331 |
| Interest on federal funds purchased | 8 | - |
| Interest on advances from Federal Home Loan Bank | 94 | 89 |
| Total interest expense | 319,173 | 364,077 |
| Net interest income | 3,202,443 | 2,966,213 |
| Provision for loan losses | 52,500 | 75,000 |
| Net interest income after provision for loan losses | 3,149,943 | 2,891,213 |
| **Noninterest Income** | | |
| Securities gains (losses) | (39,671) | (34,400) |
| Service charges and fees | 609,961 | 645,248 |
| Safe deposit rentals | 15,440 | 15,884 |
| Rental income | 29,556 | 31,152 |
| Other | 26,106 | 30,948 |
| Total other income | 641,392 | 688,832 |
| **Noninterest Expenses** | | |
| Salaries and employee benefits | 1,291,285 | 1,288,652 |
| Occupancy expense of bank premises | 276,346 | 265,682 |
| Furniture and equipment expense | 135,004 | 184,319 |
| Assessment fees | 59,091 | 63,718 |
| Stationery and supplies | 49,932 | 52,514 |
| Director fees | 118,400 | 108,000 |
| Advertising | 35,233 | 40,780 |
| Other expenses | 820,857 | 648,788 |
| Total other expenses | 2,786,148 | 2,652,453 |

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF INCOME (CONT'D)
# FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| Income before income taxes | $ 1,005,187 | $ 927,592 |
| Provision for income taxes (note 14) | 276,606 | 286,070 |
| **NET INCOME** | $ 728,581 | $ 641,522 |
| **Earnings per share** | | |
| Net income | $ 124.78 | $ 109.87 |

The accompanying notes are an integral part of these statements.

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
# FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| Net income | $ 728,581 | $ 641,522 |
| **Other Comprehensive Income (Loss) Before Tax** | | |
| Changes in net unrealized gains (losses) on securities available for sale, net of income taxes of $193,407 in 2014 and $414,261 in 2013 | 375,437 | (804,155) |
| Reclassification adjustment for (losses) gains realized, net of income taxes of $115,345 in 2014 and $77,288 in 2013 | 223,905 | (150,030) |
| Other comprehensive income (loss), net of tax | 599,342 | (954,185) |
| **Total comprehensive income** | $ 1,327,923 | $ (312,663) |

The accompanying notes are an integral part of these statements.

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
# FOR THE YEARS ENDED DECEMBER 31,

| | Common Stock | Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $ 1,600 | $ 1,110,839 | $ 8,735,789 | $ (653,048) | $ 330,810 | $ 9,525,990 |
| Net income | | | 641,522 | | | 641,522 |
| Dividends paid ($52.50 per share) | | | (306,548) | | | (306,548) |
| Purchase of treasury stock | | | | | | - |
| Sale of treasury stock | | | | | | - |
| Unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes | - | - | - | - | (954,185) | (954,185) |
| Balance, December 31, 2013 | 1,600 | 1,110,839 | 9,070,763 | (653,048) | (623,375) | 8,906,779 |
| Net income | | | 728,581 | | | 728,581 |
| Dividends paid ($55.50 per share) | | | (324,065) | | | (324,065) |
| Purchase of treasury stock | | | | | | - |
| Sale of treasury stock | | | | | | - |
| Unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes | - | - | - | - | 599,342 | 599,342 |
| Balance, December 31, 2014 | $ 1,600 | $ 1,110,839 | $ 9,475,279 | $ (653,048) | $ (24,033) | $ 9,910,637 |

The accompanying notes are an integral part of these statements.

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | $ 728,581 | $ 641,522 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 178,106 | 160,929 |
| Provision for loan losses | 52,500 | 75,000 |
| Securities (gains) losses | 39,671 | 34,400 |
| (Gains) losses on sales of foreclosed real estate and other assets | (1,900) | 575 |
| Deferred income taxes | 27,709 | 10,346 |
| Net amortization of securities | 280,102 | 272,110 |
| Loss (gain) on sale/disposal of assets | 4,322 | 1,474 |
| Change in assets and liabilities: | | |
| Interest receivable | (55,790) | 42,213 |
| Other assets | 101,970 | (38,468) |
| Interest payable | (1,297) | (2,871) |
| Other liabilities | (16,041) | (261,348) |
| Net cash provided by operating activities | 1,337,933 | 935,882 |
| **Cash Flows From Investing Activities** | | |
| Investment security purchases | (20,566,104) | (18,819,022) |
| Investment securities called and matured | 3,997,702 | 9,500,681 |
| Proceeds from sale of investment securities | 14,412,982 | 7,263,634 |
| Redemptions of restricted investments | 127,400 | 501,700 |
| Proceeds from sales of foreclosed real estate and other assets | 3,900 | 7,350 |
| Loans (increase) decrease | (3,391,790) | (3,263,448) |
| Capital expenditures | (217,772) | (51,725) |
| Net cash (used in) provided by investing activities | (5,633,682) | (4,860,830) |
| **Cash Flows From Financing Activities** | | |
| Deposits increase (decrease) | 5,270,642 | 2,761,924 |
| Dividends paid | (324,065) | (306,548) |
| Net cash provided by financing activities | 4,946,577 | 2,455,376 |

# HARRISON BANKSHARES, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
# FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | $ 650,828 | $ (1,469,572) |
| Cash and cash equivalents at January 1, | 6,820,030 | 8,289,602 |
| Cash and cash equivalents at December 31, | $ 7,470,858 | $ 6,820,030 |
| **Supplemental disclosures of cash flow information** | | |
| Income taxes paid | $ 224,067 | $ 428,031 |
| Interest paid | $ 320,470 | $ 366,948 |
| Loans transferred to foreclosed real estate and other assets during the year | $ 2,000 | $ 4,500 |
| Proceeds from sales of foreclosed real estate and other assets financed through loans | $ - | $ - |
| Other asset transferred to bank premises and equipment | $ - | $ - |
| Total decrease (increase) in unrealized gain (loss) on securities available-for-sale | $ 908,095 | $ (1,445,734) |

The accompanying notes are an integral part of these statements.

## 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Harrison Bankshares, Inc. and its subsidiary ("The Corporation") conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a summary of the more significant policies.

### Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 20, 2015, the date which the financial statements were available to be issued.

### Nature of Operations

Harrison Bankshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary Harrison County Bank (the Bank). The Bank generates commercial, mortgage and consumer loans and receives deposits from customer located primarily in Harrison County, West Virginia and surrounding areas. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the West Virginia Department of Banking and the Federal Deposit Insurance Corporation.

### Basis of Consolidation

The consolidated financial statements include the accounts of Harrison Bankshares, Inc. and its wholly owned subsidiary, The Harrison County Bank. All significant intercompany balances and transactions have been eliminated.

### Use of Estimates

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be determined.

### Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and noninterest-bearing and interest bearing amounts due from banks.

### Trust Assets

Assets held in a fiduciary or agency capacity for Bank customers are not included in the financial statements since such items are not assets of the Bank. Trust Department income is reported on a cash basis. Reporting of such income on an accrual basis would not have a material effect on net income.

### Investment Securities

Debt securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted investments are stock from the Federal Home Loan Bank of Pittsburgh, which is restricted as to its marketability. Because no ready market exists for these investments and it has no quoted market value, the Corporation's investment in this stock is carried at cost.

**Loans**

The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in North Central West Virginia. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Allowance for Loan Losses**

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The determination of the allowance for loan losses requires significant estimates, including consideration of current economic conditions and historical loss experience pertaining to pools of homogeneous loans, which may be susceptible to change. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) construction and land development segment; (ii) residential real estate segment; (iii) commercial real estate segment; (iv) commercial and industrial segment and (v) other consumer segment.

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

**Charge-off of Uncollectible Loans**

Construction and land development loans are either charged-off or written down to fair value at 90-days past due. Residential real estate and commercial real estate loans are either charged-off or written down to fair value when the loan has been foreclosed and the balance exceeds the market value of the collateral. Commercial and industrial and other consumer loans are considered for charge-off at 60-days past due. Any loan in any portfolio segment may be charged-off prior to the policies described above if a loss confirming event occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment.

### Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

When a loan within any class is impaired, interest income is recognized unless the receipt of principal and interest is in doubt when contractually due. If receipt of principal and interest is in doubt when contractually due, interest income is not recognized. Cash receipts received on nonaccruing impaired loans within any class are generally applied entirely against principal until the loan has been collected in full, after which time any additional cash receipts are recognized as interest income. Cash receipts received on accruing impaired loans within any class are applied in the same manner as accruing loans that are not considered impaired.

### Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

### Other Assets

Real estate and other property held for resale, acquired principally through foreclosure, are reported at the lower of cost or estimated net realizable value and are included in other assets. Any write downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred in maintaining foreclosed real estate and subsequent write-downs to reflect declines in market value of the property are included in determining net income.

**Advertising**

The Bank expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place.

**Sales Tax**

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and expenses, respectively.

**Income Taxes**

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, accumulated depreciation, and state income tax benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns with the subsidiary.

All required federal business income tax returns for the Company have been filed up to, and including the tax year ended December 31, 2013. The Company's federal income tax returns for 2013, 2012, and 2011 remain subject to examination by the Internal Revenue Service ("IRS").

**Pension Plan**

The Bank provides a 401(K) pension plan which covers substantially all employees. The employees may make tax deferred contributions to the plan. The Bank annually determines its contribution to the plan, if any.

The Bank's policy is to fund pension costs accrued.

Employer match pension expense for 2014 and 2013 was $43,249 and $42,354 respectively.

In addition, the 401(K) plan includes a discretionary profit-sharing feature, contributions were $50,000 and $50,000 for 2014 and 2013, respectively.

## 2. Restrictions on Cash and Due from Banks

The Corporation is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2014 and 2013, was $725,000 and $805,000, respectively.

## 3. Investment Securities

Securities available for sale consist of the following:

**December 31, 2014**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 26,822,467 | $ 138,248 | $ (199,645) | $ 26,761,070 |
| Municipal securities | 11,943,558 | 85,838 | (48,716) | 11,980,680 |
| Certificates of deposit | 3,000,000 | 1,473 | (13,611) | 2,987,862 |
| Totals | $ 41,766,025 | $ 225,559 | $ (261,972) | $ 41,729,612 |

**December 31, 2013**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 28,896,756 | $ 69,262 | $ (864,489) | $ 28,101,529 |
| Municipal securities | 7,533,622 | 30,386 | (179,667) | 7,384,341 |
| Certificates of deposit | 3,500,000 | - | - | 3,500,000 |
| Totals | $ 39,930,378 | $ 99,648 | $ (1,044,156) | $ 38,985,870 |

The amortized cost and estimated market value of investment securities at December 31, 2014 and 2013, 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 or prepayment penalties.

**December 31, 2014**

| | Securities Available For Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | | |
| One year or less | $ - | $ - |
| After one year through five years | 23,247,954 | 23,206,248 |
| After five years through ten years | 3,574,513 | 3,554,822 |
| After ten years | - | - |
| | 26,822,467 | 26,761,070 |
| Municipal securities | | |
| One year or less | 50,539 | 50,848 |
| After one year through five years | 1,275,524 | 1,283,362 |
| After five years through ten years | 10,142,495 | 10,168,121 |
| After ten years | 475,000 | 478,349 |
| | 11,943,558 | 11,980,680 |
| Certificates of deposit | | |
| One year or less | 1,250,000 | 1,251,455 |
| After one year through five years | 1,250,000 | 1,241,952 |
| After five years through ten years | 500,000 | 494,455 |
| | 3,000,000 | 2,987,862 |
| | $ 41,766,025 | $ 41,729,612 |

**December 31, 2013**

| | Securities Available For Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | | |
| One year or less | $ 2,159,150 | $ 2,147,933 |
| After one year through five years | 12,694,486 | 12,548,901 |
| After five years through ten years | 12,298,791 | 11,721,879 |
| After ten years | 1,744,329 | 1,682,816 |
| | 28,896,756 | 28,101,529 |
| Municipal securities | | |
| After one year through five years | 1,759,053 | 1,740,751 |
| After five years through ten years | 5,299,569 | 5,165,398 |
| After ten years | 475,000 | 478,192 |
| | 7,533,622 | 7,384,341 |
| Certificates of deposit | | |
| One year or less | 1,000,000 | 1,000,000 |
| After one year through five years | 2,500,000 | 2,500,000 |
| | 3,500,000 | 3,500,000 |
| | $ 39,930,378 | $ 38,985,870 |

The book value of securities pledged to secure public deposits, repurchase agreements, trust deposits and for other purposes required or permitted by law amounted to $6,213,220 and $6,073,662 December 31, 2014 and 2013, respectively.

Gross losses of $39,671 and $34,400 in 2014 and 2013, respectively, were realized from sales of investment securities available-for-sale with proceeds of $14,412,982 and $7,263,634, respectively.

The table below shows the investments' gross unrealized loss and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2014 and 2013.

**December 31, 2014**

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| Description of Securities | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Obligations of U.S. Government Agencies | $ 7,345,599 | $ (43,408) | $ 8,009,254 | $ (156,237) | $ 15,354,853 | $ (199,645) |
| Municipal securities | 4,243,691 | (48,017) | 410,095 | (699) | 4,653,786 | (48,716) |
| Certificates of deposit | 1,493,090 | (6,911) | 493,300 | (6,700) | 1,986,390 | (13,611) |
| Total temporarily impaired securities | $ 13,082,380 | $ (98,336) | $ 8,912,649 | $ (163,636) | $ 21,995,029 | $ (261,972) |

**December 31, 2013**

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| Description of Securities | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Obligations of U.S. Government Agencies | $ 17,011,263 | $ (604,825) | $ 4,738,812 | $ (259,664) | $ 21,750,075 | $ (864,489) |
| Municipal securities | 4,579,291 | (179,667) | - | - | 4,579,291 | (179,667) |
| Total temporarily impaired securities | $ 21,590,554 | $ (784,492) | $ 4,738,812 | $ (259,664) | $ 26,329,366 | $ (1,044,156) |

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. 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) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2014, the thirty-two debt securities with unrealized losses have depreciated 1.18% from the Corporation's amortized cost bases. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of review of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

## 4. Loans

Loans outstanding at December 31, 2014 and 2013 consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Construction and land development | $ 1,171,261 | $ 351,037 |
| Residential real estate | 32,363,272 | 30,284,593 |
| Commercial real estate | 5,314,376 | 2,690,976 |
| Commercial and industrial | 1,880,602 | 5,623,453 |
| Other consumer | 8,732,030 | 7,012,614 |
| | 49,461,541 | 45,962,673 |
| Allowance for loan losses | (442,699) | (294,186) |
| Net deferred loan origination fees | (149,476) | (136,411) |
| Total net loans | $ 48,869,366 | $ 45,532,076 |

Deferred dealer premiums of $15,563 and $17,856 are included in loans at December 31, 2014 and 2013, respectively.

Scheduled maturities on loans without regard to scheduled principal repayments on amortizing loans are as follows on December 31, 2014.

| | |
|---|---|
| Due within one year | $ 2,823,412 |
| After one but within five years | 9,445,920 |
| After five but within fifteen years | 18,905,151 |
| After fifteen years | 18,287,058 |
| Total | $ 49,461,541 |

**Allowance for Loan Losses**

A summary of the transactions in the allowance for loan losses and details regarding impaired loans follows for the years ended December 31, 2014 and 2013:

| | **2014** | **2013** |
|---|---|---|
| **Allowance for Loan Losses** | | |
| Balance, January 1, | $ 294,186 | $ 365,013 |
| Provision charged to operations | 52,500 | 75,000 |
| Recoveries credited to reserve | 262,205 | 71,690 |
| Losses charged to reserve | (166,192) | (217,517) |
| Balance, December 31, | $ 442,699 | $ 294,186 |
| **Recorded balances of impaired loans, at end of year:** | | |
| With specific reserves assigned to the loan balances | $ - | $ - |
| With no specific reserves assigned to the loan balances | 132,280 | 181,892 |
| Total | $ 132,280 | $ 181,892 |
| Average balance of impaired loans for the year | $ 157,086 | $ 684,645 |
| Allowance for loan losses on impaired loans | $ - | $ - |

The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans at December 31, 2014:

| | Construction and land development | Residential real estate | Commercial real estate | Commercial and industrial | Other consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for Loan Losses:** | | | | | | |
| Beginning balance | $ 34,930 | $ 157,645 | $ 13,320 | $ 27,846 | $ 60,445 | $ 294,186 |
| Charge-offs | (129,407) | (17,955) | - | - | (18,830) | (166,192) |
| Recoveries | 239,289 | - | - | - | 22,916 | 262,205 |
| Provision | (136,569) | 96,110 | 24,034 | (14,630) | 83,555 | 52,500 |
| Ending balance | 8,243 | 235,800 | 37,354 | 13,216 | 148,086 | 442,699 |
| Ending balance: individually evaluated for impairment | - | - | - | - | - | - |
| Ending balance: collectively evaluated for impairment | 8,243 | 235,800 | 37,354 | 13,216 | 148,086 | 442,699 |
| Ending balance: acquired loans with deteriorated credit quality | - | - | - | - | - | - |
| **Finance Receivables:** | | | | | | |
| Ending balance: individually evaluated for impairment | $ - | $ 132,280 | $ - | $ - | $ - | $ 132,280 |
| Ending balance: collectively evaluated for impairment | 1,171,261 | 32,230,992 | 5,314,376 | 1,880,602 | 8,732,030 | 49,329,261 |
| Ending balance: acquired loans with deteriorated credit quality | - | - | - | - | - | - |
| Ending balance | $ 1,171,261 | $ 32,363,272 | $ 5,314,376 | $ 1,880,602 | $ 8,732,030 | $ 49,461,541 |

**Credit Quality Information**

The following table represents credit exposures by creditworthiness category for the year ended December 31, 2014. The Corporation's internal creditworthiness grading system is based on experiences with similarly graded loans. This grading system is based greatly on the UCS classification system representing the degree of risk of nonpayment. Management assigns a risk grade to loans at issuance and adjusts the risk grade as factors indicative of a change in the risk grade are known. The categories presented in the following table are:

**Pass – Minimal Risk:** Loans in this category have virtually no chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has been with the bank for many years and has an excellent credit history.
- Cash flow is steady and well in excess of required debt repayment.
- The borrower has excellent access to alternative sources of finance at favorable terms.
- Management is of high quality and has unquestioned character.
- The collateral, if required, is cash or cash equivalent and is equal to or exceeds the value of the loan.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

**Pass – Low Risk:** Loans in this category are very unlikely to result in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has an excellent credit history.
- The borrower's cash flow is steady and comfortably exceeds the required debt requirements plus other fixed charges.
- The borrower has good access to alternative sources of finance at favorable terms.
- Management is of high quality and has unquestioned character.
- The collateral, if required, is sufficiently liquid and has a large enough margin to make very likely the recovery of the full amount of the loan in the event of default.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

**Pass – Medium Risk:** Loans in this category have little chance of resulting in a loss. This category should include the average loan under average economic conditions. Loans in this category would have a level of risk similar to a loan with the following characteristics:

- The borrower has a good credit history.
- The borrower's cash flow may be subject to cyclical conditions, but is adequate to meet required debt repayments plus other fixed charges even after a limited period of losses or in the event of a somewhat lower trend in earnings.
- The borrower has some access to alternative sources of finance at reasonable terms.
- The borrower has good management in important positions.
- Collateral, which would usually be required, is sufficiently liquid and has a large enough margin to make likely the recovery of the value of the loan in the event of a default.
- The guarantor would achieve approximately this rating if borrowing individually from this bank.

**Pass – Moderate Risk:** Loans in this category have a limited chance of resulting in a loss. They would have a level of risk similar to a loan with the following characteristics:

- The borrower has only a fair credit rating but no recent credit problems.
- The borrower's cash flow is currently adequate to meet required debt repayments, but it may not be sufficient in the event of significant adverse developments.
- The borrower has some limited access to alternative sources of finance, possibly at unfavorable terms.
- Some management weakness exists.
- Collateral, which would generally be required, is sufficient to make likely the recovery of the value of the loan in the event of default, but liquidating the collateral may be difficult or expensive.
- The guarantor would achieve this rating, or lower, if borrowing individually from this bank.

**Pass – Watch:** Loans in this category have a limited chance of resulting in a loss, and should be watched closely for other deciding factors. These would have a level of risk similar to a loan with the following characteristics:

- The loan is for a start-up company.
- There is concern for the results of the industry.
- There have been significant changes in the company's management.
- The business has massive seasonal issues or fluctuations.

**Classified – Special Mention:** Loans in this category have one or more inherent weaknesses that raise objective concern about the ability of the borrower to repay the debt as currently structured.

**Classified – Substandard:** A loan is substandard when it is inadequately protected by the current financial strength and paying capacity of the borrower, guarantor, or collateral pledged. In this category, loans must have a well-defined weakness that jeopardizes the liquidation of debt.

**Classified – Doubtful:** A loan that is classified as doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. In this category, the possibility of loss is extremely high, but its classification as an estimated loss is deferred until a more exact status may be determined.

**Classified – Loss:** Loss loans are considered uncollectible and of such little value that there is no justification to continuing them as loans. This does not mean that the loans have no recovery or salvage value; rather, that it is not practical to defer writing off the asset even though partial recovery may occur in the future.

**Credit Risk Profile by Creditworthiness Category by Class of Loan**

| | Construction and land development | Residential real estate | Commercial real estate | Commercial and industrial | Other consumer | Total |
|---|---|---|---|---|---|---|
| Pass - minimal risk | $ - | $ - | $ - | $ 135,059 | $ 1,119,503 | $ 1,254,562 |
| Pass - low risk | 714,772 | 21,610,177 | 686,210 | 124,925 | 294,642 | 23,430,726 |
| Pass - medium risk | 456,489 | 10,036,193 | 4,618,619 | 1,251,043 | 4,740,377 | 21,102,721 |
| Pass - moderate risk | - | 584,622 | 9,547 | 369,575 | 2,577,508 | 3,541,252 |
| Pass - watch | - | - | - | - | - | - |
| Classified - special mention | - | - | - | - | - | - |
| Classified - substandard | - | 132,280 | - | - | - | 132,280 |
| Classified - doubtful | - | - | - | - | - | - |
| Classified - loss | - | - | - | - | - | - |
| Total | $ 1,171,261 | $ 32,363,272 | $ 5,314,376 | $ 1,880,602 | $ 8,732,030 | $ 49,461,541 |

## Nonaccrual Loans

The following table presents loans on nonaccrual status by loan class at December 31, 2014.

| | |
|---|---|
| Construction and land development | $ - |
| Residential real estate | - |
| Commercial real estate | - |
| Commercial and industrial | - |
| Other consumer | - |
| Total | $ - |

## Age Analysis of Past Due Loans by Class

The following table presents an aging analysis of loans as of December 31, 2014.

| | Past Due | | | | | | 90 or More |
|---|---|---|---|---|---|---|---|
| | 30-59 Days | 60-89 Days | 90 or More Days | Total | Current | Total Loans | Days Past Due and Accruing |
| Construction and land development | $ - | $ - | $ - | $ - | $ 1,171,261 | $ 1,171,261 | $ - |
| Residential real estate | 298,359 | 352,038 | 128,139 | 778,536 | 31,584,736 | 32,363,272 | 128,139 |
| Commercial real estate | 9,547 | 11,514 | - | 21,061 | 5,293,315 | 5,314,376 | - |
| Commercial and industrial | - | - | - | - | 1,880,602 | 1,880,602 | - |
| Other consumer | 141,547 | 13,171 | 4,365 | 159,083 | 8,572,947 | 8,732,030 | 4,365 |
| Total | $ 449,453 | $ 376,723 | $ 132,504 | $ 958,680 | $ 48,502,861 | $ 49,461,541 | $ 132,504 |

### Impaired Loans

The following table presents impaired loan information:

| | December 31, 2014 | | | Year Ended December 31, 2014 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Associated Allowance | Average Recorded Investment | Interest Income Recognized |
| **With no specific allowance recorded:** | | | | | |
| Construction and land development | $ - | $ - | $ - | $ 74,765 | $ - |
| Residential real estate | 134,027 | 132,280 | - | 136,638 | 10,042 |
| Commercial real estate | - | - | - | - | - |
| Commercial and industrial | - | - | - | - | - |
| Other consumer | - | - | - | - | - |
| **With an allowance recorded:** | | | | | |
| Construction and land development | - | - | - | - | - |
| Residential real estate | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - |
| Commercial and industrial | - | - | - | - | - |
| Other consumer | - | - | - | - | - |

## 5. Bank Premises and Equipment

Bank premises and equipment at December 31, 2014 and 2013 are summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 1,730,442 | $ 1,730,442 |
| Bank premises | 2,762,065 | 2,762,065 |
| Equipment | 1,641,842 | 1,873,255 |
| | 6,134,349 | 6,365,762 |
| Less: Accumulated depreciation | (2,723,381) | (2,990,138) |
| Bank premises and equipment – net | $ 3,410,968 | $ 3,375,624 |

Depreciation charged to operations at December 31, 2014 and 2013 was as follows:

| | 2014 | 2013 |
|---|---|---|
| Bank premises | $ 76,834 | $ 78,159 |
| Equipment | 101,272 | 82,770 |
| Total | $ 178,106 | $ 160,929 |

## 6. Other Assets

Other assets at December 31, 2014 and 2013 consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Income tax refund receivable | $ 31,583 | $ 61,245 |
| Prepaid expenses | 53,899 | 80,430 |
| U.S. Savings Bonds | 17,760 | 2,354 |
| Other real estate owned | - | - |
| Other foreclosed assets | - | - |
| Other | 36,390 | 97,573 |
| Total | $ 139,632 | $ 241,602 |

## 7. Deposits

Deposits at December 31, 2014 and 2013 are summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Demand deposits - noninterest-bearing | $ 28,591,468 | $ 24,937,719 |
| Demand deposits - interest-bearing | 16,919,450 | 18,344,778 |
| Savings | 20,910,042 | 17,079,979 |
| Time, $100,000 and over | 11,548,298 | 11,530,602 |
| Other time | 14,006,913 | 14,812,451 |
| | $ 91,976,171 | $ 86,705,529 |

The following is a summary of the maturity distributions of certificates of deposits in amounts of $100,000 or more as of December 31, 2014:

| | |
|---|---|
| 2015 | $ 3,742,047 |
| 2016 | 5,140,849 |
| 2017 | 1,434,886 |
| 2018 | 325,415 |
| 2019 | 905,101 |
| | $ 11,548,298 |

A summary of the maturities on other time deposits are as follows:

| | |
|---|---|
| 2015 | $ 7,652,921 |
| 2016 | 3,253,033 |
| 2017 | 1,741,645 |
| 2018 | 647,548 |
| 2019 | 711,766 |
| | $ 14,006,913 |

$30,352 and $31,340 of demand deposits have been reclassified as loan balances at December 31, 2014 and 2013 respectively.

## 8. Short-Term Borrowings

The Corporation has no Federal Funds purchased from the Federal Home Loan Bank of Pittsburgh as of December 31, 2014.

The Corporation purchased stock in The Federal Home Loan Bank, with a balance of $51,100 and $178,500 at December 31, 2014 and 2013, respectively.

## 9. Advances From Federal Home Loan Bank

The Corporation is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Corporation has an Open "Repo" Plus Commitment of up to $30,000,000 from the FHLB to finance loan growth and/or meet liquidity needs. Any borrowing bears interest at the interest rate posted by the FHLB on the day of the borrowing is subject to change daily. At December 31, 2014, the interest rate was 0.25%. The balances on this line of credit at December 31, 2014 and 2013 were $0.

## 10. Other Liabilities

Other liabilities at December 31, 2014 and 2013 consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Income taxes payable | $ - | $ - |
| Accrued expenses | 144,588 | 160,629 |
| Total | $ 144,588 | $ 160,629 |

## 11. Stockholders' Equity

Harrison Bankshares, Inc. was incorporated under the laws of West Virginia November 25, 1987. Shares of common stock at December 31, 2014 and 2013 are as follows:

| | | Shares | | | |
|---|---|---|---|---|---|
| | Par Value Per Share | Authorized | Issued | Outstanding | Treasury Stock |
| Balance, January 1, 2013 | $ 0.25 | 12,800 | 6,400 | 5,839 | 561 |
| Purchase of treasury stock | - | - | - | - | - |
| Sales of treasury stock | - | - | - | - | - |
| Balance, December 31, 2013 | 0.25 | 12,800 | 6,400 | 5,839 | 561 |
| Purchase of treasury stock | - | - | - | - | - |
| Sales of treasury stock | - | - | - | - | - |
| Balance, December 31, 2014 | $ 0.25 | 12,800 | 6,400 | 5,839 | 561 |

Treasury stock is valued at cost.

## 12. Dividend Restrictions

The approval of the West Virginia Banking Commissioner is required for state banks to pay dividends in excess of earnings retained in the current year plus retained net profits for the preceding two years. As of December 31, 2014, the subsidiary bank was permitted to pay dividends without prior regulatory approval.

## 13. Other Expenses

Other expenses consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Other insurance | $ 21,259 | $ 21,475 |
| Contributions | 6,420 | 3,807 |
| Data processing | 153,950 | 75,163 |
| Courier services | 25,367 | 24,200 |
| Dues and subscriptions | 26,614 | 21,829 |
| Postage and freight | 55,694 | 49,816 |
| Telephone | 41,847 | 42,293 |
| Travel | 4,741 | 2,598 |
| Other taxes | 26,859 | 32,909 |
| Legal and professional fees | 98,118 | 79,820 |
| Repossesion expense | 2,100 | 4,424 |
| Other real estate expense and loss | - | - |
| Charged off DDAs and cash short | 29,878 | 15,209 |
| Education and training | 3,201 | 7,840 |
| Bank automobile expense | 7,228 | 5,608 |
| Business development | 1,100 | 1,600 |
| Debit card expense | 254,357 | 213,256 |
| FRB service charge | 23,910 | 25,206 |
| Miscellaneous | 38,214 | 21,735 |
| | $ 820,857 | $ 648,788 |

## 14. Income Taxes

The consolidated provision for income taxes for 2014 and 2013 consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Current federal income taxes | $ 214,235 | $ 245,501 |
| Deferred federal income tax (benefit) | 25,276 | 9,550 |
| Total federal income taxes | 239,511 | 255,051 |
| Current state income taxes | 34,662 | 30,223 |
| Deferred state income tax (benefit) | 2,433 | 796 |
| Total state income taxes | 37,095 | 31,019 |
| Total | $ 276,606 | $ 286,070 |

A reconciliation of the statutory income tax to the income tax expense included in the statements of income at December 31, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Expected tax provision at 34% rate | $ 341,764 | $ 315,381 |
| State income tax, net of federal income tax benefit | 25,659 | 21,463 |
| Nontaxable income | (91,481) | (50,726) |
| Other, net | 664 | (48) |
| Provision for income taxes | $ 276,606 | $ 286,070 |

Accumulated deferred income taxes (benefits) at December 31, 2014 and 2013 relate to the following timing differences:

| | 2014 | 2013 |
|---|---|---|
| Provision for loan losses | $ (65,823) | $ (45,572) |
| Depreciation | 124,440 | 71,878 |
| Unrealized appreciation (depreciation) on securities | (12,380) | (321,133) |
| Deferred state income tax | 75 | (752) |
| Loan fees | (56,383) | (50,954) |
| Total deferred income taxes (benefits) | $ (10,071) | $ (346,533) |

The following represents the tax effects allocated to each component of other comprehensive income at December 31, 2014 and 2013.

| | 2014 | | |
|---|---|---|---|
| | Before Tax Amount | Tax (Expense) or Benefit | Net of Tax Amount |
| Unrealized gain on securities available-for-sale | $ 908,094 | $ (308,752) | $ 599,342 |
| Other comprehensive income | $ 908,094 | $ (308,752) | $ 599,342 |

| | 2013 | | |
|---|---|---|---|
| | Before Tax Amount | Tax (Expense) or Benefit | Net of Tax Amount |
| Unrealized loss on securities available-for-sale | $(1,445,734) | $ 491,549 | $ (954,185) |
| Other comprehensive income | $(1,445,734) | $ 491,549 | $ (954,185) |

## 15. Related Party Transactions

### Related Party Loans

In the ordinary course of business, the Corporation makes loans to its officers, directors, shareholders and employees at basically the same terms as those to unrelated borrowers. All loans are approved by the loan committee and the board of directors. Changes in the aggregate balances of these loans at December 31, 2014 are summarized as follows:

| | |
|---|---|
| Balance January 1, 2014 | $ 1,519,835 |
| New loans | 344,749 |
| Repayments | (398,709) |
| Reclassifications | (14,870) |
| Balance December 31, 2014 | $ 1,451,005 |

### Related Party Deposits

In the ordinary course of business, the Corporation receives deposits from its officers, directors, employees, and their affiliated companies at basically the same terms as those to unrelated parties. The total deposits of the related parties at December 31, 2014 are summarized as follows:

| | |
|---|---|
| Employees | $ 938,217 |
| Directors and their affiliated companies | 1,397,065 |
| Total | $ 2,335,282 |

## 16. Financial Instruments with Off-Balance Sheet Risk, Financial Instruments with Concentrations of Credit Risk, and Commitments and Contingencies

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the needs of its customers. These financial instruments include commitments to extend credit. The instruments involve elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

At December 31, 2014 and 2013 the Corporation had the following financial instruments whose contract amounts represent credit risk:

| | 2014 | 2013 |
|---|---|---|
| Commitments to extend credit | $ 3,906,696 | $ 622,192 |

Under commitments to extend credit, the Corporation agrees to lend to its customers as long as there is no violation of any of the terms of the contract. These commitments generally have fixed expiration dates and termination clauses. The Corporation evaluates each customer's credit worthiness on a case-by-case basis and the collateral obtained upon extension of credit is based upon management's credit evaluation of the customer. Collateral generally includes trade receivables, inventory, property, plant and equipment, and income producing commercial properties. Since many of these commitments to extend credit will expire without being drawn upon, the total commitments do not necessarily represent future cash requirements.

The Corporation makes consumer, commercial and residential loans to customers primarily in Harrison County, West Virginia and portions of contiguous counties. Although the Bank has a diversified loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent upon the economic conditions in the Banks primary trade area.

The Corporation maintains deposit accounts with other financial institutions; some of these deposits accounts were in excess of federally insured limits. The Corporation places its cash only with high credit quality institutions and monitors the credit quality of these institutions regularly, and, as such, does not believe there is significant risk of nonperformance by these institutions. In addition, the majority of deposits with other financial institutions are maintained at the Federal Reserve Bank of Richmond and the Federal Home Loan Bank. Therefore, the Corporation believes this significantly reduces the risk of exposure relating to those deposits. The following illustrates the Corporation's exposure to concentrations of credit risk for their deposit accounts with other financial institutions at December 31, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Due from banks | $ 4,486,622 | $ 2,676,335 |
| Less: Federally insured amounts | (1,000) | (1,000) |
| Less: Amounts on deposit with Federal Reserve | (4,288,613) | (2,661,698) |
| Exposure from uninsured amounts | $ 197,009 | $ 13,637 |

## 17. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), Tier I capital to average total assets (as defined). As discussed in greater detail below, as of December 31, 2014, the Bank does meet all of the capital adequacy requirements to which it is subject.

The Bank's most recent examination report (at September 30, 2012) by its primary regulatory authority of its capital categorization under the framework for prompt corrective action categorizes the bank as well capitalized. To be well capitalized, the Bank must maintain minimum total risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since its last financial reporting that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the following table (in thousands).

| | Actual Ratio | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount (dollars in thousands) | Ratio | Amount (dollars in thousands) | Ratio | Amount (dollars in thousands) | Ratio |
| As of 12/31/14: | | | | | | |
| Total Risk-Based Capital (to Risk-Weighted Assets) | $10,267 | 21.66% | $ 3,791 | 8.00% | $ 4,739 | 10.00% |
| Tier I Capital (to Risk-Weighted Assets) | 9,824 | 20.73% | 1,896 | 4.00% | 2,844 | 6.00% |
| Tier I Capital (to Average Total Assets) | 9,824 | 9.73% | 4,040 | 4.00% | 5,050 | 5.00% |
| As of 12/31/13: | | | | | | |
| Total Risk-Based Capital (to Risk-Weighted Assets) | $ 9,691 | 21.64% | $ 3,582 | 8.00% | $ 4,478 | 10.00% |
| Tier I Capital (to Risk-Weighted Assets) | 9,397 | 20.99% | 1,791 | 4.00% | 2,687 | 6.00% |
| Tier I Capital (to Average Total Assets) | 9,397 | 9.98% | 3,767 | 4.00% | 4,708 | 5.00% |

## 18. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of valuation methodologies used for instruments measured at fair value.

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

**Loans:** The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, *Accounting by Creditors for Impairment of a Loan*. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2014, substantially all of the total impaired loans were evaluated based on the fair value of collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral required classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the impaired loan as nonrecurring Level 3.

### Assets at Fair Value on a Recurring Basis

Fair value of assets and liabilities are measured on a recurring basis at December 31, 2014 and 2013, are as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2014 | | | | |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 26,761,070 | $ - | $ 26,761,070 | $ - |
| Municipal securities | 11,980,680 | - | 11,980,680 | - |
| Certificates of deposit | 2,987,862 | - | 2,987,862 | - |
| Totals | $ 41,729,612 | $ - | $ 41,729,612 | $ - |

| | Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| December 31, 2013 | | | | |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 28,101,529 | $ - | $ 28,101,529 | $ - |
| Municipal securities | 7,384,341 | - | 7,384,341 | - |
| Certificates of deposit | 3,500,000 | - | 3,500,000 | - |
| Totals | $ 38,985,870 | $ - | $ 38,985,870 | $ - |

### Assets Recorded at Fair Value on a Nonrecurring Basis

Fair value of assets and liabilities measured on a nonrecurring basis at December 31, 2014 and 2013, are as follows:

| | Fair Value | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
|---|---|---|---|---|---|
| December 31, 2014 | | | | | |
| Impaired loans | $ - | $ - | $ - | $ - | $ - |
| December 31, 2013 | | | | | |
| Impaired loans | $ - | $ - | $ - | $ - | $ - |

## 19. Fair Value of Financial Instruments:

In accordance with the disclosure requirements of FASB ASC 825, *Financial Instruments*, the estimated fair values of the Corporation's financial instruments at December 31, 2014 are as follows:

| | | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Financial Assets** | | | | | |
| Cash and due from banks | $ 7,176,093 | $ 7,176,093 | $ 7,176,093 | $ - | $ - |
| Investment securities | 41,729,612 | 41,729,612 | - | 41,729,612 | - |
| Loans | 48,869,366 | ***** | | | |
| Restricted investments | 51,100 | 51,100 | - | 51,100 | - |
| **Financial Liabilities** | | | | | |
| Deposits | 91,976,171 | | - | - | 92,221,299 |

***** - Management has determined it is not cost effective to estimate fair value.

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2014:

**Cash and due from banks:** The fair value of cash and due from banks is estimated to approximate the carrying amounts.

**Investment securities and restricted investments:** Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restricitons.

**Loans:** Management has determined it is not cost effective to estimate the fair value of loans. Information necessary to estimate the fair values using industry guidance is not readily available.

**Deposits:** The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding by the deposit liabilities compared to the cost of borrowing funds in the market.

## 20. Parent Company Financial Statements

Presented below are condensed financial statements for the parent company, Harrison Bankshares, Inc., for 2014 and 2013.

### CONDENSED PARENT COMPANY BALANCE SHEETS
### DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Noninterest-bearing deposits with subsidiary bank | $ - | $ - |
| Interest-bearing deposits with subsidiary bank | 97,695 | 118,743 |
| Investment in subsidiary | 9,800,145 | 8,774,356 |
| Due from subsidiary | 12,797 | 13,680 |
| **TOTAL ASSETS** | $ 9,910,637 | $ 8,906,779 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Stockholders' Equity** | | |
| Common stock | $ 1,600 | $ 1,600 |
| Additional paid-in capital | 1,110,839 | 1,110,839 |
| Retained earnings | 9,475,279 | 9,070,763 |
| Accumulated other comprehensive income (loss) | (24,033) | (623,375) |
| Treasury stock - at cost | (653,048) | (653,048) |
| Total stockholders' equity | 9,910,637 | 8,906,779 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 9,910,637 | $ 8,906,779 |

## CONDENSED PARENT COMPANY STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **Income** | | |
| Dividends from Harrison County Bank | $ 324,065 | $ 306,548 |
| Interest income | 124 | 145 |
| Total income | 324,189 | 306,693 |
| **Expenses** | | |
| Other expenses | 34,852 | 38,069 |
| Total expenses | 34,852 | 38,069 |
| Income before income taxes and equity in undistributed net income of subsidiary | 289,337 | 268,624 |
| Income tax benefit | 12,797 | 13,680 |
| Income before equity in undistributed net income of subsidiary | 302,134 | 282,304 |
| Equity in undistributed net income of subsidiary | 426,447 | 359,218 |
| Net Income | 728,581 | 641,522 |
| Retained earnings, January 1, | 9,070,763 | 8,735,789 |
| Total | 9,799,344 | 9,377,311 |
| Less: Dividends paid | (324,065) | (306,548) |
| Retained earnings, December 31, | $ 9,475,279 | $ 9,070,763 |

## CONDENSED PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| Net income | $ 728,581 | $ 641,522 |
| **Other Comprehensive Income Before Tax** | | |
| Changes in net unrealized gains (losses) on securities available for sale, net of income taxes of $193,407 in 2014 and $414,261 in 2013 | 375,437 | (804,155) |
| Reclassification adjustment for (losses) gains realized, net of income taxes of $115,345 in 2014 and $77,288 in 2013 | 223,905 | (150,030) |
| Other comprehensive income, net of tax | 599,342 | (954,185) |
| Comprehensive income | $1,327,923 | $ (312,663) |

## CONDENSED PARENT COMPANY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 728,581 | $ 641,522 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in undistributed net loss (income) of subsidiaries | (426,447) | (359,218) |
| Net cash provided by operating activities | 302,134 | 282,304 |
| **Cash flows from financing activities** | | |
| Dividends paid | (324,065) | (306,548) |
| Advances (to) from subsidiary | 883 | (2,239) |
| Net cash (used in) financing activities | (323,182) | (308,787) |
| Net (decrease) in cash and cash equivalents | (21,048) | (26,483) |
| Cash and cash equivalents at January 1, | 118,743 | 145,226 |
| Cash and cash equivalents at December 31, | $ 97,695 | $ 118,743 |