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MAR 27 2015

FR Y-6
OMB Number 7100-0297
Approval expires December 31, 2015
Page 1 of 2

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, Linda K. Ashley
Name of the Holding Company Director and Official

CEO and President of the Board of Directors
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.

Linda K Ashley
Signature of Holding Company Director and Official

03/25/2015
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 2152734
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

The Poca Valley Bankshares, Inc.
Legal Title of Holding Company

P.O. Box 56
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Walton	WV	25286

7033 Charleston Road
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Robert N. Rowsey	SVP/CFO

304-577-9418
Area Code / Phone Number / Extension

304-57-6507
Area Code / FAX Number

browsey@pocavalleybank.com
E-mail Address

pvb@pocavalleybank.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

Results: A list of branches for your depository institution: POCA VALLEY BANK, INC., THE (ID_RSSD: 851239). 2b.
This depository institution is held by POCA VALLEY BANKSHARES, INC., THE (2152734) of WALTON, WV.
The data are as of 12/31/2014. Data reflects information that was received and processed through 03/25/2015.

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.

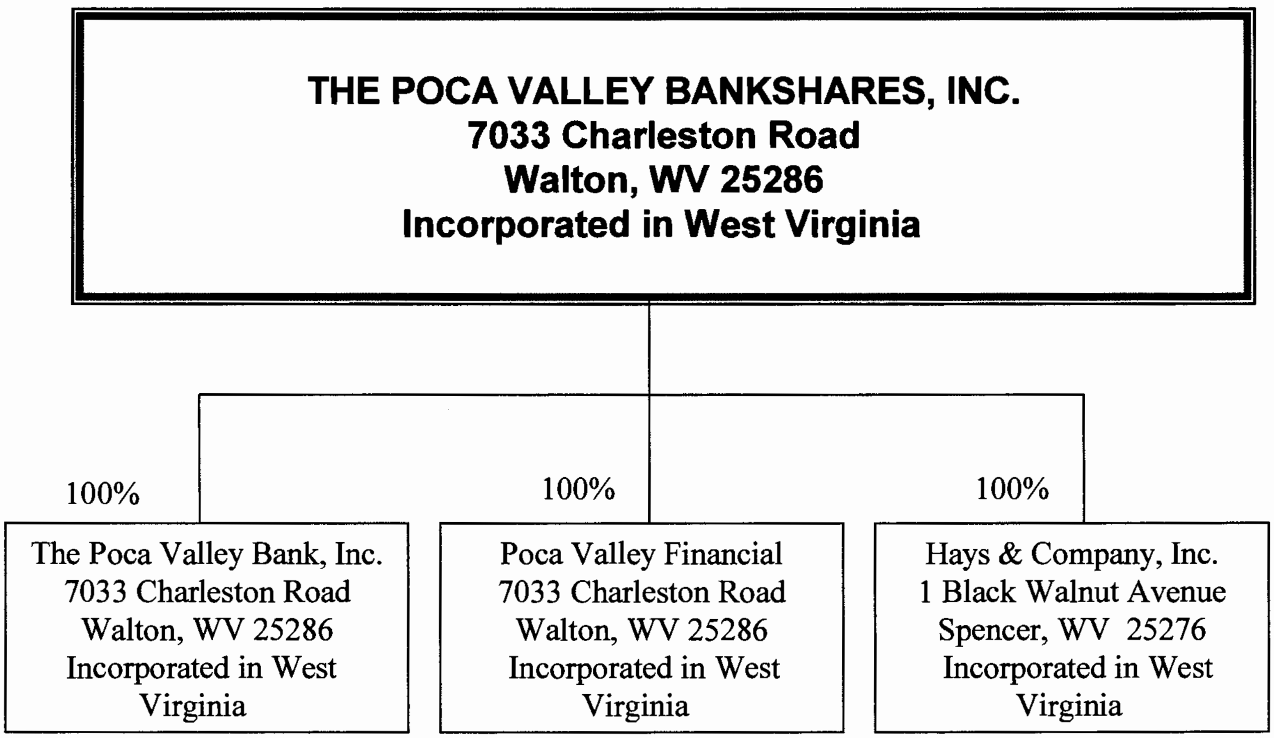
Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

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)	851239	POCA VALLEY BANK, INC., THE	7033 CHARLESTON ROAD	WALTON	WV	25286	ROANE	UNITED STATES	7628	0	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	1192461	CLENDENIN BRANCH	545 SPENCER ROAD	CLENDENIN	WV	25045	KANAWHA	UNITED STATES	226010	1	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	2448754	EKVIEW BRANCH	5087 ELK RIVER ROAD NORTH	ELKVIEW	WV	25071	KANAWHA	UNITED STATES	226011	2	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3296411	POCA BRANCH	142 MAIN ST	POCA	WV	25159	PUTNAM	UNITED STATES	358766	4	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	2643371	SISSONVILLE BRANCH	6420 SISSONVILLE DR	SISSONVILLE	WV	25320	KANAWHA	UNITED STATES	226012	3	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3676835	SPENCER BRANCH	1 BLACK WALNUT AVENUE	SPENCER	WV	25276	ROANE	UNITED STATES	441697	6	POCA VALLEY BANK, INC., THE	851239	
OK		Full Service	3296420	WINFIELD BRANCH	3500 WINFIELD RD	WINFIELD	WV	25213	PUTNAM	UNITED STATES	362115	5	POCA VALLEY BANK, INC., THE	851239	

2a. **Organizational Chart, Branch List and supplemental information:**



2a(1). No Top-Tier bank holding companies.
2a(2). No Foreign banking organizations as defined by Reg. K.
2a(3). No bank holding companies, U.S. banks or foreign banking organization controlled.
2a(4). No nonbanking companies controlled.
2a(5). No large banking and insurance company investments.
2a(6). No entity required to file regulatory reports to the Federal Reserve System.
2a(7). No other company which is both a subsidiary of the Reporter and parent of a reportable company.

2b. See the Branch Report attached.

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December 31, 2014

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

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12-31-14			Shareholders 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 12-31-14		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Adelee Conley Walton, WV	**USA**	**33,925 / 15.55% common stock**	**None**		
John Joseph Kemmner and Katie Kemmner Family Trusts	**USA**	**17,703 / 8.11% common stock**			
Anna Marlene Jones Walton, WV	**USA**	**20,139 / 9.23% common stock**			

Form FR Y-6
December 31, 2014

Report Item 4: Principal Shareholders, Directors and Officers
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsitdiaries)	(3)(c) Title & Position with Other Businesses (include names of Other Businesses)	(4)(a) Percentage of Voting Shares in Bank Holding company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Adelee Conley **Walton, WV**	Retired	**None**	**None**	**None**	**15.55%**	**None**	**None**
Harry D. Kemmner **Lost Creek, WV**	CFO Mountain State Medical Specialties	**Director, Chair Audit Committee**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc., Chair Audit Comm.)	**None** Licensed CPA	**8.93%**	**None**	**None**
Philip B. Robertson **Clendenin, WV**	Retired	**None**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**None**	**1.47%**	**None**	**None**
Mitchell Smith **Elkview, WV**	Insurance	**Director & Secretary**	**Director** (The Poca Valley Bank, Inc.; Hays & Company, Inc.) **Director & Registered Representative** (Poca Valley Financial, Inc.)	**Owner/President** (Smith Insurance Agency, L.L.C.)	**0.32%**	**None**	Smith Insurance Agency, L.L.C. 90%

Cont.

Linda K. Ashley **Walton, WV**	N/A	**CEO, Director, Pres Board, Finanial Expert**	**Manager** (Hays & Company, Inc.) **Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**None**	**0.03%**	**None**	**None**
Terrence Rusin **Charleston, WV**	Correctional Sys. Medical Services	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President/CEO** (PSIMED, Inc.; PSIMED Cor-) rections, LLC; Oasis, LLC; RE Enterprises; Rusin Insurance Agency	**0.93%**	**None**	PSIMED, Inc. 100% PSIMED Correct, LLC 100% Oasis, LLC 100% RE Enterprises 100% Rusin Insurance Agen 100%
James Shafer **Clendenin, WV**	Heavy Equip., Auto Sales	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President/Owner** Shafer Equipment Shafer Pre-Owned Vehicles Pro Tech	**0.24%**	**None**	Shafer Equipment 100% Shafer Pre-Own Veh 100% Pro Tech 25%
L.D. Epling, II **Spencer, WV**	Trucking Hardware/Feed Store Asphalt	**Director**	**Director** (The Poca Valley Bank, Inc.; Poca Valley Financial, Inc.; Hays & Company, Inc.)	**President** Epling Trucking Farmers Friend	**0.87%**	**None**	Epling Trucking 100% Farmers Friend 100% A&E Asphalt 100%

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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Page

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Poca Valley Bankshares, Inc.
And Subsidiaries
Walton, West Virginia

We have audited the accompanying consolidated financial statements of The Poca Valley Bankshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets 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 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 audit 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 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 The Poca Valley Bankshares, Inc. and Subsidiaries 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 31, 2015

124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from banks	$ 16,865,553	$ 17,942,398
Interest bearing deposits with other banks	1,113,653	492,971
Federal funds sold	31,345,925	22,861,345
Securities available for sale	47,651,113	54,642,260
Other investments	200,404	552,904
Loans, less allowance for loan losses of		
$2,199,481 and $2,956,715, respectively	214,415,319	204,024,235
Loans held for sale	261,086	649,184
Bank premises and equipment, net	4,429,159	4,454,118
Accrued interest receivable	737,531	730,735
Cash surrender value of life insurance	6,225,795	6,135,259
Other real estate owned	402,342	234,288
Other assets	2,856,036	2,712,242
Total Assets	$ 326,503,916	$ 315,431,939
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 73,637,642	$ 65,819,047
Interest bearing	213,654,681	213,688,561
Total Deposits	287,292,323	279,507,608
Borrowings	8,251,301	7,850,519
Other liabilities	4,394,551	4,377,784
Total Liabilities	299,938,175	291,735,911
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, authorized 750,000 shares, issued 225,000 shares, outstanding 218,203 and 217,589 shares in 2014 and 2013	225,000	225,000
Capital surplus	1,927,150	1,927,150
Retained earnings	24,068,130	22,390,100
Accumulated other comprehensive income (loss)	910,237	(219,244)
Less cost of shares acquired for the treasury, 2014, 6,797 shares; 2013, 7,411 shares	(564,776)	(626,978)
Total Stockholders' Equity	26,565,741	23,696,028
Total Liabilities and Stockholders' Equity	$ 326,503,916	$ 315,431,939

The Notes to the Consolidated Financial Statements are an integral part of these statements.

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014 and 2013

	2014	2013
Interest income		
Interest and fees on loans	$ 13,634,646	$ 13,678,166
Interest and dividends on securities:		
Taxable	559,719	553,112
Tax-exempt	475,491	422,178
Interest on federal funds sold	51,112	65,675
Interest on deposits at other financial institutions	11,244	12,050
Total interest income	14,732,212	14,731,181
Interest expense		
Interest on deposits	1,247,109	1,573,111
Interest on borrowings	545,619	562,810
Total interest expense	1,792,728	2,135,921
Net interest income	12,939,484	12,595,260
Provision for loan losses	1,783,000	486,000
Net interest income after provision for loan losses	11,156,484	12,109,260
Other income		
Service fees on deposit accounts	2,241,818	2,179,496
Securities gains	160,517	1,984
Commissions and professional fees	1,687,675	1,862,539
Other	517,337	456,274
	4,607,347	4,500,293
Other expenses		
Salaries and employee benefits	7,151,765	7,533,147
Net occupancy expense	962,953	941,710
Equipment rentals, depreciation and maintenance	618,289	669,873
Legal expense	107,919	205,741
FDIC assessment	194,580	100,064
Data processing and card fees	718,875	583,696
Other	3,160,417	3,134,539
	12,914,798	13,168,770
Income before income tax expense	2,849,033	3,440,783
Income tax expense	768,017	1,032,312
Net income	$ 2,081,016	$ 2,408,471

The Notes to the Consolidated Financial Statements
are an integral part of these statements.

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014 and 2013

	2014	2013
Net income	$ 2,081,016	$ 2,408,471
Other comprehensive income (loss)		
Gross unrealized gains (losses) arising during the period	2,012,124	(1,641,541)
Adjustment for income tax (expense) benefit	(784,728)	640,201
	1,227,396	(1,001,340)
Less: Reclassification adjustment for gains included in net income	(160,517)	(1,984)
Adjustment for income tax expense	62,602	774
	(97,915)	(1,210)
Other comprehensive income (loss), net of tax	1,129,481	(1,002,550)
Comprehensive income	$ 3,210,497	$ 1,405,921

The Notes to the Consolidated Financial Statements
are an integral part of these statements.

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
er 31, 2012	$ 225,000	$ 1,927,150	$ 20,264,404	$ (657,776)	$ 783,306	$ 22,542,084
	-	-	2,408,471	-	-	2,408,471
declared on common ›er share)	-	-	(282,775)	-	-	(282,775)
²2 shares from the	-	-	-	243,681	-	243,681
hares acquired for the	-	-	-	(212,883)	-	(212,883)
›nsive loss	-	-	-	-	(1,002,550)	(1,002,550)
er 31, 2013	225,000	1,927,150	22,390,100	(626,978)	(219,244)	23,696,028
	-	-	2,081,016	-	-	2,081,016
declared on common ›er share)	-	-	(402,986)	-	-	(402,986)
shares from the	-	-	-	62,202	-	62,202
›nsive income	-	-	-	-	1,129,481	1,129,481
›er 31, 2014	$ 225,000	$ 1,927,150	$ 24,068,130	$ (564,776)	$ 910,237	$ 26,565,741

ıl Statements
ıts.

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,081,016	$ 2,408,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	448,115	456,304
Provision for loan losses	1,783,000	486,000
Deferred income tax benefit	(302,286)	(89,635)
Increase in cash surrender value of life insurance contracts	(90,536)	(98,737)
Loss (gain) on sale of other real estate owned and other assets	2,484	(10,000)
Writedown of other real estate owned and other assets	68,321	41,229
Securities gains, net	(160,517)	(1,984)
Proceeds from sales of loans	9,472,599	14,579,739
Loans originated for sale	(9,084,501)	(13,238,500)
Amortization of securities premiums net of accretion of discounts	454,904	645,382
(Increase) decrease in accrued interest receivable	(6,796)	78,431
(Increase) decrease in other assets	(724,151)	802,157
Increase in other liabilities	78,969	4,843
Net cash provided by operating activities	4,020,621	6,063,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of interest bearing deposits with other banks, net	(620,682)	(42,859)
Proceeds from maturities and calls of securities available for sale	-	63,716
Proceeds from sales of securities available for sale	8,181,990	200,000
Principal payments received on securities available for sale	7,142,499	9,446,327
Proceeds from redemptions of other investments	352,500	39,200
Purchase of securities available for sale	(6,615,605)	(9,093,435)
Increase in federal funds sold, net	(8,484,580)	(2,356,686)
Increase in loans, net	(12,473,605)	(5,827,838)
Purchase of Bank premises and equipment	(424,172)	(373,867)
Proceeds from sales of bank premises and equipment and other assets	-	2,000
Proceeds from sale of other real estate owned	61,678	-
Net cash used in investing activities	(12,879,977)	(7,943,442)

The Notes to the Consolidated Financial Statements
are an integral part of these statements.

THE POCA VALLEY BANKSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	$ 7,784,715	$ 2,492,720
Proceeds from long-term borrowings	750,000	-
Payments on long-term borrowings	(349,218)	(332,022)
Purchase of treasury stock	-	(212,883)
Dividends paid	(402,986)	(282,775)
Net cash provided by financing activities	7,782,511	1,665,040
Decrease in cash and due from banks	(1,076,845)	(214,702)
Cash and due from banks		
Beginning	17,942,398	18,157,100
Ending	$ 16,865,553	$ 17,942,398
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest on deposits and borrowings	$ 1,792,728	$ 2,135,921
Income taxes	$ 1,230,000	$ 994,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of treasury shares	$ 62,202	$ 243,681
Bank financed sale of other real estate owned	$ 110,343	$ 137,500
Real estate and other assets acquired in settlement of loans	$ 409,864	$ 67,250

The Notes to the Consolidated Financial Statements
are an integral part of these statements.

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations:

The Poca Valley Bankshares, Inc. is a bank holding company with headquarters in Walton, West Virginia. The Poca Valley Bank (the "Bank"), a wholly-owned subsidiary, is a commercial bank which provides retail and commercial loans and deposits to customers in Roane County, northern Kanawha County, Putnam County and southern Jackson County, West Virginia, through branches in Roane, Kanawha and Putnam Counties. As wholly-owned subsidiaries, Poca Valley Financial provides general insurance sales and brokerage activities and Hays & Company provides general accounting services. As a state bank, the Bank is subject to regulation and examination by the West Virginia Division of Financial Institutions and the Federal Deposit Insurance Corporation. Poca Valley Bankshares is subject to regulation and periodic examination by the Federal Reserve Bank.

Consolidation and basis of presentation:

The accompanying consolidated financial statements include the accounts of The Poca Valley Bankshares, Inc. and Subsidiaries, all of which are wholly-owned (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value estimates, the valuation of other real estate owned and deferred tax assets. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

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 independent appraisals for significant collateral. The loans of the Bank 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 estimated.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Subsequent events:

Subsequent events were considered through March 31, 2015, the date the consolidated financial statements were available to be issued.

Presentation of cash flows:

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks.

Securities:

All securities are classified as available for sale at the time of purchase in accordance with management's intent and re-evaluated at each reporting date. Available for sale securities are those that the Company intends to hold for an indefinite period of time, but not necessarily to maturity and are reported at estimated fair value, net of applicable income taxes as a separate component of stockholders' equity.

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

Other than temporary impairment:

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

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Loans receivable:

Loans receivable are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield of the related loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Interest accrual resumes when the loan is no longer past due and the borrower, in management's opinion, is able to meet future payments as they become due. A loan is considered past due if the required principal and interest payment has not been received as of the contractual due date.

Allowance for loan losses:

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings and is evaluated on a monthly basis by management. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan (homogeneous) pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the prior three years.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Allowance for loan losses (Continued):

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. Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company.

Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trends and conditions such as unemployment rates; housing statistics; banking industry conditions; and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change.

There have been no significant changes to the methods used to determine the allowance for loan losses during the years ended December 31, 2014 and 2013.

Loan charge-off policies:

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 180 days past due for open-end loans or 120 days past due for closed-end loans unless the loan is well secured and in the process of collection. All other loans are generally charged down to net realizable value when the loan is 90 days past due and or when current information confirms all or part of a specific loan to be uncollectible.

Loans held for sale:

Loans held for sale are those loans the Bank has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sale proceeds and the carrying value of the loans.

Bank premises and equipment:

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets, which are 5 years for land improvements, 40 years for buildings, and 5 years for furniture and fixtures. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Other real estate owned:

Other real estate owned consists primarily of real estate held for resale, which was acquired through foreclosure or deed in lieu of foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at acquisition at fair value less estimated costs to sell, with any write-down charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Expenses incurred in connection with holding these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Income taxes:

The consolidated provision for income taxes includes federal and state income taxes and is based on pretax income reported in the consolidated financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

Advertising:

The Company expenses advertising costs as incurred. For the years ended December 31, 2014 and 2013, the Bank incurred expenses of $94,997 and $108,015, respectively.

Note 2. Cash Concentrations and Restrictions on Cash

At December 31, 2014, and during the year, the Company had interest bearing and non-interest bearing deposits due from other banks and Federal Funds sold to other banks in excess of the limits of depository insurance. The Company does not expect any losses from those depository relationships. The Bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2014 and 2013, the reserve requirement approximated $3,529,000 and $3,956,000, respectively, and was met through vault cash and amounts on deposit with the Federal Reserve Bank.

Note 3. Securities

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities available for sale at December 31, 2014 and 2013, are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014:				
Mortgage-backed securities - U.S. Government agencies and corporations	$ 35,045,683	$ 814,247	$ 908	$ 35,859,022
Trust preferred securities	731,584	-	7,638	723,946
States and political subdivisions	10,381,655	701,034	14,544	11,068,145
	$ 46,158,922	$ 1,515,281	$ 23,090	$ 47,651,113
December 31, 2013:				
Mortgage-backed securities - U.S. Government agencies and corporations	$ 41,800,249	$ 631,712	$ 136,141	$ 42,295,820
Trust preferred securities	762,436	-	13,533	748,903
States and political subdivisions	12,438,988	80,315	921,766	11,597,537
	$ 55,001,673	$ 712,027	$ 1,071,440	$ 54,642,260

Note 3. Securities (Continued)

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2014 and 2013.

2014	*Less than 12 Months*					
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Loss**
Mortgage backed securities	$ 913,307	$ 908	$ -	$ -	$ 913,307	$ 908
Trust preferred securities	723,946	7,638	-	-	723,946	7,638
States and political subdivisions	776,643	14,544	-	-	776,643	14,544
	$ 2,413,896	$ 23,090	$ -	$ -	$ 2,413,896	$ 23,090

2013	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Loss**
Mortgage backed securities	$ 10,609,813	$ 123,711	$2,632,246	$ 12,430	$13,242,059	$ 136,141
Trust preferred securities	-	-	748,903	13,533	748,903	13,533
States and political subdivisions	7,437,252	452,370	1,312,275	469,396	8,749,527	921,766
	$ 18,047,065	$ 576,081	$4,693,424	$ 495,359	$22,740,489	$1,071,440

Impairment is evaluated considering numerous factors, and their relative significance varies case by case. Factors considered include the length of time and extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the security in order to allow for an anticipated recovery in market value.

The Bank has 34 securities in an unrealized loss position as of December 31, 2014. These securities are predominately rated investment grade securities. The Company has the intent and ability to hold such investments until maturity or market price recovery and, accordingly, has concluded that none of the securities in its investment portfolio is other-than-temporarily impaired at December 31, 2014.

Note 3. Securities (Continued)

The maturities, amortized cost and estimated fair values of securities at December 31, 2014, are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due within 1 year	$ -	$ -
Due after 1 but within 5 years	659,281	675,391
Due after 5 but within 10 years	3,058,593	3,271,641
Due after 10 years	42,441,046	43,704,082
Total	$ 46,158,920	$ 47,651,114

At December 31, 2014 and 2013, securities with an amortized cost of $8,143,883 and $8,215,546, respectively, and with estimated fair values of $8,718,559 and $7,827,697, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Other investments include Federal Home Loan Bank of Pittsburgh (FHLB) stock which was $200,404 and $552,904 at December 31, 2014 and 2013, respectively. Such securities are carried at cost since they may only be redeemed by the issuing bank.

Note 4. Loans

The following table summarizes the primary segments of the loan portfolio:

	2014	2013
Residential real estate	$ 87,907,512	$ 87,338,227
Commercial real estate	32,985,934	32,363,539
Commercial and industrial	48,478,574	42,367,404
Credit cards	2,194,264	2,041,680
Other loans	45,048,516	42,870,100
Gross loans	$ 216,614,800	$ 206,980,950

At December 31, 2014, loans with a carrying amount of $81,481,600 were pledged to secure borrowings with the Federal Home Loan Bank.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

Note 4. Loans (Continued)

When the Company modifies a loan and subsequently if the loan goes into default, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

Loan modifications that are considered "TDRs" completed during the year ending December 31, 2014 were as follows:

2014

	No of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Loan Category			
1-4 Family first lien	3	$ 260,462	$ 260,462
Multifamily	1	362,629	362,629
	4	$ 623,091	$ 623,091

	Rate Reduction
1-4 Family first lien	$ 260,462
Multifamily	362,629
	$ 623,091

Note 4. Loans (Continued)

Loan modifications that are considered "TDRs" completed during the year ending December 31, 2013 were as follows:

2013

	No of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Loan Category			
1-4 Family first lien	3	$ 699,954	$ 687,907
Commercial Real Estate	1	129,904	126,587
Commercial and Industrial	1	2,350,000	2,215,508
	5	$ 3,179,858	$ 3,030,002

2013

	Rate Reduction	Interest Payment
1-4 Family first lien	$ 171,657	$ 516,250
Commercial Real Estate	126,587	-
Commercial and Industrial	2,215,508	-
	$ 2,513,752	$ 516,250

As of December 31, 2014, the following loan modifications completed as TDRs during 2013 subsequently defaulted in 2014:

	No of Contracts	Pre-Modified Balance	Defaulted Amount
Loan Category			
1-4 Family first lien	1	$ 524,857	$ 246,581
Commercial and Industrial	1	2,350,000	2,061,610
	2	$ 2,874,857	$ 2,308,191

As of December 31, 2014, no loan modifications completed during 2014 have subsequently defaulted.

The Company conducts its business through seven offices all located in West Virginia. At December 31, 2014 and 2013, the majority of the Company's loan portfolio was secured by properties located in this region. The Company does not believe it has significant concentrations of credit risk to any one group of borrowers given its underwriting and collateral requirements.

Note 5. Allowance for Loan Losses

The Company's loan portfolio is disaggregated into segments of loans which allow management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories or homogeneous pools within the loan portfolio. The allowance for loan losses consists of amounts applicable to:

Residential Loans

- The Bank's Construction and Development loans are primarily made up of loans made for the construction of single family dwellings with the majority made to individual borrowers. Construction lending is generally considered to involve a higher degree of credit risk than long-term permanent financing. The Bank attempts to reduce risk by requiring the borrowers to have a documented plan and specifications of the project along with a cost estimate. The construction must be done by a contractor that has the experience to perform the project. On a limited basis, the Bank will lend to contractors to construct residential homes. These loans are generally limited to the construction of homes where there is a contract in place to take out the construction loan upon completion.

- Farmland loans that are made for various unimproved farmland;

- 1-4 Family First Lien loans are made for the purpose of financing individuals' homes with the majority being owner-occupied. This loan segment is made up of fixed rate and 3 to 7 year balloon loans. Balloon loans may have an amortizing period up to thirty years;

- 1-4 Family Junior Lien loans are loans made with liens that are not first mortgages, made up of fixed rate and 3 to 7 year balloon loans;

- Home Equity Lines of Credit (HELOC) are lines of credit generally secured by junior liens on 1-4 family homes;

- Multifamily residential properties that provide housing for more than five families, such as apartment buildings;

Commercial Real Estate Loans

- Commercial Real Estate ("CRE") loans consisting of both non-owner occupied CRE loans including loans secured by non-owner occupied nonfarm nonresidential properties, and owner-occupied commercial structures;

Commercial and Industrial Loans

Commercial and Industrial (C&I) loans consist of all the Bank's business loans which are not secured by real estate;

Consumer – Credit Cards

Credit Cards that include all the Bank's open end credit cards, most of which are unsecured;

Note 5. Allowance for Loan Losses (Continued)

Consumer and Other

Consumer and other loans consisting of mobile homes, auto loans, savings account loans, personal lines of credit, overdraft loans, other types of secured consumer loans, unsecured personal loans and a small segment of municipal loans.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. The loan portfolio consists primarily of loans within the Bank's primary market area and loans are normally extended to customers with other relationships with the Bank who are known by Bank officers and members of the Board of Directors. Therefore, monitoring the status of individual borrowers and consequently monitoring the risk in the loan portfolio is based upon real-time knowledge of the individual borrowers, local employment information and commercial activities. Loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Certain loans including loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative and loans which are of heightened concern to management based upon their knowledge of the local business environment are included on the Company's "watch list". Loans classified as "watch list", special mention and substandard and loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired", which means that it is probable that all amounts will not be collected 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. The Company generally does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring agreement. However, at times, consumer loans, primarily residential loans, will be evaluated on a case by case basis for impairment.

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, which is required for loans that are collateral dependent. 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 monthly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

Note 5. Allowance for Loan Losses (Continued)

The following tables present impaired loans segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2014 and 2013:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2014					
Residential	$ 733,612	$ 113,672	$2,832,167	$ 3,565,779	$ 3,558,462
Commercial real estate	214,138	27,607	736,844	950,982	1,009,034
Commercial and industrial	59,189	25,000	356,016	415,205	415,226
Consumer and other	62,889	20,200	146,343	209,232	209,465
Total impaired loans	$ 1,069,828	$ 186,479	$4,071,370	$ 5,141,198	$ 5,192,187

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2013					
Residential	$ 1,035,020	$ 421,476	$3,051,420	$ 4,086,440	$ 4,093,495
Commercial real estate	191,864	24,200	1,111,019	1,302,883	1,303,155
Commercial and industrial	2,497,728	821,000	389,584	2,887,312	2,887,695
Consumer and other	27,236	5,200	217,837	245,073	245,429
Total impaired loans	$ 3,751,848	$ 1,271,876	$4,769,860	$ 8,521,708	$ 8,529,774

There are certain impaired loans on which payments are being applied to reduce the principal balance of the loan because the recovery of principal is not determinable. The unpaid principal balance reflects the balance as if the payments were applied in accordance with the terms of the original contractual agreement whereas the recorded investment reflects the outstanding principal balance for financial reporting purposes. In addition, the recorded investment in a loan may be reduced by partial charge offs which would not be reflected in the unpaid principal balance.

Note 5. Allowance for Loan Losses (Continued)

The following tables present the average recorded investment in impaired loans and related interest income recognized for the year ended December 31, 2014 and 2013:

	Twelve Months Ended December 31, 2014		
	Average Recorded Investment in Impaired Loans	Interest Income Recognized	Non-Accrual Loans
Residential	$ 3,698,989	$ 218,998	$ 821,076
Commercial real estate	1,016,495	46,169	571,898
Commercial and industrial	432,378	12,169	320,066
Consumer and other	269,159	14,155	81,466
Total impaired loans	$ 5,417,021	$ 291,491	$ 1,794,506

	Twelve Months Ended December 31, 2013		
	Average Recorded Investment in Impaired Loans	Interest Income Recognized	Non-Accrual Loans
Residential	$ 4,568,768	$ 247,245	$ 1,007,655
Commercial real estate	1,661,216	83,143	336,148
Commercial and industrial	3,939,240	82,044	674,881
Consumer and other	214,196	18,368	26,071
Total impaired loans	$ 10,383,420	$ 430,800	$ 2,044,755

Note 5. Allowance for Loan Losses (Continued)

Management uses a nine point internal risk rating system to monitor the credit quality of the commercial loan portfolio. The first five categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the orderly liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses found in Substandard loans, with the added provision that the weaknesses make collection of debt in full highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category. The consumer loan portfolio is evaluated and risk rated only when a loan has been determined to have deteriorated in quality. This could include delinquency, loss of income of borrower, death or other extenuating circumstances.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of the commercial loans in their portfolios at origination and on an ongoing basis. The Credit Analysis Department confirms the appropriate risk grade at origination and monitors all subsequent changes to risk ratings. The Company's Executive Loan Committee reviews risk grades when approving a loan and approves all risk rating changes, except those made within the pass risk categories. The Company engages an external consultant to conduct loan reviews on a quarterly basis. Generally, the external consultant reviews commercial relationships that equal or exceed $500,000, and significant non-accrual, past due, and substandard loans. In addition, new loans originated in the current year are reviewed on a sample basis. Detailed reviews, including plans for resolution, are completed monthly on loans classified as Substandard. The Company's process requires the review and evaluation of an impaired loan to be updated at least annually. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2014 and 2013:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2014					
Commercial real estate	$ 32,034,900	$ -	$ 736,897	$ 214,137	$ 32,985,934
Commercial and industrial	48,012,315	51,033	415,226	-	48,478,574
Consumer and other	31,127,850	2,013,877	3,619,025	38,532	36,799,284
	$ 111,175,065	$ 2,064,910	$ 4,771,148	$ 252,669	$ 118,263,792

Note 5. Allowance for Loan Losses (Continued)

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2013					
Commercial real estate	$ 31,200,387	$ -	$ 876,591	$ 286,561	$ 32,363,539
Commercial and industrial	39,403,105	76,604	2,605,234	282,461	42,367,404
Consumer and other	21,286,210	2,487,443	3,726,644	744,956	28,245,253
	$ 91,889,702	$ 2,564,047	$ 7,208,469	$1,313,978	$ 102,976,196

Included in the Pass category are certain loans not subject to risk ratings. These include loans in the above categories that management has elected not to evaluate because there are no performance issues and certain legacy loans which have not been evaluated under the Bank's current risk rating system.

The following tables present the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2014 and 2013:

	Performing	Non-Performing	Total
December 31, 2014			
Residential	$ 85,524,233	$ 2,383,279	$ 87,907,512
Consumer and other	10,432,585	10,911	10,443,496
	$ 95,956,818	$ 2,394,190	$ 98,351,008

	Performing	Non-Performing	Total
December 31, 2013			
Residential	$ 85,338,072	$ 2,000,155	$ 87,338,227
Consumer and other	16,609,121	57,406	16,666,527
	$ 101,947,193	$ 2,057,561	$ 104,004,754

Note 5. Allowance for Loan Losses (Continued)

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 tables present the classes of the loan portfolio summarized by the aging categories of performing loans as of December 31, 2014 and 2013:

	30-59 Days	60-89 Days	90 Plus Days	Total Past Due	Current	Total	90 Plus Accruing
December 31, 2014							
Residential	$ 1,253,568	$ 158,749	$ 970,962	$ 2,383,279	$ 85,524,233	$ 87,907,512	$ 292,039
Commercial real estate	70,949	-	451,737	522,686	32,463,248	32,985,934	-
Commercial and industrial	39,294	-	320,066	359,360	48,119,214	48,478,574	-
Consumer and other	292,113	175,132	335,605	802,850	46,439,930	47,242,780	-
	$ 1,655,924	$ 333,881	$ 2,078,370	$ 4,068,175	$ 212,546,625	$ 216,614,800	$ 292,039

	30-59 Days	60-89 Days	90 Plus Days	Total Past Due	Current	Total	90 Plus Accruing
December 31, 2013							
Residential	$ 800,022	$ 517,894	$ 682,239	$ 2,000,155	$ 85,338,072	$ 87,338,227	$ 41,278
Commercial real estate	52,319	-	221,273	273,592	32,089,947	32,363,539	-
Commercial and industrial	10,924	96,721	282,461	390,106	41,977,298	42,367,404	-
Consumer and other	224,785	78,549	98,887	402,221	44,509,559	44,911,780	-
	$ 1,088,050	$ 693,164	$ 1,284,860	$ 3,066,074	$ 203,914,876	$ 206,980,950	$ 41,278

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The classes described above, provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Note 5. Allowance for Loan Losses (Continued)

"Pass" rated credits are segregated from criticized credits for the application of qualitative factors. Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factors because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Company's qualitative factors consist of: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; levels of and trends in the Company's borrowers in bankruptcy; trends in volumes and terms of loans; effects of changes in lending policies and strategies; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a monthly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of a specific loan to be uncollectible, the loss is promptly charged off against the ALLL.

The following table summarizes the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2014.

Activity in the allowance is presented for the twelve months ended December 31, 2014:

	Construction & Development	Residential Loans	Commercial Real Estate	Commercial & Industrial	All Other Loans	Total
ALLL balance at December 31, 2013	$ 279,199	$ 570,380	$ 1,314,268	$ 516,429	$ 276,439	$ 2,956,715
Charge-offs	-	(490,589)	-	(2,186,109)	(363,897)	(3,040,595)
Recoveries	-	27,660	169,494	215,046	88,161	500,361
Provision	(229,485)	927,041	(998,969)	1,563,923	520,490	1,783,000
ALLL balance at December 31, 2014	$ 49,714	$ 1,034,492	$ 484,793	$ 109,289	$ 521,193	$ 2,199,481
Ending ALLL for loans:						
Individually evaluated for impairment	$ -	$ 113,672	$ 27,607	$ 25,000	$ 20,200	$ 186,479
Collectively evaluated for impairment	49,714	920,820	457,186	84,289	500,993	2,013,002
	$ 49,714	$ 1,034,492	$ 484,793	$ 109,289	$ 521,193	$ 2,199,481
Loans:						
Individually evaluated for impairment	$ -	$ 3,565,779	$ 950,982	$ 415,205	$ 209,232	$ 5,141,198
Collectively evaluated for impairment	11,032,418	73,309,315	32,034,952	48,063,369	47,033,548	211,473,602
	$ 11,032,418	$ 76,875,094	$ 32,985,934	$ 48,478,574	$ 47,242,780	$ 216,614,800

Note 5. Allowance for Loan Losses (Continued)

Activity in the allowance is presented for the twelve months ended December 31, 2013:

	Construction & Development	Residential Loans	Commercial Real Estate	Commercial & Industrial	All Other Loans	Total
ALLL balance at December 31, 2012	$ 274,262	$ 537,587	$ 1,283,620	$ 759,853	$ 410,277	$ 3,265,599
Charge-offs	-	(180,288)	(65,696)	(564,199)	(309,911)	(1,120,094)
Recoveries	-	63,074	20,295	107,578	134,263	325,210
Provision	4,937	150,007	76,049	213,197	41,810	486,000
ALLL balance at December 31, 2013	$ 279,199	$ 570,380	$ 1,314,268	$ 516,429	$ 276,439	$ 2,956,715
Ending ALLL for loans:						
Individually evaluated for impairment	$ -	$ 421,476	$ 24,200	$ 821,000	$ 5,200	$ 1,271,876
Collectively evaluated for impairment	279,199	148,904	1,290,068	(304,571)	271,239	1,684,839
	$ 279,199	$ 570,380	$ 1,314,268	$ 516,429	$ 276,439	$ 2,956,715
Loans:						
Individually evaluated for impairment	$ -	$ 4,086,440	$ 1,302,883	$ 2,887,312	$ 245,073	$ 8,521,708
Collectively evaluated for impairment	7,794,965	75,456,822	31,060,656	39,480,092	44,666,707	198,459,242
	$ 7,794,965	$ 79,543,262	$ 32,363,539	$ 42,367,404	$ 44,911,780	$ 206,980,950

Note 6. Bank Premises and Equipment

The major categories of Bank premises and equipment and accumulated depreciation at December 31, 2014 and 2013, are as follows:

	2014	2013
Land	$ 1,495,756	$ 1,495,756
Land improvements	364,017	364,017
Building and improvements	4,734,258	4,731,976
Furniture and equipment	4,223,036	4,050,872
Construction-in-progress	116,572	122
	10,933,639	10,642,743
Less accumulated depreciation	(6,504,480)	(6,188,625)
Bank premises and equipment, net	$ 4,429,159	$ 4,454,118

The Company recorded depreciation expense in the amount of $448,115 and $456,304, in 2014 and 2013, respectively.

Note 7. Deposits

The following is a summary of interest bearing deposits by type as of December 31, 2014 and 2013:

	2014	2013
NOW and Super NOW accounts	$ 31,183,777	$ 26,868,952
Money Market accounts	36,503,920	31,098,791
Savings deposits	57,952,127	49,000,638
Certificates of deposits and other time deposits	88,014,857	106,720,180
	$ 213,654,681	$ 213,688,561

Time certificates of deposit in denominations of $100,000 or more, totaled $30,377,099 and $34,962,871 at December 31, 2014 and 2013, respectively.

Included in certificates of deposit are $6,268,536 and $14,276,638 as of December 31, 2014 and 2013, respectively, of brokered certificates of deposit issued and obtained through the CDARS program.

At December 31, 2014, the scheduled maturities of certificates of deposit and other time deposits are as follows:

2015	$ 51,463,723
2016	12,516,783
2017	12,639,956
2018	11,394,395
	$ 88,014,857

Note 8. Related Parties

Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk of collectability.

In the normal course of business, loans are extended to directors, executive officers, and their affiliates. A summary of loan activity for those directors, executive officers, and their affiliates for the year ended December 31, 2014 and 2013, is as follows:

	2014	2013
Balance, beginning	$ 6,672,276	$ 4,888,226
Additions	1,368,472	11,534,037
Amounts collected	(4,897,660)	(9,447,896)
Less: Former Officer/Directors	(50,070)	(302,091)
Balance, ending	$ 3,093,018	$ 6,672,276

Aggregate deposit balances with related parties totaled approximately $10,701,899 and $10,894,538, or 3.7% and 3.9% of total deposits at December 31, 2014 and 2013, respectively.

Note 9. Borrowings

The Company has a $4,000,000 term loan with a correspondent bank to amortize a previous short-term credit facility. The term loan bears interest at 5% for the first sixty months and thereafter at 3.5% above three (3) month LIBOR (currently 0.23%) with a 4% floor and a maturity date of November 2021. Interest and principal repayments are due quarterly. Total indebtedness related to this agreement at December 31, 2014 and 2013 was $3,001,301 and $3,350,519, respectively. The agreement is secured by 100% of the shares of the common stock of the Bank. Prepayment penalties apply to pay downs or payoffs from external funding sources or the refinance of the debt.

The Company has outstanding notes to shareholders in the amount of $4,500,000. The notes, which are unsecured and junior in position to the Company's other debt, carry an interest rate of 8.5%, mature in November, 2019, and are optionally redeemable by the Company after November 2014. Interest only payments are due monthly. The notes qualify as Tier 2 capital for the Company.

The Company has an outstanding balance on a line of credit with a correspondent bank in the amount of $250,000. The line of credit bears an interest rate of 3.5% above three (3) month LIBOR (currently .23%) with a 4% floor and a maturity date of June 2015. Interest only payments are due monthly. The line of credit is secured by a secondary lien on 100% of outstanding shares of the common stock of the Bank.

The Company has an outstanding balance on a line of credit with a correspondent bank in the amount of $250,000. The line of credit bears an interest rate of .25% below the prime rate (currently 3.25%) with a 3% floor and a maturity date of January 2015. Interest only payments are due monthly. The line of credit is secured by the assignment of a deposit account held by the lender. Management intends to renew this line of credit.

Note 9. Borrowings (Continued)

The Company has an outstanding balance on a line of credit with the FHLB in the amount of $250,000. The line of credit bears interest at 0.33% and has a maturity date of May 2015. Interest only payments are due monthly. The line of credit is secured by loans pledged to the FHLB.

A summary of the maturities of borrowings at December 31, 2014 is as follows:

Years Ending December 31,	Amount
2015	$ 1,117,407
2016	386,125
2014	405,796
2018	426,469
2019 and thereafter	5,915,504
	$ 8,251,301

Note 10. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Current expense:		
Federal	$ 404,023	$ 992,343
State	61,708	129,604
	465,731	1,121,947
Deferred expense (benefit):		
Federal	263,531	(78,143)
State	38,755	(11,492)
	302,286	(89,635)
	$ 768,017	$1,032,312

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

Note 10. Income Taxes (Continued)

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory federal income tax rate by book pretax income for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Computed tax at applicable federal statutory rate	$ 969,876	$ 1,144,796
State income tax, net	74,175	74,664
Increase (decrease) in taxes resulting from:		
Tax-exempt interest	(207,621)	(196,736)
Cash surrender value of life insurance	(29,151)	(33,751)
Other, net	(39,262)	43,339
Applicable income taxes	$ 768,017	$ 1,032,312

The tax effects of temporary differences, which give rise to the Company's deferred tax assets and liabilities as of December 31, 2014 and 2013, are as follows:

	2014		2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Net unrealized gain/loss on securities available for sale	$ -	$ 581,955	$ 140,171	$ -
Allowance for loan losses	-	94,072	246,481	-
Deferred loan origination fees	115,052	-	116,290	-
Nonaccrual interest	31,144	-	33,313	-
Other real estate	101,129	-	97,501	-
Accrued employee benefits	829,162	-	807,322	-
Depreciation	-	20,945	-	28,602
Other	-	46,912	-	55,459
	$ 1,076,487	$ 743,884	$ 1,441,078	$ 84,061

Note 11. Benefit Plans

The Company sponsors a profit sharing plan, which includes 401(k) provisions, that covers substantially all employees of the Company's subsidiaries. Under the provisions of this Plan, the Board of Directors may approve the contribution of a percentage of eligible employees' salaries to the Plan each year. For the years ended December 31, 2014 and 2013, the Board of Directors approved a contribution of 3.5% of all eligible employees' salaries to the Plan, which was contributed to the Plan in the form of Company stock. The Company also matches 100% of employees' contributions up to 2% of their respective salaries, and matches 50% of employees' contributions between 2% and 4% of their respective salaries. The Company's matches are contributed to the Plan in the form of Company stock. The Company reflects contributions to the Plan as an operating expense. Payments upon retirement or termination of employment are based on vested amounts credited to the individual accounts. Accruals charged to operations for the Plan totaled $519,756 and $527,260, for the years December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Plan held 11,304 and 8,715 shares of Company stock, respectively.

The Bank has a non-qualified Supplemental Executive and Director Retirement Plan (SEDRP) with certain executive officers and directors which provides an income benefit payable at projected normal retirement age or death. Provisions charged to the consolidated statement of income and the cumulative liability under the plans are computed using a 5% present value discount. The liability accrued under these plans at December 31, 2014 and 2013 is $1,931,646 and $1,544,401, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. The cost of these plans included in the consolidated statement of income was $455,328 and $524,349 for the years ended December 31, 2014 and 2013, respectively.

The Bank also maintains life insurance on the directors and officers participating in the SEDRP. At December 31, 2014 and 2013, the cash surrender value of these insurance contracts was $6,225,795 and $6,135,259, respectively.

Note 12. Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

Note 13. Regulatory Capital

The Bank and the Company are subject to various regulatory capital requirements administered by Federal banking regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve 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 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 a bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Bank's primary federal regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Capital to Risk Weighted Assets						
Parent	$ 31,324,000	15.08%	$ 15,560,320	8.00%	N/A	N/A
Bank	$ 33,613,000	16.22%	$ 16,580,000	8.00%	$ 19,407,000	10.00%
Tier I Capital to Risk Weighted Assets						
Parent	$ 24,625,000	11.85%	$ 7,780,160	4.00%	N/A	N/A
Bank	$ 31,414,000	15.16%	$ 8,290,000	4.00%	$ 11,644,000	6.00%
Tier I Capital to Average Assets						
Parent	$ 24,625,000	7.69%	$ 12,603,000	4.00%	N/A	N/A
Bank	$ 31,414,000	9.83%	$ 12,830,000	4.00%	$ 15,739,000	5.00%

Note 13. Regulatory Capital (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013:						
Total Capital to Risk Weighted Assets						
Parent	$ 29,427,000	15.13%	$ 15,560,320	8.00%	N/A	N/A
Bank	$ 32,351,000	16.67%	$ 15,526,000	8.00%	$ 19,407,000	10.00%
Tier I Capital to Risk Weighted Assets						
Parent	$ 22,496,000	11.57%	$ 7,780,160	4.00%	N/A	N/A
Bank	$ 29,919,000	15.42%	$ 7,763,000	4.00%	$ 11,644,000	6.00%
Tier I Capital to Average Assets						
Parent	$ 22,496,000	7.14%	$ 12,603,000	4.00%	N/A	N/A
Bank	$ 29,919,000	9.50%	$ 12,591,000	4.00%	$ 15,739,000	5.00%

The most significant source of funds of Poca Valley Bankshares, Inc. is dividends received from the Bank. The West Virginia Code imposes certain restrictions on dividends paid by a state bank. A state bank cannot pay dividends in excess of the total net profits, as defined, of the current year and the combined retained profits of the previous two years without the consent of state banking authorities. At December 31, 2014, there is approximately $3,200,000 available for distribution without regulatory consent.

On July 7, 2013, the Federal Reserve Board approved Basel III Final Rule to begin implementation January 1, 2015. The desired overall objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Final Rule changes minimum capital ratios and raises the Tier 1 Risk Weighted Assets to 6% from 4%. In addition, the new rules require a bank to maintain a capital conservation buffer of between 2 and 2½ % beginning in 2016. The new rules will be phased in beginning in 2015 with complete compliance required by 2019. Generally, the Basel III Final Rule will require banks to maintain higher levels of common equity and regulatory capital.

Note 14. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Such financial instruments consist solely of commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in this class of financial instruments.

The Bank's total contract amount of commitments to extend credit at December 31, 2014 and 2013, are as follows:

Financial instruments whose contract amounts represent credit risk:	**Contract Amount 2014**	**Contract Amount 2013**
Commitments to extend credit	$ 37,763,950	$ 34,800,527
Credit card commitments	3,087,972	3,479,000
Performance and standby letters of credit	657,124	1,347,009
Courtesy overdraft protection	5,795,229	5,852,327
Total	$ 47,304,275	$ 45,478,863

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Such guarantees primarily support a customer's performance under a loan or performance bond. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans. The Bank holds collateral to support the letters of credit if deemed necessary.

(Continued)

Note 15. Fair Value of Financial Instruments

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

Cash and due from banks:

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

Interest bearing deposits with other banks:

The fair values of interest bearing deposits with other banks are estimated by discounting scheduled future receipts of principal and interest at the current rates offered on similar instruments with similar remaining maturities.

Federal funds sold:

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

Securities:

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

Loans:

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

Loans held for sale:

Loans held for sale are reported at fair value. These loans currently consist of one-to-four-family residential loans originated for sale in the secondary market. Fair value is based on committed market rates or the price secondary markets are currently offering for similar loans using observable market data.

Accrued interest receivable and payable:

The carrying values of accrued interest receivable and payable approximate their estimated fair value.

Cash surrender value of life insurance contacts:

The carrying values of cash surrender value of life insurance contracts approximate their fair values.

Borrowings:

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

Note 15. Fair Value of Financial Instruments (Continued)

Deposits:

The estimated fair values of demand deposits, savings accounts and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values.

Off-balance sheet instruments:

The fair values of commitments to extend credit and credit card commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and credit card commitments are deemed insignificant, and therefore, the estimated fair values and carrying values are not reflected below.

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

	December 31, 2014	
	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 16,865,553	$ 16,865,553
Interest bearing deposits with other banks	1,113,653	1,113,653
Federal funds sold	31,345,925	31,345,925
Securities available for sale	47,651,113	47,651,113
Other Investments	200,404	200,404
Loans	214,415,319	215,724,896
Loans held for sale	261,086	261,086
Accrued interest receivable	737,531	737,531
Cash surrender value of life insurance contracts	6,225,795	6,225,795
Financial liabilities:		
Borrowings	8,251,301	8,251,301
Deposits	287,292,323	287,660,864
Accrued interest payable	42,240	42,240

Note 15. Fair Value of Financial Instruments (Continued)

	December 31, 2013	
	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and due from banks	$ 17,942,398	$ 17,942,398
Interest bearing deposits with other banks	492,971	492,971
Federal funds sold	22,861,345	22,861,345
Securities available for sale	54,642,260	54,642,260
Other Investments	552,904	552,904
Loans	204,024,235	205,489,878
Loans held for sale	649,184	649,184
Accrued interest receivable	730,735	730,735
Cash surrender value of life insurance contracts	6,135,259	6,135,259
Financial liabilities:		
Borrowings	7,850,519	7,850,519
Deposits	279,507,608	278,477,552
Accrued interest payable	56,959	56,959

Note 16. Fair Value Measurements

Fair value is defined 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. Accounting guidance 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 and describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Available-for-Sale Securities:

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for a security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds. Level 3 securities include trust preferred securities issued by banks, thrifts, and insurance companies (TRUP CDOs). The market for these securities is not active and markets for similar securities are also not active. The cash flow projections for TRUP CDO's utilize a discounted cash flow model based on variables such as estimates of future cash flows, creditworthiness of the underlying issuers and determination of probability of default of the underlying collateral.

Note 16. Fair Value Measurements (Continued)

Loans Held for Sale:

Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on estimates of cash flow from subsequent sales. As such, the Company classifies loans subject to recurring fair value adjustments as Level 3.

Impaired Loans:

Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans. As such, management classifies loans subject to nonrecurring fair value adjustments as Level 2. When a current 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 Bank records the loans as nonrecurring Level 3.

Other Real Estate Owned:

Foreclosed assets held for resale are adjusted to fair value upon transfer of the loans to other real estate owned. Subsequently, these assets are carried at the lower of carrying value or fair value. When fair value is based upon independent market price or, appraised value of the foreclosed asset, they are classified as Level 2. When an appraised value is not available or management determines the fair value of the property is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset or repossession as nonrecurring Level 3.

Note 16. Fair Value Measurements (Continued)

Assets measured on a recurring and non-recurring basis at December 31, 2014 and 2013 are presented in the tables below. The Company has no liabilities that are measured at fair value.

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities	$ 54,642,260	$ -	$ 53,918,314	$ 723,946
Loans held for sale	261,086	-	-	261,086
	$ 54,903,346	$ -	$ 53,918,314	$ 985,032
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 5,141,198	$ -	$ -	$ 5,141,198
Other real estate owned	402,342	-	-	402,342
	$ 5,543,540	$ -	$ -	$ 5,543,540
2013				
Assets and liabilities measured on a recurring basis:				
Available-for-sale securities	$ 54,642,260	$ -	$ 53,893,357	$ 748,903
Loans held for sale	649,184	-	-	649,184
	$ 55,291,444	$ -	$ 53,893,357	$ 1,398,087
Assets and liabilities measured on a non-recurring basis:				
Impaired loans	$ 8,521,708	$ -	$ -	$ 8,521,708
Other real estate owned	234,288	-	-	234,288
	$ 8,755,996	$ -	$ -	$ 8,755,996

Note 16. Fair Value Measurements (Continued)

The following table shows a reconciliation of the beginning and ending balance at December 31, 2014 and 2013 for Level 3 assets measured on a recurring basis using significant unobservable inputs.

	Available for Sale Securities	Loans Held for Sale
Balance, December 31, 2012	$ 758,892	$ 1,990,423
Loan production	-	13,238,500
Total gain included in other comprehensive income	58,327	-
Collections and sales	(68,316)	(14,579,739)
Balance, December 31, 2013	748,903	649,184
Loan production	-	9,084,501
Total gain included in other comprehensive income	10,726	-
Collections and sales	(35,683)	(9,472,599)
Balance, December 31, 2014	$ 723,946	$ 261,086

Note 17. New Accounting Standards

In February 2013, ASU No. 2013-02 - *Comprehensive Income* was issued to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendment was effective for the current reporting period.

Note 17. New Accounting Standards (Continued)

Accounting Standards Update (ASU) No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure was* issued by the FASB on January 20, 2014. The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (*a*) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (*b*) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for interim periods within annual periods beginning after December 15, 2014.

On May 28, 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The core principle of the new guidance is that entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity should apply the following steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the performance obligation is satisfied. The new guidance is effective for the Company for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, early application is not permitted.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's financial statements.