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FRB RICHMOND

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); 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, Robert F. Baronner, Jr.
Name of the Holding Company Director and Official

CEO, President, and Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3-26-15
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID 2234920
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
Potomac Bancshares, Inc.
Legal Title of Holding Company

P.O. Box 906
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Charles Town	WV	25414

111 E. Washington Street, Charles Town, WV 25414
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Dean J. Cognetti	SVP & CFO

304-728-2434
Area Code / Phone Number / Extension

304-724-1592
Area Code / FAX Number

dcognetti@mybct.com
E-mail Address

www.mybct.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

ANNUAL REPORT OF HOLDING COMPANIES - FR Y-6

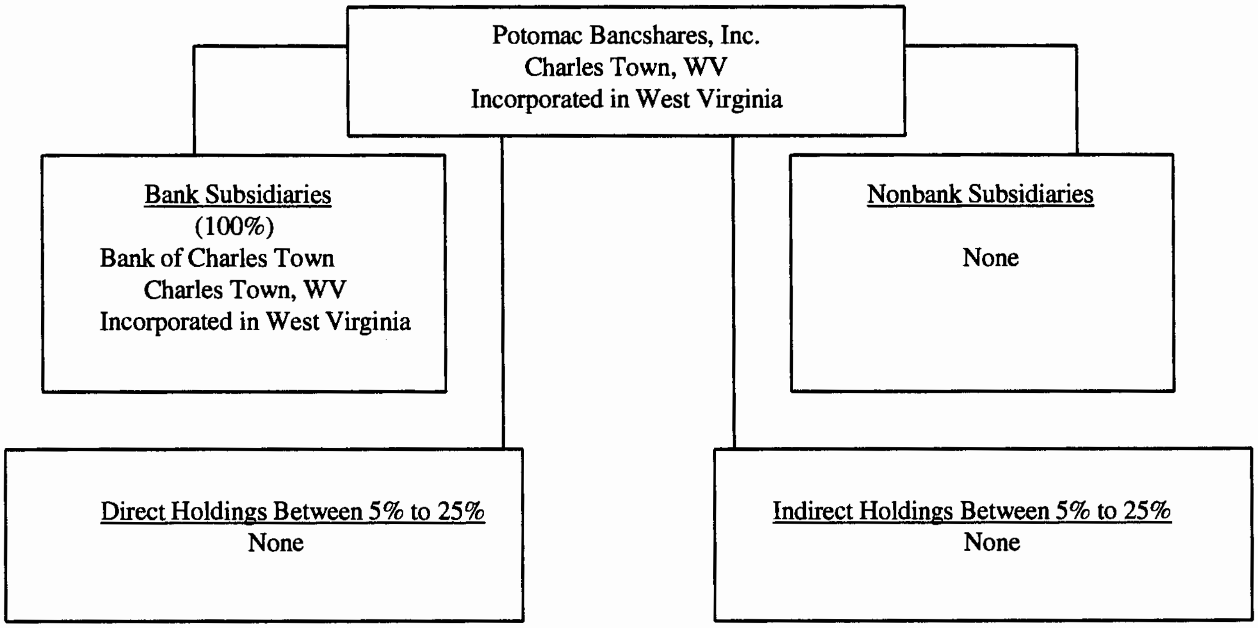
POTOMAC BANCSHARES, INC.
Charles Town, West Virginia

Fiscal Year Ending December 31, 2014

POTOMAC BANCSHARES, INC.
Charles Town, West Virginia

Fiscal Year Ending December 31, 2014

Report Item 2a: ORGANIZATION CHART



Report Item 3: SECURITIES HOLDERS

(1) Securities holders, of record, that directly or indirectly own, control, or hold with power to vote 5% or more of any class of voting securities of the bank holding company.

None at this time.

There are no securities holders that hold options, warrants or other securities or rights that can be converted into or exercised for voting securities which would equal or exceed 5% of any such class of voting securities.

(2) There are no securities holders not listed in (1) above that owned or controlled 5% or more of any class of voting securities in the bank holding company during the year 2014.

There are no securities holders that hold options, warrants or other securities or rights that can be converted into or exercised for voting securities which would equal or exceed 5% of any such class of voting securities during the year 2014.

POTOMAC BANCSHARES, INC.
Charles Town, West Virginia

Fiscal Year Ending December 31, 2014
(Percentage of Voting Shares in Bank Holding Company as of January 2015)

Report Item 4: INSIDERS

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of 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 (include partnerships) if 25% or more of voting securities are held (List names of companies and % of voting securities held)
Robert F. Baronner, Jr. Martinsburg, WV	N/A	Director, President & CEO	Director, President and CEO Bank of Charles Town	University Healthcare Board of Directors	1.1798%	N/A	N/A
Dr. Keith B. Berkeley Ranson, WV	President Valley Equine Associates, PLLC	Director	Director Bank of Charles Town	N/A	.2843%	N/A	Valley Equine Assoc PLLC 100%
J. Scott Boyd Gerrardstown, WV	Owner Jefferson Pharmacy, Inc. South Berkeley Pharmacy	Director	Director Bank of Charles Town	President JSB Enterprises, Inc DBA South Berkeley Pharmacy	.1543%	N/A	South Berkeley Pharmacy 100%
				President Jefferson Pharmacy Inc.			Jefferson Pharmacy Inc. 100%
				President Mountain Springs Properties, LLC			Mountain Springs Prop. 50%
John P. Burns, Jr. Charles Town, WV	Owner/Operator Beef & grain farm	Director	Director Bank of Charles Town	N/A	1.3351%	N/A	Beef & grain farm 50%
Norman M. Casagrande Martinsburg, WV	Managing Member Code Plus Components LLC	Director	Director Bank of Charles Town	Vice President Code Plus Components LLC	.1241%	N/A	N/A
Dean Cognetti Charles Town, WV	N/A	Senior Vice President, Chief Financial Officer	Senior Vice President Chief Financial Officer Bank of Charles Town	N/A	.0519%	N/A	N/A
Margaret Cogswell Martinsburg, WV	Chief Executive Officer Hospice of the Panhandle	Director	Director Bank of Charles Town	N/A	.0667%	N/A	N/A

POTOMAC BANCSHARES, INC.
Charles Town, West Virginia

Fiscal Year Ending December 31, 2014
(Percentage of Voting Shares in Bank Holding Company as of January 2015)

Report Item 4: INSIDERS (Cont'd)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of 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 (include partnerships) if 25% or more of voting securities are held (List names of companies and % of voting securities held)
Mary Clare Eros Shepherdstown, WV	Retired and of counsel Jackson Kelly PLLC	Director	Director Bank of Charles Town	N/A	.0075%	N/A	N/A
Arch Moore, III Harpers Ferry, WV	N/A	Exec. Vice President Chief Lending Officer	Exec. Vice President Chief Lending Officer Bank of Charles Town	N/A	.1655%	N/A	N/A
Barbara H. Pichot Martinsburg, WV	Retired	Director	Director Bank of Charles Town	N/A	.1307%	N/A	N/A
Barbara L. Scott Middleburg, VA	President Summit Point Raceway Associates Inc. BSR, Inc.	Director	Director Bank of Charles Town	President Summit Point Raceway Associates Inc. BSR, Inc.	.2044%	N/A	N/A
John C. Skinner, Jr. Charles Town, WV	Attorney Skinner Law Firm	Chairman of the Board Director	Chairman of the Board, Director Bank of Charles Town	N/A	1.4114%	N/A	N/A
C. Larry Togans Charles Town, WV	Retired	Director	Director Bank of Charles Town	N/A	.0222%	N/A	N/A
Anthony P. Zelenka Martinsburg, WV	President & COO University Healthcare's Berkeley Medical Center	Director	Director Bank of Charles Town	President & COO University Healthcare's Berkeley Medical Center	.0029%	N/A	N/A

Results: A list of branches for your depository institution: BANK OF CHARLES TOWN (ID_RSSD: 1014125).
This depository institution is held by POTOMAC BANCSHARES, INC. (2234920) of CHARLES TOWN, WV.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

Note:

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
Ok		Full Service (Head Office)	1014125	BANK OF CHARLES TOWN	111 E WASHINGTON STREET	CHARLES TOWN	WV	25414	JEFFERSON	UNITED STATES	5764	0	BANK OF CHARLES TOWN	1014125	
Ok		Full Service	4629342	HAGERSTOWN BRANCH	1101 FREDERICK STREET	HAGERSTOWN	MD	21740	WASHINGTON	UNITED STATES	Not Required	Not Required	BANK OF CHARLES TOWN	1014125	
Ok		Full Service	381820	HARPERS FERRY BRANCH	1366 WEST WASHINGTON STREET	HARPERS FERRY	WV	25425	JEFFERSON	UNITED STATES	15320	1	BANK OF CHARLES TOWN	1014125	
Ok		Full Service	3284799	HEDGESVILLE BRANCH	119 COWARDLY LION DRIVE	HEDGESVILLE	WV	25427	BERKELEY	UNITED STATES	419323	4	BANK OF CHARLES TOWN	1014125	
Ok		Full Service	827029	KEARNEYSVILLE BRANCH	5480 CHARLES TOWN ROAD	KEARNEYSVILLE	WV	25430	JEFFERSON	UNITED STATES	219307	2	BANK OF CHARLES TOWN	1014125	
Add	9/22/2014	Full Service		MIDDLEBURG BRANCH	2 W WASHINGTON STREET	MIDDLEBURG	VA	20117	LOUDOUN	UNITED STATES		6	BANK OF CHARLES TOWN	1014125	
OK		Full Service	3146897	MARTINSBURG WESTSIDE BRANCH	9738 TUSCARORA PIKE	MARTINSBURG	WV	25403	BERKELEY	UNITED STATES	363626	3	BANK OF CHARLES TOWN	1014125	

POTOMAC BANCSHARES, INC.

Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 28, 2015

To the Shareholders:

The Regular Annual Meeting of Shareholders of Potomac Bancshares, Inc. ("Potomac") will be held at the Bavarian Inn, Shepherdstown, West Virginia, at 10:30 a.m., on April 28, 2015, for the purposes of considering and voting upon proposals:

1. To elect a class of directors for a term of three years;
2. To ratify the appointment by the Board of Directors of Yount, Hyde & Barbour, P.C., as independent registered public accountants for the year 2015; and

To approve any other business that may properly be brought before the meeting or any adjournment thereof.

Only those shareholders of record at the close of business on February 27, 2015, shall be entitled to notice of the meeting and to vote at the meeting.

By Order of the Board of Directors

Robert F. Baronner, Jr.
President and Chief Executive Officer

PLEASE SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU DO ATTEND THE MEETING, YOU HAVE THE OPTION TO REVOKE YOUR PROXY BEFORE IT IS VOTED.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 28, 2015 - THE PROXY STATEMENT AND 2014 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

March 13, 2015

POTOMAC BANCSHARES, INC.
111 EAST WASHINGTON STREET
P.O. BOX 906
CHARLES TOWN, WEST VIRGINIA 25414-0906
(304) 725-8431

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS – APRIL 28, 2015

Potomac Bancshares, Inc. is furnishing this statement in connection with its solicitation of proxies for use at the annual meeting of shareholders of Potomac Bancshares, Inc. to be held on April 28, 2015, at the time and for the purposes set forth in the accompanying notice of regular annual meeting of shareholders.

Solicitation of Proxies

Potomac's management, at the direction of Potomac's Board of Directors, is making this proxy solicitation. These proxies enable shareholders to vote on all matters scheduled to come before the meeting. If the enclosed proxy is signed and returned, it will be voted as directed; or if not directed, the proxy will be voted "FOR" all of the various proposals to be submitted to the vote of shareholders described in the enclosed notice of regular annual meeting and this proxy statement. A shareholder executing the proxy may revoke it at any time before it is voted by:

- notifying Potomac in person,
- giving written notice to Potomac of the revocation of the proxy,
- submitting to Potomac a subsequently-dated proxy, or
- attending the meeting and withdrawing the proxy before it is voted at the meeting.

Potomac will pay the expenses of this proxy solicitation. In addition to this solicitation by mail, officers and regular employees of Potomac and Bank of Charles Town may, to a limited extent, solicit proxies personally or by telephone or telegraph, although no person will be engaged specifically for that purpose.

Eligibility of Stock for Voting Purposes

Under Potomac's bylaws, the Board of Directors has fixed February 27, 2015, as the record date for determining the shareholders entitled to notice of, and to vote at, the meeting or any adjournment thereof. Only shareholders of record at the close of business on that date are entitled to notice of and to vote at the annual meeting or any adjournment thereof. The presence, in person, or by properly executed proxy, of the holders of a majority of the outstanding shares of the company's common stock entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions will be counted as shares present for purposes of determining the presence of a quorum. Any shares held in street name that are not voted ("broker non-votes") in the election of directors will not be included in determining the number of votes.

As of the record date for the annual meeting, 3,390,178 shares of the capital stock of Potomac were outstanding and entitled to vote. The principal holders of Potomac common stock are discussed under the section of this proxy statement entitled, "Principal Holders of Voting Securities". As of the record date, Potomac had a total of approximately 1,000 shareholders.

PURPOSES OF MEETING

1. ELECTION OF DIRECTORS

General

Potomac's articles of incorporation currently provide for a classified Board of Directors. There are three classes with each being elected for a three-year term. There are presently 12 directors on the Board, three of whom are nominees for election at the 2015 annual meeting. Each director (Berkeley, Scott, and Zelenka) is being elected for a term of three years. John C. Skinner, Jr. is retiring from the Board of Directors. Stanley L. Merson resigned from the Board of Directors during 2014. The Board of Directors has set the number of directors after the meeting at eleven.

Directors are elected by a plurality of the shares voted. As required by West Virginia law, each share is entitled to one vote per nominee, unless a shareholder requests cumulative voting for directors at least 48 hours before the meeting. If a shareholder properly requests cumulative voting for directors, then each shareholder will have the right to vote the number of shares owned by that shareholder for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of shares owned shall equal, or to distribute them on the same principle among as many candidates as the shareholder sees fit. If any shares are voted cumulatively for the election of directors, the proxies, unless otherwise directed, shall have full discretion and authority to cumulate their votes and vote for less than all such nominees. For all other purposes, each share is entitled to one vote. Because director nominees must receive a plurality of the votes cast at the meeting, a vote withheld will not affect the outcome of the election.

The Board of Directors has a nominating committee tasked with identifying potential Board of Director members. The nominating committee makes nominations based upon its belief that candidates for director should have certain minimum qualifications, including:

- Directors should be of the highest ethical character.
- Directors should have excellent personal and professional reputations in the company's market area.
- Directors should be accomplished in their professions or careers.
- Directors should be able to read and understand financial statements and either have knowledge of, or the ability and willingness to learn, financial institution law.
- Directors should have relevant experience and expertise to evaluate financial data and provide direction and advice to the Chief Executive Officer and the ability to exercise sound business judgment.
- Directors must be willing and able to expend the time to attend meetings of the Board of Directors of the company and the bank and to serve on Board committees.
- The Board of Directors will consider whether a nominee is independent. In addition, directors should avoid the appearance of any conflict and should be independent of any particular constituency and be able to serve all shareholders of the company.
- Because the directors of the company also serve as directors of the bank, a majority of directors must be residents of West Virginia, as required by state banking law.

- Directors must be acceptable to the company's and the bank's regulatory agencies, including the Federal Reserve Board, the Federal Deposit Insurance Corporation and the West Virginia Division of Financial Institutions and must not be under any legal disability which prevents them from serving on the Board of Directors or participating in the affairs of a financial institution.

- Directors must own or acquire sufficient capital stock to satisfy the requirements of federal law, state law and the bylaws of Potomac.

- Directors must be at least 21 years of age.

The nominating committee reserves the right to modify these minimum qualifications from time to time, except where the qualifications are required by the laws relating to financial institutions.

The process of identifying and evaluating nominees is as follows: In the case of incumbent directors whose terms are set to expire, the committee considers the directors' overall service to the company during their term, including such factors as the number of meetings attended, the level of participation, quality of performance and any transactions between such directors of the company and the bank. The Board also reviews the payment history of loans, if any, made to such directors of the bank to ensure that the directors are not chronically delinquent and in default. The committee considers whether any transactions between the directors and the bank have been criticized by any banking regulatory agency or the bank's external auditors and whether corrective action, if required, has been taken and was sufficient. The nominating committee also confirms that such directors remain eligible to serve on the Board of Directors of a financial institution under federal and state law. For new director candidates, the committee uses its network of contacts in the company's market area to compile a list of potential candidates. The committee then meets to discuss each candidate and whether he or she meets the criteria set forth above. The committee then discusses each candidate's qualifications and chooses a candidate by majority vote.

The committee will consider director candidates recommended by shareholders, provided that the recommendations are received at least 120 days before the next annual meeting of shareholders. In addition, the procedures set forth below are to be followed by shareholders submitting nominations. The committee does not intend to alter the manner in which it evaluates candidates, regardless of whether or not the candidate was recommended or nominated by a shareholder.

Potomac's bylaws provide that nominations for election to the Board of Directors, other than those made by or on behalf of Potomac's existing management, must be made by a shareholder in writing delivered or mailed to the President not less than 14 days nor more than 50 days prior to the meeting called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to shareholders, the nominations must be mailed or delivered to the President not later than the close of business on the 7th day following the day on which the notice of meeting was mailed. The notice of nomination must contain the following information, to the extent known:

- name and address of nominee(s);

- principal occupation of nominee(s);

- total shares to be voted for each nominee;

- name and address of notifying shareholder;

- number of shares owned by notifying shareholder; and

- consent of such nominee(s) to being named in the proxy statement as a nominee and to serving as such a director, if elected.

Nominations not made in accordance with these requirements may be disregarded by the chairman of the meeting and in such case the votes cast for each such nominee will likewise be disregarded.

Management Nominees to the Board of Potomac

Nominees	**Age**	**Served As Director of Potomac Since**	**Family Relationship With Other Nominees**	**Year in Which Term Expires**	**Principal Occupation or Employment Last Five Years**
Dr. Keith B. Berkeley	56	2008	None	2015	Veterinarian, President of Valley Equine Associates, Jefferson County, West Virginia.
Barbara L. Scott	66	2012	None	2015	President of Summit Point Raceway Associates, Inc. and BSR, Inc., 2009 to Present. Managing Member of Summit Point Automotive Research Center, LLC.
Anthony P. Zelenka	61	2015	None	2015	President and Chief Operating Officer of University Healthcare's Berkeley Medical Center.

The Board of Directors recommends that shareholders vote "For" all the nominees listed above.

Directors Continuing to Serve Unexpired Terms

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
Robert F. Baronner, Jr.	56	2001	None	2017	Employed by bank as of January 1, 2001 as President and Chief Executive Officer.
J. Scott Boyd	58	1999	None	2016	Pharmacist, owner Jefferson Pharmacy, Inc., Jefferson County, West Virginia since 1982; Pharmacist, owner JSB Enterprises, Inc. dba South Berkeley Pharmacy, Berkeley County, West Virginia since 2006; President, Mountain Spring Properties, LLC.
John P. Burns, Jr.	73	1994	None	2016	Owner/operator of a beef and grain farm in Jefferson County, West Virginia; Director Emeritus, Jefferson County Fair Association; past President, Jefferson County Fair Association; past Director and past Chairman, Valley Farm Credit.
Norman M. Casagrande	55	2013	None	2017	Partner, Code Plus Components LLC, Berkeley County, West Virginia
Margaret M. Cogswell	56	2003	None	2017	Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson and Morgan Counties, West Virginia since 1987.
Mary Clare Eros	68	2008	None	2017	Retired and Of Counsel, Jackson Kelly PLLC; Practiced law at Jackson Kelly PLLC from 1981 to 2007.
Barbara H. Pichot	67	2004	None	2016	Certified Public Accountant, retired partner CoxHollida LLP, a public accounting firm in Berkeley County, West Virginia, 1981 to 2006; past President, Hospice of the Panhandle; past Chair, Board of Governors, Shepherd University.
C. Larry Togans	68	2004	None	2016	Retired Deputy, Branch of Human Resources, U. S. Geological Survey, employed 1973 to 2001.
Director retiring at the end of his term.					
John C. Skinner, Jr.	73	1994	None	2015	Chairman of the Board, Potomac Bancshares, Inc. and Bank of Charles Town; Attorney, Skinner Law Firm, Jefferson County, West Virginia; bank attorney since 1986; Potomac attorney since 1994.

Robert F. Baronner, Jr. was elected to the Board of Directors after being named President and Chief Executive Officer of Potomac and Bank of Charles Town in 2001. Mr. Baronner was chosen to represent management's perspective on the Board of Directors. Mr. Baronner has worked in the banking industry for over 25 years. In addition, he is currently on the Board of Directors of University Healthcare in Martinsburg and Charles Town, West Virginia, and is President of the West Virginia Community Bankers Association. In addition, Mr. Baronner is a past member of the FDIC Community Bank Advisory Committee. Mr. Baronner should continue on the Board of Directors due to his continued service as President and CEO, his extensive experience and expertise in managing financial institutions and his extensive knowledge of Potomac's and Bank of Charles Town's operations.

Dr. Keith B. Berkeley has served on the Board of Directors since July 2008. He has been a veterinarian and business owner in the Eastern Panhandle of West Virginia for 20 plus years. Dr. Berkeley earned his Doctor of Veterinary Medicine from the Tuskegee Institute. Dr. Berkeley was elected to the Board for his business experience and his knowledge of Potomac's and Bank of Charles Town's market areas by virtue of his relationship with the community through his veterinary practice. Dr. Berkeley should remain on the Board because of his track record as a successful businessman and for his relationship with a large portion of the community. In addition, Dr. Berkeley has attended the West Virginia Community Bankers Directors College to further his own knowledge of the banking industry and his responsibilities as a Director.

J. Scott Boyd is a pharmacist and owner of one pharmacy in both Berkeley and Jefferson Counties. Mr. Boyd is a graduate of the West Virginia University School of Pharmacy. Mr. Boyd was chosen for his experience as a business owner and his knowledge of the market areas of Potomac and Bank of Charles Town in both Berkeley and Jefferson Counties. He should remain on the Board of Directors because of his 30 plus years of business experience as well as his contacts with an array of persons from the communities the bank serves.

John P. Burns, Jr. is a lifelong resident of Jefferson County. He has made his living in the farming industry for over 50 years. Mr. Burns was originally elected to the Board at a time when agriculture was the largest industry in the bank's market area. He is a valuable member of the Board because of his understanding of the members of the farming community and the farming industry. As a result of his experience in operating a beef and grain farm, Mr. Burns has significant management abilities. He should remain on the Board to continue to represent the perspective of the farming industry and his management experience. Although farming is no longer the largest industry in the Eastern Panhandle of West Virginia, it remains an integral part of the local economy.

Norman M. Casagrande is a partner in Code Plus Components LLC in Spring Mills, West Virginia which was formed in 1999. Code Plus is a manufacturer of roof trusses and engineered beams for the housing industry. Mr. Casagrande is originally from the Pittsburgh area and earned a Business/Economics degree from Washington and Jefferson College in Washington, PA. He previously owned a building materials company and was employed with 84 Lumber for eight years, rising to a vice president position. Mr. Casagrande's manufacturing background and experience in the housing industry is an important asset for the board as much of the bank's portfolio is invested in residential real estate.

Margaret M. Cogswell is Chief Executive Officer of Hospice of the Panhandle. She has an Associate of Science degree in Nursing from Shepherd College. Ms. Cogswell brings a unique perspective of someone that has been involved in non-profit organizations most of her adult life and as a result, has a number of contacts within the company's and the bank's market area in Jefferson and Berkeley Counties, West Virginia. Her duties as CEO include management of a multi-million dollar budget. Ms. Cogswell should remain on the Board because she is and has been involved with the non-profit community and her management experience is a valuable asset to the Board of Directors. She has attended the West Virginia Community Bankers Directors College to further her knowledge of the banking industry and her responsibilities as a Director.

Mary Clare Eros is a retired attorney. Ms. Eros was chosen as a Board member due to her specific experience in representing financial institutions during her 25 years of law practice. Ms. Eros received her doctor of jurisprudence degree from Georgetown University Law School in Washington, D.C. Her area of expertise in her law practice involved advising banks with regard to consumer protection laws and representing banks and lending institutions in large commercial transactions. In addition, Ms. Eros was the Managing Member of the

Martinsburg, West Virginia office of Jackson Kelly PLLC (Attorneys at Law), and as part of her duties routinely reviewed financial information. Ms. Eros should continue as a Board member due to her extensive legal experience in representing financial institutions.

Barbara H. Pichot is a Certified Public Accountant, and retired partner with CoxHollida LLP. Ms. Pichot has over 25 years of experience in public accounting and as the controller of a concrete manufacturing facility. She is a graduate of Shepherd College with a degree in accounting and was elected to the Board for her financial and accounting expertise. She currently serves as the company's Audit Committee financial expert. Ms. Pichot should continue to serve on the Board of Directors because of her knowledge of accounting and audit procedures and her business acumen. She has attended the West Virginia Community Bankers Directors College to further her knowledge of the banking industry and her responsibilities as a Director.

Barbara L. Scott is President of Summit Point Raceway Associates Inc. (SPRA) and BSR Inc. These are the operating entities for the 785 acre Summit Point Motorsports Park located in Summit Point, West Virginia. SPRA hosts motorsport events to include amateur road racing for sports cars, motorcycles and karts. BSR Inc. provides specialty and anti-terrorist driver training programs for government agencies and the U.S. military. The facility has four European style road racing circuits and a 282 acre industrial park that houses a U.S. State Department training facility. Ms. Scott is a graduate of Southern Methodist University with a degree in Biology and English. Ms. Scott began her employment at Summit Point in 1987 and has extensive experience in all facets of the business. She should continue on the Board based upon her business acumen gained in managing and operating a multi-faceted and highly successful company. Additionally, Ms. Scott has gained experience working and negotiating with governmental entities which are becoming more and more prevalent in the bank's local market area. Ms. Scott currently resides near Middleburg, Virginia and provides good perspective on the Northern Virginia banking market. She has attended the West Virginia Community Bankers Directors College to further her knowledge of the banking industry and her responsibilities as a Director.

C. Larry Togans is retired from the U. S. Geological Survey in Reston, VA where he served as the Deputy Branch Chief of Human Resources and Management Support. In his position, Mr. Togans served as special advisor to the Senior Executive Staff (SES) who manages more than 5000 geoscientists and technical support staff members. Mr. Togans received his Bachelor's degree from Shepherd College. Mr. Togans should remain on the Board of Directors because he provides expertise in the human resources field and he has served as Board member in a number of positions including serving on the Shepherd University Foundation and Jefferson County Board of Education. Mr. Togans has taken the time to advance his knowledge of banking and directorship by attending the West Virginia Community Bankers Directors College.

Anthony P. Zelenka is President and Chief Operating Officer of University Healthcare's Berkeley Medical Center, a position held since March 2008. He also serves on the Chamber Board and is the President of the Berkeley County Development Authority. A graduate of Marietta College in Ohio, he holds a certificate from the Executive Program in Healthcare Financial Management and a Masters of Health Administration from The Ohio State University. Mr. Zelenka's business acumen and knowledge of an evolving healthcare industry will be a real asset to the company.

Ownership of Securities by Nominees, Directors and Officers

All nominees, directors and principal officers have beneficial ownership of 177,192 shares as a group. These shares represent, in aggregate, 5.23% of the common stock of Potomac Bancshares, Inc. The information is furnished as of January 31, 2015, on which date 3,390,178 shares were outstanding.

Executive Compensation

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	All Other Compensation ($)	Total ($) **
Robert F. Baronner, Jr.	2012	211,842	52,186	264,028
President and	2013	216,822	58,219	275,041
Chief Executive Officer	2014	225,112	55,394	280,506

** The total excludes the non-cash impact of actuarial assumption changes in the pension plan that can go up or down based upon the rate of return on the pension's investments and mortality rates as specified by the Third Party Administrator of the Bank of Charles Town Defined Benefit Plan. The Plan was "frozen" October 31, 2009, which means after that date no new participants were admitted to the plan. Also as of that date, existing enrollees receive no further credit for the number of years employed at Bank of Charles Town.

The All Other Compensation total consists of amounts for company contributions to the 401(k) plan, bonus, director's fees, life insurance and use of the company vehicle.

Compensation of Directors

Directors of Potomac were not compensated for their services as directors during 2014 other than for committee meetings attended. Directors of the bank were compensated at the rate of $900 for each regular Board meeting attended in 2014. The Chairman of the Board was paid $500 per month in addition to director and committee fees. Directors were compensated $110 for each committee meeting attended in January through June 2014. Directors that serve on the audit committee were compensated $220 for each audit committee meeting attended in January through June 2014. Directors were compensated $220 for each committee meeting attended in July through December 2014. The audit committee member that is deemed the financial expert was compensated $330 dollars for each audit committee meeting attended in 2014. Beginning in July 2014 all directors receive 50 shares of Potomac Stock for each quarter of service as additional compensation. Directors who are operating officers of the bank are not compensated for committee meetings attended.

Certain Transactions with Directors, Officers and Their Associates

Potomac and the bank have had, and expect to have in the future, transactions in the ordinary course of business with directors, officers, principal shareholders and their associates. All of these transactions remain on substantially the same terms, including interest rates, collateral and repayment terms on the extension of credit, as those prevailing at the same time for comparable transactions with unaffiliated persons, and in the opinion of management of Potomac and the bank, did not involve more than the normal risk of collectability or present other unfavorable features.

Potomac does not have a policy on related transactions. As stated in the previous paragraph, transactions with directors are on the same terms and require the same documentation as those transactions with unaffiliated persons. These transactions are voted on by the Board of Directors with the particular director absent for the discussion and voting. The transactions and voting are recorded in the minutes. These transactions are designated so the information is accessible as needed for reporting purposes.

2. RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Yount, Hyde & Barbour, P.C. to serve as independent auditors for Potomac for the calendar year 2015. If the shareholders do not ratify the appointment of Yount, Hyde & Barbour, P.C., the Board will consider the appointment of other auditors. Potomac is advised that no member of this accounting firm has any direct or indirect material interest in Potomac, or any of its subsidiaries.

A representative of Yount, Hyde & Barbour, P.C., will be present at the annual meeting to respond to appropriate questions and to make a statement if he or she so desires. The enclosed proxy will be voted "FOR" the ratification of the selection of Yount, Hyde & Barbour, P.C., unless otherwise directed. The affirmative vote of a majority of the shares of Potomac's common stock represented at the annual meeting of shareholders is required to ratify the appointment of Yount, Hyde & Barbour, P.C. Because a majority of the votes cast will be sufficient for the ratification of the appointment of Yount, Hyde & Barbour, P. C., neither broker non-votes nor abstentions will affect the outcome of the proposal. Any shares held in street name that are not voted ("broker non-votes") will not be included in determining the number of votes cast.

The Audit Committee and the Board of Directors unanimously recommend that shareholders vote "For" such ratification.

OTHER MATTERS

If any of the nominees for election as directors should be unable to serve as a director by reason of death or other unexpected occurrence, a proxy will be voted for a substitute nominee or nominees designated by the Board of Potomac unless the Board of Directors adopts a resolution pursuant to the bylaws reducing the number of directors.

The Board of Directors is unaware of any other matters to be considered at the meeting but; if any other matters properly come before the meeting, persons named in the proxy will vote such proxy in accordance with their judgment on such matters.

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

Any shareholder desiring to contact the Board of Directors or any individual director serving on the Board may do so by written communication mailed to: Board of Directors, Attention: (name of director(s), as applicable), c/o Corporate Secretary Dean Cognetti, Potomac Bancshares, Inc., P.O. Box 906, Charles Town, West Virginia 25414. Any proper communication so received will be processed by the Corporate Secretary as agent for the Board. Unless, in the judgment of the Corporate Secretary, the matter is not intended or appropriate for the Board (and subject to any applicable regulatory requirements), the Corporate Secretary will prepare a summary of the communication for prompt delivery to each member of the Board or, as appropriate, to the member(s) of the Board named in the communication. Any director may request the Corporate Secretary to produce for his or her review the original of the shareholder communication.

DIRECTIONS TO THE REGULAR ANNUAL MEETING OF SHAREHOLDERS

From the Charles Town Branch: Start on Washington Street proceeding east to Route 9 West. Turn left onto the Route 9 West exit ramp. Take Route 9 West approximately 7 miles to WV 480/Kearneysville Pike exit. Make a right turn onto WV 480/Kearneysville Pike. Proceed on WV 480/Kearneysville Pike approximately 6 miles to Shepherd Grade Road. Turn left onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

From Martinsburg, WV: Take Route 9 east to the WV 480/Kearneysville Pike exit. Proceed to the stop sign. Make a left turn onto WV 480/Kearneysville Pike. Proceed on WV 480/Kearneysville Pike approximately 6 miles to Shepherd Grade Road. Turn left onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

From Winchester, VA: Take Interstate 81 North approximately 18 miles to Route 9 east (exit 12). Upon exiting Interstate 81 make a right turn onto Route 9 east at the end of the exit. Take Route 9 east to the WV 480/Kearneysville Pike exit. Proceed to the stop sign. Make a left turn onto WV 480/Kearneysville Pike. Proceed on WV 480/Kearneysville Pike approximately 6 miles to Shepherd Grade Road. Turn left onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

From Frederick, MD: Take U S Route 340 south approximately 24 miles to the Route 9 West. Take Route 9 West approximately 7 miles to WV 480/Kearneysville Pike exit. Make a right turn onto WV 480/Kearneysville Pike. Proceed on WV 480/Kearneysville Pike approximately 6 miles to Shepherd Grade Road. Turn left onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

From Hagerstown, MD: Take MD Route 65 South. Turn right onto MD Route 34/East Main Street. MD Route 34 becomes WV Route 480 (as you cross the Potomac River into West Virginia). Turn right onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

From Middleburg, VA: Start on Route 50 east. Take VA Route 15 north toward Leesburg, VA. Turn left onto the Route 7/Route 15 bypass. Take Route 9 West to Charles Town, WV. Merge onto Route 9 bypass. Take WV Route 9 approximately 7 miles to WV 480/Kearneysville Pike exit. Make a right turn onto WV 480/Kearneysville Pike. Proceed on WV 480/Kearneysville Pike approximately 6 miles to Shepherd Grade Road. Turn left onto Shepherd Grade Road. The Bavarian Inn will be the first right off of Shepherd Grade Road.

Robert F. Baronner, Jr.
President and Chief Executive Officer

Charles Town, West Virginia
March 13, 2015

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Potomac Bancshares, Inc. and Subsidiary
Charles Town, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Potomac Bancshares, Inc. and Subsidiary 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 Potomac Bancshares, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 13, 2015

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
($ in thousands, except share and per share data)

	2014	2013
ASSETS		
Cash and due from banks	$ 1 986	$ 2 107
Interest-bearing deposits in other financial institutions	11 588	11 959
Securities available for sale, at fair value	33 892	32 554
Loans held for sale	69	- -
Loans, net of allowance for loan losses of $2,665 in 2014 and $3,121 in 2013	253 360	228 264
Premises and equipment, net	7 321	7 534
Other real estate owned, net of valuation allowance of $795 in 2014 and $1,454 in 2013	1 198	2 658
Accrued interest receivable	765	751
Bank owned life insurance	7 585	7 373
Federal Home Loan Bank of Pittsburgh stock	642	940
Other assets	2 513	2 554
Total Assets	$320 919	$296 694
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 48 959	$ 45 060
Interest-bearing	228 197	214 120
Total Deposits	277 156	259 180
Securities sold under agreements to repurchase	2 040	1 775
Federal Home Loan Bank advances	9 516	5 000
Accrued interest payable	170	142
Other liabilities	1 987	832
Total Liabilities	$290 869	$266 929
STOCKHOLDERS' EQUITY		
Common stock, $1 per share par value; 5,000,000 shares authorized; 3,671,691 issued and outstanding	$ 3 672	$ 3 672
Surplus	3 944	3 944
Undivided profits	27 791	26 208
Accumulated other comprehensive loss, net	(2 491)	(1 193)
	$ 32 916	$ 32 631
Less cost of shares acquired for the treasury, 281,513 shares	(2 866)	(2 866)
Total Stockholders' Equity	$ 30 050	$ 29 765
Total Liabilities and Stockholders' Equity	$320 919	$296 694

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014 and 2013
($ in thousands, except per share data)

	2014	2013
Interest and Dividend Income:		
Interest and fees on loans	$11 506	$10 930
Interest on securities available for sale – taxable	283	280
Interest on securities available for sale – nontaxable	206	205
Other interest and dividends	77	72
Total Interest and Dividend Income	12 072	11 487
Interest expense:		
Interest on deposits	1 160	1 185
Interest on securities sold under agreement to repurchase and Federal Funds Purchased	10	13
Interest on Federal Home Loan Bank advances	105	42
Total Interest Expense	1 275	1 240
Net Interest Income	10 797	10 247
Provision for (Recovery of) Loan Losses	814	(300)
Net Interest Income after Provision for (Recovery of) Loan Losses	9 983	10 547
Noninterest Income:		
Trust and financial services	1 151	1 075
Service charges on deposit accounts	1 403	1 536
Secondary market fee income	185	287
Visa/MC Fees	1 027	988
Cash surrender value of life insurance	212	214
Gains on securities available for sale, net	128	29
Other operating income	397	438
Total Noninterest Income	4 503	4 567
Noninterest Expense:		
Salaries and employee benefits	5 410	5 317
Net occupancy expense of premises	708	677
Furniture and equipment expenses	1 123	1 046
Loss on sales of other real estate owned	23	137
Accounting, audit and compliance	164	165
Computer services and online banking	464	424
FDIC assessment	259	257
Other professional fees	182	144
Trust investing outsource	167	156
Director & committee fees	165	159
Legal fees	188	56
Printing, stationery and supplies	176	184
Communications	192	187
Foreclosed property expense	163	230
Write down of other real estate owned	12	664
ATM and check card expenses	617	613
Other operating expenses	1 255	1 282
Total Noninterest Expenses	11 268	11 698
Income before Income Tax Expense	3 218	3 416
Income Tax Expense	1 059	1 088
Net Income	$ 2 159	$ 2 328
Earnings Per Common Share, Basic and Diluted	$ 0.64	$ 0.69

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014 and 2013
($ in thousands)

	2014	2013
Net Income	$ 2 159	$2 328
Other comprehensive (loss) income:		
Unrealized holding losses on securities, net of tax of $29 and $82, respectively	(47)	(133)
Reclassification adjustment for gains included in net income, net of tax of $49 and $11, respectively	(79)	(18)
Net pension and other postretirement (loss) gain arising during the period net of tax of $759 and $560, respectively	(1 238)	914
Amortization of net actuarial loss included in net periodic benefit cost net of tax of $41 and $99, respectively	66	158
Other comprehensive (loss) income, net of tax	(1 298)	921
Comprehensive income	$ 861	$3 249

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013
($ in thousands, except per share data)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2012	$3 672	$3 944	$24 287	$ (2 866)	$(2 114)	$26 923
Net Income	- -	- -	2 328	- -	- -	2 328
Other comprehensive income	- -	- -	- -	- -	921	921
Cash dividends ($.12 per share)	- -	- -	(407)	- -	- -	(407)
Balances, December 31, 2013	$3 672	$3 944	$26 208	$ (2 866)	$(1 193)	$29 765
Net Income	- -	- -	2 159	- -	- -	2 159
Other comprehensive loss	- -	- -	- -	- -	(1 298)	(1 298)
Cash dividends ($.17 per share)	- -	- -	(576)	- -	- -	(576)
Balances, December 31, 2014	$3 672	$3 944	$27 791	$(2 866)	$(2 491)	$30 050

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013
($ in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2 159	$ 2 328
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	814	(300)
Depreciation	445	386
Gain on sale of premises and equipment	(1)	(47)
Deferred tax expense	754	1 019
Premium amortization on securities, net	106	242
Write down of other real estate owned	12	664
Loss on sales of other real estate owned	23	137
Gain on sale/call of securities available for sale, net	(128)	(29)
Increase in loans held for sale	(69)	- -
Change in cash surrender value of bank owned life insurance	(212)	(214)
Changes in assets and liabilities:		
(Increase)Decrease in accrued interest receivable	(14)	62
Decrease (Increase) in other assets	381	(91)
Increase (Decrease) in accrued interest payable	28	(6)
Decrease in other liabilities	(735)	(468)
Net cash provided by operating activities	$ 3 563	$ 3 683
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposits from other financial institutions	$ (250)	$ (250)
Proceeds from sale of securities available for sale	7 924	278
Proceeds from maturity of securities available for sale	3 025	7 000
Proceeds from call of securities available for sale	2 868	4 030
Purchases of securities available for sale	(15 337)	(12 083)
Net increase in loans	(25 034)	(16 034)
Proceeds from sale of premises and equipment	1	347
Purchases of premises and equipment	(232)	(605)
Proceeds from sale of other real estate owned	549	726
Net cash used in investing activities	$(26 486)	$(16 591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	$ 3 899	$ 3 347
Net increase (decrease) in interest-bearing deposits	14 077	(5 730)
Net proceeds (repayment) of securities sold under agreements to repurchase	265	(3 064)
Net proceeds of Federal Home Loan Bank advances	4 516	4 693
Cash dividends	(576)	(407)
Net cash provided by (used in) financing activities	$ 22 181	$ (1 161)
Decrease in cash and cash equivalents	$ (742)	$(14 069)
CASH AND CASH EQUIVALENTS		
Beginning	12 066	26 135
Ending	$ 11 324	$ 12 066
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 1 247	$ 1 246
Income taxes	$ 738	$ 240
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized loss on securities available for sale	$ (204)	$ (244)
Change in benefit obligations and plan assets for pension and other postretirement benefits	$ (1 890)	$ 1 731
Loans transferred to other real estate owned	$ 227	$ 312
Loans originated on sale of other real estate owned	$ 1 103	$ 878

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Potomac Bancshares, Inc., and Subsidiary (collectively the company), through Bank of Charles Town, (the bank) a wholly owned subsidiary of Potomac Bancshares, Inc., grants commercial, financial, agricultural, residential and consumer loans to customers, primarily in Jefferson, Berkeley and Morgan Counties of West Virginia; Clarke, Frederick and Loudoun Counties of Virginia and Washington and Frederick Counties of Maryland. The loan portfolio, while having a higher concentration of real estate loans, is diversified among a large number of borrowers and loans generally are collateralized by assets of the customers. The loans are expected to be repaid from cash flows from business operations or proceeds from the sale of selected assets of the borrowers.

Bank of Charles Town is a West Virginia state-chartered bank that formed and opened for business in 1871. The Federal Deposit Insurance Corporation insures the bank's deposits. The main office is in Charles Town, West Virginia at 111 East Washington Street, with additional branch offices in:

- Harpers Ferry, West Virginia,
- Kearneysville, West Virginia,
- Martinsburg, West Virginia,
- Hedgesville, West Virginia,
- Hagerstown, Maryland and
- Middleburg, Virginia

The company also offers deposit products to the same primary market area as loans. These products include noninterest-bearing and interest bearing checking accounts, savings accounts and certificates of deposit in various terms.

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. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of Potomac Bancshares, Inc. and its wholly-owned subsidiary, Bank of Charles Town, include the accounts of both companies. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, and the post retirement benefit obligations.

Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions are primarily overnight deposits held at the Federal Reserve and to a lesser extent certificates of deposits with other financial institutions. These funds are carried at cost.

Securities

Investments in debt and equity securities with readily determinable fair values are classified as either held to maturity, available for sale, or trading, based on management's intent. Currently all debt securities of the company are classified as available for sale. All equity securities, except investment in FHLB are

Securities (Continued)

classified as available for sale. FHLB stock is classified as restricted and carried at cost. Available for sale securities are carried at estimated fair value with the corresponding unrealized gains and losses excluded from earnings and reported in other comprehensive income. Gains or losses are recognized in earnings on the trade date using the amortized cost of the specific security sold. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the company intends to sell the security or (2) it is more-likely-than-not that the company will be required to sell the security before recovery of its amortized cost basis. If, however, the company does not intend to sell the security and it is not more-likely-than-not that it will be required to sell the security before recovery, the company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is credit loss, the loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

For equity securities, impairment is considered to be other-than-temporary based on the company's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in net income.

Management regularly reviews each investment security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the company would be required to sell the security before recovery.

Loans

The company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is comprised of loans secured by real estate. The ability of the company's debtors to honor their contracts is dependent upon customer's recurring income or income derived from collateral securing the loan, real estate and general economic conditions of the company's market area.

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

Loans are placed on nonaccrual status when bank management determines that it is no longer prudent for a loan to continue to accrue interest.

Generally it is the policy of this bank to stop accruing interest when principal or interest is greater than 90 days past due based upon the loan's contractual terms, unless the loan is well secured and in the process of collection. Furthermore, should the bank become aware of events which have occurred or are expected to occur which causes doubt as to the full collectability of principal or interest in the future, even though the loan is currently less than 90 days past due, the loan should be considered for nonaccrual status.

In order to justify the continuation of the accrual of interest on a loan which is greater than 90 days past due, the loan must be well secured and in the process of collection. In order to determine whether the loan is well secured, an appraisal of the collateral may be obtained establishing a value at least equal to principal and accrued interest for all loans greater than $250,000. For all loans greater than 90 days past due which fall below this threshold, the bank may complete its own appraisal or valuation of the collateral as long

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

Loans (Continued)

as its methodology is documented and consistently applied. For a loan to be considered in the process of collection, there must be corrective action contemplated by the borrower, such as payment of all past due amounts, or the bank must be ready to pursue the liquidation of the underlying collateral, generally within a 30 day time frame.

All interest accrued but not collected for all classes of loans that are placed on nonaccrual or charged-off is reversed against interest income. If the ultimate repayment of principal, in whole or in part, is not expected, any payment received on a loan on which the accrual of interest has been suspended is applied to reduce principal to the extent necessary to restore the expectation of ultimate collectability. At such time as full collection of the remaining recorded balance is expected, interest payments are recorded as interest income on a cash basis until such time the loan can be restored to accrual status in accordance with regulatory guidelines. Loans of all classes are returned to accrual status when all payments contractually due are brought current and future payments are reasonably assured.

For all classes of loans, approval of the President or Chief Lending Officer is required for all loans greater than 90 days past due which are not placed on nonaccrual status and for restoration of nonaccrual loans to accrual status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the probable losses inherent in our loan portfolio. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is based on two basic principles of accounting: (1) losses be accrued when they are probable of occurring and are capable of estimation and (2) losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan losses is evaluated on a regular basis, at least monthly by management, and is based upon management's ongoing review of the collectability of the loans in light of historical experience, the economic environment, concentration and growth trends, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. Management monitors the loan portfolio on a continual basis with procedures that allow for problem loans and potential problem loans to be highlighted and watched. Written reports are prepared on a monthly basis for all commercial loans graded below a certain level for management review and are reported to the Board of Directors on a quarterly basis.

Based on experience, these loan policies and the bank's grading and review system, management believes the loan loss allowance is adequate. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

- Loans secured by farmland, commercial real estate, and commercial loans not secured by real estate carry risks associated with the successful operation of a business or farm and the repayment of these loans may depend on the profitability and cash flows of the business or farm. Additional risk relates to the value of collateral other than real estate where depreciation occurs and the appraisal is less precise.

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

Allowance for Loan Losses (Continued)

- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.
- Consumer and all other loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. These loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.
- Residential real estate loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all commercial loans that are considered problem loans. The report is controlled by the Credit Administrator and the President. Consumer and residential mortgage loans deemed significant may be included at management's discretion. It is a primary responsibility of the loan officer to manage the credit risk within their loan portfolio. As such they should be proactive rather than reactive when considering adding a loan to the watch list report. Occurrence of any of the following criteria is a basis for adding a loan to the watch list report.

- Loans classified as substandard, doubtful or loss by bank examiners, external auditors, loan officer or the bank's credit administration department personnel based upon financial trends of the business.
- Loans on nonaccrual status.
- Loans more than 60 days delinquent.
- Loans renewed or extended more than three times with little or no principal curtailment.
- Loans judgmentally selected by executive management or the Board of Directors due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

When a loan is added to the watch list report, the watch committee will estimate the need for a specific loss to be calculated in the bank's loan loss allowance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for environmental factors such as economic, concentration and growth trends. Prior to June 2013 the bank used an eighteen month rolling average to calculate the historical loss factor in the loan portfolio. In June 2013 bank management changed to a thirty six month rolling average. The change was made due to management's belief that the thirty six month average more accurately compares with the current economic environment. The impact of the change was an increase in the allowance for loan losses of $1.2 million at December 31, 2013 as compared to the balance that would have been calculated under the prior model.

Characteristics of the bank's risk classification grades are as follows:

- Pass – Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. Borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. Acceptable personal guarantors support the loan as needed.

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

Allowance for Loan Losses (Continued)

- Special Mention – Are assets that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution's credit position at some future date.

- Substandard – The bank is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

- Doubtful – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

- Loss – Loans classified in this category are considered uncollectable and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Any time a credit is placed in this category, it will be in non-accrual status.

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

Large groups of smaller balance homogeneous loans (consumer and residential mortgage loans) are collectively evaluated for impairment. Accordingly, the company does not necessarily separately identify individual consumer and residential loans for impairment disclosures unless these loans are related to a borrower with commercial or other real estate loans that are classified or are the subject of a troubled debt restructuring.

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

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. All home equity, lot, real estate, and commercial loans that are processed for a renewal, modification or refinance are reviewed to determine if it qualifies as a TDR. All loans that are not dependent on the sale of collateral or operation of collateral for repayment, the impairment will be based on a discounted future cash flow method. All loans with similar characteristics, such as mortgage and retail, will be measured as one homogenous group. If the repayment of the loan is solely based on the sale of collateral, the impairment will be based on the discounted value of the collateral. If repayment is based on operation of the collateral, the impairment will be based on fair value without discount. At times when a loan has previously been modified in a troubled debt restructuring, the company and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR are then evaluated to determine the appropriate accounting. Under certain circumstances we may no longer account for the subsequently restructured loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by us to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the company than those it would offer for such new debt. If at the time of the subsequent restructuring the loan meets the conditions discussed above, the impairment on the loan will no longer be measured as a TDR and no longer be disclosed as a TDR.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market value determined in the aggregate. We retained servicing for one loan. Loans totaling $69 thousand were held for sale as of December 31, 2014. There were none as of December 31, 2013.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method. Estimated useful lives range from five to forty years for premises and improvements and three to seven years for furniture and equipment.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are recorded at the fair value net of estimated selling costs at the date of foreclosure, establishing a new cost basis. The value of real estate collateral is determined based on an internal evaluation, appraisal outside of the company or a comparative market analysis. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed property expense and write down of other real estate owned, respectively.

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

Employee Benefit Plans

Summaries of company employee benefit plans are given below:

- The noncontributory, defined benefit pension plan covering employees meeting certain age and service requirements was frozen at October 31, 2009, the end of the plan year. No additional participants may enter the plan, and there will be no further increase in benefits due to increases in salaries and years of service.
- A postretirement life insurance plan covers certain current retirees who met certain requirements. This plan is not available for future retirees.
- A health care plan covers certain retirees who met certain eligibility requirements. This plan is not available for future retirees.
- A contributory health care plan is available to current full time employees.
- A 401(k) retirement savings plan is available to all employees meeting certain age and service requirements. The employer match for this plan was increased with the freezing of the defined benefit plan as described above. Under this plan, the employer may make a discretionary matching contribution each plan year and may also make other discretionary contributions to the plan.

Earnings Per Common Share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the company relate solely to outstanding stock options and are determined using the treasury method.

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no unrecognized tax benefits recorded as of December 31, 2014 and 2013. Interest and penalties, if any, associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in financial institutions, securities purchased under agreements to resell and federal funds sold. Generally, securities purchased under agreements to resell and federal funds sold are purchased and sold for one-day periods. Certificates of deposits in other financial institutions of $2.3 million and $2.0 million as of December 31, 2014 and December 31, 2013, respectively are not included in cash and cash equivalents. These balances typically have maturities greater than 90 days.

One Financial Center

Securities and other property held by One Financial Center in a fiduciary or agency capacity are not assets of the company and are not included in the accompanying consolidated financial statements.

Advertising

The company follows the policy of charging the costs of advertising to expense as incurred. These amounts were $119 thousand and $92 thousand in 2014 and 2013, respectively.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

Comprehensive Income

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Stock-Based Compensation Plan

The 2003 Stock Incentive Plan was approved by stockholders on May 13, 2003. Under the plan, the option price cannot be less than the fair market value of the stock on the date granted. An option's maximum term was ten years from the date of grant. Options granted to employees were subject to a five year vesting period. Options granted to non-employee directors vested on the grant date. This plan expired on February 11, 2013, and therefore no additional options can be granted under the plan.

Transfers of Financial Assets

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

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

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current year. None were of a material nature.

Recent Accounting Pronouncements:

In January 2014, the FASB issued ASU 2014-01, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU 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 (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) 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. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

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

Recent Accounting Pronouncements: (Continued)

In June 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition,, most industry-specific guidance, and some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The core principle of the guidance is that an 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 be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation." The amendments in this ASU remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, including the removal of Topic 915, "Development Stage Entities," from the FASB Accounting Standards Codification. In addition, this ASU adds an example disclosure and removes an exception provided to development stage entities in Topic 810, "Consolidation," for determining whether an entity is a variable interest entity. The presentation and disclosure requirements in Topic 915 will no longer be required for the first annual period beginning after December 15, 2014. The revised consolidation standards are effective for annual periods beginning after December 15, 2015. Early adoption is permitted. The company does not expect the adoption of ASU 2014-10 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The company is currently assessing the impact that ASU 2014-11 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target

Recent Accounting Pronouncements: (Continued)

that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)," should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The company is currently assessing the impact that ASU 2014-12 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. Early adoption is permitted provided the entity has already adopted ASU 2014-04. The company is currently assessing the impact that ASU 2014-14 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity." The amendments in ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity

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

Recent Accounting Pronouncements: (Continued)

should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The company does not expect the adoption of ASU 2014-16 to have a material impact on its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17, "Business Combinations (Topic 805): Pushdown Accounting." The amendments in ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The company does not expect the adoption of ASU 2014-17 to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The company does not expect the adoption of ASU 2015-01 to have a material impact on its consolidated financial statements.

Note 2. Securities

There were no securities held to maturity as of December 31, 2014 and 2013.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2014 and 2013 are as follows:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$29 201	$ 57	$ (52)	$29 206
State and municipal obligations	3 910	100	(1)	4 009
Equity securities	850	- -	(173)	677
	$33 961	$157	$(226)	$33 892

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$25 224	$155	$ (42)	$25 337
State and municipal obligations	6 345	155	(12)	6 488
Equity securities	850	- -	(121)	729
	$32 419	$310	$(175)	$32 554

The amortized cost and fair value of the securities available for sale as of December 31, 2014 (in thousands), by contractual maturity, are shown below. The equity securities have no stated maturities.

	Amortized Cost	Fair Value
Due in one year or less	$ 3 218	$ 3 228
Due after one year through five years	25 850	25 866
Due after five years	4 043	4 121
Equity securities	850	677
	$33 961	$33 892

Proceeds of sales of securities during 2014 were $7.9 million. Gross gains of $128 thousand were realized on those sales. The tax expense applicable to these gains amounted to $49 thousand. Proceeds of the sales of securities during 2013 were $278 thousand. Gross gains of $29 thousand were realized on those sales. The tax expense applicable to these realized gains amounted to $11 thousand.

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the company through readily saleable financial instruments. The portfolio is made up primarily of fixed rate bonds, whose prices move inversely with rates. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. The primary cause of impairments is the decline in the prices of the bonds as rates have risen. There are twelve debt security accounts in the consolidated portfolio that had a loss at December 31, 2014. There was seven debt security accounts in the consolidated portfolio that had a loss at December 31, 2013. The primary cause of the temporary impairments in the company's investments in debt securities was fluctuations in interest rates. Because the company intends to hold these investments in debt securities to maturity and it is more likely than not that the company will not be required to sell these investments before a recovery of the unrealized loss, the company does not consider these investments to be other-than-temporarily impaired at December 31, 2014 and 2013 and no impairment has been recognized.

Note 2. Securities (Continued)

There were two equity securities accounts in the company's portfolio with losses at December 31, 2014 and December 31, 2013. The company considers these investments to be temporarily impaired at December 31, 2014 and 2013 and is recognizing no impairment. These are community bank stock related holdings that the company has the ability and intent to hold until a recovery of fair value.

US Government sponsored agencies include the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation debt securities with a fair value of $21.0 million as of December 31, 2014 and $17.1 million as of December 31, 2013.

The following table summarizes the fair value and gross unrealized losses for securities aggregated by investment category and length of time that individual securities have been in a continuous gross unrealized loss position as of December 31, 2014 and 2013 (in thousands).

	December 31, 2014					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored agencies	$13 144	$(47)	$ 991	$ (5)	$14 135	$ (52)
State and municipal obligations	429	(1)	--	--	429	(1)
Equity securities	--	--	677	(173)	677	(173)
	$13 573	$(48)	$1 668	$(178)	$15 241	$(226)

	December 31, 2013					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored agencies	$ 6 100	$(42)	$ --	$ --	$ 6 100	$ (42)
State and municipal obligations	934	(12)	--	--	934	(12)
Equity securities	--	--	729	(121)	729	(121)
	$ 7 034	$(54)	$ 729	$(121)	$ 7 763	$(175)

The company's investment in Federal Home Loan Bank (FHLB) stock totaled $642 thousand at December 31, 2014. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Despite the FHLB's limited repurchase of excess capital stock in 2014, the company does not consider this investment to be other-than-temporarily impaired at December 31, 2014 and no impairment has been recognized. FHLB stock is shown as a separate line item on the consolidated balance sheet and is not a part of the available for sale securities portfolio.

Securities with a carrying value of $13.0 million and $12.4 million at December 31, 2014 and 2013, respectively were pledged to secure public funds, securities sold under agreement to repurchase, other borrowings, and for other purposes as required or permitted by law.

Note 3. Loans and Related Party Transactions

The loan portfolio, stated at face amount is composed of the following:

	December 31 2014	December 31 2013
	(in thousands)	
Commercial – non real estate		
Commercial and industrial	$ 8 673	$ 8 269
Commercial real estate		
Owner occupied	56 098	54 949
Non-owner occupied	28 768	25 655
Construction		
Residential	4 349	3 859
Commercial	19 629	15 931
Real Estate		
Farmland	3 102	1 621
Residential		
Revolving open end	6 479	5 659
1 to 4 family – first liens	106 851	96 742
1 to 4 family – junior liens	5 480	5 807
5 or more family	5 501	5 644
Consumer loans	8 080	6 674
All other loans	3 015	575
Total loans	$256 025	$231 385
Less: allowance for loan losses	2 665	3 121
	$253 360	$228 264

At December 31, 2014 and 2013, overdraft demand deposits reclassified to loans totaled $109 thousand and $132 thousand, respectively.

Loans to directors and executive officers of the company or to their associates at December 31, 2014 and 2013 totaled $4.7 million and $4.5 million, respectively. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2014, total principal additions were $2.6 million and total principal payments were $2.4 million.

The FHLB of Pittsburgh has a blanket lien on all the company's loans except those loans specifically pledged to the Federal Reserve and removed from the FHLB lien. Currently, the FHLB lien is securing advances to the company in the amount of $9.5 million and letters of credit issued on behalf of a customer of the company in the amount of $14 million.

Note 4. Allowance for Loan Losses

The following is a summary of activity in the allowance for loan losses for 2014 and 2013 (in thousands):

	2014	2013
Balance at beginning of year	$ 3 121	$3 644
Provision (Recovery) of loan losses	814	(300)
Recoveries	645	351
Charge offs	(1 915)	(574)
Balance at end of year	$ 2 665	$3 121

Note 4. Allowance for Loan Losses (Continued)

Allowance for Loan Losses – By Segment
December 31, 2014
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Beginning balance	$ 26	$ 105	$ 613	$ 322	$ 101	$ 1 923	$ 2	$ 29	$ 3 121
Charge-offs	--	--	(1 103)	(551)	(156)	(105)	--	--	(1 915)
Recoveries	--	48	42	338	123	94	--	--	645
Provision (Recovery)	3	(114)	1 284	147	51	(538)	9	(28)	814
Ending balance	$ 29	$ 39	$ 836	$ 256	$ 119	$ 1 374	$ 11	$ 1	$ 2 665
Individually evaluated for impairment	$ --	$ 1	$ 57	$ 6	$ 28	$ 249	$ --	$ --	$ 341
Collectively evaluated for impairment	29	38	779	250	91	1 125	11	1	2 324
	$ 29	$ 39	$ 836	$ 256	$ 119	$ 1 374	$ 11	$ 1	$ 2 665
Financing receivables:									
Ending balance	$3 102	$8 673	$84 866	$23 978	$8 080	$124 311	$3 015	$ --	$256 025
Ending balance:									
Individually evaluated for impairment	$ --	$ 85	$ 5 137	$ 1 335	$ 48	$ 6 453	$ --	$ --	$ 13 058
Collectively evaluated for impairment	3 102	8 588	79 729	22 643	8 032	117 858	3 015	--	242 967
Total	$3 102	$8 673	$84 866	$23 978	$8 080	$124 311	$3 015	$ --	$256 025

Allowance for Loan Losses – By Segment
December 31, 2013
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Beginning balance	$ 4	$ 121	$ 769	$ 250	$ 88	$ 2 284	$ 1	$127	$ 3 644
Charge-offs	--	(5)	--	--	(195)	(374)	--	--	(574)
Recoveries	--	15	56	30	121	129	--	--	351
Provision (Recovery)	22	(26)	(212)	42	87	(116)	1	(98)	(300)
Ending balance	$ 26	$ 105	$ 613	$ 322	$ 101	$ 1 923	$ 2	$ 29	$ 3 121
Individually evaluated for impairment	$ --	$ 75	$ 115	$ 6	$ 31	$ 160	$ --	$ --	$ 387
Collectively evaluated for impairment	26	30	498	316	70	1 763	2	29	2 734
	$ 26	$ 105	$ 613	$ 322	$ 101	$ 1 923	$ 2	$ 29	$ 3 121
Financing receivables:									
Ending balance	$1 621	$8 269	$80 604	$19 790	$6 674	$113 852	$ 575	$ --	$231 385
Ending balance:									
Individually evaluated for impairment	$ --	$1 542	$ 9 093	$ 2 198	$ 58	$ 6 429	$ --	$ --	$ 19 320
Collectively evaluated for impairment	1 621	6 727	71 511	17 592	6 616	107 423	575	--	212 065
Total	$1 621	$8 269	$80 604	$19 790	$6 674	$113 852	$ 575	$ --	$231 385

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2014
(in thousands)

Internal Risk Rating Grades	Pass	Special Mention	Sub-Standard	Doubtful	Loss
Commercial – non real estate					
Commercial and industrial	$ 8 510	$ 163	$ - -	$ - -	$ - -
Commercial real estate					
Owner occupied	47 722	3 929	4 447	- -	- -
Non-owner occupied	27 742	678	348	- -	- -
Construction					
Residential	4 349	- -	- -	- -	- -
Commercial	18 027	295	1 307	- -	- -
Real estate					
Farmland	2 277	- -	825	- -	- -
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	- -	482	N/A	N/A
1-4 family – first liens	N/A	824	1 495	N/A	N/A
1-4 family – junior liens	N/A	- -	37	N/A	N/A
5 or more family	N/A	- -	120	N/A	N/A
Totals	$108 627	$5 889	$9 061	$ - -	$ - -

As a matter of practice, we do not necessarily risk rate consumer or residential mortgage loans. Generally, these loans listed in the risk rating table above are associated with commercial loans that have been risk rated as per our policy. When a loan is designated as a loss, the loss portion is charged off, and if applicable the remaining balance classified as substandard.

Credit Quality Information – By Class
December 31, 2014
(in thousands)

Non Risk Rated Loans	Performing	Nonperforming
Consumer	$ 8 080	$ - -
Residential		
Revolving open end	5 987	10
1-4 family – first liens	104 319	213
1-4 Family – junior liens	5 443	- -
5 or more family	5 381	- -
All other	3 015	- -
Totals	$132 225	$223

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2013
(in thousands)

Internal Risk Rating Grades	Pass	Special Mention	Sub-Standard	Doubtful	Loss
Commercial – non real estate					
Commercial and industrial	$ 5 710	$ 2 479	$ 80	$ --	$ --
Commercial real estate					
Owner occupied	41 144	12 256	1 549	--	--
Non-owner occupied	24 040	1 615	--	--	--
Construction					
Residential	3 859	--	--	--	--
Commercial	11 982	2 149	1 800	--	--
Real estate					
Farmland	1 621	--	--	--	--
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	--	434	N/A	N/A
1-4 family – first liens	N/A	385	2 004	N/A	N/A
1-4 family – junior liens	N/A	--	81	N/A	N/A
5 or more family	N/A	--	--	N/A	N/A
Totals	$88 356	$18 884	$5 948	$ --	$ --

Credit Quality Information – By Class
December 31, 2013
(in thousands)

Non Risk Rated Loans	Performing	Nonperforming
Consumer	$ 6 674	$ --
Residential		
Revolving open end	5 213	12
1-4 family – first liens	94 086	267
1-4 Family – junior liens	5 593	133
5 or more family	5 644	--
All other	575	--
Totals	$117 785	$412

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2014
(in thousands)

With no related allowance:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$- -	$ - -	$ - -
Commercial real estate					
Owner occupied	5 569	4 416	- -	2 623	174
Non-owner occupied	- -	- -	- -	112	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	2 037	1 013	- -	851	- -
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	1 201	926	- -	1 023	61
1 to 4 family – junior liens	- -	- -	- -	60	- -
5 or more family	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
All other	- -	- -	- -	- -	- -
	$8 807	$6 355	$- -	$4 669	$235

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2014
(in thousands)

With an allowance recorded:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ 84	$ 85	$ 1	$ 1 176	$ 4
Commercial real estate					
Owner occupied	376	373	51	3 663	18
Non-owner occupied	349	348	6	1 345	18
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	334	322	6	990	32
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	1 070	1 068	4	1 082	52
1 to 4 family – first liens	3 775	3 746	234	3 554	173
1 to 4 family – junior liens	618	593	9	574	58
5 or more family	120	120	2	159	9
Consumer	48	48	28	53	2
All other	- -	- -	- -	- -	- -
	$ 6 774	$ 6 703	$341	$12 596	$366

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Totals:					
Commercial – non real estate	$ 84	$ 85	$ 1	$ 1 176	$ 4
Commercial real estate	6 294	5 137	57	7 743	210
Construction	2 371	1 335	6	1 841	32
Real estate – farmland	- -	- -	- -	- -	- -
Residential	6 784	6 453	249	6 452	353
Consumer	48	48	28	53	2
All other	- -	- -	- -	- -	- -
	$15 581	$13 058	$341	$17 265	$601

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2013
(in thousands)

With no related allowance:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ --	$ --	$--	$ --	$ --
Commercial real estate					
Owner occupied	7 716	7 555	--	2 873	407
Non-owner occupied	565	562	--	112	34
Construction					
Residential	--	--	--	--	--
Commercial	2 315	1 654	--	1 716	--
Real estate					
Farmland	--	--	--	--	--
Residential					
Revolving open end	--	--	--	--	--
1 to 4 family – first liens	1 158	1 083	--	775	49
1 to 4 family – junior liens	--	--	--	111	--
5 or more family	--	--	--	--	--
Consumer	--	--	--	--	--
All other	--	--	--	--	--
	$11 754	$10 854	$--	$5 587	$490

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2013
(in thousands)

With an allowance recorded:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ 1 546	$ 1 542	$ 75	$ 1 670	$102
Commercial real estate					
Owner occupied	846	838	114	5 653	39
Non-owner occupied	139	138	1	539	4
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	546	544	6	541	36
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	1 100	1 098	5	1 220	58
1 to 4 family – first liens	3 846	3 558	144	3 747	134
1 to 4 family – junior liens	728	690	11	600	42
5 or more family	- -	- -	- -	- -	- -
Consumer	58	58	31	83	3
All other	- -	- -	- -	- -	- -
	$ 8 809	$ 8 466	$387	$14 053	$418

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Totals:					
Commercial – non real estate	$ 1 546	$ 1 542	$ 75	$ 1 670	$102
Commercial real estate	9 266	9 093	115	9 177	484
Construction	2 861	2 198	6	2 257	36
Real estate – farmland	- -	- -	- -	- -	- -
Residential	6 832	6 429	160	6 453	283
Consumer	58	58	31	83	3
All other	- -	- -	- -	- -	- -
	$20 563	$19 320	$387	$19 640	$908

Additional funds are committed to be advanced to clients with impaired loans, as of December 31, 2014 and 2013 in the amounts of $828 thousand and $1.4 million, respectively.

Note 4. Allowance for Loan Losses (Continued)

Modifications
(in thousands except number of contracts)

For the Year Ended
December 31, 2014

Troubled Debt Restructurings	Number Of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial – non real estate			
Commercial and industrial	--	$ --	$ --
Commercial real estate			
Owner occupied	--	--	--
Non owner occupied	--	--	--
Construction			
Residential	--	--	--
Commercial	--	--	--
Real Estate			
Farmland	--	--	--
Residential			
Revolving open end 1 to 4 family	--	--	--
1 to 4 family – first liens	1	151	156
1 to 4 family – junior liens	--	--	--
5 or more family	--	--	--
Consumer	--	--	--
All Other	--	--	--
Totals	1	$151	$156

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment
Commercial – non real estate		
Commercial and industrial	--	$ --
Commercial real estate		
Owner occupied	--	--
Non owner occupied	--	--
Construction		
Residential	2	315
Commercial	--	--
Real Estate		
Farmland	--	--
Residential		
Revolving open end 1 to 4 family	--	--
1 to 4 family – first liens	--	--
1 to 4 family – junior liens	--	--
5 or more family	--	--
Consumer	--	--
All Other	--	--
Totals	2	$315

Loans having been greater than 30 days past due at any time subsequent to the restructuring date in the current year are considered as having defaulted.

Note 4. Allowance for Loan Losses (Continued)

Modifications
(in thousands except number of contracts)

For the Year Ended
December 31, 2013

Troubled Debt Restructurings	Number Of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial – non real estate			
Commercial and industrial	- -	$ - -	$ - -
Commercial real estate			
Owner occupied	2	305	303
Non owner occupied	1	140	140
Construction			
Residential	- -	- -	- -
Commercial	1	60	60
Real Estate			
Farmland	- -	- -	- -
Residential			
Revolving open end 1 to 4 family	- -	- -	- -
1 to 4 family – first liens	4	1 548	1 580
1 to 4 family – junior liens	1	40	40
5 or more family	- -	- -	- -
Consumer	- -	- -	- -
All Other	- -	- -	- -
Totals	9	$2 093	$2 123

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment
Commercial – non real estate		
Commercial and industrial	- -	$ - -
Commercial real estate		
Owner occupied	2	299
Non owner occupied	- -	- -
Construction		
Residential	- -	- -
Commercial	- -	- -
Real Estate		
Farmland	- -	- -
Residential		
Revolving open end 1 to 4 family	- -	- -
1 to 4 family – first liens	- -	- -
1 to 4 family – junior liens	1	37
5 or more family	- -	- -
Consumer	- -	- -
All Other	- -	- -
Totals	3	$336

As of December 31, 2014 and 2013 there were $12.3 million and $18.4 million of troubled debt restructurings, respectively.

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2014
(in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing	Non-Accrual
Commercial – non real estate								
Commercial and industrial	$ --	$ --	$ --	$ --	$ 8 673	$ 8 673	$ --	$ --
Commercial real estate								
Owner occupied	153	--	3 031	3 184	52 914	56 098	--	3 031
Non owner occupied	--	--	--	--	28 768	28 768	--	--
Construction								
Residential	--	--	--	--	4 349	4 349	--	--
Commercial	97	57	--	154	19 475	19 629	--	1 038
Real estate								
Farmland	--	--	825	825	2 277	3 102	--	825
Residential								
Revolving open end	--	--	--	--	6 479	6 479	--	10
1 to 4 family – first liens	1 610	40	377	2 027	104 824	106 851	226	327
1 to 4 family – junior liens	20	--	--	20	5 460	5 480	--	--
5 or more family	--	--	--	--	5 501	5 501	--	--
Consumer	7	--	--	7	8 073	8 080	--	--
All other	--	--	--	--	3 015	3 015	--	--
Totals	$1 887	$ 97	$4 233	$6 217	$249 808	$256 025	$ 226	$5 231
Percentage to Total Loans	0.74%	0.04%	1.65%	2.43%	97.57%		0.09%	2.04%

Included in the 30 or more days past due loans are certain non-accrual loans in the amount of $4.0 million. The remaining non-accrual loans of $1.2 million are in current status.

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2013
(in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing	Non-Accrual
Commercial – non real estate								
Commercial and industrial	$ --	$ --	$ --	$ --	$ 8 269	$ 8 269	$ --	$ --
Commercial real estate								
Owner occupied	--	161	299	460	54 489	54 949	--	756
Non owner occupied	--	--	--	--	25 655	25 655	--	--
Construction								
Residential	--	--	--	--	3 859	3 859	--	--
Commercial	85	67	--	152	15 779	15 931	--	1 721
Real estate								
Farmland	--	--	--	--	1 621	1 621	--	--
Residential								
Revolving open end	4	--	12	16	5 643	5 659	--	12
1 to 4 family – first liens	2 405	217	226	2 848	93 894	96 742	--	706
1 to 4 family – junior liens	249	--	--	249	5 558	5 807	--	132
5 or more family	--	--	--	--	5 644	5 644	--	--
Consumer	13	--	--	13	6 661	6 674	--	--
All other	--	--	--	--	575	575	--	--
Totals	$2 756	$ 445	$ 537	$3 738	$227 647	$231 385	$ --	$3 327
Percentage to Total Loans	1.20%	0.19%	0.23%	1.62%	98.38%		0.00%	1.44%

Included in the 30 or more days past due loans are certain non-accrual loans in the amount of $0.9 million. The remaining non-accrual loans of $2.4 million are in current status.

The past due policy of the bank is to report all classes of loans past due in the following categories:

- 30 to 59 days past due (principal or interest)
- 60 to 89 days past due (principal or interest)
- 90 days or more past due (principal or interest)
- Nonaccrual status.

Note 4. Allowance for Loan Losses (Continued)

The following table summarizes non-performing assets at December 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Nonperforming assets		
Nonaccrual loans (1)	$5 231	$ 3 327
Other Real Estate Owned	1 198	2 658
Total nonperforming assets	$6 429	$ 5 985
Performing troubled debt restructures (2)	$8 229	$16 041
Loans past due 90 days accruing interest	$ 226	$ --

(1) Currently there are three restructurings in non-performing assets with a balance of $4.1 million at December 31, 2014. There were eight restructurings in non-performing assets with a balance of $2.3 million at December 31, 2013.

(2) Within this amount is one restructuring with a balance totaling $38 thousand, 30 or more days past due at December 31, 2014. There were two restructurings with balances totaling $282 thousand at December 31, 2013, 30 or more days past due.

The interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $252 thousand and $175 thousand in 2014 and 2013, respectively.

Note 5. Premises and Equipment, Net

Premises and equipment consists of the following:

	December 31	
	2014	2013
	(in thousands)	
Premises and improvements	$ 9 279	$ 9 387
Furniture and equipment	4 916	4 766
	$14 195	$14 153
Less accumulated depreciation	6 874	6 619
	$ 7 321	$ 7 534

Depreciation included in operating expense for 2014 and 2013 was $445 thousand and $386 thousand, respectively.

Note 6. Deposits

The aggregate amount of time deposits with a balance of $250,000 or more was $14.5 million and $9.3 million at December 31, 2014 and 2013, respectively.

At December 31, 2014, the scheduled maturities of all time deposits (in thousands) are as follows:

2015	$28 931
2016	15 475
2017	8 046
2018	4 349
2019	21 231
	$78 032

Note 6. Deposits (Continued)

Brokered deposits totaled $8.9 million and $8.9 million at December 31, 2014 and 2013, respectively. Certificates of deposits included in these totals are $4.5 million and $4.5 million at December 31, 2014 and 2013, respectively.

Deposits of the company's directors, executive officers and associates totaled $3.0 million at December 31, 2014 and totaled $2.1 million at December 31, 2013.

Note 7. Borrowings

Short-term borrowings consist of securities sold under agreements to repurchase, which totaled $2.0 million and $1.8 million as of December 31, 2014 and 2013, respectively.

The table below presents selected information on these short-term borrowings (in thousands):

	December 31	
	2014	2013
Balance outstanding at year end	$2 040	$1 775
Maximum balance at any month-end during the year	$3 711	$6 070
Average balance for the year	$2 762	$3 532
Weighted average rate for the year	0.38%	0.35%
Weighted average rate at year end	0.35%	0.35%

The company has a $5 million Federal Home Loan Bank advance with an interest rate of 1.39% as of December 31, 2014. This advance matures May 30, 2018. The company also has another Federal Home Loan Bank advance with an interest rate of 1.43% and a balance of $4.5 million maturing June 26, 2019. This advance amortizes to the maturity date.

Noncore funding capabilities, including borrowing, provide additional liquidity. The subsidiary bank maintains a federal funds line with one financial institution and is a member of the Federal Home Loan Bank of Pittsburgh. The subsidiary bank also has a credit line with the Federal Reserve discount window. At December 31, 2014, the subsidiary bank has total credit available through these institutions of approximately $95.9 million.

Securities sold under agreement to repurchase to the company's directors, executive officers and associates totaled $569 thousand at December 31, 2014 and totaled $687 thousand at December 31, 2013.

Note 8. Employee Benefit Plans

The company's defined benefit pension plan, covering full-time employees over 21 years of age upon completion of one year of service, was frozen as of October 31, 2009, the end of the plan year. Benefits will be based on average compensation for the five consecutive full calendar years of service which produces the highest average as of October 31, 2009. No additional participants may enter the plan, and there will be no further increases in benefits due to increases in salaries and years of service.

The company sponsors an unfunded postretirement life insurance plan covering certain retirees with 25 years of service who are over the age of 60 and an unfunded health care plan for certain retirees that met certain eligibility requirements. This plan is not available to future retirees.

The company sponsors a 401(k) retirement savings plan available to all employees meeting certain age and service requirements. Employees become eligible to participate in the plan upon reaching age 21 and completing one year of service. Employees can make a salary deferral election authorizing the company to withhold up to the amount allowed by law each calendar year. The company may make a discretionary matching contribution each plan year. The company may also make other discretionary contributions to the plan. The company's match for this plan has been increased with the freezing of the defined benefit plan as described above. The company made 401(k) matching contributions of $272 thousand and $256 thousand in 2014 and 2013, respectively.

Note 8. Employee Benefit Plans (Continued)

The company has entered into contracts with three retirees where the company has agreed to pay the beneficiaries of two participants $50,000 each and the beneficiary of one participant $25,000 at the death of the participants. This postretirement benefit has been accrued as of December 31, 2014. While these liabilities are unfunded, life insurance has been obtained by the company to help offset these payments.

Obligations and funded status:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	$ 8 494	$9 320	$ 331	$ 357
Interest cost	410	380	15	15
Actuarial loss (gain)	1 759	(751)	66	(23)
Benefits paid	(481)	(455)	(22)	(18)
Benefit obligation, ending	$10 182	$8 494	$ 390	$ 331
Change in plan assets:				
Fair value of plan assets, beginning	$ 8 915	$8 131	$ --	$ --
Actual return on plan assets	420	1 239	--	--
Employer contributions	--	--	22	18
Benefits paid	(481)	(455)	(22)	(18)
Fair value of plan assets, ending	$ 8 854	$8 915	$ --	$ --
Funded status at end of year	$ (1 328)	$ 421	$(390)	$(331)
Unrecognized net loss (gain)	--	--	59	(7)
Accounts recognized on consolidated balance sheet as:				
Accrued benefit (liabilities) assets	$ (1 328)	$ 421	$(331)	$(338)
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss (gain)	$ 3 889	$2 065	$ 59	$ (7)
Deferred tax (asset) liability	(1 478)	(785)	(22)	3
	$ 2 411	$1 280	$ 37	$ (4)

The accumulated benefit obligation for the defined benefit pension plan was $10.2 million and $8.5 million at December 31, 2014 and 2013, respectively.

Note 8. Employee Benefit Plans (Continued)

Components of net periodic benefit cost and other amounts recognized in accumulated other comprehensive loss:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Components of net periodic benefit cost:				
Interest cost	$ 410	$ 380	$ 15	$ 15
Expected return on plan assets	(592)	(540)	- -	- -
Amortization of actuarial loss	107	257	- -	- -
Net periodic benefit cost	$ (75)	$ 97	$ 15	$ 15
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:				
Net actuarial loss (gain)	$1 931	$(1 451)	$ 66	$(23)
Deferred tax	(693)	649	(25)	10
Amortization of actuarial loss	(107)	(257)	- -	- -
Total recognized in other comprehensive loss (income)	$1 131	$(1 059)	$ 41	$(13)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	$1 056	$ (962)	$ 56	$ 2

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year approximates $277 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	4.97%	4.18%	4.75%	4.25%
Expected return on plan assets	6.83%	6.83%	- -	- -
Rate of compensation increase	N/A	N/A	3.00%	3.00%
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.16%	4.97%	4.00%	4.75%
Expected return on plan assets	6.81%	6.83%	- -	- -
Rate of compensation increase	N/A	N/A	N/A	N/A

Note 8. Employee Benefit Plans (Continued)

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with their investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

The fair value (in thousands) of the company's pension assets as of December 31, 2014 and 2013, respectively, are as follows:

		Fair Value Measurement at December 31, 2014		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 53	$ 53	$ - -	$- -
Equity securities				
U.S. companies	4 077	4 077	- -	- -
International companies	846	846	- -	- -
U. S. Treasury securities	288	- -	288	- -
U. S. Corporate bonds	3 074	- -	3 074	- -
International Corporate bonds	516	- -	516	- -
Total	$8 854	$4 976	$3 878	$- -

		Fair Value Measurement at December 31, 2013		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 181	$ 181	$ - -	$- -
Equity securities				
U.S. companies	4 143	4 143	- -	- -
International companies	913	913	- -	- -
U. S. Treasury securities	243	- -	243	- -
U. S. Corporate bonds	2 942	- -	2 942	- -
International Corporate bonds	493	- -	493	- -
Total	$8 915	$5 237	$3 678	$- -

Note 8. Employee Benefit Plans (Continued)

Asset Allocation

The pension plan's asset allocations at December 31, 2014 and 2013 by asset category are as follows:

	Plan Assets at December 31	
	2014	2013
Asset Category		
Equities	56%	57%
Fixed income/cash	44%	43%
Total	100%	100%

The trust fund is diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 55% equities, 44% fixed income and 1% cash. The trust fund allocation is reviewed on a monthly basis and rebalanced to within the acceptable ranges as needed. The investment manager selects investment fund managers with demonstrated experience and expertise and funds with demonstrated historical performance for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

There is no company common stock included in the equity securities of the pension plan at December 31, 2014 and 2013.

Cash Flow

The company currently expects to make no contribution to its pension plan in 2015 and $27 thousand to its postretirement plan in 2015.

The following benefit payments (in thousands) are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2015	$ 502	$ 27
2016	511	27
2017	511	27
2018	521	27
2019	534	26
Thereafter	2 935	140

For measurement purposes, a 5.00% and 5.35% annual rate of increase in per capita health care costs of covered benefits was assumed for the retiree health care plan for 2014 and 2013.

Note 8. Employee Benefit Plans (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
	(in thousands)	
Effect on the health care component of the accumulated postretirement benefit obligation	$55	$(47)
Effect on total of service and interest cost components of net periodic other postretirement health care benefit cost	2	(2)

Note 9. Weighted Average Number of Shares Outstanding and Earnings Per Common Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential diluted common stock had no effect on earnings per share available to stockholders.

	2014		2013	
	Average Shares (in thousands)	Per Share Amount	Average Shares (in thousands)	Per Share Amount
Basic earnings per common share	3 390	$.64	3 390	$.69
Effect of dilutive securities:				
Stock options	- -		- -	
Diluted earnings per common share	3 390	$.64	3 390	$.69

Stock options for 82,737 and 92,418 average shares of common stock were not considered in computing diluted earnings per common share for 2014 and 2013, respectively, because they were anti-dilutive.

Note 10. Stock-Based Compensation

During 2003, the company adopted an incentive stock plan which allowed key employees and directors to increase their personal financial interest in the company. This plan permitted the issuance of incentive stock options and non-qualified stock options. The plan expired on February 11, 2013 and, therefore, no additional options can be granted under the plan. Current options outstanding are eligible to be exercised until the earlier of their forfeiture or expiration date of options. The expiration of the plan has no effect on existing outstanding options.

Note 10. Stock-Based Compensation (Continued)

A summary of option activity under the plan as of December 31, 2014, and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	92 418	$14.85		
Exercised	- -	- -		
Forfeited	(2 372)	16.38		
Expired	(16 990)	11.28		
Outstanding at end of year	73 056	$15.63	1	$- -
Exercisable at end of year	73 056	$15.63	1	$- -

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2014. The aggregate intrinsic values change based on changes in the market value of the company's stock.

The exercise price of stock options granted under this plan, both incentive and non-qualified, cannot be less than the fair market value of the common stock on the date that the option is granted. The maximum term for an option granted under this plan is ten years and options granted may be subject to a vesting schedule. The non-qualified options granted are exercisable immediately. The incentive options granted are subject to a five year vesting period whereby the grantees are entitled to exercise one fifth of the options on the anniversary of the grant date over the next five years.

The following table summarizes options outstanding at December 31, 2014:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$14.00	24 861	0.0	$14.00	24 861	$14.00
15.60	22 714	2.0	15.60	22 714	15.60
17.25	25 481	1.0	17.25	25 481	17.25
	73 056			73 056	

Note 11. Income Taxes

The company files income tax returns in the U. S. Federal jurisdiction and the states of West Virginia, Virginia and Maryland. With few exceptions, the company is no longer subject to U. S. Federal, state and local income tax examinations by tax authorities for years prior to 2011.

Net deferred tax assets (in thousands) consist of the following components as of December 31, 2014 and 2013:

	2014	2013
Deferred tax assets:		
Reserve for loan losses	$ --	$ 224
AMT	251	68
Accrued pension expense	544	--
Accrued postretirement benefits	171	147
Nonaccrual interest	186	164
Stock option expense	35	35
Home equity closing costs	--	1
Securities available for sale	26	--
Net loan origination fees	106	122
Charitable contributions	41	68
Net operating loss carry forward	239	543
OREO valuation allowance	290	531
OREO built in gain	129	240
	$2 018	$2 143
Deferred tax liabilities:		
Reserve for loan losses	$ 10	$ --
Depreciation	67	72
Accrued pension expense	--	122
Gain on intangible	9	7
Securities available for sale	--	51
	$ 86	$ 252
Net deferred tax assets	$1 932	$1 891

The provision for income taxes charged to operations for the years ended December 31, 2014 and 2013 consists of the following (in thousands):

	2014	2013
Current tax expense	$ 305	$ 69
Deferred tax expense	754	1 019
	$1 059	$1 088

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2014 and 2013 due to the following (in thousands):

	2014	2013
Computed "expected" tax expense	$1 094	$1 161
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(142)	(142)
State income tax expense	82	100
Other	25	(31)
	$1 059	$1 088

Note 11. Income Taxes (Continued)

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. Management considers all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed. Management's assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to the company's core earnings capacity and its prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given the uncertain economic outlook, banking industry conditions and other factors. Based upon an analysis of available evidence, management has determined that it is "more likely than not" that the company's deferred income tax assets as of December 31, 2014 will be fully realized and therefore no valuation allowance to the company's deferred income tax assets was recorded. However, the company can give no assurance that in the future its deferred income tax assets will not be impaired because such determination is based on projections of future earnings and the possible effect of certain transactions, which are subject to uncertainty and based on estimates that may change due to changing economic conditions and other factors. Due to the uncertainty of estimates and projections, it is possible that the company will be required to record adjustments to the valuation allowance in future reporting periods.

The company has approximately $3.7 million of net operating loss carryforwards which can be offset against future West Virginia taxable income. These carryforwards also expire through December 31, 2031. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

Note 12. Commitments and Contingent Liabilities

In the normal course of business, there are outstanding various commitments and contingent liabilities which are not reflected in the accompanying financial statements. The company does not anticipate losses as a result of these transactions. See Note 15 with respect to financial instruments with off-balance-sheet risk.

The company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final bi-weekly reporting periods which included December 31, 2014 and 2013, this requirement was met by the amount of vault cash.

In the normal course of business, the company may be involved in various legal proceedings. Based on the information presently available, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business or the financial condition or results of operations of the company.

The table below presents the contractual obligations of the company as of December 31, 2014 not disclosed in other notes (in thousands):

	Lease Obligations for Real Estate	Lease Obligations for Equipment
2015	$ 98	$ 64
2016	69	64
2017	53	64
2018	53	64
2019	53	30
Thereafter	95	0
	$421	$286

Note 13. Retained Earnings

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the bank to the company. The approval of the State Banking Commissioner is required if the total of all dividends declared in any calendar year exceeds the bank's net profits for that year combined with its retained net profits for the preceding two calendar years.

At January 1, 2015 the bank has available $3.8 million for the payment of dividends.

In addition, dividends paid by the bank to the company would be prohibited if the effect thereof would cause the bank's capital to be reduced below applicable minimum capital requirements.

Note 14. Accumulated Other Comprehensive Income (Loss)

The balances in accumulated other comprehensive (loss) are shown in the following table (in thousands):

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension and Other Post Retirement Benefits	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2012	$ 235	$(2 349)	$(2 114)
Net unrealized holding gains (losses) on securities, net of tax of $93	(151)	- -	(151)
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $569	- -	1 072	1 072
Balance at December 31, 2013	84	(1 277)	(1 193)
Net unrealized holding gains (losses) on securities, net of tax of $78	(126)	- -	(126)
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $718	- -	(1 172)	(1 172)
Balance at December 31, 2014	$ (42)	$(2 449)	$(2 491)

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category during the years ended December 31, 2014 and 2013 (in thousands):

	2014	2013	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized gains on securities available for sale, net	$ 128	$ 29	Gains on securities available for sale, net
Tax effect	49	11	Income tax expense
Net of tax	$ 79	$ 18	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	$(107)	$(257)	Salaries and employee benefits
Tax effect	41	99	Income tax expense
Net of tax	$ (66)	$(158)	Net of tax
Total reclassifications for the period	$ 13	$(140)	Net of tax

(1) This accumulated other comprehensive loss component is included in the computation of net pension benefit cost (see Note 8 Employee Benefit Plans for additional details).

Note 15. Financial Instruments With Off-Balance-Sheet Risk

The company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. Those financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The company's exposure to credit loss in the event of nonperformance by the borrowers for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the company's exposure to off-balance-sheet risk as of December 31, 2014 and 2013 (in thousands) is as follows:

	2014	2013
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	$45 812	$45 471
Standby letters of credit	1 404	1 770

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically is cash or real estate.

Unfunded commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. The majority of the lines of credit are collateralized and usually contains a specified maturity date.

Standby letters of credit are conditional commitments issued by the company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The company generally holds collateral supporting those commitments if deemed necessary.

Note 16. Fair Value Measurements

Determination of Fair Value

The company uses fair value measurements to record fair value adjustments for certain assets and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Note 16. Fair Value Measurements (Continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

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

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

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

The following methods and assumptions were used by the company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values.

Certificates of Deposits with Other Financial Institutions

Fair value for certificates of deposits with other financial institutions was estimated using discounted cash flow analysis.

Securities

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). Certain of the equity securities with inactive markets utilize level 3 which may include judgment or estimation.

Note 16. Fair Value Measurements (Continued)

Loans

Fair values for loans were estimated using discounted cash flow analyses. Valuation methods for impaired loans are described below.

Loans Held for Sale

The fair value of loans held for sale is based on outstanding commitments from investors.

FHLB Stock

The carrying amounts of FHLB stock approximate fair value based on redemption provisions of the FHLB.

Bank Owned Life Insurance (BOLI)

The carrying amounts of BOLI approximate fair value.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flow analysis.

Short-Term Borrowings

The carrying amounts of borrowings under repurchase agreements and federal funds purchased approximate fair value.

FHLB Advances

The fair values of the company's FHLB advances are estimated using discounted cash flow analysis based on the company's incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Financial Instruments

At December 31, 2014 and 2013, the fair value of loan commitments and standby-letters of credit was immaterial. Therefore, they have not been included in the following table.

Note 16. Fair Value Measurements (Continued)

The carrying amounts and estimated fair values of the company's financial instruments are as follows (in thousands):

		Fair Value Measurements at December 31, 2014 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 11 324	$ 11 324	$ --	$ --	$ 11 324
Certificates of deposits in other financial institutions	2 250	--	2 262	--	2 262
Securities available for sale	33 892	--	33 225	667	33 892
Loans, net	253 360	--	--	253 641	253 641
Loans held for sale	69	--	69	--	69
FHLB Stock	642	--	642	--	642
BOLI	7 585	--	7 585	--	7 585
Accrued interest receivable	765	--	765	--	765
Liabilities					
Deposits	$277 156	$ --	$277 610	$ --	$277 610
Securities sold under agreement to repurchase	2 040	--	2 040	--	2 040
FHLB advances	9 516	--	9 476	--	9 476
Accrued interest payable	170	--	170	--	170

		Fair Value Measurements at December 31, 2013 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 12 066	$ 12 066	$ --	$ --	$ 12 066
Certificates of deposits in other financial institutions	2 000	--	2 019	--	2 019
Securities available for sale	32 554	--	31 834	720	32 554
Loans, net	228 264	--	--	227 157	227 157
FHLB Stock	940	--	940	--	940
BOLI	7 373	--	7 373	--	7 373
Accrued interest receivable	751	--	751	--	751
Liabilities					
Deposits	$259 180	$ --	$259 857	$ --	$259 857
Securities sold under agreement to repurchase	1 775	--	1 775	--	1 775
FHLB advances	5 000	--	4 916	--	4 916
Accrued interest payable	142	--	142	--	142

Note 16. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following table presents the balances (in thousands) of financial assets measured at fair value on a recurring basis as of December 31, 2014 and 2013:

		Fair Value Measurements at December 31, 2014 Using		
Description	Balance as of December 31 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale debt securities				
U.S. Government sponsored agency securities	$29 206	$--	$29 206	$ --
State and municipal securities	4 009	--	4 009	--
Total available for sale debt securities	33 215	--	33 215	--
Available for sale equity securities				
Financial services industry	677	--	10	667
Total available for sale securities	$33 892	$--	$33 225	$667

		Fair Value Measurements at December 31, 2013 Using		
Description	Balance as of December 31 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale debt securities				
U.S. Government sponsored agency securities	$25 337	$--	$25 337	$ --
State and municipal securities	6 488	--	6 488	--
Total available for sale debt securities	31 825	--	31 825	--
Available for sale equity securities				
Financial services industry	729	--	9	720
Total available for sale securities	$32 554	$--	$31 834	$720

Note 16. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2014			
Asset	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Available for sale equity securities				
Financial services industry	$667	Discounted Market Price to approximate book value	Lack of marketability	10% - 30% (20%)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) ($ in thousands)
	Available for Sale Equity Securities
Beginning Balance January 1, 2014	$720
Transfers into Level 3	- -
Transfers out of Level 3	- -
Total unrealized losses included in other comprehensive loss	(53)
Ending Balance December 31, 2014	$667

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis in accordance with generally accepted accounting principles.

The following describes the valuation techniques used by the company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: ASC 820 applies to loans measured for impairment at an observable market price (if available), present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by a licensed appraiser outside of the company using observable market data. In certain instances an internal independent collateral valuation may be performed to determine value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income. The carrying values of all impaired loans are considered to be Level 3.

Note 16. Fair Value Measurements (Continued)

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

Real estate acquired through foreclosure is transferred to other real estate owned (OREO). The measurement of loss associated with OREO is based on the fair value of the collateral less anticipated selling costs compared to the unpaid loan balance. The value of OREO collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the company using observable market data.

Any fair value adjustments are recorded in the period incurred and expensed against current earnings. The carrying values of all OREO are considered to be Level 3.

The following table summarizes the company's assets that were measured at fair value (in thousands) on a nonrecurring basis as of December 31, 2014 and 2013.

		Carrying Value at December 31, 2014		
Description	Balance as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Impaired Loans with a valuation allowance	$6 362	$ - -	$- -	$6 362
OREO	1 198	- -	- -	1 198

		Carrying Value at December 31, 2013		
Description	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Impaired Loans with a valuation allowance	$8 079	$ - -	$- -	$8 079
OREO	2 658	- -	- -	2 658

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2014			
	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Asset				
Impaired loans with a valuation allowance	$6 362	Appraisal and income or market valuation	Market discount	0% - 100% (5.1%)
OREO	$1 198	Appraisal and income or market valuation	Market discount	0% - 100% (39.9%)

Note 17. Regulatory Matters

The company (on a consolidated basis) and the bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the company's and the bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the company and bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the company and the bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014 and 2013, that the company and the bank meet all capital adequacy requirements to which they are subject. The most recent notification from the FDIC categorized the bank as "well capitalized" under the regulatory framework for prompt, corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

The company's and the bank's actual capital amounts and ratios are presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2014:						
Total capital (to risk-weighted assets):						
Consolidated	$35 073	14.70%	$19 086	8.0%	N/A	N/A
Bank of Charles Town	$34 234	14.40%	$19 023	8.0%	$23 779	10.0%
Tier 1 capital (to risk-weighted assets):						
Consolidated	$32 408	13.58%	$ 9 543	4.0%	N/A	N/A
Bank of Charles Town	$31 569	13.28%	$ 9 512	4.0%	$14 268	6.0%
Tier 1 capital (to average assets):						
Consolidated	$32 408	10.07%	$12 868	4.0%	N/A	N/A
Bank of Charles Town	$31 569	9.84%	$12 837	4.0%	$16 046	5.0%
As of December 31, 2013:						
Total capital (to risk-weighted assets):						
Consolidated	$32 830	15.13%	$17 357	8.0%	N/A	N/A
Bank of Charles Town	$31 965	14.79%	$17 289	8.0%	$21 612	10.0%
Tier 1 capital (to risk-weighted assets):						
Consolidated	$30 113	13.88%	$ 8 679	4.0%	N/A	N/A
Bank of Charles Town	$29 264	13.54%	$ 8 645	4.0%	$12 967	6.0%
Tier 1 capital (to average assets):						
Consolidated	$30 113	10.11%	$11 920	4.0%	N/A	N/A
Bank of Charles Town	$29 264	9.85%	$11 888	4.0%	$14 860	5.0%

Note 18. Parent Company Only Financial Statements

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Balance Sheets
December 31, 2014 and 2013
(in thousands)

	2014	2013
ASSETS		
Cash	$ 22	$ 29
Investment in subsidiary	29 211	28 881
Equity securities available for sale, at fair value	677	729
Other assets	140	126
Total Assets	$30 050	$29 765
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Other liabilities	$ - -	$ - -
Total Liabilities	$ - -	$ - -
STOCKHOLDERS' EQUITY		
Common stock	$ 3 672	$ 3 672
Surplus	3 944	3 944
Undivided profits	27 791	26 208
Accumulated other comprehensive loss, net	(2 491)	(1 193)
	$32 916	$32 631
Less cost of shares acquired for the treasury	(2 866)	(2 866)
Total Stockholders' Equity	$30 050	$29 765
Total Liabilities and Stockholders' Equity	$30 050	$29 765

Note 18. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2014 and 2013
(in thousands)

	2014	2013
Income		
Dividends from subsidiary	$ 636	$ 216
Gains on securities available for sale, net	- -	29
Total Income	$ 636	$ 245
Expenses		
Public relations & new business development	$ 4	$ 6
Transfer agent expense	26	22
Computer services	4	3
Director and committee fees	13	7
Legal fees	17	14
Other professional fees	8	11
Postage	7	4
Proxy solicitation	10	9
Printing, stationery and supplies	21	19
Other taxes	1	1
Total Expenses	$ 111	$ 96
Income before Income Tax (Benefit) and Equity in Undistributed Income of Subsidiary	$ 525	$ 149
Income Tax (Benefit)	(38)	(20)
Income before Equity in Undistributed Income of Subsidiary	$ 563	$ 169
Equity in Undistributed Income of Subsidiary	1 596	2 159
Net Income	$2 159	$2 328

Note 18. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2 159	$ 2 328
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (income) of Subsidiary	(1 596)	(2 159)
Gain on sale of securities available for sale, net	- -	(29)
Increase (decrease) in other assets	6	(6)
Net cash provided by operating activities	$ 569	$ 134
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities available for sale, net	$ - -	$ 278
Net cash provided by investing activities	$ - -	$ 278
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	$ (576)	$ (407)
Net cash used in financing activities	$ (576)	$ (407)
(Decrease) increase in cash and cash Equivalents	$ (7)	$ 5
CASH AND CASH EQUIVALENTS		
Beginning	$ 29	$ 24
Ending	$ 22	$ 29

Note 19. Subsequent Events

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 13, 2015, the date the financial statements were available to be issued. Effective January 1, 2015, as part of a reorganization which was previously approved by the shareholders, the authorized capital of Potomac Bancshares, Inc. was increased from five million to ten million shares of common stock, par value $1.00 per share. In the opinion of management, all subsequent events requiring recognition or disclosure have been included in the consolidated financial statements.