COPY

RECEIVED

MAR 24 2015

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

Board of Governors of the Federal Reserve System

FRB RICHMOND

Annual Report of Holding Companies—FR Y-6

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

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

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

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, BEN M. SUSMAN
Name of the Holding Company Director and Official

PRESIDENT
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

3/20/15
Date of Signature

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

- [x] 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 3186428
C.I.

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

12/31/2014
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

MOUNT HOPE BANKSHARES INC.
Legal Title of Holding Company

602 MAIN STREET/P O BOX 751
(Mailing Address of the Holding Company) Street / P.O. Box

MOUNT HOPE	WV	25880
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

BEN M. SUSMAN	PRESIDENT
Name	Title

304-877-5551
Area Code / Phone Number / Extension

304-877-3851
Area Code / FAX Number

bsusman@mthopebank.com
E-mail Address

www.mthopebank.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."
- [x] No

Form FR Y-6

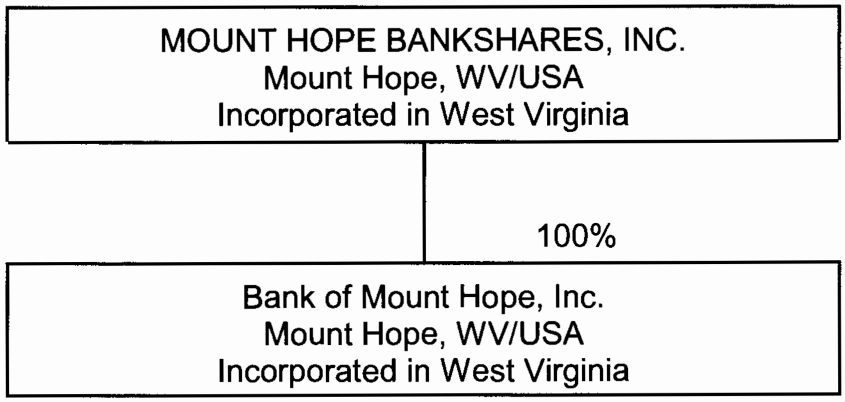
Mount Hope Bankshares, Inc.

Mount Hope, West Virginia/USA
Fiscal Year Ending December 31, 2014

Report Item 1: Annual Report to Shareholders

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

2: Organizational Chart



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

Results: A list of branches for your depository institution: BANK OF MOUNT HOPE, INC. (ID_RSSD: 352820).
This depository institution is held by MOUNT HOPE BANKSHARES, INC. (3186428) of MOUNT HOPE, 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	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head	352820	BANK OF MOUNT HOPE,	602 MAIN STREET	MOUNT	WV	25880	FAYETTE	UNITED	8224	0	BANK OF MOUNT HOPE,	352820	
OK		Full Service	354927	BECKLEY BRANCH	204 PINEWOOD DRIVE	BECKLEY	WV	25801	RALEIGH	UNITED	228745	3	BANK OF MOUNT HOPE,	352820	
OK		Full Service	3285349	OAK HILL BRANCH	835 EAST MAIN STREET	OAK HILL	WV	25901	FAYETTE	UNITED	228746	4	BANK OF MOUNT HOPE,	352820	

3.1: Securities Holders

Current Shareholders with ownership, control, or holdings of 5% or more with power to vote as of December 31, 2014			
(1)(a) **Name & Address** **(City, State/USA)**	**(1)(b)** **Country of Citzenship or Incorporation**	**(1)(c)** **Number & Percentage of each class of Voting Securities**	
		#	**%**
Phyllis Bonifacio or Lloyd D. Bonifacio or Floyd D. Bonifacio JTWROS Mount Hope, WV	USA	19,452	5.18%
Bank of Mount Hope, Inc. E.S.O.P. Mount Hope, WV/USA E.E. Bibb, III, Trustee Beckley, WV	USA	35,833	9.54%
Ronald E. Clay Pineville, WV	USA	5,747	1.53%
Retirement Accounts		7,245	1.93%
Trustee, Susman Wartella Trust		5,732	1.53%
ESOP Account (2013)		5,176	1.38%
Total Ronald E. Clay Votes		23,900	6.37%
Ben M. Susman Beckley, WV	USA	50,031	13.33%
Dixie Susman or Ben Susman JT Ten WROS		2,000	0.53%
Retirement Accounts		6,634	1.77%
E.S.O.P. Account (2013)		9,754	2.60%
Sally M. Susman with POA Ben Susman*		99,477	26.50%
RBC-Sally Susman IRA with POA Ben Susman*		4,000	1.07%
Total Ben M. Susman Votes		171,896	45.79%
Sally M. Susman * Beckley, WV	USA	99,477	26.50%
Alisa Wartella Trust, Sally Susman Trustee		4,175	1.11%
Irrevocable Unified Credit Trust Sally Susman Trustee		18,143	4.83%
Retirement Accounts*		4,000	1.07%
Total Sally Susman Votes		**125,795**	**33.51%**

* Shares owned by Sally M. Susman but voted by Ben M. Susman as Power of Attorney.

3.2: Securities Holders

A list of Shareholders not listed in section 3(1) with ownership, control, or holdings of 5% or more with power to vote during the year.

2(a) 2 (b) 2 (c)

NONE

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 (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Ronald E. Clay Pineville WV/USA	President Bank of Mount Hope	Director & Chairman	Director & President Bank of Mount Hope	None	6.37%	None	None
F. T. Graff, Jr. Charleston WV/USA	Attorney, Bowles Rice LLP	Director	Director, Bank of Mount Hope	Please see attached	2.39%	None	Graff-Lane Properties, LLC, 50%; HFS, LLC 45%, TOF, LLC 33.33%, Two Hands Ventures, LLC 60%
Samuel M Jasper Fayetteville WV/USA	Owner/CEO Sanshell Products, Inc. JPJ Inc Remet Products Inc	Director	Director, Bank of Mount Hope	President, Sanshell Products Inc; President, JPJ, Inc.; President, Remet Products Inc; Owner, Jasper Leasing; President, SamLin Farm LLC	1.73%	None	Sanshell Products, 100% JPJ Inc., 100% Remet Products, 64% Jasper Leasing, 100% SamLin Farms LLC, 100%

(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 (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Michael Lively Oak Hill WV/USA	Jim Lively Insurance	Director	Director Bank of Mount Hope	President, Premier Financial Corp., Member, Whistle Stop Ice Cream Shop, LLC, Vice President, Jim Lively Insurance Inc. Member, Mason Property, LLC	.48%	None	Premier Financial Corporation, 33.3%; Whistle Stop Ice Cream Shop, LLC, 50%; Mason Property, LLC, 33.3%
John Shonk IV Surf Side SC/USA	Retired	Director	Director Bank of Mount Hope	Director, Shonk-DEL LLC; Director, Shonk Land Company; Director, GASCO Limited Partnership; Director, REALCO LLC; Director, GASCO, Inc.; Director, Laurel Fork, LLC; Director, WV Mineral Properties, LLC	.62%	None	None
Ben M. Susman Beckley WV/USA	Executive Vice President, Bank of Mount Hope	President/Director	Executive Vice President & Director, Bank of Mount Hope	None	45.79%	None	None

(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 (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Bradley Wartella Beckley WV/USA	Sr Vice President, Bank of Mount Hope	Director/Vice President	Director & Senior Vice President, Bank of Mount Hope	None	2.35%	None	None

ATTACHMENT

F. T. Graff, Jr.
Charleston, WV/USA

(3)(c) Title & Position with Other Businesses (include names of other businesses)

Senior Partner, Bowles Rice LLP
Director Emeritus-United Bankshares, Inc.
Chairman of the Board/President, Chemical Alliance Zone (non-profit)
Member Emeritus, West Virginia Roundtable (non-profit)
Trustee, Wehrle Foundation (non-profit)
Trustee, Mason Family Irrevocable Trust
Secretary, West Virginia Media Holdings, LLC
Secretary, West Virginia Media Partners GP, LLC
Secretary, West Virginia Media Management, LLC
Secretary, The State Journal, LLC
Secretary, WBOY-TV, LLC
Secretary, TWRF-TV, LLC
Secretary, WOWK-TV, LLC
Secretary, WVNS-TV, LLC
President, Graff-Lane Properties, LLC
Director, Fahlgren, Inc
Director, WV Chamber of Commerce
Trustee, Anne Patricia Bright Trusts
Trustee, Elizabeth Morrison Bright Trusts
Trustee, Sarah Townsend Bright Trusts
Manager and Owner, HFS, LLC
Manager and Owner, TOF, LLC
Manager and Owner, Two Hands Ventures, LLC

MOUNT HOPE BANKSHARES, INC.
AND SUBSIDIARY

Consolidated
Financial Report
December 31, 2014

Arnett
Carbis
Toothman llp
CPAs & Advisors

CONTENTS

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

101 Washington Street East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 office | 304.346.8333 fax
800.642.3601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mount Hope Bankshares, Inc. and Subsidiary
Mount Hope, West Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mount Hope Bankshares, 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 shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Mount Hope Bankshares, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP

Charleston, West Virginia
February 25, 2015

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

ASSETS	2014	2013
Cash and due from banks	$ 3,457,399	$ 3,344,994
Interest bearing deposits with other banks	1,613,975	3,978,909
Federal funds sold	72,000	260,000
Securities available for sale	57,094,839	53,605,731
Securities held to maturity (estimated fair value, 2014 $2,657; 2013 $4,315)	2,600	4,209
Loans, less allowance for loan losses of $684,803 and $693,095, respectively	61,925,250	60,694,646
Bank premises and equipment, net	1,002,720	1,058,641
Accrued interest receivable	514,943	581,683
Other assets	471,167	733,810
Total assets	$126,154,893	$124,262,623
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non interest bearing	$ 27,819,462	$ 24,902,119
Interest bearing	73,420,089	73,976,118
Total deposits	101,239,551	98,878,237
Short-term borrowings	590,000	354,000
Long-term borrowings	8,500,000	10,500,000
Other liabilities	431,021	200,148
Total liabilities	110,760,572	109,932,385
Shareholders' Equity		
Common stock, $2 par value 387,500 shares authorized and issued, outstanding 2014 - 375,440; 2013- 375,840	775,000	775,000
Capital surplus	910,263	910,263
Retained earnings	13,477,467	12,999,496
Less cost of shares acquired for the treasury, 2014 - 12,060; 2013 - 11,660	(265,320)	(256,520)
Accumulated other comprehensive income	496,911	(98,001)
Total shareholders' equity	15,394,321	14,330,238
Total liabilities and shareholders' equity	$126,154,893	$124,262,623

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Interest income:			
Interest and fees on loans:			
Taxable	$ 2,827,804	$ 2,864,371	$ 3,232,829
Nontaxable	103,910	74,551	61,923
Interest and dividends on securities:			
Taxable	815,916	839,436	954,010
Nontaxable	303,317	275,005	253,858
Interest on deposits with other banks	1,358	1,727	2,848
Interest on Federal funds sold	647	689	295
Total interest income	4,052,952	4,055,779	4,505,763
Interest expense:			
Interest on deposits	336,693	325,778	438,458
Interest on short-term borrowings	180	257	332
Interest on long-term borrowings	186,749	183,966	406,468
Total interest expense	523,622	510,001	845,258
Net interest income	3,529,330	3,545,778	3,660,505
Provision for loan losses	3,529	4,677	22,599
Net interest income after provision for loan losses	3,525,801	3,541,101	3,637,906
Other income:			
Service charges and fees	768,941	815,410	874,150
Securities gains	3,126	97,088	66,143
Loss on sale of other assets	-	-	(1,150)
Other	250,769	266,244	273,792
	1,022,836	1,178,742	1,212,935
Other expenses:			
Salaries and employee benefits	1,820,808	1,763,839	1,697,297
Net occupancy expense	312,020	290,162	289,379
Equipment rentals, depreciation and maintenance	161,151	157,989	141,923
Legal and accounting	95,430	80,489	84,479
Data processing	278,605	250,549	244,684
Insurance	106,359	41,222	51,536
Other operating expenses	525,144	562,156	546,083
	3,299,517	3,146,406	3,055,381
Income before income tax expense	1,249,120	1,573,437	1,795,460
Income tax expense	245,294	420,710	550,043
Net income	$ 1,003,826	$ 1,152,727	$ 1,245,417
Basic earnings per common share	$ 2.67	$ 3.06	$ 3.29
Average common shares outstanding	375,673	376,096	378,773

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Net income	$ 1,003,826	$ 1,152,727	$ 1,245,417
Other comprehensive income:			
Gross unrealized gains (losses) arising during the period	978,392	(1,514,952)	269,390
Adjustments for income tax (expense) benefit	(381,573)	590,831	(105,062)
	596,819	(924,121)	164,328
Less: Reclassification adjustment for (gains)/losses included in net income	(3,126)	(97,088)	(66,143)
Adjustments for income tax expense/(benefit)	1,219	37,864	25,796
	(1,907)	(59,224)	(40,347)
Other comprehensive income, net of tax	594,912	(983,345)	123,981
Comprehensive income	$ 1,598,738	$ 169,382	$ 1,369,398

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2014, 2013 and 2012

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	$ 775,000	$ 910,263	$ 11,647,955	$ -	$ 761,363	$ 14,094,581
Net income	-	-	1,245,417	-	-	1,245,417
Cash dividends declared on common stock ($1.38 per share)	-	-	(523,999)	-	-	(523,999)
Purchase of treasury stock				(246,400)		(246,400)
Change in unrealized gain (loss) on securities	-	-	-	-	123,981	123,981
Balance, December 31, 2012	775,000	910,263	12,369,373	(246,400)	885,344	14,693,580
Net income	-	-	1,152,727	-	-	1,152,727
Cash dividends declared on common stock ($1.39 per share)	-	-	(522,604)	-	-	(522,604)
Purchase of treasury stock	-	-	-	(10,120)	-	(10,120)
Change in unrealized gain (loss) on securities	-	-	-	-	(983,345)	(983,345)
Balance, December 31, 2013	775,000	910,263	12,999,496	(256,520)	(98,001)	14,330,238
Net income	-	-	1,003,826	-	-	1,003,826
Cash dividends declared on common stock ($1.40 per share)	-	-	(525,855)	-	-	(525,855)
Purchase of treasury stock	-	-	-	(8,800)	-	(8,800)
Change in unrealized gain (loss) on securities	-	-	-	-	594,912	594,912
Balance, December 31, 2014	$ 775,000	$ 910,263	$ 13,477,467	$ (265,320)	$ 496,911	$ 15,394,321

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,003,826	$ 1,152,727	$ 1,245,417
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	105,531	104,179	97,256
Provision for loan losses	3,529	4,677	22,599
Deferred income taxes (benefit)	(1,487)	(21,316)	10,324
Amortization of security premiums (accretion) of discounts, net	599,009	539,370	666,062
(Gain) loss on sale of securities	(3,126)	(97,088)	(66,143)
(Gain) loss on sale of other real estate and repossessed assets	-	-	1,150
(Increase) decrease in accrued interest receivable	66,740	(33,731)	9,942
(Increase) decrease in other assets	262,643	246,970	127,013
(Increase) decrease in other liabilities	(147,993)	(44,325)	34,853
Net cash provided by operating activities	1,888,672	1,851,463	2,148,473
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available for sale	6,252,134	-	3,769,219
Proceeds from calls and maturities of securities available for sale	3,372,650	3,761,263	13,731,549
Principal payments received on securities available for sale	6,030,312	7,621,994	10,926,540
Principal payments received on securities held to maturity	1,600	1,623	2,354
Purchases of securities available for sale	(18,764,813)	(16,866,511)	(21,871,827)
Net (increase) decrease in interest bearing deposits with other banks	2,364,934	(3,023,631)	3,434,922
(Increase) decrease in Federal funds sold, net	188,000	833,000	(563,000)
Loans made to customers, net	(1,234,133)	531,252	(3,469,089)
Purchases of bank premises and equipment	(49,610)	(62,382)	(49,172)
Proceeds from sale of other real estate and repossessed assets	-	284,000	3,000
Net cash provided by (used in) investing activities	(1,838,926)	(6,919,392)	5,914,496

(Continued)

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW and savings accounts	4,894,340	5,565,550	1,117,196
Proceeds from sales of time deposits, net	(2,533,026)	452,523	(5,970,164)
Increase (decrease) in short-term borrowings	236,000	(74,000)	(96,000)
Proceeds from long-term borrowings	-	4,000,000	-
Principal payments made on long-term borrowings	(2,000,000)	(4,500,000)	(2,500,000)
Dividends paid	(525,855)	(522,604)	(523,999)
Purchase of treasury stock	(8,800)	(10,120)	(246,400)
Net cash provided by (used in) financing activities	62,659	4,911,349	(8,219,367)
Increase (decrease) in cash and due from banks	112,405	(156,580)	(156,398)
Cash and due from banks:			
Beginning	3,344,994	3,501,574	3,657,972
Ending	$ 3,457,399	$ 3,344,994	$ 3,501,574
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest paid to depositors	$ 336,098	$ 324,314	$ 456,109
Interest paid on short-term borrowings	$ 180	$ 257	$ 332
Interest paid on long-term borrowings	$ 186,749	$ 183,966	$ 406,468
Income taxes paid	$ 391,864	$ 479,382	$ 482,633
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Other real estate and asset repossessions acquired in settlement of loans	$ -	$ -	$ 288,150

See Notes to Consolidated Financial Statements

MOUNT HOPE BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of business: Mount Hope Bankshares, Inc., (the Company) is a one-bank holding company incorporated in West Virginia. The wholly-owned subsidiary, Bank of Mount Hope, Inc. (the Bank) is a commercial bank with operations in Fayette and Raleigh County, West Virginia. The Bank provides consumer and commercial loans and deposit services principally to individuals and small businesses in Raleigh and Fayette Counties, West Virginia and the surrounding area.

Basis of presentation: The accounting and reporting policies of Mount Hope Bankshares, Inc. and Subsidiary (the Bank) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Mount Hope Bankshares, Inc., and its subsidiary, Bank of Mount Hope, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. For the year ended December 31, 2014, the Company evaluated subsequent events through February 25, 2015.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts, savings accounts, federal funds sold and federal funds purchased are reported net since their original maturities are less than three months. Cash flows from loans and certificates of deposit and other time deposits are reported net.

Interest bearing deposits with other banks: Interest bearing deposits with other banks mature within one year and are carried at cost.

Securities: Debt and equity securities are classified as "held to maturity", "available for sale" or "trading" according to management's intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity - Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and adjusted for amortization of premiums and accretion of discounts.

Securities available for sale - Securities not classified as "held to maturity" or as "trading" are classified as "available for sale." Securities classified as "available for sale" are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at fair value, net of unrealized gains or losses, which are adjusted for applicable income taxes and reported as a separate component of shareholders' equity.

Trading securities - There are no securities classified as "trading" in the accompanying financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Loans and allowance for loan losses: Loans are stated at the amount of unpaid principal, reduced by unearned discount (if any) and an allowance for loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Unearned interest on discounted loans is amortized to income over the life of the loans, using methods which approximate the interest method. For all other loans, interest is accrued daily on the outstanding balances.

Certain direct loan costs are recognized as expense when incurred. Whereas, accounting principles generally accepted in the United States of America require that such costs be deferred and amortized as adjustments of the related loan's yield over the contractual life of the loan. The Bank's method of recognition of direct loan costs does not produce results which are materially different from those that would be recognized under accounting principles generally accepted in the United States of America. Certain direct costs, principally unreimbursed appraisal costs and dealer's fees, are deferred and the net amount of fees and costs is amortized as an adjustment of the related loans yield. The Bank is generally amortizing these amounts over the contractual life.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the specific loan agreement. Impaired loans, other than certain large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, are required to be reported at the present value of expected future cash flows discounted using the loan's original effective interest rate or, alternatively, at the loan's observable market price, or at the fair value of the loan's collateral if the loan is collateral dependent. The method selected to measure impairment is made on a loan-by-loan basis, unless foreclosure is deemed to be probable, in which case the fair value of the collateral method is used.

Generally, loans are placed on non-accrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on non-accrual status. Impaired loans are placed on non-accrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on non-accrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been a demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other real estate: Other real estate consists primarily of real estate held for resale which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or appraised market value with any writedown being charged to the allowance for loan losses. Expenses incurred in connection with operating these properties are charged to operating expenses. Gains and losses on the sales of these properties are credited or charged to operating income in the year of the transactions.

Advertising: The Bank expenses advertising costs as incurred.

Income taxes: The provision for income taxes includes Federal and state income taxes and is based on pretax income reported in the financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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

Profit sharing and thrift plan: The Bank has a contributory profit sharing plan covering substantially all employees. The Bank's contribution is discretionary and is determined by management on a yearly basis.

ESOP plan: The Bank sponsors a leveraged employee stock ownership plan that covers all employees who are eligible as to age and hours of service.

Basic earnings per share: Basic earnings per common share is computed based upon the weighted average shares outstanding. The weighted average shares outstanding were 375,673, 376,096, and 378,773 for the years ended December 31, 2014, 2013 and 2012, respectively.

Reclassifications: Certain amounts in the consolidated financial statements for 2013 and 2012, as previously presented, have been reclassified to conform to current year classifications.

Significant Authoritative Guidance: ASU 2014-01, *Investments (Topic 323) - Accounting for Investments in Affordable Housing Projects* revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. The amendments are effective for annual periods beginning after December 15, 2014 and are not expected to have a significant impact on the financial statements. The amendments are required to be applied retrospectively to all periods presented. Early adoption is permitted.

ASU 2014-04, *Receivables (Topic 310) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or 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. The amendment is effective for periods beginning after December 15, 2014 and is not expected to have a significant impact on the financial statements. Early adoption is permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASU 2014-14, *Receivables (Topic 310) – Troubled Debt Restructurings by Creditors, Classification of Certain Government – Guaranteed Mortgage Loans upon Foreclosure,* affects creditors that hold government – guarantees mortgage loans. This standard requires that a mortgage loan be derecognized and another receivable be recognized upon foreclosure based upon certain conditions. The amendment is effective prospectively for periods beginning after December 15, 2014 and is not expected to have a significant impact on the financial statements. Early adoption is permitted.

ASU 2014-11, *Transfers and Servicing (Topic 860)* requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor of and the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 is effective on January 1, 2015 and is not expected to have a significant impact on the financial statements.

Note 2. Securities

The carrying values, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2014 and 2013, are summarized as follows:

	2014			
	Carrying Value (Amortized Cost)	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to maturity:				
Taxable:				
Mortgage backed securities- U.S. Government agencies and corporations	$ 2,600	$ 57	$ -	$ 2,657
Total	$ 2,600	$ 57	$ -	$ 2,657

	2013			
	Carrying Value (Amortized Cost)	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held to maturity:				
Taxable:				
Mortgage backed securities- U.S. Government agencies and corporations	$ 4,209	$ 106	$ -	$ 4,315
Total	$ 4,209	$ 106	$ -	$ 4,315

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for Sale:				
Taxable:				
U.S. Government agencies and corporations	$ 968,208	$ 4,292	$ -	$ 972,500
Mortgage backed securities- U.S. Government agencies and corporations	25,140,827	547,102	32,066	25,655,863
Small business administration guaranteed loan pool certificate	19,429,739	75,757	132,882	19,372,614
Municipals	490,000	2,250	-	492,250
Tax exempt:				
Municipals	10,251,457	362,776	12,621	10,601,612
Total	$ 56,280,231	$ 992,177	$ 177,569	$ 57,094,839

	2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value (Estimated Fair Value)
Available for Sale:				
Taxable:				
U.S. Government agencies and corporations	$ -	$ -	$ -	$ -
Mortgage backed securities- U.S. Government agencies and corporations	19,205,476	407,357	208,269	19,404,564
Small business administration guaranteed loan pool certificate	24,680,919	45,460	432,164	24,294,215
Municipals	750,521	8,475	-	758,996
Tax exempt:				
Municipals	9,129,472	138,448	119,964	9,147,956
Total	$ 53,766,388	$ 599,740	$ 760,397	$ 53,605,731

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment of securities is evaluated considering numerous factors, and their relative significance varies from case to case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

The Bank has 21 and 33 securities in an unrealized loss position as of December 31, 2014 and 2013, respectively. These securities are predominately rated investment grade securities (AA or better) and the unrealized losses are due to overall increases in market rates and not due to any underlying credit concerns of the issuers. The Bank has the intent and ability to hold such investments until maturity or market price recovery. Accordingly, the Bank has concluded that none of the securities in its investment portfolios are other-than-temporarily impaired at December 31, 2014 and 2013.

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

	2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government agencies and corporations	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage backed securities- U.S. Government agencies and corporations	1,500,021	2,074	2,448,621	29,992	3,948,642	32,066
Small business administration guaranteed loan pool certificate	1,273,248	2,434	8,132,061	130,448	9,405,309	132,882
Tax-exempt:						
Municipals	740,357	9,053	670,526	3,568	1,410,883	12,621
	$ 3,513,626	$ 13,561	$ 11,251,208	$ 164,008	$ 14,764,834	$ 177,569

	2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government agencies and corporations	$ -	$ -	$ -	$ -	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage backed securities- U.S. Government agencies and corporations	5,522,675	107,211	918,292	101,058	6,440,967	208,269
Small business administration guaranteed loan pool certificate	15,008,218	283,159	3,530,157	149,005	18,538,375	432,164
Tax-exempt:						
Municipals	2,164,719	94,530	943,564	25,434	3,108,283	119,964
	$ 22,697,625	$ 484,900	$ 5,392,013	$ 275,497	$ 28,087,625	$ 760,397

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

	2014			
	Held to Maturity		Available for Sale	
	Carrying Value (Amortized Cost)	Estimated Fair Value	Amortized Cost	Carrying Value (Estimated Fair Value)
Due within 1 year	$ 583	$ 632	$ 1,036,897	$ 1,044,553
Due after 1 but within 5 years	2,017	2,025	31,962,650	32,449,556
Due after 5 but within 10 years	-	-	14,547,629	14,659,645
Due after 10 years	-	-	8,733,055	8,941,085
	$ 2,600	$ 2,657	$ 56,280,231	$ 57,094,839

Mortgage backed obligations of U.S. Government agencies and corporations, included in securities at December 31, 2014 and 2013, respectively, have contractual maturities ranging from 1 to 25 years. These securities are reflected in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 1 to 12 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The proceeds from sales, calls and maturities of securities, and principal payments received on mortgage backed obligations and the related gross gains and losses realized are as follows:

	Proceeds from			Gross Realized	
For the Year Ended December 31, 2014	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities held to maturity	$ -	$ -	$ 1,600	$ -	$ -
Securities available for sale	6,252,134	3,372,650	6,030,312	3,126	-
	$ 6,252,134	$ 3,372,650	$ 6,031,912	$ 3,126	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2013	Proceeds from Sales	Proceeds from Calls and Maturities	Proceeds from Principal Payments	Gross Realized Gains	Gross Realized Losses
Securities held to maturity	$ -	$ -	$ 1,623	$ -	$ -
Securities available for sale	-	3,761,263	7,621,994	97,088	-
	$ -	$ 3,761,263	$ 7,623,617	$ 97,088	$ -

For the Year Ended December 31, 2012	Proceeds from Sales	Proceeds from Calls and Maturities	Proceeds from Principal Payments	Gross Realized Gains	Gross Realized Losses
Securities held to maturity	$ -	$ -	$ 2,354	$ -	$ -
Securities available for sale	3,769,219	13,731,549	10,926,540	66,143	-
	$ 3,769,219	$ 13,731,549	$ 10,928,894	$ 66,143	$ -

At December 31, 2014 and 2013, securities with an amortized cost of $20,116,408 and $17,753,566, respectively, with estimated fair values of $20,242,378 and $17,592,159, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Included in the subsidiary bank's investment in obligations of state and political subdivisions at December 31, 2014, were securities totaling $2,593,517 which were issued by the State of Pennsylvania. At December 31, 2013, the bank held securities totaling $2,282,475 and $1,655,257, which were issued by the State of Pennsylvania and the State of West Virginia, respectively.

There were no significant concentrations to any one political subdivision within these states.

Note 3. Loans

Loans are summarized as follows:

	December 31, 2014	December 31, 2013
Commercial, financial and agricultural	$ 27,031,017	$ 26,106,418
Real estate - mortgage	25,412,520	25,966,461
Installment loans	10,171,442	9,327,973
Total loans	62,614,979	61,400,852
Less:		
Allowance for loan losses	(684,803)	(693,095)
Loan origination (fees) costs, net	(4,926)	(13,111)
Loans, net	$ 61,925,250	$ 60,694,646

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents loan maturities as of December 31, 2014:

	Within 1 Year	After 1 But Within 5 Years	After 5 Years
Commercial, financial and agricultural	$ 1,761,635	$ 5,293,510	$ 19,975,872
Real estate - mortgage	957,481	2,561,319	21,893,720
Installment loans	402,808	7,904,046	1,864,588
Total loans	$ 3,121,924	$ 15,758,875	$ 43,734,180

Loans due after one year with:	
Variable rates	$ 12,078,396
Fixed rates	47,414,659
	$ 59,493,055

Included in the above balance of net loans are non-accrual loans amounting to $44,223 and $116,527 at December 31, 2014 and 2013, respectively. If interest on non-accrual loans had been accrued, such income would have approximated $97, $15,533 and $8,779 for the years ended December 31, 2014, 2013 and 2012, respectively.

Nonaccrual Loans by Class

The following table presents the nonaccrual loans included in the net balance of loans at December 31, 2014 and 2013:

	2014	2013
Residential real estate	$ 44,223	$ 113,373
Commercial		
Commercial real estate	-	-
Consumer	-	-
Auto	-	-
Other	-	3,154
Total	$ 44,223	$ 116,527

The following tables present the contractual aging of the recorded investment in past due loans by class as of December 31, 2014 and 2013.

December 31, 2014

	Past Due						Recorded Investment
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	≥ 90 days and Accruing
Residential real estate	$ 207,208	$ 153,499	$ 114,989	$ 475,696	$ 24,936,824	$ 25,412,520	$ 114,989
Commercial	-	-	-	-	19,103,992	19,103,992	-
Commercial real estate	-	-	-	-	7,927,025	7,927,025	-
Consumer							
Auto	73,551	4,770	-	78,321	5,324,988	5,403,309	-
Other	12,464	11,346	-	23,810	4,744,323	4,768,133	-
Total	$ 293,223	$ 169,615	$ 114,989	$ 577,827	$ 62,037,152	$ 62,614,979	$ 114,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2013						
	Past Due						Recorded Investment ≥ 90 days and Accruing
	30-59 days	60-89 days	≥ 90 days	Total	Current	Total Loans	
Residential real estate	$ 335,519	$ 10,864	$ 113,373	$ 459,756	$ 25,506,705	$ 25,966,461	$ -
Commercial	-	-	-	-	18,030,374	18,030,374	-
Commercial real estate	-	-	-	-	8,076,044	8,076,044	-
Consumer							
Auto	36,833	-	-	36,833	4,866,233	4,903,066	-
Other	19,677	5,292	-	24,969	4,399,938	4,424,907	-
Total	$ 392,029	$ 16,156	$ 113,373	$ 521,558	$ 60,879,294	$ 61,400,852	$ -

For purposes of evaluating impairment, the Bank will deem a loan to be impaired when, based on current circumstances and events; it is probable that the bank will be unable to collect all amounts due, including principle and interest, according to the original contractual terms of the loan.

For purposes of evaluating impairment, the subsidiary bank considers groups of smaller-balance, homogeneous loans to include: mortgage loans secured by residential property, other than those which significantly exceed the subsidiary bank's typical residential mortgage loan amount (currently those in excess of $100,000), and installment loans to individuals, exclusive of those loans in excess of $50,000.

The following tables present information about impaired loans as of December 31, 2014 and 2013:

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With no related allowance					
Residential real estate	$ 44,223	$ 44,223	$ -	$ 91,835	$ 557
Commercial	1,678	1,678	-	839	337
Commercial real estate	310,890	310,890	-	313,626	16,542
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with no related allowance	$ 356,791	$ 356,791	$ -	$ 406,300	$ 17,436
With a related allowance					
Residential real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with a related allowance	$ -	$ -	$ -	$ -	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
Residential real estate	$ 44,223	$ 44,223	$ -	$ 91,835	$ 557
Commercial	312,568	312,568	-	314,465	16,879
Consumer	-	-	-	-	-
Total	$ 356,791	$ 356,791	$ -	$ 406,300	$ 17,436

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized While Impaired
With no related allowance					
Residential real estate	$ 139,446	$ 139,446	$ -	$ 141,577	$ 2,093
Commercial	-	-	-	-	-
Commercial real estate	316,361	316,361	-	322,176	18,731
Consumer					
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with no related allowance	$ 455,807	$ 455,807	$ -	$ 463,753	$ 20,824
With a related allowance					
Residential real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate					
Consumer	-	-	-	-	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total with a related allowance	$ -	$ -	$ -	$ -	$ -
Residential real estate	$ 139,446	$ 139,446	$ -	$ 141,577	$ 2,093
Commercial	316,361	316,361	-	322,176	18,731
Consumer	-	-	-	-	-
Total	$ 455,807	$ 455,807	$ -	$ 463,753	$ 20,824

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, and current economic trends, among other factors.

The Bank analyzes loans individually by classifying the loans as to credit risk. Risk ratings provide a means for measuring the adequacy of loan loss reserves, and call attention to credits requiring special administrative supervision. The Bank internally grades loans at the time of loan origination. In addition, loan officers review a sample of loans monthly. The following definitions are used for loan risk grades:

Excellent: Borrowers with strong financial condition, including debt to income at 30 or below; LTV within policy guidelines; credit score above 700 on all applicants; and borrowers have performed in the past without exception.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Good: Borrowers with strong financial condition, including debt to income within policy guidelines; LTV within policy guidelines; credit score 651 or above on all applicants; and borrowers have performed in the past without exception.

Acceptable: Loans that have an exception to policy in one or more of the following areas: debt to income, loan to value, or credit score. Current financial information is needed on the borrower.

Watch: Borrowers that have handled past debts satisfactory with the bank, but in recent months have either been late, delinquent or made sporadic payments. The financial condition of the borrower has deteriorated.

OLEM: Loans that have potential weaknesses that deserve management's close attention. Financial condition of the borrower shows weakness or marked deterioration that collateral or other financial capacity appears to protect.

Substandard: Loans that are inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged.

Doubtful: Poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure the ability to collect.

Loss: Loans that are deemed uncollectible and will be charged off.

The following tables present the recorded investment in commercial and commercial real estate loans which are generally evaluated based upon the internal risk ratings defined above at December 31, 2014 and 2013. Loans classified as Pass below include loans rated as Watch or better.

	2014	
	Commercial	**Commercial Real Estate**
Pass	$ 19,102,314	$ 7,616,135
OLEM	-	-
Substandard	1,678	310,890
Doubtful	-	-
Total	$ 19,103,992	$ 7,927,025

	2013	
	Commercial	**Commercial Real Estate**
Pass	$ 18,030,374	$ 7,632,763
OLEM	-	126,919
Substandard	-	316,362
Doubtful	-	-
Total	$ 18,030,374	$ 8,076,044

The following tables present the recorded investment in consumer, residential real estate, and home equity loans, which are generally evaluated based on the aging status of the loans and payment activity at December 31, 2014 and 2013:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2014	
	Performing	Nonperforming
Consumer		
Auto	$ 5,403,309	$ -
Other	4,768,133	-
Residential real estate	25,297,531	114,989
Total	$ 35,468,973	$ 114,989

	2013	
	Performing	Nonperforming
Consumer		
Auto	$ 4,903,066	$ -
Other	4,424,907	-
Residential real estate	25,853,088	113,373
Total	$ 35,181,061	$ 113,373

In the past the Bank has made loans, in the normal course of business, to its directors, officers and employees and will continue to make such loans in the future. At December 31, 2014 and 2013, outstanding loans of this nature totaled $2,492,396 and $1,966,636, respectively.

The following presents the activity with respect to loans to executive officers and directors aggregating $60,000 or more during 2014 and 2013.

	2014	2013
Balance, beginning	$ 1,623,198	$ 1,182,737
Additions	710,673	844,238
Amounts collected	(206,294)	(403,777)
Balance, ending	$ 2,127,577	$ 1,623,198

Note 4. Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012, is as follows:

	2014	2013	2012
Balance, beginning of year	$ 693,095	$ 691,663	$ 675,744
Losses:			
Consumer loans	13,052	210	1,838
Overdrafts	10,898	11,995	10,768
Total	23,950	12,205	12,606
Recoveries:			
Residential real estate	2,969	-	-
Consumer loans	4,924	3,237	1,999
Overdrafts	4,236	5,723	3,927
Total	12,129	8,960	5,926
Net losses	11,821	3,245	6,680
Provision for loan losses	3,529	4,677	22,599
Balance, end of year	$ 684,803	$ 693,095	$ 691,663

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The allowance for loan losses is maintained at a level considered adequate to provide for the estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Loans are charges against the allowance for loan losses when it is believed that collectability is unlikely.

Future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology with respect to each of these components in order to evaluate the overall adequacy of the allowance for loan losses is as follows:

Specific Reserve for Loans Individually Evaluated

The Bank identifies loan relationships that are past due ninety days or more in principal or interest payments, loans that were classified during the last examination, and other loans, in the opinion of the lending staff, that may pose a potential loss. Such loan relationships are identified primarily through the analysis of internal loan evaluations, watch-list and past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – such that, based on current information and events, it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. Substantially all of the Company's impaired loans are, and historically have been, collateral dependent, meaning repayment of the loan is expected to be provided solely from the sale of the loan's underlying collateral. For such loans, impairment is measured based on the fair value of the loan's collateral, which is generally determined utilizing appraisals that are one year old or less. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

Quantitative Reserve for Loans Collectively Evaluated

The Bank stratifies the loan portfolio into the following five loan pools: residential real estate; commercial; commercial real estate; automotive; and installment.

Quantitative reserves relative to each loan pool are calculated by applying a percentage that equates the three year average net loan charge-off rate to the aggregate recorded investment in loans.

Qualitative Reserve for Loans Collectively Evaluated

The Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) changes in national and local economic and business conditions and developments, including the condition of various market segments; (2) changes in the nature and volume of the portfolio; (3) changes in the experience, ability, and depth of lending management and staff; (4) changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructuring and other loan modifications; (5) changes in the levels and trends in charge-offs and recoveries; (6) changes in the quality of the institution's loan review system and the degree of oversight by the institution's board of directors; and the experience, ability, and depth of lending management and other relevant staff; (7) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; (8) the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions current portfolio; (9) change in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery trends; (10) other analytical procedures that identify divergent trends.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Activity in the allowance for loan losses by loan class during the years ended December 31, 2014 and 2013 is as follows:

2014

	Residential Real Estate	Commercial	Commercial Real Estate	Consumer Auto	Consumer Other	Total
Allowance for loan losses:						
Beginning balance	$ 326,536	$ 85,840	$ 91,259	$ 91,462	$ 97,998	$ 693,095
Charge-offs	-	-	-	9,578	14,372	23,950
Recoveries	2,969	-	-	2,700	6,460	12,129
Provision	(33,828)	12,434	(1,684)	11,595	15,012	3,529
Ending balance	$ 295,677	$ 98,274	$ 89,575	$ 96,179	$ 105,098	$ 684,803
Allowance related to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	295,677	98,274	89,575	96,179	105,098	684,803
Total	$ 295,677	$ 98,274	$ 89,575	$ 96,179	$ 105,098	$ 684,803
Loans:						
Individually evaluated for impairment	$ 44,223	$ 1,678	$ 310,890	$ -	$ -	$ 356,791
Collectively evaluated for impairment	25,368,297	19,102,314	7,616,135	5,403,309	4,768,133	62,258,188
Total	$ 25,412,520	$ 19,103,992	$ 7,927,025	$ 5,403,309	$ 4,768,133	$ 62,614,979

2013

	Residential Real Estate	Commercial	Commercial Real Estate	Consumer Auto	Consumer Other	Total
Allowance for loan losses:						
Beginning balance	$ 355,278	$ 80,106	$ 102,077	$ 59,841	$ 94,361	$ 691,663
Charge-offs	-	-	-	-	12,205	12,205
Recoveries	1,000	-	-	248	7,712	8,960
Provision	(29,742)	5,734	(10,818)	31,373	8,130	4,677
Ending balance	$ 326,536	$ 85,840	$ 91,259	$ 91,462	$ 97,998	$ 693,095
Allowance related to:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	326,536	85,840	91,259	91,462	97,998	693,095
Total	$ 326,536	$ 85,840	$ 91,259	$ 91,462	$ 97,998	$ 693,095
Loans:						
Individually evaluated for impairment	$ 139,446	$ -	$ 316,361	$ -	$ -	$ 455,807
Collectively evaluated for impairment	25,827,015	18,030,374	7,759,683	4,903,066	4,424,907	60,945,045
Total	$ 25,966,461	$ 18,030,374	$ 8,076,044	$ 4,903,066	$ 4,424,907	$ 61,400,852

There were no troubled debt restructurings that occurred during the years ended December 31, 2014 or 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Bank Premises and Equipment

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

	2014	2013
Land	$ 202,424	$ 202,424
Buildings and improvements	1,979,996	1,967,848
Furniture and equipment	1,334,136	1,296,675
	3,516,556	3,466,947
Less accumulated depreciation	2,513,836	2,408,306
Bank premises and equipment, net	$ 1,002,720	$ 1,058,641

Depreciation expense for the years ended December 31, 2014, 2013 and 2012, totaled $105,531, $104,179 and $97,256, respectively.

Note 6. Deposits

The following is a summary of interest bearing deposits by type at December 31, 2014 and 2013, respectively.

	2014	2013
NOW and Super NOW accounts	$ 5,943,997	$ 4,657,582
Savings accounts	32,397,357	31,706,775
Certificates of deposit	35,078,735	37,611,761
Total	$ 73,420,089	$ 73,976,118

Time certificates of deposit in denominations of $100,000 or more totaled $16,292,630 and $17,708,683 at December 31, 2014 and 2013, respectively. Interest paid on such certificates totaled $170,188, $160,776 and $216,332 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

	2014	
	Amount	Percent
Three months or less	$ 3,601,593	22.1%
Three through six months	3,700,158	22.7%
Six through twelve months	1,039,228	6.4%
Over twelve months	7,951,651	48.8%
Total	$ 16,292,630	100.0%

At December 31, 2014, the scheduled maturities of certificates of deposit are as follows:

2015	$ 20,005,862
2016	7,854,037
2017	2,935,420
2018	2,051,465
2019 and thereafter	2,231,951
	$ 35,078,735

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank has, and expects to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties). In management's opinion, these deposits and transactions were on the same terms as those for comparable deposits and transactions with nonrelated parties. Aggregate deposit transactions with related parties were approximately $4,027,329 and $5,323,013 at December 31, 2014 and 2013, respectively.

Note 7. Short-Term Borrowings

The Bank is a member of Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank obtained an Open Repo Plus (OREP) line from the FHLB for an amount equal to 50% of the maximum borrowing capacity available, calculated as a percentage of collateral pledged to the FHLB, to finance loan growth and/or meet liquidity needs. Any advances bear interest at the interest rate posted by the FHLB on the day of the advance and are subject to change daily. This line of credit is secured by a blanket lien on all unpledged and unencumbered assets of the Bank and is open-ended. The Bank did not utilize this line of credit in 2014 or 2013.

Securities sold under agreements to repurchase mature the next business day. The securities underlying the repurchase agreements are under the Bank's control and secure the total outstanding balances.

The following provides additional details of borrowings under Repurchase Agreements:

	2014	2013
Average amount outstanding during year	$ 783,934	$ 827,088
Maximum amount outstanding at any month end	$ 855,000	$ 931,000
Balance at year end	$ 590,000	$ 354,000
Weighted average interest rate	0.02%	0.03%

The Bank has approximately $1,623,530 in securities pledged against the short-term borrowings at December 31, 2014.

Note 8. Long-Term Borrowings

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank obtained borrowings from the FHLB under various lending programs to finance growth and/or meet liquidity needs as necessary. All such borrowings are secured by a lien on all unpledged and unencumbered assets of the Bank.

A summary of the Company's long-term borrowings at December 31, 2014 and 2013 follows:

	2014	2013
Note payable, dated July 2011, to FHLB at 2.39%. Interest due monthly. The borrowing matures August 2016.	2,500,000	2,500,000
Note payable, dated July 2011, to FHLB at 1.88%. Interest due monthly. The borrowing matures August 2015.	2,000,000	2,000,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2014	2013
Note payable, dated July 2011, to FHLB at 1.43%. Interest due monthly. The borrowing matured August 2014.	-	2,000,000
Note payable, dated August 2013, to FHLB at 1.02%. Interest due monthly. The borrowing matures August 2016.	1,000,000	1,000,000
Note payable, dated August 2013, to FHLB at 2.45%. Interest due monthly. The borrowing matures August 2019.	1,000,000	1,000,000
Note payable, dated August 2013, to FHLB at 1.94%. Interest due monthly. The borrowing matures August 2018.	1,000,000	1,000,000
Note payable, dated August 2013, to FHLB at 1.53%. Interest due monthly. The borrowing matures August 2017.	1,000,000	1,000,000
	$ 8,500,000	$ 10,500,000

The loan agreements contain various general restrictions, all of which were complied with during the year ended December 31, 2014. The Bank has available funding from the Federal Home Loan Bank of Pittsburgh of $19,367,600.

Aggregate maturities required on long-term borrowings which are due in future years is as follows:

Years Ending December 31,	
2015	$ 2,000,000
2016	3,500,000
2017	1,000,000
2018	1,000,000
2019	1,000,000
	$ 8,500,000

Note 9. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012, are as follows:

	2014	2013	2012
Current:			
Federal	$ 209,010	$ 399,689	$ 481,437
State	37,771	42,337	58,282
	246,781	442,026	539,719
Deferred	(1,487)	(21,316)	10,324
Total	$ 245,294	$ 420,710	$ 550,043

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rate by book pretax income for the years ended December 31, 2014, 2013 and 2012, is as follows:

	2014		2013		2012	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Computed tax at applicable statutory rate	$ 424,701	34.0	$ 534,969	34.0	$ 610,457	34.0
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(138,457)	(11.1)	(115,449)	(7.3)	(107,366)	(6.0)
Disallowed interest expense	3,560	0.3	3,157	0.2	3,967	0.2
State income taxes, net of Federal tax benefit	24,929	2.0	27,942	1.8	38,466	2.1
ESOP dividends paid	(17,056)	(1.4)	(16,935)	(1.1)	(16,813)	(0.9)
Other, net	(52,383)	(4.2)	(12,974)	(0.8)	21,332	1.2
Applicable Income taxes	$ 245,294	19.6	$ 420,710	26.8	$ 550,043	30.6

Deferred income taxes for 2014 and 2013 reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

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

	2014		2013	
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Depreciation	$ -	$ 92,995	$ -	$ 100,331
Allowance for loan losses	19,228	-	22,296	-
Deferred loan fees and costs	-	9,042	-	6,261
Net unrealized gains and losses on securities	-	317,697	62,657	-
Total	$ 19,228	$ 419,734	$ 84,953	$ 106,592

Realization of future tax benefits related to deferred tax assets is dependent on many factors, including the Bank's ability to generate regular taxable income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the adequacy of the valuation allowance and will recognize these benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

Accounting Standards Update (ASU) 2009-16 was issued to provide additional implementation guidance on accounting for uncertainty in income taxes and to eliminate the disclosures required by FASB Accounting Standards Codification (ASC) Paragraphs 740-10-50-15(a) through (b) for nonpublic entities. The Company adopted this standard on January 1, 2011. As of the date of the adoption, the Company had no unrecognized tax benefits. Such benefits would impact the effective tax rate if recognized. The Company is subject to U.S. Federal income tax examinations for the returns filed after December 31, 2011. State income tax returns are generally subject to a period of examinations for a period of three to five years. There were no unrecognized tax benefits at December 31, 2014 or 2013.

Note 10. Employee Benefit Plans and Profit Sharing Plans

The Bank sponsors a leveraged employee stock ownership plan (ESOP) that covers all employees who are age 20 and older and have been credited with 1,000 hours of service for the plan year ending on that anniversary date. The Plan requires establishment of an employee stock ownership trust which borrows funds from time to time from other banks to purchase unissued bank stock for the employees. Dividends on allocated shares are credited to each participant account with total dividends recorded as a reduction of retained earnings.

As the debt is repaid, shares are released from collateral and allocated to each active participant based on their compensation as defined in the plan. In addition, each participant's account is credited with an allocation of (a) the Bank's contribution, (b) Plan earnings and (c) forfeitures of terminated participants' non-vested accounts. Allocations are based on participant account balances as defined in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account, subject to vesting provisions.

Annual contributions of approximately $46,200 to the Plan are included in the statements of income for each of the years ended December 31, 2014, 2013 and 2012, respectively. The amount of contributions to the Plan is at the discretion of the Bank's Board of Directors.

The allocated ESOP shares as of December 31, 2014, 2013 and 2012, were 35,833 for each of the three years.

Under the profit-sharing thrift plan, which includes 401(k) provisions for all employees of the Bank who have attained age twenty and have been credited with 1,000 hours of service per Plan year. Participants are permitted to contribute up to the maximum dollar amount allowed by the Internal Revenue Service, which is $17,500 for 2014. Participants are also permitted to make rollover contributions. The Bank may make matching contributions, discretionary matching contributions equal to a uniform percentage of the participant's salary deferrals, and discretionary profit sharing contributions.

Participant contributions and employer matching contributions are fully vested upon payment while employer profit sharing contributions are subject to certain vesting requirements if an employee terminates prior to normal retirement age. Employer profit sharing contributions are fully vested after six years. Plan participants are entitled to receive Plan benefits upon termination of employment, death, disability or retirement at an age not earlier than 55 with ten years of service, with age 65 being normal retirement age.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions charged to operations for this Plan and included in the financial statements for the years ended December 31, 2014, 2013 and 2012, totaled $38,329, $34,694 and $32,561, respectively.

Note 11. Commitments and Contingencies

The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, these matters will not have a material adverse effect on the financial statements.

Lease obligation:

The Bank leases the Oak Hill branch facility under an operating lease with an initial term of ten years commencing on December 15, 1998. In 2013, the term of the lease was extended for an additional five years. Total minimum lease payments of $27,000 were charged to expense for each of the years ended December 31, 2014, 2013 and 2012, respectively. Total future minimum lease payments under the lease are as follows:

Years Ending December 31,	Amount
2015	$ 27,000
2016	27,000
2017	27,000
	$ 81,000

Financial instruments with off-balance sheet risk:

The Bank is a party of financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These 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 sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

	Contract Amount	
	2014	2013
Commitments to extend credit	$ 4,939,220	$ 4,952,080
	$ 4,939,220	$ 4,952,080

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Restrictions on Dividends and Capital

Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. During 2015, the net retained profits available for distribution as dividends without regulatory approval are approximately $1,080,000, plus net retained income for the interim periods through the date of declaration.

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the subsidiary bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

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

The Company's (MHBS, Inc.) and the Bank's (BMH) actual capital amounts and ratios are presented below (in thousands):

	Actual		For Capital Adequacy Purposes		Under Prompt Corrective Actions Provisions	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
As of December 31, 2014:						
Total Capital (to Risk-Weighted Assets)						
MHBS, Inc.	$16,555	31.0%	$ 4,271	8.0%	$ 5,339	10.0%
BMH	$15,544	29.1%	$ 4,271	8.0%	$ 5,339	10.0%
Tier I Capital (to Risk-Weighted Assets)						
MHBS, Inc.	$15,870	29.7%	$ 2,136	4.0%	$ 3,203	6.0%
BMH	$14,876	27.9%	$ 2,136	4.0%	$ 3,203	6.0%
Tier I Capital (to Average Assets)						
MHBS, Inc.	$15,870	12.4%	$ 5,106	0.0%	$ 6,383	5.0%
BMH	$14,876	11.7%	$ 5,106	0.0%	$ 6,383	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Actual		For Capital Adequacy Purposes		Under Prompt Corrective Actions Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2013:						
Total Capital (to Risk-Weighted Assets)						
MHBS, Inc.	$14,909	29.2%	$ 4,090	8.0%	$ 5,112	10.0%
BMH	$15,051	29.4%	$ 4,090	8.0%	$ 5,112	10.0%
Tier I Capital (to Risk-Weighted Assets)						
MHBS, Inc.	$14,216	27.8%	$ 2,045	4.0%	$ 3,067	6.0%
BMH	$14,411	28.2%	$ 2,045	4.0%	$ 3,067	6.0%
Tier I Capital (to Average Assets)						
MHBS, Inc.	$14,216	11.3%	$ 5,026	4.0%	$ 6,283	5.0%
BMH	$14,411	11.5%	$ 5,026	4.0%	$ 6,283	5.0%

Note 13. Fair Value Measurements

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

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

Available for Sale Securities: Investment securities available for sale is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage backed securities and municipal bonds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

	Balance	Fair Value Measurements Using:		
Available for sale securities	**December 31, 2014**	**Level 1**	**Level 2**	**Level 3**
U.S. Government sponsored agencies and corporations	$ 972,500	$ -	$ 972,500	$ -
Mortgage backed securities:				
Government sponsored agencies and corporations	25,655,863	-	23,652,534	2,003,329
Small Business Administration guaranteed loan pool certificates	19,372,614	15,435,030	3,937,584	-
Municipals	492,250	-	492,250	-
Tax-exempt municipals	10,601,612	-	10,601,612	-
Total available for sale securities	$ 57,094,839	$ 15,435,030	$ 39,656,480	$ 2,003,329

	Balance	Fair Value Measurements Using:		
Available for sale securities	**December 31, 2013**	**Level 1**	**Level 2**	**Level 3**
U.S. Government sponsored agencies and corporations	$ -	$ -	$ -	$ -
Mortgage backed securities:				
Government sponsored agencies and corporations	19,404,564	-	17,400,304	2,004,260
Small Business Administration guaranteed loan pool certificates	24,294,215	19,748,604	4,545,611	-
Municipals	758,996	-	758,996	-
Tax-exempt municipals	9,147,956	200,500	8,947,456	-
Total available for sale securities	$ 53,605,731	$ 19,949,104	$ 31,652,367	$ 2,004,260

The table below sets forth a summary of changes in fair value of the Level 3 assets valued on a recurring basis for the year ended December 31:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

		Level 3 Assets Year Ended December 31, 2014
Balance, January 1, 2014	$	2,004,260
Transfer into Level 3		-
Transfers out of Level 3		-
Total net gains (losses) included in:		
Net income		-
Other comprehensive income		-
Purchases, sales, issuance, and settlement (net)		(931)
Balance, December 31, 2014	$	2,003,329

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. There are no assets measured at fair value on a nonrecurring basis at December 31, 2014 and 2013.

Note 14. Fair Value of Financial Instruments

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

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

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximates their estimated fair value.

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

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

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

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

Deposits: The estimated fair value of demand deposits (i.e. non interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Short-term borrowing: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowing: The fair values of long-term borrowings are estimated by discounted scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values of these instruments are not shown below.

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

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 3,457,399	$ 3,457,399	$ 3,344,994	$ 3,344,994
Interest bearing deposits with other banks	1,613,975	1,613,975	3,978,909	3,978,909
Federal funds sold	72,000	72,000	260,000	260,000
Securities available for sale	57,094,839	57,094,839	53,605,731	53,605,731
Securities held to maturity	2,600	2,657	4,209	4,315
Loans	61,925,250	60,519,236	60,694,646	58,196,526
Accrued interest receivable	471,167	471,167	581,683	581,683
	$ 124,637,230	$ 123,231,273	$ 122,470,172	$ 119,972,158
Financial liabilities:				
Deposits	$ 101,239,551	$ 101,369,895	$ 98,878,237	$ 99,103,796
Short-term borrowings	590,000	590,000	354,000	354,000
Long-term borrowings	8,500,000	8,500,000	10,500,000	10,500,000
Accrued interest payable	39,878	39,878	39,283	39,283
	$ 110,369,429	$ 110,499,773	$ 109,771,520	$ 109,997,079

Note 15. Condensed Financial Statements of Parent Company

Mount Hope Bankshares, Inc. was formed for the sole purpose of becoming a bank holding company, and through an exchange of common stock, acquired all of the stock of Bank of Mount Hope, Inc. The investment of the Company in its wholly-owned subsidiary is presented on the equity method of accounting. Information relative to the Company's balance sheet at December 31, 2014 and 2013 and the related statements of income and cash flows at December 31, 2014, 2013 and 2012 is presented below:

<u>Balance Sheet</u>	December 31 2014	2013
Assets		
Cash	$ 21,254	$ 16,594
Investment in bank subsidiary, eliminated in consolidation	15,373,067	14,313,644
Total assets	$ 15,394,321	$ 14,330,238

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31 2014	December 31 2013
Liabilities and Shareholders' Equity		
Shareholders' Equity		
Common stock, $2 par value, 387,500 shares authorized and issued, outstanding at 2014 - 375,440; 2013 - 375,840	$ 775,000	$ 775,000
Capital surplus	910,263	910,263
Retained earnings	13,477,467	12,999,496
Less cost of shares acquired for the treasury, 2014 - 12,060; 2013 - 11,660	(265,320)	(256,520)
Accumulated other comprehensive income	496,911	(98,001)
Total shareholders' equity	15,394,321	14,330,238
Total liabilities and shareholders' equity	$ 15,394,321	$ 14,330,238

	December 31, 2014	2013	2012
Statements of Income			
Income - dividends from bank subsidiary	$ 554,500	$ 542,822	$ 782,375
Expenses - operating	15,185	13,428	16,530
Income before income taxes and undistributed income	539,315	529,394	765,845
Applicable income tax expense (benefit)	-	-	-
Income before undistributed income	539,315	529,394	765,845
Equity in undistributed income of subsidiaries	464,511	623,333	479,572
Net income	1,003,826	1,152,727	1,245,417
Statements of Cash Flows			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	1,003,826	1,152,727	1,245,417
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(464,511)	(623,333)	(479,572)
Net cash provided by operating activities	539,315	529,394	765,845
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders	(525,855)	(522,604)	(523,999)
Purchase of treasury stock	(8,800)	(10,120)	(246,400)
Net cash (used in) financing activities	(534,655)	(532,724)	(770,399)
Increase (decrease) in cash	4,660	(3,330)	(4,554)
Cash:			
Beginning	16,594	19,924	24,478
Ending	$ 21,254	$ 16,594	$ 19,924

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mount Hope Bankshares, Inc., accounts for its investment in its bank subsidiary by the equity method. During the periods ended December 31, 2014, 2013 and 2012, respectively, changes were as follows:

Number of shares owned - Bank of Mount Hope, Inc.	387,500
Percentage of shares owned - Bank of Mount Hope, Inc.	100%
Balance at December 31, 2011	$ 14,070,103
Add (deduct):	
Equity in net income	479,572
Change in equity in unrealized gain (loss) on securities	123,981
Balance at December 31, 2012	14,673,656
Add (deduct):	
Equity in net income	623,333
Change in equity in unrealized gain (loss) on securities	(983,345)
Balance at December 31, 2013	14,313,644
Add (deduct):	
Equity in net income	464,511
Change in equity in unrealized gain (loss) on securities	594,912
Balance at December 31, 2014	$ 15,373,067