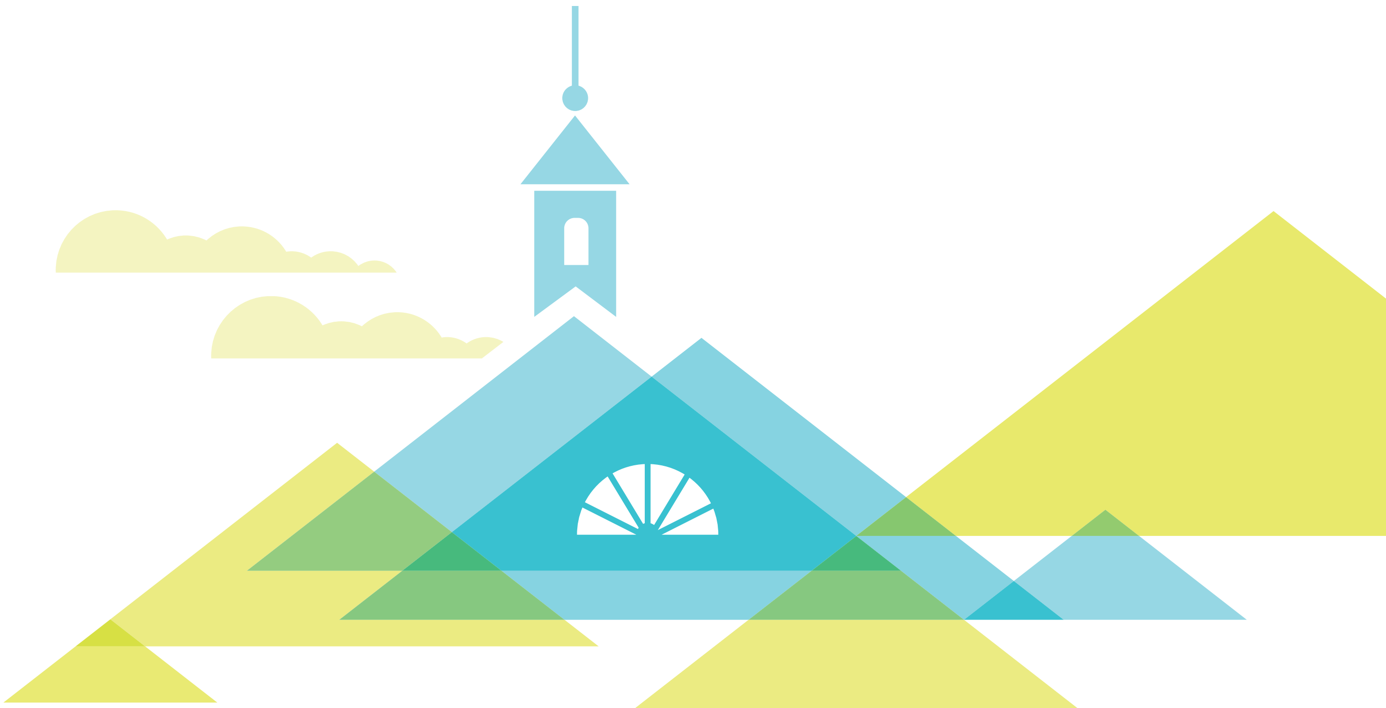

2015!

Bank of Charles Town

ANNUAL REPORT

A Wholly-Owned
Subsidiary Of
Potomac Bancshares, Inc.

Dear Shareholders,

The Board of Potomac Bancshares, Inc. and employees of Bank of Charles Town are pleased to present the **2015 Annual Report.** It was a very interesting year based on the performance of the bank and the local economy.

Bank of Charles Town (BCT) started 2015 with slow loan and deposit growth, but steadily increased during the third and fourth quarters. In 2015 loans grew 9.6% and deposits grew 9.5%. Much of the growth came from our Hagerstown and Middleburg offices that we opened several years ago. We anticipated opportunities with banks consolidating physical locations and increased merger activity. This has proven to be true, and we believe this activity will continue into 2016.

The price of Potomac Bancshares, Inc. stock decreased to $7.30 in July 2015. During the third and fourth quarters, we repurchased a total of 45,177 shares at a substantial discount to its book value. Additionally, Equity Research Services began issuing an independent assessment of our bank's performance. This publication was sent to our larger loan and deposit customers, and also to over 300 investors that have an interest in our community bank stock. With our cash dividend nearly yielding 3%, our stock became more in demand to investors, improving the price to a year-end close of $8.60. This is an increase of 18% since the July time frame, and we hope this continues during 2016.

The local economy improved in 2015 and has continued into this year. The bank's credit quality has shown improvement in non-accruing loans, delinquency rates, charge offs, and classified assets as a percentage of capital. Over a period of time, we implemented a better credit infrastructure that has led to our improved numbers. We believe this has caused investors to take notice of our stock. We are proud that our risk-management improvements started early into the recession and we appear to have outpaced many of our peers.

I wanted to brief you on things we will be working on in 2016.

In terms of expansion, early this summer we will be moving the Middleburg Office to a new building in Middleburg that we are leasing from a local builder. Our Hagerstown location, which opened only two years ago, has had good profitability. We continue to look for another location in Maryland. We are also looking to identify and lease additional branch locations in the Eastern Panhandle, when demographics and profit potential make sense for the bank. More customers are utilizing electronic services for their daily banking needs, and less in-branch visits for check depositing and cashing.

We have ongoing training for our employees with Product Knowledge, BCT University, and a Mentorship Program to address the next generation of customer service personnel and to meet the evolving needs of our growing customer base. BCT strives to 'Simplify Your Financial Life.'

Finally, we continue to look for bank acquisition opportunities, but have not identified the "right fit" to date, as everyone wants to remain independent. Eventually, we expect that smaller banks will recognize the need to become more efficient due to increased government regulations and tighter net interest margins. Becoming a larger institution through organic expansion and bank acquisitions can lead to a more efficient operation with succession that is profitable for shareholders. This is a big emphasis in 2016 and beyond.

Thank you for your support!

Robert F. Baronner, Jr.
President and CEO

We dedicate *this Annual Report to Chairman John P. (J.P.) Burns, Jr., who will be retiring this April after serving as Bank Director for 25 years. J.P. is the last original director that was on the Board when I came to work at BCT 16 years ago. He has been a great mentor for the entire bank, and has always demonstrated common sense and integrity. We are thankful for the many lessons that he has taught us over the years.*

Dr. Keith Berkeley, President of Valley Equine Associates, PLLC, will be assuming the Chairman's position in April. We have no doubt that Dr. Berkeley will do an outstanding job leading our Board in the years to come.

John P. (J.P.) Burns, Jr.

POTOMAC BANCSHARES, INC.

Charles Town, West Virginia

NOTICE OF REGULAR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 26, 2016

To the Shareholders:

The Regular Annual Meeting of Shareholders of Potomac Bancshares, Inc. (“Potomac”) will be held at the Bavarian Inn, Shepherdstown, West Virginia, at 10:30 a.m., on April 26, 2016, for the purposes of considering and voting upon proposals:

1. To elect a class of directors for a term of three years;
2. To ratify the appointment by the Board of Directors of Yount, Hyde & Barbour, P.C., as independent registered public accountants for the year 2016; and

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

Only those shareholders of record at the close of business on February 25, 2016, shall be entitled to notice of the meeting and to vote at the meeting.

By Order of the Board of Directors

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

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

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 26, 2016 - THE PROXY STATEMENT AND 2015 ANNUAL REPORT ARE AVAILABLE AT WWW.PROXYVOTE.COM.

March 14, 2016

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS – APRIL 26, 2016

Potomac Bancshares, Inc. is furnishing this statement in connection with its solicitation of proxies for use at the annual meeting of shareholders of Potomac Bancshares, Inc. to be held on April 26, 2016, at the time and for the purposes set forth in the accompanying notice of regular annual meeting of shareholders.

Solicitation of Proxies

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

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

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

Eligibility of Stock for Voting Purposes

Under Potomac's bylaws, the Board of Directors has fixed February 25, 2016, as the record date for determining the shareholders entitled to notice of, and to vote at, the meeting or any adjournment thereof. Only shareholders of record at the close of business on that date are entitled to notice of and to vote at the annual meeting or any adjournment thereof. The presence, in person, or by properly executed proxy, of the holders of a majority of the outstanding shares of the company's common stock entitled to vote at the annual meeting is necessary to constitute a quorum at the annual meeting. Abstentions will be counted as shares present for purposes of determining the presence of a quorum. Any shares held in street name that are not voted ("broker non-votes") in the election of directors will not be included in determining the number of votes.

As of the record date for the annual meeting, 3,345,001 shares of the capital stock of Potomac were outstanding and entitled to vote. The principal holders of Potomac common stock are discussed under the section of this proxy statement entitled, "Principal Holders of Voting Securities". As of the record date, Potomac had a total of approximately 1,000 shareholders.

PURPOSES OF MEETING

1. ELECTION OF DIRECTORS

General

Potomac's articles of incorporation currently provide for a classified Board of Directors. There are three classes with each being elected for a three-year term. There are presently 11 directors on the Board, three of whom are nominees for election at the 2016 annual meeting. Each director (Boyd, Pichot, and Togans) is being elected for a term of three years. John P. Burns, Jr. is retiring from the Board of Directors. The Board of Directors has set the number of directors after the meeting at ten.

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

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

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

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

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

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

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

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

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

- name and address of nominee(s);

- principal occupation of nominee(s);

- total shares to be voted for each nominee;

- name and address of notifying shareholder;

- number of shares owned by notifying shareholder; and

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

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

Management Nominees to the Board of Potomac

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
J. Scott Boyd	59	1999	None	2016	Pharmacist, owner Jefferson Pharmacy, Inc., Jefferson County, West Virginia since 1982; Pharmacist, owner JSB Enterprises, Inc. dba South Berkeley Pharmacy, Berkeley County, West Virginia since 2006; President, Mountain Spring Properties, LLC.
Barbara H. Pichot	68	2004	None	2016	Certified Public Accountant, retired partner CoxHollida LLP, a public accounting firm in Berkeley County, West Virginia, 1981 to 2006; past President, Hospice of the Panhandle; past Chair, Board of Governors, Shepherd University.
C. Larry Togans	69	2004	None	2016	Retired Deputy Branch Chief of Human Resources, U. S. Geological Survey, employed 1973 to 2001.

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

Directors Continuing to Serve Unexpired Terms

Nominees	Age	Served As Director of Potomac Since	Family Relationship With Other Nominees	Year in Which Term Expires	Principal Occupation or Employment Last Five Years
Robert F. Baronner, Jr.	57	2001	None	2017	Employed by bank as of January 1, 2001 as President and Chief Executive Officer.
Dr. Keith B. Berkeley	57	2008	None	2018	Veterinarian, President of Valley Equine Associates, Jefferson County, West Virginia.
Norman M. Casagrande	56	2013	None	2017	Partner, Code Plus Components LLC, Berkeley County, West Virginia
Margaret M. Cogswell	57	2003	None	2017	Chief Executive Officer, Hospice of the Panhandle, Berkeley, Hampshire, Jefferson and Morgan Counties, West Virginia since 1987.
Mary Clare Eros	69	2008	None	2017	Retired and Of Counsel, Jackson Kelly PLLC; Practiced law at Jackson Kelly PLLC from 1981 to 2007.
Barbara L. Scott	67	2012	None	2018	President of Summit Point Raceway Associates, Inc. and BSR, Inc., 2009 to Present. Managing Member of Summit Point Automotive Research Center, LLC.
Anthony P. Zelenka	62	2015	None	2018	President and Chief Executive Officer of WVU Medicine – University Healthcare.
Director retiring at the end of his term.					
John P. Burns, Jr.	74	1994	None	2016	Owner/operator of a beef and grain farm in Jefferson County, West Virginia; Director Emeritus, Jefferson County Fair Association; past President, Jefferson County Fair Association; past Director and past Chairman, Valley Farm Credit.

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

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

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

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

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

Mary Clare Eros is a retired attorney. Ms. Eros was chosen as a Board member due to her specific experience in representing financial institutions during her 25 years of law practice. Ms. Eros received her doctor of jurisprudence degree from Georgetown University Law School in Washington, D.C. Her area of expertise in her law practice involved advising banks with regard to consumer protection laws and representing banks and lending institutions in large commercial transactions. In addition, Ms. Eros was the Managing Member of the Martinsburg, West Virginia office of Jackson Kelly PLLC (Attorneys at Law), and as part of her duties routinely reviewed financial information. Ms. Eros should continue as a Board member due to her extensive legal experience in representing financial institutions.

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

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

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

Anthony P. Zelenka was named President and Chief Executive Officer of WVU Medicine - University Healthcare (Berkeley & Jefferson Medical Centers) during 2015. Mr. Zelenka previously held the title of President and Chief Operating Officer from 2008 until 2015. He also serves on the Chamber Board and is the President of the Berkeley County Development Authority. A graduate of Marietta College in Ohio, he holds a certificate from the Executive Program in Healthcare Financial Management and a Masters of Health Administration from The Ohio State University. Mr. Zelenka's business acumen and knowledge of an evolving healthcare industry will be a real asset to the company.

Ownership of Securities by Nominees, Directors and Officers

All nominees, directors and principal officers have beneficial ownership of 154,454 shares as a group. These shares represent, in aggregate, 4.62% of the common stock of Potomac Bancshares, Inc. The information is furnished as of January 29, 2016, on which date 3,345,001 shares were outstanding.

Executive Compensation

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	All Other Compensation ($)	Total ($) **
Robert F. Baronner, Jr.	2013	216,822	58,219	275,041
President and	2014	225,112	55,394	280,506
Chief Executive Officer	2015	241,025	48,220	289,245

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

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

Compensation of Directors

Directors of Potomac were not compensated for their services as directors during 2015, other than for committee meetings attended. Directors of the bank were compensated at the rate of $900 for each regular Board meeting attended in 2015. The Chairman of the Board was paid $500 per month in addition to director and committee fees. Directors were compensated $220 for each committee meeting attended in 2015. The audit committee member who is deemed the financial expert was compensated $330 for each audit committee meeting attended in 2015. All directors receive 50 shares of Potomac Stock for each quarter of service as additional compensation. Directors who are operating officers of the bank are not compensated for committee meetings attended.

Certain Transactions with Directors, Officers and Their Associates

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

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

2. RATIFICATION OF SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Yount, Hyde & Barbour, P.C. to serve as independent auditors for Potomac for the calendar year 2016. If the shareholders do not ratify the appointment of Yount, Hyde & Barbour, P.C., the committee will consider the appointment of other auditors. Potomac is advised that no member of this accounting firm has any direct or indirect material interest in Potomac, or any of its subsidiaries.

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

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

OTHER MATTERS

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

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

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

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

DIRECTIONS TO THE REGULAR ANNUAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

Charles Town, West Virginia
March 14, 2016

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Potomac Bancshares, Inc. and subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements, (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Potomac Bancshares, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 14, 2016

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014
($ in thousands, except share and per share data)

	2015	2014
ASSETS		
Cash and due from banks	$ 1 932	$ 1 986
Interest-bearing deposits in other financial institutions	17 998	11 588
Securities available for sale, at fair value	34 369	33 892
Loans held for sale	294	69
Loans, net of allowance for loan losses of $2,548 in 2015 and $2,665 in 2014	277 563	253 360
Premises and equipment, net	7 125	7 321
Other real estate owned, net of valuation allowance of $673 in 2015 and $795 in 2014	1 319	1 198
Accrued interest receivable	795	765
Bank owned life insurance	7 790	7 585
Federal Home Loan Bank of Pittsburgh stock	620	642
Other assets	1 952	2 513
Total Assets	$351 757	$320 919
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 52 656	$ 48 959
Interest-bearing	250 879	228 197
Total Deposits	303 535	277 156
Securities sold under agreements to repurchase	5 139	2 040
Federal Home Loan Bank advances	8 537	9 516
Accrued interest payable	178	170
Other liabilities	2 535	1 987
Total Liabilities	$319 924	$290 869
STOCKHOLDERS' EQUITY		
Common stock, $1 per share par value; 10,000,000 shares authorized; 3,671,691 issued and outstanding	$ 3 672	$ 3 672
Surplus	3 944	3 944
Undivided profits	29 661	27 791
Accumulated other comprehensive loss, net	(2 227)	(2 491)
	$ 35 050	$ 32 916
Less cost of shares acquired for the treasury, 326,690 shares in 2015 and 281,513 in 2014	(3 217)	(2 866)
Total Stockholders' Equity	$ 31 833	$ 30 050
Total Liabilities and Stockholders' Equity	$351 757	$320 919

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2015 and 2014
($ in thousands, except per share data)

	2015	2014
Interest and Dividend Income:		
Interest and fees on loans	$12 264	$11 506
Interest on securities available for sale – taxable	326	283
Interest on securities available for sale – nontaxable	121	206
Other interest and dividends	101	77
Total Interest and Dividend Income	12 812	12 072
Interest expense:		
Interest on deposits	1 365	1 160
Interest on securities sold under agreement to repurchase and federal funds purchased	17	10
Interest on Federal Home Loan Bank advances	129	105
Total Interest Expense	1 511	1 275
Net Interest Income	11 301	10 797
Provision for Loan Losses	60	814
Net Interest Income after Provision for Loan Losses	11 241	9 983
Noninterest Income:		
Trust and financial services	1 166	1 151
Service charges on deposit accounts	1 203	1 403
Secondary market fee income	379	185
Visa/MC Fees	991	1 027
Cash surrender value of life insurance	205	212
Gains on sales and calls of securities available for sale, net	51	128
Other operating income	512	397
Total Noninterest Income	4 507	4 503
Noninterest Expense:		
Salaries and employee benefits	5 904	5 410
Net occupancy expense of premises	726	708
Furniture and equipment expenses	1 119	1 123
Loss on sales of other real estate owned	85	23
Accounting, audit and compliance	165	164
Computer services and online banking	507	464
FDIC assessment	264	259
Other professional fees	102	182
Trust investing outsource	171	167
Director & committee fees	178	165
Legal fees	137	188
Printing, stationery and supplies	138	176
Communications	193	192
Foreclosed property expense	167	163
Write down of other real estate owned	- -	12
ATM and check card expenses	549	617
Other operating expenses	1 416	1 255
Total Noninterest Expenses	11 821	11 268
Income before Income Tax Expense	3 927	3 218
Income Tax Expense	1 347	1 059
Net Income	$ 2 580	$ 2 159
Earnings Per Common Share, Basic and Diluted	$ 0.76	$ 0.64

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014
($ in thousands)

	2015	2014
Net Income	$2 580	$ 2 159
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities, net of tax of $82 and $29, respectively	136	(47)
Reclassification adjustment for gains included in net income, net of tax of $19 and $49, respectively	(32)	(79)
Net pension and other postretirement loss arising during the period net of tax of $7 and $759, respectively	(13)	(1 238)
Amortization of net actuarial loss included in net periodic benefit cost net of tax of $106 and $41, respectively	173	66
Other comprehensive income (loss), net of tax	264	(1 298)
Comprehensive income	$2 844	$ 861

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014
($ in thousands, except per share data)

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive Loss, net	Total
Balances, December 31, 2013	$3 672	$3 944	$26 208	$(2 866)	$(1 193)	$29 765
Net Income	- -	- -	2 159	- -	- -	2 159
Other comprehensive loss	- -	- -	- -	- -	(1 298)	(1 298)
Cash dividends ($.17 per share)	- -	- -	(576)	- -	- -	(576)
Balances, December 31, 2014	$3 672	$3 944	$27 791	$(2 866)	$(2 491)	$30 050
Net Income	- -	- -	2 580	- -	- -	2 580
Other comprehensive income	- -	- -	- -	- -	264	264
Purchase of treasury shares	- -	- -	- -	(351)	- -	(351)
Cash dividends ($.21 per share)	- -	- -	(710)	- -	- -	(710)
Balances, December 31, 2015	$3 672	$3 944	$29 661	$(3 217)	$(2 227)	$31 833

See Notes to Consolidated Financial Statements.

POTOMAC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014
($ in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2 580	$ 2 159
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	60	814
Depreciation	446	445
Loss (gain) on sale of premises and equipment	1	(1)
Deferred tax expense	467	754
Premium amortization on securities, net	99	106
Write down of other real estate owned	- -	12
Loss on sales of other real estate owned	95	23
Recognition of deferred gain on sale of other real estate owned	(10)	- -
Gain on sale/call of securities available for sale, net	(51)	(128)
Increase in loans held for sale	(225)	(69)
Change in cash surrender value of bank owned life insurance	(205)	(212)
Changes in assets and liabilities:		
Increase in accrued interest receivable	(30)	(14)
(Increase) Decrease in other assets	(68)	83
Increase in accrued interest payable	8	28
Increase (Decrease) in other liabilities	817	(735)
Net cash provided by operating activities	$ 3 984	$ 3 265
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposits	$ 1 250	$ - -
Purchase of certificates of deposits from other financial institutions	(1 250)	(250)
Proceeds from sale of securities available for sale	6 677	7 924
Proceeds from maturities and principal repayments of securities available for sale	3 359	3 025
Proceeds from call of securities available for sale	1 853	2 868
Purchases of securities available for sale	(12 247)	(15 337)
Net increase in loans	(24 827)	(25 034)
Proceeds from sale of premises and equipment	- -	1
Purchases of premises and equipment	(251)	(232)
Redemption of FHLB stock	22	298
Proceeds from sale of other real estate owned	348	549
Net cash used in investing activities	$(25 066)	$(26 188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing deposits	$ 3 697	$ 3 899
Net increase in interest-bearing deposits	22 682	14 077
Net proceeds of securities sold under agreements to repurchase	3 099	265
Net (repayment) proceeds of Federal Home Loan Bank advances	(979)	4 516
Purchase of treasury shares	(351)	- -
Cash dividends	(710)	(576)
Net cash provided by financing activities	$ 27 438	$ 22 181
Increase (decrease) in cash and cash equivalents	$ 6 356	$ (742)
CASH AND CASH EQUIVALENTS		
Beginning	11 324	12 066
Ending	$ 17 680	$ 11 324
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 1 503	$ 1 247
Income taxes	$ 186	$ 738
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on securities available for sale	$ 167	$ (204)
Change in benefit obligations and plan assets for pension and other postretirement benefits	$ 259	$ (1 890)
Loans transferred to other real estate owned	$ 1 287	$ 227
Loans originated on sale of other real estate owned	$ 723	$ 1 103

See Notes to Consolidated Financial Statements.

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

Note 1. Nature of Banking Activities and Significant Accounting Policies

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

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

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

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

The accounting and reporting policies of the company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

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

Use of Estimates

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

Interest-Bearing Deposits in Financial Institutions

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

Securities

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

Securities (Continued)

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

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

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

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

Loans

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

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

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

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

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

Loans (Continued)

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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

Allowance for Loan Losses (Continued)

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

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

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

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

The allowance consists of specific and general components. The specific component may relate to loans that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for environmental factors such as economic, concentration and growth trends. The bank uses a thirty six month rolling average for the historical loss factor in the loan portfolio.

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

- Pass – Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. Borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. Acceptable personal guarantors support the loan as needed.
- Special Mention – Are assets that have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date.

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

Allowance for Loan Losses (Continued)

- Substandard – The bank is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
- Doubtful – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- Loss – Loans classified in this category are considered uncollectable and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Any time a credit is placed in this category, it will be in non-accrual status.

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

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

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

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

Troubled Debt Restructurings

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

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market value determined in the aggregate. Loans totaling $294 thousand and $69 thousand were held for sale as of December 31, 2015 and December 31, 2014, respectively.

Premises and Equipment

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

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

Other Real Estate Owned

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

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

Other Real Estate Owned (Continued)

At December 31, 2015, the balance of other real estate owned includes $662 thousand of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. As of December 31, 2015, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Bank-Owned Life Insurance

The company owns insurance on the lives of a certain group of key employees. The cash surrender value of these policies is included as an asset on the consolidated balance sheets, and any increase in cash surrender value is recorded as noninterest income on the consolidated statements of income. In the event of the death of an insured individual under these policies, the company would receive a death benefit which would be recorded as other noninterest income.

Employee Benefit Plans

Summaries of company employee benefit plans are given below:

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

Earnings Per Common Share

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

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or

Income Taxes (Continued)

aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no unrecognized tax benefits recorded as of December 31, 2015 and 2014. Interest and penalties, if any, associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in financial institutions, securities purchased under agreements to resell and federal funds sold. Generally, securities purchased under agreements to resell and federal funds sold are purchased and sold for one-day periods. Certificates of deposits in other financial institutions of $2.3 million as of December 31, 2015 and December 31, 2014, are not included in cash and cash equivalents. These balances typically have maturities greater than 90 days.

One Financial Center

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

Advertising

The company follows the policy of charging the costs of advertising to expense as incurred. These amounts were $126 thousand and $119 thousand in 2015 and 2014, respectively.

Treasury Stock

Common shares repurchased are recorded as treasury stock at cost.

Comprehensive Income

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

Fair Value of Financial Instruments

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

Stock-Based Compensation Plan

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

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

Transfers of Financial Assets

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

Reclassifications

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

Recent Accounting Pronouncements:

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

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

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15,

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

Recent Accounting Pronouncements: (Continued)

2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) – 1. Fully Benefit-Responsive Investment Contracts, 2. Plan Investment Disclosures, and 3. Measurement Date Practical Expedient.” The amendments within this ASU are in 3 parts. Among other things, Part 1 amendments designate contract value as the only required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments. Part III amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan’s fiscal year-end, when the fiscal period does not coincide with month-end. The amendments in Parts 1 and 2 of this ASU are effective on a retrospective basis and Part 3 is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The company does not expect the adoption of ASU 2015-12 to have a material impact on its consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date.” The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The company does not expect the adoption of ASU 2015-14 (or ASU 2014-09) to have a material impact on its consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting).” On April 7, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 adds these SEC comments to the “S” section of the Codification. The adoption of ASU 2015-15 did not have a material impact on our consolidated financial statements.

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

Recent Accounting Pronouncements: (Continued)

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

Note 2. Securities

There were no securities held to maturity as of December 31, 2015 and 2014.

The amortized cost and fair value of securities available for sale (in thousands) as of December 31, 2015 and 2014 are as follows:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of U.S. Government sponsored agencies	$30 470	$ 35	$(39)	$30 466
State and municipal obligations	2 851	58	(1)	2 908
Equity securities	950	51	(6)	995
	$34 271	$144	$(46)	$34 369

Note 2. Securities (Continued)

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

The amortized cost and fair value of the securities available for sale as of December 31, 2015 (in thousands), by contractual maturity, are shown below. The equity securities have no stated maturities.

	Amortized Cost	Fair Value
Due in one year or less	$ 5 059	$ 5 049
Due after one year through five years	24 742	24 751
Due after five years	3 520	3 574
Equity securities	950	995
	$34 271	$34 369

Proceeds of sales of securities during 2015 were $6.7 million. Gross gains of $48 thousand were realized on those sales. The tax expense applicable to these gains amounted to $18 thousand. Proceeds of the sales of securities during 2014 were $7.9 million. Gross gains of $128 thousand were realized on those sales. The tax expense applicable to these realized gains amounted to $49 thousand.

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the company through readily saleable financial instruments. The portfolio is made up primarily of fixed rate bonds, whose prices move inversely with rates. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. The primary cause of impairments is the decline in the prices of the bonds as rates have risen. There are twelve debt security accounts in the consolidated portfolio that had a loss at December 31, 2015. There were twelve debt security accounts in the consolidated portfolio that had a loss at December 31, 2014. The primary cause of the temporary impairments in the company's investments in debt securities was fluctuations in interest rates. Because the company intends to hold these investments in debt securities to maturity and it is more likely than not that the company will not be required to sell these investments before a recovery of the unrealized loss, the company does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014 and no impairment has been recognized.

There was one equity security account in the company's portfolio with a loss at December 31, 2015 and two equity securities in the portfolio with losses at December 31, 2014. The company considers these investments to be temporarily impaired at December 31, 2015 and 2014 and is recognizing no impairment. These are community bank stock related holdings that the company has the ability and intent to hold until a recovery of fair value.

US Government sponsored agencies include the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation debt securities with a fair value of $21.1 million and $21.0 million as of December 31, 2015 and December 31, 2014, respectively.

Note 2. Securities (Continued)

The following table summarizes the fair value and gross unrealized losses for securities aggregated by investment category and length of time that individual securities have been in a continuous gross unrealized loss position as of December 31, 2015 and 2014 (in thousands).

	December 31, 2015					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored agencies	$15 923	$(39)	$- -	$- -	$15 923	$(39)
State and municipal obligations	302	(1)	- -	- -	302	(1)
Equity securities	- -	- -	9	(6)	9	(6)
	$16 225	$(40)	$ 9	$(6)	$16 234	$(46)

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

The company’s investment in Federal Home Loan Bank (FHLB) stock totaled $620 thousand at December 31, 2015. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Despite the FHLB’s limited repurchase of excess capital stock in 2015, the company does not consider this investment to be other-than-temporarily impaired at December 31, 2015 and no impairment has been recognized. FHLB stock is shown as a separate line item on the consolidated balance sheet and is not a part of the available for sale securities portfolio.

Securities with a carrying value of $15.4 million and $13.0 million at December 31, 2015 and 2014, respectively were pledged to secure public funds, securities sold under agreement to repurchase, other borrowings, and for other purposes as required or permitted by law.

Note 3. Loans and Related Party Transactions

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

	December 31	
	2015	2014
	(in thousands)	
Commercial – non real estate		
Commercial and industrial	$ 12 429	$ 8 673
Commercial real estate		
Owner occupied	58 810	56 098
Non-owner occupied	36 107	28 768
Construction		
Residential	5 503	4 349
Commercial	16 403	19 629
Real Estate		
Farmland	2 817	3 102
Residential		
Revolving open end	6 818	6 479
1 to 4 family – first liens	117 137	106 851
1 to 4 family – junior liens	5 242	5 480
5 or more family	5 861	5 501
Consumer loans	8 141	8 080
All other loans	4 843	3 015
Total loans (1)	$280 111	$256 025
Less: allowance for loan losses	2 548	2 665
	$277 563	$253 360

(1) Includes net deferred loan fees of $250 thousand and $290 thousand, respectively.

Loans to directors and executive officers of the company or to their associates at December 31, 2015 and 2014 totaled $4.6 million and $4.7 million, respectively. In management's opinion, such loans were made on substantially the same terms as those prevailing for comparable transactions with similar risks. During 2015, total principal additions were $520 thousand and total principal payments were $530 thousand.

The FHLB of Pittsburgh has a blanket lien on all the company's loans except those loans specifically pledged to the Federal Reserve and removed from the FHLB lien. Currently, the FHLB lien is securing advances to the company in the amount of $8.5 million and letters of credit issued on behalf of a customer of the company in the amount of $14 million.

Note 4. Allowance for Loan Losses

Allowance for Loan Losses – By Segment
December 31, 2015
(in thousands)

	Farmland	Commercial	Commercial Real Estate	Construction	Consumer	Residential	All Other	Unallocated	Total
Beginning balance	$ 29	$ 39	$ 836	$ 256	$ 119	$ 1 374	$ 11	$ 1	$ 2 665
Charge-offs	- -	- -	- -	(24)	(148)	(260)	- -	- -	(432)
Recoveries	- -	2	13	91	106	43	- -	- -	255
Provision (Recovery)	(11)	(5)	248	(150)	41	(77)	13	1	60
Ending balance	$ 18	$ 36	$ 1 097	$ 173	$ 118	$ 1 080	$ 24	$ 2	$ 2 548
Individually evaluated for impairment	$ - -	$ - -	$ 128	$ 2	$ 19	$ 223	$ - -	$- -	$ 372
Collectively evaluated for impairment	18	36	969	171	99	857	24	2	2 176
	$ 18	$ 36	$ 1 097	$ 173	$ 118	$ 1 080	$ 24	$ 2	$ 2 548
Financing receivables:									
Ending balance	$2 817	$12 429	$94 917	$21 906	$8 141	$135 058	$ 4 843	$- -	$280 111
Ending balance:									
Individually evaluated for impairment	$ - -	$ 2	$ 2 229	$ 864	$ 31	$ 4 620	$ - -	$- -	$ 7 746
Collectively evaluated for impairment	2 817	12 427	92 688	21 042	8 110	130 438	4 843	- -	272 365
Total	$2 817	$12 429	$94 917	$21 906	$8 141	$135 058	$ 4 843	$- -	$280 111

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

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

Note 4. Allowance for Loan Losses (Continued)

Credit Quality Information – By Class
December 31, 2015
(in thousands)

Internal Risk Rating Grades	Pass	Special Mention	Sub-Standard	Doubtful	Loss
Commercial – non real estate					
Commercial and industrial	$ 12 319	$ 108	$ 2	$ - -	$ - -
Commercial real estate					
Owner occupied	55 994	2 416	400	- -	- -
Non-owner occupied	35 378	389	340	- -	- -
Construction					
Residential	5 503	- -	- -	- -	- -
Commercial	15 330	230	843	- -	- -
Real estate					
Farmland	2 817	- -	- -	- -	- -
Consumer	N/A	N/A	N/A	N/A	N/A
Residential					
Revolving open end	N/A	- -	299	N/A	N/A
1-4 family – first liens	N/A	789	1 264	N/A	N/A
1-4 family – junior liens	N/A	- -	34	N/A	N/A
5 or more family	N/A	- -	115	N/A	N/A
Totals	$127 341	$3 932	$3 297	$ - -	$ - -

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

Credit Quality Information – By Class
December 31, 2015
(in thousands)

Non Risk Rated Loans	Performing	Nonperforming
Consumer	$ 8 137	$ 4
Residential		
Revolving open end	6 511	8
1-4 family – first liens	114 994	90
1-4 Family – junior liens	5 208	- -
5 or more family	5 746	- -
All other	4 843	- -
Totals	$145 439	$102

Note 4. Allowance for Loan Losses (Continued)

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

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

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

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

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2015
(in thousands)

With no related allowance:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ 2	$ 2	$- -	$ 2	$ - -
Commercial real estate					
Owner occupied	2 479	1 181	- -	3 693	38
Non-owner occupied	- -	- -	- -	- -	- -
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	1 778	710	- -	859	- -
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	- -	- -
1 to 4 family – first liens	1 127	849	- -	888	58
1 to 4 family – junior liens	- -	- -	- -	- -	- -
5 or more family	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
All other	- -	- -	- -	- -	- -
	$5 386	$2 742	$- -	$5 442	$ 96

Note 4. Allowance for Loan Losses (Continued)

Impaired Loans – By Class
December 31, 2015
(in thousands)

With an allowance recorded:

	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial – non real estate					
Commercial and industrial	$ - -	$ - -	$ - -	$ 50	$ - -
Commercial real estate					
Owner occupied	350	341	119	324	14
Non-owner occupied	707	707	9	418	19
Construction					
Residential	- -	- -	- -	- -	- -
Commercial	155	154	2	254	13
Real estate					
Farmland	- -	- -	- -	- -	- -
Residential					
Revolving open end	- -	- -	- -	636	- -
1 to 4 family – first liens	3 198	3 172	213	3 605	145
1 to 4 family – junior liens	504	484	8	534	35
5 or more family	116	115	2	117	9
Consumer	31	31	19	40	2
All other	- -	- -	- -	- -	- -
	$ 5 061	$5 004	$372	$ 5 978	$237

Totals:					
Commercial – non real estate	$ 2	$ 2	$ - -	$ 52	$ - -
Commercial real estate	3 536	2 229	128	4 435	71
Construction	1 933	864	2	1 113	13
Real estate – farmland	- -	- -	- -	- -	- -
Residential	4 945	4 620	223	5 780	247
Consumer	31	31	19	40	2
All other	- -	- -	- -	- -	- -
	$10 447	$7 746	$372	$11 420	$333

Note 4. Allowance for Loan Losses (Continued)

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

With no related allowance:

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

Note 4. Allowance for Loan Losses (Continued)

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

With an allowance recorded:

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

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

Additional funds are committed to be advanced to clients with impaired loans, as of December 31, 2015 and 2014 in the amounts of $451 thousand and $828 thousand, respectively.

Note 4. Allowance for Loan Losses (Continued)

Modifications
(in thousands except number of contracts)

For the Year Ended
December 31, 2015

Troubled Debt Restructurings	Number Of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial – non real estate			
Commercial and industrial	- -	$ - -	$ - -
Commercial real estate			
Owner occupied	- -	- -	- -
Non owner occupied	2	343	368
Construction			
Residential	- -	- -	- -
Commercial	- -	- -	- -
Real Estate			
Farmland	- -	- -	- -
Residential			
Revolving open end 1 to 4 family	- -	- -	- -
1 to 4 family – first liens	- -	- -	- -
1 to 4 family – junior liens	- -	- -	- -
5 or more family	- -	- -	- -
Consumer	- -	- -	- -
All Other	- -	- -	- -
Totals	2	$343	$368

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

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

Note 4. Allowance for Loan Losses (Continued)

Modifications
(in thousands except number of contracts)

For the Year Ended
December 31, 2014

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

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

As of December 31, 2015 and 2014 there were $7.1 million and $12.3 million of troubled debt restructurings, respectively.

Note 4. Allowance for Loan Losses (Continued)

Nonaccrual and Past Due Loans – By Class
December 31, 2015
(in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing	Non-Accrual
Commercial – non real estate								
Commercial and industrial	$ - -	$ - -	$ - -	$ - -	$ 12 429	$ 12 429	$ - -	$ - -
Commercial real estate								
Owner occupied	12	- -	257	269	58 541	58 810	- -	257
Non owner occupied	- -	- -	- -	- -	36 107	36 107	- -	- -
Construction								
Residential	- -	- -	- -	- -	5 503	5 503	- -	- -
Commercial	- -	52	- -	52	16 351	16 403	- -	727
Real estate								
Farmland	- -	- -	- -	- -	2 817	2 817	- -	- -
Residential								
Revolving open end	18	- -	- -	18	6 800	6 818	- -	8
1 to 4 family – first liens	1 785	337	35	2 157	114 980	117 137	- -	161
1 to 4 family – junior liens	15	- -	- -	15	5 227	5 242	- -	- -
5 or more family	- -	- -	- -	- -	5 861	5 861	- -	- -
Consumer	53	19	4	76	8 065	8 141	- -	4
All other	- -	- -	- -	- -	4 843	4 843	- -	- -
Totals	$1 883	$ 408	$ 296	$2 587	$277 524	$280 111	$ - -	$1 157
Percentage to Total Loans	0.67%	0.15%	0.10%	0.92%	99.08%		0.00%	0.41%

Included in the 30 or more days past due loans are certain non-accrual loans in the amount of $338 thousand. The remaining non-accrual loans of $819 thousand are in current status.

Note 4. Allowance for Loan Losses (Continued)

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

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

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

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

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

Note 4. Allowance for Loan Losses (Continued)

The following table summarizes non-performing assets at December 31, 2015 and 2014:

	2015	2014
	(in thousands)	
Nonperforming assets		
Nonaccrual loans (1)	$1 157	$5 231
Other Real Estate Owned	1 319	1 198
Total nonperforming assets	$2 476	$6 429
Performing troubled debt restructures (2)	$6 064	$8 229
Loans past due 90 days accruing interest	$ - -	$ 226

(1) Currently there are four restructurings in non-performing assets with a balance of $1 million at December 31, 2015. There were three restructurings in non-performing assets with a balance of $4.1 million at December 31, 2014.

(2) Within this amount are four restructurings with a balance totaling $527 thousand, 30 or more days past due at December 31, 2015. There was one restructuring with a balance totaling $38 thousand at December 31, 2014, 30 or more days past due.

The interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $323 thousand and $252 thousand in 2015 and 2014, respectively.

Note 5. Premises and Equipment, Net

Premises and equipment consists of the following:

	December 31	
	2015	2014
	(in thousands)	
Premises and improvements	$ 9 297	$ 9 279
Furniture and equipment	4 160	4 916
	$13 457	$14 195
Less accumulated depreciation	6 332	6 874
	$ 7 125	$ 7 321

Depreciation included in noninterest expense for 2015 and 2014 was $446 thousand and $445 thousand, respectively.

Note 6. Deposits

The aggregate amount of time deposits with a balance of $250,000 or more was $11.8 million and $14.5 million at December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of all time deposits (in thousands) are as follows:

2016	$26 698
2017	11 402
2018	6 343
2019	20 882
2020	20 997
2021	157
	$86 479

Note 6. Deposits (Continued)

Brokered deposits totaled $12.3 million and $8.9 million at December 31, 2015 and 2014, respectively. Certificates of deposits included in these totals are $7.1 million and $4.5 million at December 31, 2015 and 2014, respectively.

Deposits of the company's directors, executive officers and associates totaled $2.6 million at December 31, 2015 and totaled $3.7 million at December 31, 2014.

Note 7. Borrowings

Short-term borrowings consist of securities sold under agreements to repurchase and federal funds purchased, which totaled $5.1 million and $2.0 million as of December 31, 2015 and 2014, respectively.

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

	December 31	
	2015	2014
Balance outstanding at year end	$5 139	$2 040
Maximum balance at any month-end during the year	$5 382	$3 711
Average balance for the year	$3 323	$2 762
Weighted average rate for the year	0.52%	0.38%
Weighted average rate at year end	0.62%	0.35%

The company had one non-amortizing $5 million Federal Home Loan Bank advance with an interest rate of 1.39% as of December 31, 2015. This advance matures May 30, 2018. The company also has another Federal Home Loan Bank advance with an interest rate of 1.43% and a balance of $3.5 million and $4.5 million at December 31, 2015 and 2014, respectively. This advance has a maturity date of June 26, 2019. This advance amortizes to the maturity date with future scheduled yearly principal payments of $993 thousand, $1.0 million, $1.0 million, and $516 thousand, respectively.

Noncore funding capabilities, including borrowing, provide additional liquidity. The subsidiary bank maintains a federal funds line with one financial institution and is a member of the Federal Home Loan Bank of Pittsburgh. The subsidiary bank also has a credit line with the Federal Reserve discount window. At December 31, 2015, the subsidiary bank had total credit available through these institutions of approximately $107.8 million.

Securities sold under agreement to repurchase to the company's directors, executive officers and associates totaled $573 thousand at December 31, 2015 and totaled $569 thousand at December 31, 2014.

Note 8. Employee Benefit Plans

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

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

The company sponsors a 401(k) retirement savings plan available to all employees meeting certain age and service requirements. Employees become eligible to participate in the plan upon reaching age 21 and completing one year of service. Employees can make a salary deferral election authorizing the company to withhold up to the amount allowed by law each calendar year. The company may make a discretionary matching contribution each plan year. The company may also make other discretionary contributions to the plan. The company's match for this plan has been increased with the freezing of the defined benefit plan as described above. The company made 401(k) matching contributions of $286 thousand and $272 thousand in 2015 and 2014, respectively.

Note 8. Employee Benefit Plans (Continued)

The company has entered into contracts with three retirees where the company has agreed to pay the beneficiaries of two participants $50,000 each and the beneficiary of one participant $25,000 at the death of the participants. This postretirement benefit has been accrued as of December 31, 2015. While these liabilities are unfunded, life insurance has been obtained by the company to help offset these payments.

Obligations and funded status:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Benefit obligation, beginning	$10 182	$ 8 494	$ 390	$ 331
Interest cost	413	410	13	15
Actuarial (gain) loss	(568)	1 759	(14)	66
Benefits paid	(501)	(481)	(25)	(22)
Benefit obligation, ending	$ 9 526	$10 182	$ 364	$ 390
Change in plan assets:				
Fair value of plan assets, beginning	$ 8 854	$ 8 915	$ - -	$ - -
Actual return on plan assets	(15)	420	- -	- -
Employer contributions	- -	- -	25	22
Benefits paid	(501)	(481)	(25)	(22)
Fair value of plan assets, ending	$ 8 338	$ 8 854	$ - -	$ - -
Funded status at end of year	$ (1 188)	$ (1 328)	$ (364)	$ (390)
Accounts recognized on consolidated balance sheet as:				
Accrued benefit liabilities	$ (1 188)	$ (1 328)	$ (364)	$ (390)
Amounts recognized in accumulated other comprehensive loss consists of:				
Net actuarial loss	$ 3 646	$ 3 889	$ 43	$ 59
Deferred tax asset	(1 385)	(1 478)	(16)	(22)
	$ 2 261	$ 2 411	$ 27	$ 37

The accumulated benefit obligation for the defined benefit pension plan was $9.5 million and $10.2 million at December 31, 2015 and 2014, respectively.

Note 8. Employee Benefit Plans (Continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Components of net periodic benefit cost:				
Interest cost	$ 413	$ 410	$ 13	$ 15
Expected return on plan assets	(586)	(592)	- -	- -
Amortization of actuarial loss	277	107	2	- -
Net periodic benefit cost	$ 104	$ (75)	$ 15	$ 15
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Net actuarial loss (gain)	$ 34	$1 931	$(14)	$ 66
Deferred tax	93	(693)	6	(25)
Amortization of actuarial loss	(277)	(107)	(2)	- -
Total recognized in other comprehensive income (loss)	$(150)	$1 131	$(10)	$ 41
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (46)	$1 056	$ 5	$ 56

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year approximates $274 thousand.

Assumptions

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	4.16%	4.97%	4.00%	4.75%
Expected return on plan assets	6.81%	6.83%	- -	- -
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.53%	4.16%	4.00%	4.00%
Expected return on plan assets	6.42%	6.81%	- -	- -

Note 8. Employee Benefit Plans (Continued)

Long-Term Rate of Return

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

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

The fair value (in thousands) of the company's pension assets as of December 31, 2015 and 2014, respectively, are as follows:

		Fair Value Measurement at December 31, 2015		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & cash equivalents	$ 288	$ 288	$ - -	$- -
Equity securities				
U.S. companies	3 784	3 784	- -	- -
International companies	838	838	- -	- -
U. S. Treasury securities	209	- -	209	- -
U. S. Corporate bonds	2 786	- -	2 786	- -
International Corporate bonds	433	- -	433	- -
Total	$8 338	$4 910	$3 428	$- -

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

Note 8. Employee Benefit Plans (Continued)

Asset Allocation

The pension plan's asset allocations at December 31, 2015 and 2014 by asset category are as follows:

	Plan Assets at December 31	
	2015	2014
Asset Category		
Equities	55%	56%
Fixed income/cash	45%	44%
Total	100%	100%

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

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

There is no company common stock included in the equity securities of the pension plan at December 31, 2015 and 2014.

Cash Flow

The company currently expects to make no contribution to its pension plan in 2016 and $27 thousand to its postretirement plan in 2016.

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

	Pension Benefits	Other Postretirement Benefits
2016	$ 518	$ 27
2017	518	28
2018	530	28
2019	538	29
2020	557	29
Thereafter	2 997	141

For measurement purposes, an 8.00% and 5.00% annual rate of increase in per capita health care costs of covered benefits was assumed for the retiree health care plan for 2015 and 2014.

Note 8. Employee Benefit Plans (Continued)

Cash Flow (Continued)

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

	1% Increase	1% Decrease
	(in thousands)	
Effect on the health care component of the accumulated postretirement benefit obligation	$21	$(19)
Effect on total of service and interest cost components of net periodic other postretirement health care benefit cost	1	(1)

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

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

	2015		2014	
	Average Shares (in thousands)	Per Share Amount	Average Shares (in thousands)	Per Share Amount
Basic earnings per common share	3 377	$.76	3 390	$.64
Effect of dilutive securities:				
Stock options	- -		- -	
Diluted earnings per common share	3 377	$.76	3 390	$.64

Stock options for 60,626 and 82,737 average shares of common stock were not considered in computing diluted earnings per common share for 2015 and 2014, respectively, because they were anti-dilutive.

Note 10. Stock-Based Compensation

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

Note 10. Stock-Based Compensation (Continued)

A summary of option activity under the plan as of December 31, 2015, and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	73 056	$15.63		
Exercised	- -	- -		
Forfeited	- -	- -		
Expired	(24 861)	14.00		
Outstanding at end of year	48 195	$16.47	0.5	$- -
Exercisable at end of year	48 195	$16.47	0.5	$- -

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2015. The aggregate intrinsic values change based on changes in the market value of the company's stock.

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

The following table summarizes options outstanding at December 31, 2015:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$15.60	22 714	1.0	$15.60	22 714	$15.60
17.25	25 481	0.0	17.25	25 481	17.25
	48 195			48 195	

Note 11. Income Taxes

The company files income tax returns in the U. S. Federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the company is no longer subject to U. S. Federal, state and local income tax examinations by tax authorities for years prior to 2012.

Net deferred tax assets (in thousands) consist of the following components as of December 31, 2015 and 2014:

	2015	2014
Deferred tax assets:		
Reserve for loan losses	$ 12	$ - -
AMT	- -	251
Accrued pension expense	489	544
Accrued postretirement benefits	163	171
Nonaccrual interest	238	186
Stock option expense	35	35
Securities available for sale	- -	26
Net loan origination fees	91	106
Charitable contributions	- -	41
Net operating loss carry forward	124	239
OREO valuation allowance	246	290
OREO built in gain	157	129
	$1 555	$2 018
Deferred tax liabilities:		
Reserve for loan losses	$ - -	$ 10
Depreciation	206	67
Gain on intangible	8	9
Securities available for sale	37	- -
	$ 251	$ 86
Net deferred tax assets	$1 304	$1 932

The provision for income taxes charged to operations for the years ended December 31, 2015 and 2014 consists of the following (in thousands):

	2015	2014
Current tax expense	$ 880	$ 305
Deferred tax expense	467	754
	$1 347	$1 059

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2015 and 2014 due to the following (in thousands):

	2015	2014
Computed “expected” tax expense	$1 335	$1 094
Increase (decrease) in income taxes resulting from:		
Tax exempt income	(116)	(142)
State income tax expense, net of federal benefit	94	82
Other	34	25
	$1 347	$1 059

Note 11. Income Taxes (Continued)

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. “More likely than not” is defined as greater than a 50% chance. Management considers all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed. Management’s assessment is primarily dependent on historical taxable income and projections of future taxable income, which are directly related to the company’s core earnings capacity and its prospects to generate core earnings in the future. Projections of core earnings and taxable income are inherently subject to uncertainty and estimates that may change given the uncertain economic outlook, banking industry conditions and other factors. Based upon an analysis of available evidence, management has determined that it is “more likely than not” that the company’s deferred income tax assets as of December 31, 2015 will be fully realized and therefore no valuation allowance to the company’s deferred income tax assets was recorded. However, the company can give no assurance that in the future its deferred income tax assets will not be impaired because such determination is based on projections of future earnings and the possible effect of certain transactions, which are subject to uncertainty and based on estimates that may change due to changing economic conditions and other factors. Due to the uncertainty of estimates and projections, it is possible that the company will be required to record adjustments to the valuation allowance in future reporting periods.

The company has approximately $1.9 million of net operating loss carryforwards which can be offset against future West Virginia taxable income. These carryforwards also expire through December 31, 2031. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

Note 12. Commitments and Contingent Liabilities

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

The company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final bi-weekly reporting periods which included December 31, 2015 and 2014, this requirement was met by the amount of vault cash.

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

The table below presents the contractual obligations of the company as of December 31, 2015 not disclosed in other notes (in thousands):

	Lease Obligations for Real Estate	Lease Obligations for Equipment
2016	$ 106	$ 70
2017	92	80
2018	94	90
2019	95	46
2020	99	- -
Thereafter	145	- -
	$ 631	$ 286

Note 13. Retained Earnings

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

At January 1, 2016 the bank has available $3.0 million for the payment of dividends.

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

Note 14. Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension and Other Post Retirement Benefits	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2013	$ 84	$(1 277)	$(1 193)
Net unrealized holding gains (losses) on securities, net of tax of $78	(126)	- -	(126)
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $718	- -	(1 172)	(1 172)
Balance at December 31, 2014	(42)	(2 449)	(2 491)
Net unrealized holding gains (losses) on securities, net of tax of $63	104	- -	104
Change in benefit obligation and plan assets for pension and other postretirement benefits, net of tax of $99	- -	160	160
Balance at December 31, 2015	$ 62	$(2 289)	$(2 227)

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category during the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014	Affected Line Item on the Consolidated Statements of Income
Available for sale securities			
Realized gains on securities available for sale, net	$ 51	$ 128	Gains on sales and calls of securities available for sale, net
Tax effect	19	49	Income tax expense
Net of tax	32	79	Net of tax
Pension and other postretirement benefits			
Amortization of net actuarial loss (1)	$(279)	$(107)	Salaries and employee benefits
Tax effect	(106)	(41)	Income tax expense
Net of tax	$(173)	$ (66)	Net of tax
Total reclassifications for the period	$(141)	$ 13	Net of tax

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

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

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

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

A summary of the contract or notional amount of the company's exposure to off-balance-sheet risk as of December 31, 2015 and 2014 (in thousands) is as follows:

	2015	2014
Financial instruments whose amounts represent credit risk:		
Commitments to extend credit	$45 380	$45 812
Standby letters of credit	644	1 404

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

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

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

Note 16. Fair Value Measurements

Determination of Fair Value

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

Note 16. Fair Value Measurements (Continued)

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

Fair Value Hierarchy

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

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

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

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

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

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

Cash and Cash Equivalents

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

Certificates of Deposits with Other Financial Institutions

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

Securities

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

Loans

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

Loans Held for Sale

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

FHLB Stock

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

Bank Owned Life Insurance (BOLI)

The carrying amounts of BOLI approximate fair value.

Deposit Liabilities

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

Short-Term Borrowings

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

FHLB Advances

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Financial Instruments

At December 31, 2015 and 2014, the fair value of loan commitments and standby-letters of credit was immaterial. Therefore, they have not been included in the following table.

Note 16. Fair Value Measurements (Continued)

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

		Fair Value Measurements at December 31, 2015 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and cash equivalents	$ 17 680	$17 680	$ - -	$ - -	$ 17 680
Certificates of deposits in other financial institutions	2 250	- -	2 268	- -	2 268
Securities available for sale	34 369	- -	34 269	100	34 369
Loans, net	277 563	- -	- -	279 782	279 782
Loans held for sale	294	- -	294	- -	294
FHLB Stock	620	- -	620	- -	620
BOLI	7 790	- -	7 790	- -	7 790
Accrued interest receivable	795	- -	795	- -	795
Liabilities					
Deposits	$303 535	$ - -	$304 218	$ - -	$304 218
Securities sold under agreement to repurchase	5 139	- -	5 139	- -	5 139
FHLB advances	8 537	- -	8 482	- -	8 482
Accrued interest payable	178	- -	178	- -	178

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

Note 16. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following table presents the balances (in thousands) of financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014:

		Fair Value Measurements at December 31, 2015 Using		
Description	Balance as of December 31 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale debt securities				
U.S. Government sponsored agency securities	$30 466	$- -	$30 466	$ - -
State and municipal securities	2 908	- -	2 908	- -
Total available for sale debt securities	33 374	- -	33 374	- -
Available for sale equity securities				
Financial services industry	995	- -	895	100
Total available for sale securities	$34 369	$- -	$34 269	$100

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

Note 16. Fair Value Measurements (Continued)

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

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2015			
Asset	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Available for sale equity securities				
Financial services industry	$100	Approximate book value	Lack of marketability	0%

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) ($ in thousands)
	Available for Sale Equity Securities
Beginning Balance January 1, 2015	$ 667
Transfers into Level 3	100
Transfers out of Level 3	(667)
Ending Balance December 31, 2015	$ 100

Assets Measured at Fair Value on a Nonrecurring Basis

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

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

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

Note 16. Fair Value Measurements (Continued)

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

Real estate acquired through foreclosure is transferred to other real estate owned (OREO). The measurement of loss associated with OREO is based on the fair value of the collateral less anticipated selling costs compared to the unpaid loan balance. The value of real estate collateral is determined based on an internal evaluation, appraisal outside of the company, or comparative market analysis. Any fair value adjustments are recorded in the period incurred and expensed against current earnings. The carrying values of all OREO are considered to be Level 3.

The following table summarizes the company's assets that were measured at fair value (in thousands) on a nonrecurring basis as of December 31, 2015 and 2014.

		Carrying Value at December 31, 2015		
Description	Balance as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets				
Impaired Loans with a valuation allowance	$4 632	$ - -	$- -	$4 632
OREO	1 319	- -	- -	1 319

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

	Quantitative information about Level 3 Fair Value Measurement for December 31, 2015			
	Fair Value (000s)	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Asset				
Impaired loans with a valuation allowance	$4 632	Appraisal and income or market valuation	Market discount	0% - 100% (7.4%)
OREO	$1 319	Appraisal and income or market valuation	Market discount	0% - 100% (33.8%)

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

Note 17. Regulatory Matters

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 Capital (CET1) ratio is calculated and utilized in the assessment of capital for banking institutions. Under Basel III capital guidelines, Bank of Charles Town is required to maintain minimum total capital, CET1 capital, Tier 1 capital, and Tier 1 capital leverage ratios of 8.0%, 4.5%, 6.0%, and 4.0%, respectively. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The implementation of a capital conservation buffer will begin on January 1, 2016 and be phased in over a four-year period until it reaches 2.5% on January 1, 2019. When fully phased in, the minimum total capital, CET1 capital, and Tier 1 capital will be 10.5%, 7.0%, and 8.5%, respectively. There is no capital conservation buffer for the Tier 1 Leverage ratio.

Capital amounts and ratios for December 31, 2014 were calculated using the Basel I rules, which were effective until January 1, 2015.

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

	Actual		Minimum Required – Basel III Phase-In Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2015:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$35 458	13.13%	$21 607	8.0%	$27 009	10.0%
CET 1 capital (to risk-weighted assets):						
Bank of Charles Town	$32 910	12.18%	$12 154	4.5%	$17 556	6.5%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$32 910	12.18%	$16 205	6.0%	$21 607	8.0%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$32 910	9.48%	$13 885	4.0%	$17 357	5.0%

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2014:						
Total capital (to risk-weighted assets):						
Bank of Charles Town	$34 234	14.40%	$19 023	8.0%	$23 779	10.0%
Tier 1 capital (to risk-weighted assets):						
Bank of Charles Town	$31 569	13.28%	$ 9 512	4.0%	$14 268	6.0%
Tier 1 Leverage (to average assets):						
Bank of Charles Town	$31 569	9.84%	$12 837	4.0%	$16 046	5.0%

Note 18. Parent Company Only Financial Statements

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Balance Sheets
December 31, 2015 and 2014
(in thousands)

	2015	2014
ASSETS		
Cash	$ 10	$ 22
Investment in subsidiary	30 779	29 211
Equity securities available for sale, at fair value	995	677
Other assets	49	140
Total Assets	$31 833	$30 050
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Other liabilities	$ - -	$ - -
Total Liabilities	$ - -	$ - -
STOCKHOLDERS' EQUITY		
Common stock	$ 3 672	$ 3 672
Surplus	3 944	3 944
Undivided profits	29 661	27 791
Accumulated other comprehensive loss, net	(2 227)	(2 491)
	$35 050	$32 916
Less cost of shares acquired for the treasury	(3 217)	(2 866)
Total Stockholders' Equity	$31 833	$30 050
Total Liabilities and Stockholders' Equity	$31 833	$30 050

Note 18. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2015 and 2014
(in thousands)

	2015	2014
Income		
Dividends from subsidiary	$1 199	$ 636
Other income	1	- -
Total Income	$1 200	$ 636
Expenses		
Public relations & new business development	$ 4	$ 4
Transfer agent expense	27	26
Computer services	1	4
Director and committee fees	6	13
Legal fees	10	17
Other professional fees	11	8
Postage	6	7
Proxy solicitation	9	10
Printing, stationery and supplies	15	21
Other taxes	1	1
Total Expenses	$ 90	$ 111
Income before Income Tax (Benefit) and Equity in Undistributed Income of Subsidiary	$1 110	525
Income Tax (Benefit)	(30)	(38)
Income before Equity in Undistributed Income of Subsidiary	$1 140	$ 563
Equity in Undistributed Income of Subsidiary	1 440	1 596
Net Income	$2 580	$2 159

Note 18. Parent Company Only Financial Statements (Continued)

POTOMAC BANCSHARES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2 580	$ 2 159
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (income) of Subsidiary	(1 440)	(1 596)
Decrease in other assets	9	6
Net cash provided by operating activities	$ 1 149	$ 569
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	$ (100)	$ - -
Net cash used in investing activities	$ (100)	$ - -
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury shares	$ (351)	$ - -
Cash dividends	(710)	(576)
Net cash used in financing activities	$(1 061)	$ (576)
Decrease in cash and cash Equivalents	$ (12)	$ (7)
CASH AND CASH EQUIVALENTS		
Beginning	$ 22	$ 29
Ending	$ 10	$ 22

Note 19. Subsequent Events

In preparing these financial statements, the company has evaluated events and transactions for potential recognition or disclosure through March 14, 2016, the date the financial statements were available to be issued. In the opinion of management, all subsequent events requiring recognition or disclosure have been included in the consolidated financial statements.

The following information reflects comparative per share data for the periods indicated for Potomac common stock for (a) trading values, and (b) dividends. As of February 25, 2016 there were approximately 1,000 shareholders. The trading values are based on information available through the Internet.

No attempt was made by Potomac to verify or determine the accuracy of the representations made to Potomac or gathered on the Internet.

2015

	High	Low	Dividends
First Quarter	$8.80	$7.91	0.0525
Second Quarter	8.25	7.40	0.0525
Third Quarter	7.65	7.20	0.0525
Fourth Quarter	8.75	7.20	0.0525

2014

	High	Low	Dividends
First Quarter	$7.95	$7.15	0.0425
Second Quarter	7.97	7.00	0.0425
Third Quarter	8.35	7.65	0.0425
Fourth Quarter	8.35	8.00	0.0425

General Information

Common Stock Trading Values & Dividends

Trading of Potomac Bancshares, Inc. common stock is not extensive and cannot be described as a public trading market. To gather information about Potomac in this market, use Potomac's symbol PTBS. Information about sales of Potomac's stock is available on the Internet through many of the stock information services using Potomac's symbol. Shares of Potomac common stock are occasionally bought and sold by private individuals, firms or corporations, and, in most instances, Potomac does not have knowledge of the purchase price or the terms of the purchase.

Dividend Reinvestment & Direct Stock Purchase and Sale Plan

American Stock Transfer & Trust Company, LLC (the "Plan Administrator") has established an Investors Choice Dividend Reinvestment & Direct Stock Purchase and Sale Plan (the "Plan") for convenience of investors and shareholders in Potomac Bancshares, Inc. common stock. The Plan Administrator will administer the Plan, purchase and hold shares acquired for you under the Plan, keep records, send statements of account activity and perform other duties related to the Plan.

To make an investment online, logon to www.amstock.com, click "Shareholders," then select "Invest Online" then select "All Plans" from the left toolbar.

To invest by mail, simply fill out an Enrollment Application, (which can be obtained by calling the Plan Administrator toll free at 1-800-813-2847). The Enrollment Application may also be downloaded from the Plan Administrator's Internet site (www.amstock.com) and mailed to this Plan Administrator.

Stock Transfer Agent

American Stock Transfer & Trust Company, LLC
Operations Center – 6201 15th Avenue, Brooklyn, NY 11219
718-921-8124 / 800-937-5449
www.amstock.com

Annual Meeting

The annual meeting of stockholders will be held at the
Bavarian Inn
164 Shepherd Grade Road
Shepherdstown, WV 25443
Tuesday, April 26th, 2016
Beginning at 10:30 a.m.

QUARTERLY FINANCIAL REPORTS

are available online. To access a copy of these reports, visit **www.mybct.com**

For further information contact:

Dean J. Cognetti
Senior Vice President,
Chief Financial Officer & Secretary/Treasurer Potomac Bancshares, Inc.

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BCT

Bank of Charles Town