first west virginia bancorp

2015 Annual Report

SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

	December 31,				
	2015	2014	2013	2012	2011
SUMMARY OF OPERATIONS					
Total interest income	**$ 10,384**	$ 9,601	$ 9,414	$ 9,838	$ 11,207
Total interest expense	**1,377**	1,449	1,524	1,789	2,229
Net interest income	**9,007**	8,152	7,890	8,049	8,978
Provision (credit) for loan losses	**30**	—	(400)	(248)	600
Total other income	**2,113**	1,877	1,440	2,352	2,034
Total other expenses	**8,315**	8,060	7,672	7,604	7,626
Income before income taxes	**2,775**	1,969	2,058	3,045	2,786
Net income	**2,392**	1,904	2,241	2,538	2,454
PER SHARE DATA					
Net income	**$ 1.39**	$ 1.11	$ 1.30	$ 1.48	$ 1.43
Cash dividends declared	**0.80**	0.80	0.76	0.73	0.73
Book value per share	**20.58**	20.29	17.91	20.77	20.09
AVERAGE BALANCE SHEET SUMMARY					
Total loans, net of unearned income	**$ 102,227**	$ 94,103	$ 97,374	$ 104,566	$ 115,415
Investment securities	**193,416**	199,571	177,809	154,755	136,409
Deposits - interest-bearing	**233,738**	230,440	218,229	208,308	204,616
Stockholders' equity	**34,565**	33,767	32,597	31,608	30,498
Total assets	**337,130**	335,515	316,172	293,601	283,734
BALANCE SHEET					
Investments	**$ 203,579**	$ 197,079	$ 199,955	$ 178,208	$ 150,961
Loans	**100,098**	99,217	93,402	99,387	109,428
Allowance for loan losses	**(1,798)**	(1,813)	(1,865)	(2,181)	(2,504)
Other assets	**43,515**	37,907	50,653	31,133	35,373
Total Assets	**$ 345,394**	$ 332,390	$ 342,145	$ 306,547	$ 293,258
Deposits	**$ 282,287**	$ 272,143	$ 285,877	$ 246,462	$ 239,177
Federal funds purchased and repurchase agreements	**23,619**	21,051	20,215	18,767	14,013
FHLB borrowings	**3,320**	3,420	3,516	3,606	3,693
Other liabilities	**804**	904	1,747	2,009	1,848
Stockholders' equity	**35,364**	34,872	30,790	35,703	34,527
Total Liabilities and Stockholders' Equity	**$ 345,394**	$ 332,390	$ 342,145	$ 306,547	$ 293,258
SELECTED RATIOS					
Return on average assets	**0.71%**	0.57%	0.71%	0.86%	0.86%
Return on average equity	**6.92%**	5.64%	6.87%	8.03%	8.05%
Average equity to average assets	**10.25%**	10.06%	10.31%	10.77%	10.75%
Dividend payout ratio	**57.55%**	72.07%	58.46%	49.32%	51.05%
Loan to deposit ratio	**35.46%**	36.46%	32.67%	40.33%	45.75%

P.O. Box 6671
Wheeling, WV 26003

TO OUR SHAREHOLDERS:

I am pleased for the opportunity to present to you the financial performance results contained in the 2015 Annual Report of First West Virginia Bancorp, Inc.

First West Virginia Bancorp, Inc. produced outstanding results in 2015. For the year ended December 31, 2015, consolidated net income available to shareholders increased 26% to $2,391,738 as compared to $1,903,905 in 2014. Earnings per share rose to $1.39 per share in 2015 from $1.11 in 2014. Our increase in net income in 2015 was driven by a 13% increase in noninterest income as a result of the net gains in available for sale investment securities combined with an increase of 10% in net interest income, offset in part by increases in noninterest expense, income tax expense and the provision for loan losses. The consolidated assets increased 4% to $345,393,608 as compared to $332,390,474. Total stockholders' equity increased 1% in 2015 to $35,363,236 as compared to $34,871,592 reported in 2014. Our strong capital levels continue to provide a solid foundation for growth. The return on average assets was .71% and .57% as of December 31, 2015 and 2014, respectively. The return on average equity was 6.92% and 5.64% at December 31, 2015 and 2014, respectively. The book value per share was $20.58 at December 31, 2015 as compared to $20.29 a year earlier. The Board of Directors declared and paid cash dividends of $.80 during each of the years ended December 31, 2015 and 2014.

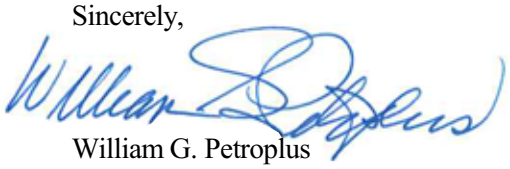
The Company voluntarily withdrew the Company's common stock from listing on the NYSE and voluntarily terminated the registration of its common stock under the Securities and Exchange Act of 1934, as amended, in 2015. The Company's Board of Directors made this decision after careful consideration and review of the cumulative costs and advantages and disadvantages of being a listed company registered with the Securities and Exchange Commission ('SEC"). The decision of the Company's Board of Directors to delist and deregister the Common Stock was based on consideration of a number of factors, including (1) the costs and administrative burdens of preparing and filing periodic reports with the SEC, (2) the demands placed on management and the Company to comply with registration requirements, and (3) the low trading volume of the Company's stock. On November 16, 2015, the Company began trading under the symbol "FWVB" on the OTCQX Best Market, which provides a transparent, high-quality trading market for our shareholders without the high cost and duplicative regulatory burden of a national stock exchange listing.

In 2015, Elizabeth H. Hestick retired from the Progressive Bank, N.A. Board of Directors. Mrs. Hestick has served on the subsidiary bank Board of Directors for 13 years. Mrs. Hestick will remain an emeritus director of our Progressive Bank, N.A. subsidiary Board of Directors.

I extend my sincere gratitude to our senior management, officers, and employees who continue to be a part of our future plans; to the Board of Directors for their unfailing leadership; and to our customers and shareholders for their continued loyalty and support.

Our Company's overall financial performance and capital position remain strong. We feel we are in position to capitalize on the new opportunities and challenges in 2016.

Sincerely,



William G. Petroplus
President and Chief Executive Officer

First West Virginia Bancorp, Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
ASSETS		
Cash and due from banks	**$ 4,561,278**	$ 5,348,554
Due from banks - interest-bearing	**21,367,628**	15,047,846
Total cash and cash equivalents	**25,928,906**	20,396,400
Investment securities:		
Available-for-sale (at fair value)	**203,579,219**	197,078,938
Loans	**100,098,068**	99,216,428
Less allowance for loan losses	**(1,798,394)**	(1,812,739)
Net loans	**98,299,674**	97,403,689
Premises and equipment, net	**7,952,715**	8,413,049
Accrued income receivable	**1,028,336**	1,014,979
Goodwill	**1,644,119**	1,644,119
Bank-owned life insurance	**3,950,002**	3,840,167
Other assets	**3,010,637**	2,599,133
Total assets	**$ 345,393,608**	$ 332,390,474
LIABILITIES		
Noninterest-bearing deposits:		
Demand	**$ 40,110,918**	$ 41,555,690
Interest-bearing deposits:		
Demand	**64,573,075**	55,458,847
Savings	**118,434,010**	112,756,169
Time	**59,168,909**	62,371,914
Total deposits	**282,286,912**	272,142,620
Securities sold under agreements to repurchase	**23,618,997**	21,051,231
Federal Home Loan Bank borrowings	**3,320,392**	3,420,312
Accrued interest payable	**102,279**	120,272
Other liabilities	**701,792**	784,447
Total liabilities	**310,030,372**	297,518,882
COMMITMENTS AND CONTINGENT LIABILITIES		
Commitments and contingent liabilities	**—**	—
STOCKHOLDERS' EQUITY		
Common stock - 2,000,000 shares authorized at $5 par value:		
1,728,730 shares issued at December 31, 2015 and 2014	**8,643,650**	8,643,650
Treasury stock - 10,000 shares at cost	**(228,100)**	(228,100)
Surplus	**6,966,020**	6,966,020
Retained earnings	**19,672,229**	18,655,475
Accumulated other comprehensive income	**309,437**	834,547
Total stockholders' equity	**35,363,236**	34,871,592
Total liabilities and stockholders' equity	**$ 345,393,608**	$ 332,390,474

The accompanying notes are an integral part of the consolidated financial statements.

First West Virginia Bancorp, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2015	2014
INTEREST AND DIVIDEND INCOME		
Loans, including fees:		
Taxable	**$ 5,416,183**	$ 4,303,621
Tax-exempt	**505,788**	499,091
Debt securities:		
Taxable	**3,139,198**	2,880,574
Tax-exempt	**1,206,857**	1,813,662
Other interest and dividend income	**115,976**	103,781
Total interest and dividend income	**10,384,002**	9,600,729
INTEREST EXPENSE		
Deposits	**998,835**	1,111,430
Federal funds purchased and repurchase agreements	**217,363**	171,478
Federal Home Loan Bank borrowings	**161,184**	166,316
Total interest expense	**1,377,382**	1,449,224
Net interest income	**9,006,620**	8,151,505
PROVISION FOR LOAN LOSSES	**30,000**	—
Net interest income after provision for loan losses	**8,976,620**	8,151,505
NONINTEREST INCOME		
Service charges and other fees	**313,642**	374,476
Net gains on available-for-sale securities	**1,153,932**	868,530
Other-than-temporary losses on securities:		
Total other-than-temporary losses	—	(49,318)
Portion of loss recognized in other comprehensive income (before taxes)	—	—
Net impairment losses recognized in earnings	—	(49,318)
Other operating income	**645,596**	682,946
Total noninterest income	**2,113,170**	1,876,634
NONINTEREST EXPENSE		
Salary and employee benefits	**4,184,497**	3,925,361
Net occupancy expense of premises	**1,692,892**	1,688,779
Other operating expenses	**2,437,183**	2,445,379
Total noninterest expense	**8,314,572**	8,059,519
Income before income taxes	**2,775,218**	1,968,620
INCOME TAX EXPENSE	**383,480**	64,715
Net income	**$ 2,391,738**	$ 1,903,905
WEIGHTED-AVERAGE SHARES OUTSTANDING	**1,718,730**	1,718,730
EARNINGS PER COMMON SHARE	**$ 1.39**	$ 1.11
DIVIDENDS PER COMMON SHARE	**$ 0.80**	$ 0.80

The accompanying notes are an integral part of the consolidated financial statements.

First West Virginia Bancorp, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2015	2014
Net Income	**$ 2,391,738**	$ 1,903,905
Other comprehensive income (loss):		
Investment securities available for sale		
Unrealized holding gains arising during the period	**312,005**	6,515,274
Income tax effect	**(117,408)**	(2,451,698)
Reclassification of gains recognized in earnings	**(1,153,932)**	(819,212)
Income tax effect	**434,225**	308,271
Total other comprehensive income (loss)	**(525,110)**	3,552,635
Comprehensive income	**$ 1,866,628**	$ 5,456,540

The accompanying notes are an integral part of the consolidated financial statements.

First West Virginia Bancorp, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Treasury		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Surplus	Earnings	Income (Loss)	Total
BALANCE, JANUARY 1, 2014	1,728,730	$8,643,650	$ (228,100)	$ 6,966,020	$18,126,554	$ (2,718,088)	$ 30,790,036
Net income	—	—	—	—	1,903,905	—	1,903,905
Other comprehensive income, net	—	—	—	—	—	3,552,635	3,552,635
Cash dividend ($.80 per share)	—	—	—	—	(1,374,984)	—	(1,374,984)
BALANCE, DECEMBER 31, 2014	1,728,730	8,643,650	(228,100)	6,966,020	18,655,475	834,547	34,871,592
Net income	—	—	—	—	2,391,738	—	2,391,738
Other comprehensive loss, net	—	—	—	—	—	(525,110)	(525,110)
Cash dividend ($.80 per share)	—	—	—	—	(1,374,984)	—	(1,374,984)
BALANCE, DECEMBER 31, 2015	1,728,730	$8,643,650	$ (228,100)	$6,966,020	$19,672,229	$ 309,437	$ 35,363,236

The accompanying notes are an integral part of the consolidated financial statements.

First West Virginia Bancorp, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	**$ 2,391,738**	$ 1,903,905
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**30,000**	—
Depreciation and amortization	**629,096**	605,715
Amortization of investment securities, net	**720,451**	476,740
Investment security gains	**(1,153,932)**	(868,530)
Other-than-temporary losses on securities	**—**	49,318
Net gains on sales of mortgage loans	**—**	(1,893)
Loss on disposal of premises and equipment	**8,715**	6,246
Gain on sale of other real estate owned	**—**	(42,466)
Increase in cash surrender value of bank-owned life insurance	**(109,835)**	(107,728)
Originations of mortgage loans held for sale	**—**	(85,168)
Proceeds from sales of mortgage loans	**—**	87,061
Decrease (increase) in interest receivable	**(13,357)**	153,504
Decrease in interest payable	**(17,993)**	(14,117)
Deferred taxes	**(87,997)**	(43,637)
Other, net	**(89,347)**	595,304
Net cash provided by operating activities	**2,307,539**	2,714,254
INVESTING ACTIVITIES		
Net increase in loans, net of charge-offs	**(925,985)**	(6,074,166)
Proceeds from sales of securities available for sale	**52,099,014**	22,604,447
Proceeds from maturities, prepayments, and calls of securities available for sale	**38,098,625**	23,203,652
Purchases of securities available for sale	**(97,106,364)**	(37,784,000)
Purchases of premises and equipment	**(177,477)**	(2,024,420)
Proceeds from the sale of foreclosed assets	**—**	250,000
Net cash provided by (used in) investing activities	**(8,012,187)**	175,513
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**10,144,292**	(13,734,138)
Dividends paid	**(1,374,984)**	(1,374,984)
Increase in short-term borrowings	**2,567,766**	836,048
Repayment of Federal Home Loan Bank borrowings	**(99,920)**	(95,268)
Net cash provided by (used in) financing activities	**11,237,154**	(14,368,342)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,532,506**	(11,478,575)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,396,400**	31,874,975
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 25,928,906**	$ 20,396,400
Supplemental Disclosures:		
Cash Paid for Interest	**$ 1,395,375**	$ 1,463,341
Cash Paid for Income Taxes	**525,518**	138,496
Loans Transferred to Other Real Estate Owned	**—**	207,534

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows.

Nature of Operations and Basis of Presentation: First West Virginia Bancorp, Inc. (the "Company") is a West Virginia Company. The Company provides a variety of banking services to individuals and businesses through the branch network of its affiliate bank (the "Bank"). The Bank operates nine full service branches located in Wheeling (3), Wellsburg, Moundsville, New Martinsville, Buckhannon, and Weston, West Virginia and Bellaire, Ohio. Primary deposit products consist of checking accounts, savings accounts, and certificates of deposit. Primary lending products consist of commercial and residential real estate loans, consumer loans, and business loans.

Principles of Consolidation: The consolidated financial statements of the Company include the financial statements of the parent and its wholly-owned subsidiary, Progressive Bank, N.A. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, 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 material change in the near term relate to the determination of the allowance for loan losses, valuation of deferred tax assets, other-than-temporary impairments (OTTI), and fair values of financial instruments.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand and amounts due from banks and federal funds sold with maturities of less than 90 days. At December 31, 2015, the Company's cash accounts exceeded federally insured limits by approximately $760,000. Additionally, the Company had approximately $20,458,000 on deposit with the Federal Reserve Bank and the Federal Home Loan Bank of Pittsburgh as of December 31, 2015.

The subsidiary bank is required to maintain an average reserve balance with the Federal Reserve Bank or in cash on hand. The average required reserve balances for the years ended December 31, 2015 and 2014, were $2,358,000 and $2,849,000, respectively.

Investment Securities: Investment securities are classified at the time of purchase, based on management's intention and ability, as securities available for sale or held to maturity. The Company did not have any securities classified as held to maturity at December 31, 2015 or 2014. Certain debt and equity securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and management's intent and ability to hold the security for a period of time sufficient to allow for a recovery in market value. Among the factors that are considered in determining management's intent and ability is a review of the Company's capital adequacy, interest rate risk position and liquidity. The assessment of a security's ability to recover any decline in market value, the ability of the issuer to meet contractual obligations and management's intent and ability requires considerable judgment. Once a decline in value is determined to be other-than-temporary, if the investor does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings. At December 31, 2015 and 2014, there were no investment securities identified by management to be other-than-temporarily impaired. If investments decline in fair value due to adverse changes in the financial markets, charges to income could occur in future periods.

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Loans and Loans Held for Sale: Loans are generally reported at the principal balance outstanding, net of unearned income. Interest income on loans is accrued based on the principal outstanding. It is the Company's policy to discontinue the accrual of interest when either the principal or interest is past due 90 days or more, unless the loan is both well secured and in the process of collection. It is the Company's policy not to recognize interest income on specific impaired loans unless the likelihood of future loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. A nonaccrual loan may be returned to accrual status when none of its principal and interest payments are due and there has been a sustained period of repayment performance. Loans are considered past due when contractually required principal and interest payments have not been made on the due dates. Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized over the contractual life of the related loans or commitments as an adjustment of the related loan's yield using the level yield method. Loans held for sale are carried at the lower of cost or estimated market value in the aggregate. The Company had no loans held for sale as of December 31, 2015 and 2014.

Consumer loans are fully charged off or charged down to net realizable value when deemed uncollectible due to bankruptcy or other factors or no later than a defined number of days past due. Consumer loans not secured by real estate are charged off or charged down to net realizable value at 120 days past due for closed-end loans and 180 days past due for open-end loans. Residential real estate loans are charged down to net realizable value at 120 days past due for closed-end loans and 180 days past due for open-end loans. Commercial loans are fully charged off or charged down to net realizable value when management judges the loan to be uncollectible.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Loans Held for Sale: (Continued)

The Company has entered into an agreement with the Federal Home Loan Bank of Pittsburgh ("FHLB") under which the Bank may sell conforming one-to-four family residential mortgage loans to the FHLB. The current agreement dated December 28, 2015 provides for a maximum commitment of $5,000,000. This commitment expires on December 28, 2016. Loans sold to the FHLB are sold with limited recourse or credit risk based upon utilization of the original commitment. The Bank also maintains the servicing of these loans, for which it is paid a servicing fee. The total amount of loans sold and outstanding to the FHLB were $7,520,263 and $8,501,093 as of December 31, 2015 and 2014, respectively. These loans were also subject to recourse obligation or credit risk in the amount of $311,207 and $322,594 at December 31, 2015 and 2014, respectively. No liability has been recorded for the recourse obligation as the likelihood of incurring the liability is considered remote. The amount of income recognized as of a result of this agreement was $24,020 and $25,074 for the years ended December 31, 2015 and 2014, respectively.

Allowance for Loan Losses: The allowance for loan losses represents the amount which management estimates is adequate to provide for probable incurred losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management's evaluation of the adequacy of the allowance for loan losses which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant changes in the near term.

Management tracks and assigns a historical loss percentage for each loan rating category within each loan type. A rolling three-year historical loss ratio is used, calculated on a quarterly basis.

Management currently utilizes nine qualitative factors that are adjusted based on changes in the lending environment and economic conditions. The qualitative factors include the following: levels of and trends in delinquencies, nonaccruals, and charge-offs; trends within the loan portfolio; changes in lending policies and procedures; experience of lending personnel and management oversight; national and local economic trends; concentrations of credit; external factors such as legal and regulatory requirements; changes in the quality of loan review and Board oversight; and changes in the value of underlying collateral. The number of qualitative factors can change. Factors can be added for new risks or taken away if the risk no longer applies. Each loan type will have its own risk profile and management will evaluate and adjust each qualitative factor for each loan type quarterly, if necessary. For example, if one area of the loan portfolio is experiencing sharp increases in growth, it is likely the qualitative factor for trends in the loan portfolio would be increased for that loan type. As levels of delinquencies and nonaccrual loans decline for commercial real estate and commercial loans, it is likely that factor would be reduced.

In terms of the Company's loan portfolio, the commercial and industrial loans and commercial real estate loans are deemed to have more risk than the consumer real estate loans and other consumer loans in the portfolio. The commercial loans not secured by real estate are highly dependent on financial condition and are more dependent on economic conditions. The commercial loans secured by real estate are also dependent on economic conditions but generally have stronger forms of collateral. More recently, commercial real estate has been negatively impacted by devaluation so these commercial loans carry a higher qualitative factor for changes in the value of collateral. The commercial loans and commercial real estate loans have historically been responsible for the majority of the Company's delinquencies, nonaccrual loans, and charge-offs so both of these categories carry higher qualitative factors than consumer real estate loans and other consumer loans. The Company has historically experienced very low levels of consumer real estate and consumer loan charge-offs so these qualitative factors are set lower than the commercial real estate and commercial and industrial loans.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the credit worthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Impaired loans are loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap.

The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectibility while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Payments received on nonaccrual loans are applied as a reduction of the loan principal balance. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or in the case of collateral dependent loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral less estimated liquidation expenses.

Individual loan reviews are based upon specific quantitative and qualitative criteria, including the size of the loan, loan quality ratings, value of collateral, repayment ability of borrowers, and historical experience factors. The historical experience factors utilized for individual loan reviews are based upon past loss experience, known trends in losses and delinquencies, the growth of loans in particular markets and industries, and known changes in economic conditions in the particular lending markets. Allowances for homogeneous loans (such as residential mortgage loans, personal loans, etc.) are evaluated based upon historical loss experience, trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each lending market. There can be no assurance the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses in the amount of $1,798,394 at December 31, 2015, was adequate to provide for probable losses from existing loans based on information currently available. While management uses available information to provide for loan losses, the ultimate collectibility of a substantial portion of the loan portfolio, and the need for future additions to the allowance, will be based on changes in economic conditions and other relevant factors. As such, an adverse change in economic activity could reduce cash flows for both commercial and individual borrowers, which would likely cause the Company to experience increases in problem assets, delinquencies and losses on loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill: Goodwill resulted from the Company's purchase of a less-than-whole financial institution (the "branch"). The goodwill value of $1,644,119 is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

Goodwill is periodically reviewed for impairment. No impairment losses were recognized in 2015 and 2014. Additionally, future events could cause management to conclude that impairment indicators exist and that the goodwill is impaired, which would result in the Company recording an impairment loss. Any resulting impairment loss could have a material, adverse impact on the Company's financial condition and results of operations.

Mortgage-Servicing Rights ("MSRs"): The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains all servicing rights for these loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Impairment is evaluated based on the fair value of the right, which is based on portfolio interest rates and prepayment characteristics.

Bank-Owned Life Insurance: Bank-owned life insurance consists of investments in life insurance policies on executive officers and other members of the Bank's management. The policies are carried at their net cash surrender value. Changes in the policy value are recorded as an adjustment to the carrying value with the corresponding amount recognized as noninterest income or expense. Earnings on these policies are based on the net earnings on the cash surrender value of the policies. The net cash surrender value of bank-owned life insurance was $3,950,002 and $3,840,167 at December 31, 2015 and 2014, respectively. The death benefit value of the bank-owned life insurance at December 31, 2015 and 2014 was $8.8 million. An agreement has been executed with all officers whereby a $40,000 death benefit is payable upon the participant's death while employed by the Company to their designated beneficiary.

Advertising Costs: Advertising costs are expensed as the costs are incurred. Advertising expenses amounted to $204,744 and $187,283 for 2015 and 2014, respectively.

Premises and Equipment: Land is carried at cost. Premises and equipment is stated at cost, less accumulated depreciation and amortization. Provisions for depreciation and amortization are computed generally using the straight-line method over the estimated useful lives of the assets. When units of property are disposed of, the premises and equipment accounts are relieved of the cost and the accumulated depreciation related to such units. Any resulting gains or losses are credited to or charged against income. Cost of repairs and maintenance is charged to expense as incurred. Additions and improvements are capitalized at cost.

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, (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.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosures are initially recorded at fair value, less costs to sell when acquired, establishing a new cost basis. The assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. Any subsequent declines in fair value and gains or losses on the disposition of these assets are credited to or charged against income. Other real estate owned is included in other assets. The recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $72,086 at December 31, 2015.

Income Taxes: The Company and its subsidiary file a consolidated federal income tax return. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Earnings Per Common Share: Earnings per common share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the year. The Company has no securities which would be considered potential common stock.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Estimate: During the third quarter of 2015, management assessed its method for amortizing premiums and accreting discounts on mortgage-backed securities. The original estimate used the level yield as a bullet method for mortgage-backed securities. Under this method, the percentage of amortization based on the paydown was calculated. Next, a new book yield was calculated based on the previous month's book price and the new average life date. The average life date was updated monthly based on projected prepayment speeds. The new yield was used to calculate the book value as of the end of the month. The difference between the beginning book value and ending book value was the month to date amortization or accretion recorded. Effective August 2015, management revised its original estimate and began using the level yield as an amortizing instrument method for mortgage-backed securities. This method works the same as the level yield as a bullet method except actual cash flows are used to estimate the timing of principal and interest payments for calculating the new book yield rather than using the average life date as the redemption date for the entire balance. The effects of reflecting this change in accounting estimate on the December 31, 2015 consolidated financial statements are as follows:

	Year Ended December 31, 2015
Increase in net income *(in thousands)*	$ 131
Increase in earnings per share	$ 0.07

Legal Proceedings: The nature of the business of the Holding Company's subsidiary generates a certain amount of litigation involving matters arising in the ordinary course of business. The Company is unaware of any litigation other than ordinary routine litigation incidental to the business of the Company, to which it or its subsidiary is a party or of which any of their property is subject.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities are as follows at December 31, 2015 and 2014:

	(Expressed in thousands) **December 31, 2015**			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Obligations of U.S. Government corporations and agencies	$ 57,250	$ 18	$ (366)	$ 56,902
Obligations of states and political subdivisions	30,221	1,739	(4)	31,956
Mortgage-backed securities	115,432	311	(1,224)	114,519
Equity securities	180	28	(6)	202
Total available-for-sale	**$ 203,083**	**$ 2,096**	**$ (1,600)**	**$ 203,579**

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Obligations of U.S. Government corporations and agencies	$ 44,595	$ 13	$ (602)	$ 44,006
Obligations of states and political subdivisions	40,349	2,144	(71)	42,422
Mortgage-backed securities	110,626	818	(1,001)	110,443
Equity securities	171	38	(1)	208
Total available-for-sale	$ 195,741	$ 3,013	$ (1,675)	$ 197,079

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was approximately $128,696,000 and $92,305,000, which is approximately 63.2% and 46.8%, respectively, of the Company's available-for-sale investment portfolio.

The Company's investment securities portfolio contains unrealized losses of direct obligations of the U.S. Government agency securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government or are generally viewed as having the implied guarantee of the U.S. Government, and debt obligations of a U.S. state or political subdivision.

The unrealized losses on the Company's investments in direct obligations of U.S. Government corporations and agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

The unrealized losses on the Company's investments in residential mortgage-backed securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

On a quarterly basis, the Company evaluates the severity and duration of impairment for its investment securities portfolio and the Company's ability to hold the securities until they recover. Generally, impairment is considered other-than-temporary when an investment security has sustained a decline in market value for a period of twelve months. The Company has concluded that any impairment of its investment securities portfolio is not other-than-temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period. There are 52 positions that are temporarily impaired at December 31, 2015.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014:

(Expressed in thousands)

	2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government corporations and agencies	$ 33,461	$ (289)	$ 4,925	$ (77)	$ 38,386	$ (366)
Obligations of states and political subdivisions	886	(4)	—	—	886	(4)
Mortgage-backed securities	61,201	(434)	28,179	(790)	89,380	(1,224)
Total debt securities	95,548	(727)	33,104	(867)	128,652	(1,594)
Equity securities	22	(5)	22	(1)	44	(6)
Total	**$ 95,570**	**$ (732)**	**$ 33,126**	**$ (868)**	**$ 128,696**	**$ (1,600)**

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

(Expressed in thousands)

	2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government corporations and agencies	$ 5,486	$ (9)	$ 36,006	$ (593)	$ 41,492	$ (602)
Obligations of states and political subdivisions	766	(7)	5,000	(64)	5,766	(71)
Mortgage-backed securities	7,193	(12)	37,835	(989)	45,028	(1,001)
Total debt securities	13,445	(28)	78,841	(1,646)	92,286	(1,674)
Equity securities	19	(1)	—	—	19	(1)
Total	$ 13,464	$ (29)	$ 78,841	$ (1,646)	$ 92,305	$ (1,675)

The following is a tabular rollforward of the amount of credit related OTTI recognized in earnings *(in thousands)*:

	December 31,	
	2015	2014
Balance at beginning of period	$ —	$ —
Additions for credit-related OTTI not previously recognized	—	49
Reductions for securities sold during the period (realized)	—	(49)
Balance at end of period	$ —	$ —

No other-than-temporary impairment losses were recognized in accumulated other comprehensive income as of December 31, 2015 and 2014.

The amortized cost and fair value of investment securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Expressed in thousands)

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,000	$ 1,017
Due after one year through five years	22,256	22,250
Due after five years through ten years	51,009	51,371
Due after ten years	13,206	14,220
	87,471	88,858
Mortgage-backed securities	115,432	114,519
Equity securities	180	202
Total	$ 203,083	$ 203,579

Proceeds from sales of securities available for sale during the years ended December 31, 2015 and 2014, were $52,099,014 and $22,604,447, respectively. Gross gains of $1,156,442 and gross losses of $2,510 in 2015 and gross gains of $905,543 and gross losses of $37,013 in 2014, were realized on those sales. Assets carried at approximately $72,616,000 and $63,856,000 at December 31, 2015 and 2014, respectively, were pledged to secure United States Government and other public funds and for other purposes as required or permitted by law.

NOTE 3 - LOANS AND LEASES

Loans outstanding at December 31, 2015 and 2014, are as follows:

	(Expressed in Thousands)	
	2015	2014
Consumer Real Estate:		
Construction	**$ 762**	$ 3,519
Farmland	**70**	93
Residential 1-4 family	**22,749**	23,737
Home equity loans	**763**	1,207
Home equity lines of credit	**4,617**	3,966
Total Consumer Real Estate	**28,961**	32,522
Commercial Real Estate:		
Non-farm, non-residential	**36,738**	37,411
Multifamily (5 or more) residential properties	**7,870**	9,538
Total Commercial Real Estate	**44,608**	46,949
Commercial and Other Loans:		
Commercial	**13,180**	5,720
Non-rated industrial development obligations	**10,639**	11,384
Other loans	**17**	19
Total Commercial and Other Loans	**23,836**	17,123
Consumer Loans:		
Installment and other loans to individuals	**2,393**	2,261
Credit cards	**450**	503
Total Consumer Loans	**2,843**	2,764
Total Loans	**100,248**	99,358
Less unearned interest and deferred fees	**150**	141
Gross Loans	**100,098**	99,217
Less allowance for loan losses	**1,798**	1,813
Net Loans	**$ 98,300**	$ 97,404

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. These policies and procedures are reviewed by management and approved by the Board of Directors on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentration of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The Company originates direct and indirect consumer loans including principally residential real estate, home equity lines and loans, credit cards, and indirect vehicle loans using a credit analysis as part of the underwriting process. Each loan type has a separate underwriting criteria, which consists of several factors including debt to income, type of collateral, credit history and customer relationship with the Company. Credit risk is driven by factors such as the creditworthiness of a borrower and general economic conditions in the Company's market area that might impact the borrower's personal income, employment, or collateral value. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards are designed to promote relationship banking rather than transactional banking. The Company's management examines current and projected cash flows to determine the ability of the borrowers to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected and the collateral securing the loan may fluctuate in value. Credit risk in these loans is driven by the creditworthiness of the borrower and the economic conditions that impact the cash flow stability from business operations. Minimum standards and underwriting guidelines have been established for commercial loan types.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by the general economy or conditions specific to the real estate market such as geography and/or property type.

NOTE 3 - LOANS AND LEASES (CONTINUED)

Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of the borrower, property values and the economic conditions in the Company's market areas.

Nonaccrual loans amounted to $2,988,527 and $1,032,228 at December 31, 2015 and 2014, respectively. The amount of interest income that would have been recognized had the loans performed in accordance with their original terms was $89,112 and $63,435 for 2015 and 2014, respectively.

The following tables present the contractual aging of the recorded investment in past due loans by class of loans (*in thousands*):

	December 31, 2015						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	90 Days or More Past Due and Accruing
Commercial and other loans	$ 23,815	$ 21	$ —	$ —	$ 21	$ 23,836	$ —
Commercial real estate	42,163	1,395	992	58	2,445	44,608	—
Consumer real estate	28,402	369	30	160	559	28,961	83
Consumer	2,836	7	—	—	7	2,843	—
Unearned interest and deferred fees	(150)	—	—	—	—	(150)	—
Total loans	**$ 97,066**	**$ 1,792**	**$ 1,022**	**$ 218**	**$ 3,032**	**$ 100,098**	**$ 83**
Nonaccrual loans included above are as follows:							
Commercial and other loans	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate	204	1,395	992	58	2,445	2,649	—
Consumer real estate	155	78	30	77	185	340	—
Consumer	—	—	—	—	—	—	—
Total nonaccrual loans	**$ 359**	**$ 1,473**	**$ 1,022**	**$ 135**	**$ 2,630**	**$ 2,989**	**$ —**

	December 31, 2014						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	90 Days or More Past Due and Accruing
Commercial and other loans	$ 17,078	$ 6	$ —	$ 39	$ 45	$ 17,123	$ —
Commercial real estate	46,246	—	13	690	703	46,949	—
Consumer real estate	32,384	71	—	67	138	32,522	—
Consumer	2,742	5	3	14	22	2,764	14
Unearned interest and deferred fees	(141)	—	—	—	—	(141)	—
Total loans	$ 98,309	$ 82	$ 16	$ 810	$ 908	$ 99,217	$ 14
Nonaccrual loans included above are as follows:							
Commercial and other loans	$ —	$ —	$ —	$ 39	$ 39	$ 39	$ —
Commercial real estate	—	—	13	690	703	703	—
Consumer real estate	223	—	—	67	67	290	—
Consumer	—	—	—	—	—	—	—
Total nonaccrual loans	$ 223	$ —	$ 13	$ 796	$ 809	$ 1,032	$ —

NOTE 3 - LOANS AND LEASES (CONTINUED)

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Risk ratings are assigned to individual credit exposures as an aspect of the credit approval and are adjusted thereafter to reflect changes in risk exposure as the borrower's condition changes. The most significant factor used to determine the risk rating is the borrower's primary source of repayment, which includes a cash flow analysis. Other items considered in the loan review include secondary sources of repayment, financial trends, collateral value and characteristics, the size of the loan, and external factors impacting the borrower's repayment ability.

Loans rated as "Pass" include those that have minimal, modest, acceptable, and higher risk. Minimal risk loans are fully secured by marketable securities or cash collateral, or loans supported by the United States Treasury. Modest risk loans have borrowers with stable cash flows over an extended period of time and extensive access to credit from several sources. Acceptable risk loans include individual borrowers with substantial liquid assets and commercial borrowers with strong cash flow. Higher risk loans have adequate sources of repayment and no current identifiable risk for repayment and loans that are slightly below average due to any number of factors such as income, collateral, or the lack of sufficient financial information.

Problem and potential problem loans are classified as "Special Mention," "Substandard," and "Doubtful." Substandard loans are inadequately protected by the current worth and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management's close attention are deemed to be Special Mention.

The following tables present the risk category of loans by class of loans based on the most recent analysis performed as of December 31, 2015 and 2014 (*in thousands*):

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and other	$ 23,836	$ —	$ —	$ —	$ 23,836
Commercial real estate	41,915	—	2,693	—	44,608
Total	**$ 65,751**	**$ —**	**$ 2,693**	**$ —**	**$ 68,444**

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and other	$ 17,084	$ —	$ 39	$ —	$ 17,123
Commercial real estate	41,679	1,170	4,100	—	46,949
Total	$ 58,763	$ 1,170	$ 4,139	$ —	$ 64,072

For consumer and consumer real estate loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables present the recorded investment in those loan classes based on payment activity as of December 31, 2015 and 2014 (*in thousands*):

2015	Performing	Non-performing	Total
Consumer	$ 2,843	$ —	$ 2,843
Consumer real estate	28,539	422	28,961
Total	**$ 31,382**	**$ 422**	**$ 31,804**

2014	Performing	Non-performing	Total
Consumer	$ 2,750	$ 14	$ 2,764
Consumer real estate	32,232	290	32,522
Total	$ 34,982	$ 304	$ 35,286

NOTE 3 - LOANS AND LEASES (CONTINUED)

The Company also evaluates problem loans for impairment. A loan is considered to be impaired if it is probable that the Company will not be able to collect the payments for principal and interest when due according to the contractual terms of the loan agreement. Impaired loans generally include all nonaccrual loans and troubled debt restructurings (TDRs).

Year-end impaired loans are set forth in the following tables (*in thousands*):

	December 31, 2015				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial real estate	$ 2,649	$ 2,649	$ —	$ 2,649	$ —
Consumer real estate	415	65	350	415	9
Total	**$ 3,064**	**$ 2,714**	**$ 350**	**$ 3,064**	**$ 9**

	December 31, 2014				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial and other loans	$ 39	$ —	$ 39	$ 39	$ 39
Commercial real estate	744	474	270	744	78
Consumer real estate	493	143	350	493	9
Consumer	18	—	11	11	1
Total	$ 1,294	$ 617	$ 670	$ 1,287	$ 127

	December 31, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
Commercial and other loans	$ 21	$ —	$ 1
Commercial real estate	914	—	1,101
Consumer real estate	438	21	—
Total	**$ 1,373**	**$ 21**	**$ 1,102**

	December 31, 2014		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
Commercial and other loans	$ 27	$ —	$ —
Commercial real estate	809	2	—
Consumer real estate	368	13	—
Consumer	3	1	—
Total	$ 1,207	$ 16	$ —

Loan Modifications

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonaccrual at the time of restructure and may only be returned to accrual status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. TDRs on accrual status may remain in accrual status after they have been restructured as long as they continue to perform in accordance with their modified terms. There was one TDR in accrual status at December 31, 2015 and two TDRs in accrual status at December 31, 2014.

NOTE 3 - LOANS AND LEASES (CONTINUED)

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

The following table includes the recorded investment and number of modifications for new TDRs, as of the respective dates. The Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured (*in thousands*):

	December 31, 2015			December 31, 2014		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment
Commercial and other loans	—	$ —	$ —	—	$ —	$ —
Commercial real estate	1	204	204	—	—	—
Consumer real estate	2	412	412	1	350	350
Total	**3**	**$ 616**	**$ 616**	1	$ 350	$ 350
Troubled Debt Restructurings That Subsequently Defaulted Within 12 Months After Restructuring						
Commercial and other loans	—	$ —	$ —	—	$ —	$ —
Commercial real estate	—	—	—	—	—	—
Consumer real estate	—	—	—	1	350	350
Total	—	**$** —	**$** —	1	$ 350	$ 350

The following tables include new troubled debt restructurings by type of modification (*in thousands*):

	December 31, 2015			
Troubled Debt Restructurings	Interest Only	Term	Combination	Total Modification
Commercial and other loans	$ —	$ —	$ —	$ —
Commercial real estate	—	—	204	204
Consumer real estate	—	412	—	412
Total	**$ —**	**$ 412**	**$ 204**	**$ 616**

	December 31, 2014			
Troubled Debt Restructurings	Interest Only	Term	Combination	Total Modification
Commercial and other loans	$ —	$ —	$ —	$ —
Commercial real estate	—	—	—	—
Consumer real estate	—	350	—	350
Total	$ —	$ 350	$ —	$ 350

At December 31, 2015, there were no funds committed to be advanced to customers whose loans were classified as TDRs. At December 31, 2014, there were funds of $32,903 committed to be advanced to customers whose loans were classified as TDRs.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following tables summarize the primary segments of the ALL, segregated into the amount for loans individually evaluated for impairment by class of loans as of December 31, 2015 and 2014 (*in thousands*):

2015	Commercial and Other	Commercial Real Estate	Consumer Real Estate	Consumer	Total
Allowance for Loan Losses:					
Beginning Balance	$ 281	$ 1,254	$ 263	$ 15	$ 1,813
Charge-offs	(57)	—	—	(9)	(66)
Recoveries	5	2	—	14	21
Provision	234	(189)	(8)	(7)	30
Ending Balance	**$ 463**	**$ 1,067**	**$ 255**	**$ 13**	**$ 1,798**
Loans individually evaluated for impairment	$ —	$ —	$ 9	$ —	$ 9
Loans collectively evaluated for impairment	463	1,067	246	13	1,789
Ending Balance	**$ 463**	**$ 1,067**	**$ 255**	**$ 13**	**$ 1,798**

2014	Commercial and Other	Commercial Real Estate	Consumer Real Estate	Consumer	Total
Allowance for Loan Losses:					
Beginning Balance	$ 260	$ 1,315	$ 263	$ 27	$ 1,865
Charge-offs	(5)	(36)	—	(16)	(57)
Recoveries	—	—	—	5	5
Provision	26	(25)	—	(1)	—
Ending Balance	$ 281	$ 1,254	$ 263	$ 15	$ 1,813
Loans individually evaluated for impairment	$ 39	$ 78	$ 9	$ 1	$ 127
Loans collectively evaluated for impairment	242	1,176	254	14	1,686
Ending Balance	$ 281	$ 1,254	$ 263	$ 15	$ 1,813

The following table presents loans individually and collectively evaluated for impairment by class of loans as of December 31, 2015 and 2014 (*in thousands*):

2015	Commercial and Other	Commercial Real Estate	Consumer Real Estate	Consumer	Unearned Discounts	Total
Loans individually evaluated	**$ —**	**$ 2,649**	**$ 415**	**$ —**	**$ —**	**$ 3,064**
Loans collectively evaluated	**23,836**	**41,959**	**28,546**	**2,843**	**(150)**	**97,034**
Ending Balance	**$ 23,836**	**$ 44,608**	**$ 28,961**	**$ 2,843**	**$ (150)**	**$ 100,098**
2014						
Loans individually evaluated	$ 39	$ 744	$ 493	$ 11	$ —	$ 1,287
Loans collectively evaluated	17,084	46,205	32,029	2,753	(141)	97,930
Ending Balance	$ 17,123	$ 46,949	$ 32,522	$ 2,764	$ (141)	$ 99,217

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation, as follows (*in thousands*):

	December 31,		Original Useful Life
	2015	2014	Years
Land	$ **1,984**	1,984	
Land improvements	**421**	419	5 - 20
Leasehold improvements	**1,089**	1,087	5 - 20
Buildings	**6,998**	6,998	5 - 50
Furniture, fixtures and equipment	**4,328**	4,228	3 - 30
Total	**14,820**	14,716	
Less accumulated depreciation	**6,867**	6,303	
Premises and equipment, net	$ **7,953**	$ 8,413	

Charges to operations for depreciation approximated $629,096 and $605,715 for 2015 and 2014, respectively.

NOTE 6 - TIME DEPOSITS

Time certificates of deposit that meet or exceed the FDIC insurance limit of $250,000 amounted to $4,622,758 and $4,799,656 at December 31, 2015 and 2014, respectively. Interest expense on certificates of deposit of $250,000 or more was $55,321 and $71,706 at December 31, 2015 and 2014, respectively.

A maturity distribution of time certificates of deposit at December 31, 2015, follows:

(dollars in thousands)	Maturities of Time Deposits December 31, 2015
Due in 2016	$ 33,256
Due in 2017	9,866
Due in 2018	4,224
Due in 2019	3,561
Due in 2020	8,262
Due in 2021 and thereafter	—
Total	**$ 59,169**

NOTE 7 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

Federal funds purchased and repurchase agreements represent borrowings of a short duration, usually less than 30 days. Information related to repurchase agreements and federal funds purchased are summarized below *(dollars expressed in thousands)*:

	Repurchase Agreements		Federal Funds Purchased	
	2015	2014	**2015**	2014
Balance at end of year	**$ 23,619**	$ 21,051	**$ —**	$ —
Average balance during the year	**24,602**	20,803	**—**	**—**
Maximum month-end balance	**28,048**	23,410	**—**	—
Weighted-average rate during the year	**.88%**	.82%	**.92%**	1.00%
Rate at December 31	**.89%**	.86%	**—**	—

For repurchase agreements, the Company transfers various securities to customers in exchange for cash at the end of each business day and agrees to reacquire the securities at the end of the next business day for the cash exchanged plus interest. The process is repeated at the end of each business day until the agreement is terminated. The securities underlying the agreements remained under the Company's control. The risk involved in this type of transaction is that the fair value of the securities transferred may decline below the amount of the Company's obligation which would require the Company to pledge additional amounts. The Company attempts to manage this risk by monitoring the fair value of securities pledged compared to the repurchase agreement amounts. Additional securities are pledged as necessary to secure the Company's obligation.

NOTE 7 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS (CONTINUED)

The following table shows repurchase agreements accounted for as secured borrowings *(in thousands)*:

	December 31, 2015
	Remaining Contractual Maturity
Repurchase Agreements Accounted for as Secured Borrowings	Overnight and Continuous
U.S. Government corporations and agencies	$ 7,064
Obligations of states and political subdivisions	6,609
Mortgage-backed securities	20,726
Total securities pledged for repurchase agreements	$ 34,399
Gross amount of recognized liabilities for repurchase agreements	$ 23,619

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS

The subsidiary Bank is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"). The FHLB borrowings are secured by a blanket lien by the FHLB on certain residential real estate loans or securities with a market value at least equal to the outstanding balances. The remaining maximum borrowing capacity with the FHLB at December 31, 2015 was approximately $42.4 million subject to the purchase of additional FHLB stock. The subsidiary bank had FHLB borrowings of $3,320,392 and $3,420,312 at December 31, 2015 and 2014, respectively. At December 31, 2015, the subsidiary bank had three fixed rate amortizing advances which totaled $3,320,392 with interest rates ranging from 4.65% to 4.89% of which $1,857,761 will mature through 2018 and $1,462,631 will mature through 2023. The collateral securing these borrowings totaled $3,479,241 at December 31, 2015.

The Bank also has a line of credit agreement with the Federal Home Loan Bank which matures on May 2, 2016. The maximum credit available is $21.4 million under the agreement. There were no borrowings outstanding under this agreement at December 31, 2015 and 2014, respectively.

Contractual maturities of FHLB borrowings as of December 31, 2015 were as follows (*in thousands*):

2016	$ 103
2017	110
2018	1,760
2019	43
2020	45
Thereafter	1,259
	$ **3,320**

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The subsidiary Bank 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. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

The following represents financial instruments whose contract amounts represent credit risk *(in thousands)*:

	2015	2014
Commitments to extend credit	**$ 11,846**	$ 22,883
Standby letters of credit	**318**	272

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of December 31, 2015, approximately $8,115,000 are fixed interest rate commitments and $3,731,000 are variable interest rate commitments.

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 creditworthiness 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 counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The standby letters of credit in the amount of $80,000 expire in 2016 and $238,000 expire in 2021. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Company and its subsidiary are parties to various legal and administrative proceedings and claims. Although any litigation contains an element of uncertainty, management believes that the outcome of these events will not have a material effect on the consolidated financial position and results of operations of the Company.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Most of the subsidiary Bank's loans and commitments have been granted to customers in the Bank's primary market area of Northern and Central West Virginia, Eastern Ohio, and Southwestern Pennsylvania. In the normal course of business, however, the Bank has purchased participations and originated loans outside of its primary market area. The aggregate loan balances outstanding in any one geographic area, other than the Bank's primary lending areas, do not exceed 10 percent of total loans. Concentrations of credit are measured by categorizing loans by the North American Industry Classification codes. Loans equal to or exceeding 25% of Tier I Capital are considered concentrations of credit. At December 31, 2015, concentrations of credit were as follows *(dollars expressed in thousands)*:

		Amount	Percent of Tier 1 Capital
Lessors of Nonresidential Buildings	$	14,530	45.3%
Lessors of Residential Buildings and Dwellings	$	9,171	28.6%
General Government Support	$	8,625	26.9%

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company has a non-contributory profit-sharing plan for employees meeting certain service requirements. The Company makes annual contributions to the profit-sharing plan based on income of the Company as defined. Total expenses for the plan were $138,060 and $113,075 for the years ended December 31, 2015 and 2014, respectively.

The Company also offers a 401(k) plan in which it matches a portion of the employee's contribution up to 4 percent of their salary. The expense related to the 401(k) plan was $26,432 and $22,896 in 2015 and 2014, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

Directors and officers of the Company and its subsidiary, and their associates, were customers of, and had other transactions with the subsidiary bank in the normal course of business. All loans and commitments included in such transactions were made on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility. Such loans totaled $3,291,957 at December 31, 2015, and $3,235,948 at December 31, 2014. Deposits from related parties held by the subsidiary totaled $2,052,138 and $2,109,313 at December 31, 2015 and 2014, respectively.

Dlesk Realty and Investment Company, which is owned by the late Mr. Sylvan J. Dlesk and his wife Rosalie J. Dlesk, serves as landlord to the Company's subsidiary bank, under a lease agreement to rent property for use as banking premises. The lease was for an initial 5-year term at an annual rental fee of $57,600. This lease was renewed in 2007 and 2012 for additional 5-year terms at an annual rental fee of $60,480 and $63,504, respectively, and has options to renew for six 5-year terms.

NOTE 13 - LEASES

The Company's Bank affiliates leased certain land used for banking purposes under long-term leases, expiring at various dates. These leases contain renewal options and generally provide that the Company will pay for insurance, taxes, and maintenance.

As of December 31, 2015, the future minimum rental payments required under noncancelable operating leases with initial terms in excess of one year are as follows *(in thousands)*:

2016	$ 213
2017	49
2018	36
2019	36
2020	36
Thereafter	90

Rental expense under these operating leases approximated $220,404 in 2015 and $219,504 in 2014.

NOTE 14 - OTHER OPERATING EXPENSES

Other operating expenses at December 31 included the following *(in thousands)*:

	2015	2014
Directors' fees	$ **180**	$ 152
Stationery and supplies	**141**	141
Regulatory assessment and deposit insurance	**297**	293
Advertising	**205**	187
Postage and transportation	**161**	161
Other taxes	**73**	99
Service expense	**474**	522
Other	**906**	890
Total	$ **2,437**	$ 2,445

NOTE 15 - LIMITATIONS ON DIVIDENDS

The approval of the Comptroller of the Currency is required to pay dividends if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits (as defined) for the year, combined with its retained net profits of the preceding two years. Under this formula, the Company's subsidiary bank can declare dividends in 2016, without approval of the Comptroller of the Currency, of approximately $1,567,000, plus an additional amount equal to the Bank's net profit for 2016 up to the date of any such dividend declaration. The subsidiary bank is the primary source of funds to pay dividends to the stockholders of First West Virginia Bancorp, Inc.

NOTE 16 - INCOME TAX

The provision for income taxes includes these components *(in thousands)*:

	2015	2014
Currently payable:		
Federal	$ **405**	$ 58
State	**66**	51
Deferred:		
Federal	**(111)**	(33)
State	**23**	(11)
Income tax expense	$ **383**	$ 65

The following temporary differences gave rise to the deferred tax asset at December 31 *(in thousands)*:

	2015	2014
Allowance for loan losses	$ **709**	$ 715
Deferred loan fees	**51**	48
Accrued interest on nonperforming loans	**188**	212
Deferred compensation	**61**	59
Depreciation	**(167)**	(193)
Amortization	**2**	16
Goodwill	**(335)**	(298)
AMT	**1,446**	1,200
Deferred state income tax	**(28)**	(36)
Federal NOL	**—**	93
Total deferred tax asset - federal	**1,927**	1,816
Total deferred tax asset - state	**82**	105
	2,009	1,921
Deferred tax liabilities arising from market adjustments of securities available for sale *(in thousands)*:		
Federal	**(160)**	(430)
State	**(27)**	(73)
Net deferred tax asset before valuation allowance	**1,822**	1,418
Valuation Allowance *(in thousands)*		
Beginning balance	**(225)**	—
Increase during the period	**—**	(225)
Ending balance	**(225)**	(225)
Net deferred tax asset	$ **1,597**	$ 1,193

As of December 31, 2015, the Company had approximately $1,445,417 of alternative minimum tax credits available to offset future federal income taxes. The credits have no expiration date.

A reconciliation between the amount of reported income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes for the years ended December 31 is as follows *(dollars in thousands)*:

	2015		2014	
	Amount	**Percent**	Amount	Percent
Computed tax at statutory federal rate	$ **944**	**34.0%**	$ 669	34.0%
Plus state income taxes net of federal tax benefits	**30**	**1.1%**	23	1.2%
	974	**35.1%**	692	35.2%
Increase (decrease) in taxes resulting from:				
Tax exempt income	**(582)**	**(21.0)%**	(787)	(40.0)%
Nondeductible interest expense	**11**	**0.4%**	17	0.9%
Bank-owned life insurance	**(37)**	**(1.3)%**	(37)	(1.9)%
Changes in the deferred tax asset valuation allowance	**—**	**—**	77	3.9%
Other - net	**17**	**0.6%**	103	5.2%
Actual tax expense	$ **383**	**13.8%**	$ 65	**3.3%**

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The activity in accumulated other comprehensive income at December 31 is as follows:

(dollars in thousands)	Accumulated Other Comprehensive Income [1] Unrealized Gains (Losses) on Securities Available for Sale	
	Year Ended December 31,	
	2015	2014
Beginning Balance	**$ 835**	$ (2,718)
Other comprehensive income before reclassifications	**195**	4,064
Amounts reclassified from accumulated other comprehensive income	**(720)**	(511)
Period Change	**(525)**	3,553
Ending Balance	**$ 310**	$ 835

[1] All amounts are net of tax. Related income tax expense or benefit is calculated using a combined Federal and State income tax rate approximating 39.5%.

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income For the Year Ended December 31,		Affected Line Item in the Statement of Income
(dollars in thousands)	**2015**	2014	
Securities available for sale [1]:			
Net securities gains reclassified into earnings	**$ (1,154)**	$ (868)	Net gains on available for sale securities
Other-than-temporary losses classified into earnings	**—**	49	Other-than-temporary losses on securities
Related income tax expense	**434**	308	Income tax expense
Net effect on accumulated other comprehensive income for the period	**$ (720)**	$ (511)	Net of tax
Total reclassifications for the period	**$ (720)**	$ (511)	Net of tax

[1] For additional detail related to unrealized gains (losses) on securities and related amounts reclassified from accumulated other comprehensive income see Note 2 “Investment Securities.”

NOTE 18 - REGULATORY MATTERS

The Company’s subsidiary bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to adjusted total assets (as defined). For December 31, 2015, Interim Final Basel III rules, which are explained further below, require the Bank to maintain minimum amounts and ratios of common equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined). Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. For December 31, 2014, regulatory capital ratios were calculated under Basel I rules.

NOTE 18 - REGULATORY MATTERS (CONTINUED)

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Company's subsidiary bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015, are as follows:

4.5% CET1 to risk-weighted assets
6.0% Tier 1 capital to risk-weighted assets
8.0% Total capital to risk-weighted assets
4.0% Minimum leverage ratio

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer begins on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019).

As of December 31, 2015, the most recent notifications from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes has changed the capital category. The capital ratios of the Company's subsidiary bank, along with the regulatory framework for adequately capitalized and well capitalized institutions are depicted as set forth in the following table:

(Amounts expressed in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
Progressive Bank, N.A.	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	**$ 33,899**	**23.21%**	**$ 11,684**	**8.0%**	**$ 14,605**	**10.0%**
Tier I Capital (to Risk-Weighted Assets)	**32,101**	**21.98%**	**8,763**	**6.0%**	**11,684**	**8.0%**
Common Equity Tier I Capital (to Risk-Weighted Assets)	**32,101**	**21.98%**	**6,572**	**4.5%**	**9,493**	**6.5%**
Tier I Capital (to Adjusted Total Assets)	**32,101**	**9.42%**	**13,625**	**4.0%**	**17,031**	**5.0%**
As of December 31, 2014						
Total Capital (to Risk-Weighted Assets)	$ 32,700	21.29%	$ 12,290	8.0%	$ 15,362	10.0%
Tier I Capital (to Risk-Weighted Assets)	30,887	20.11%	6,145	4.0%	9,217	6.0%
Tier I Capital (to Adjusted Total Assets)	30,887	9.30%	13,280	4.0%	16,600	5.0%

NOTE 19 - FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. This hierarchy requires the use of observable market data when available.

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include observable inputs employed by certified appraisers or an internal evaluator for similar assets classified as Level III inputs adjusted for qualitative factors and estimated liquidation expenses.

The following tables present the assets reported on the consolidated balance sheets at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(dollars in thousands)	**December 31, 2015**			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Securities available for sale:				
U.S. Government corporations and agencies	$ —	$ 56,902	$ —	$ 56,902
Obligations of states and political subdivisions	—	31,956	—	31,956
Mortgage-backed securities	—	114,519	—	114,519
Equity securities	202	—	—	202
Total securities available for sale:	$ 202	$ 203,377	$ —	$ 203,579
Assets measured on a nonrecurring basis:				
Impaired loans	$ —	$ —	$ 341	$ 341

(dollars in thousands)	December 31, 2014			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Securities available for sale:				
U.S. Government corporations and agencies	$ —	$ 44,006	$ —	$ 44,006
Obligations of states and political subdivisions	—	42,422	—	42,422
Mortgage-backed securities	—	110,443	—	110,443
Equity securities	208	—	—	208
Total securities available for sale:	$ 208	$ 196,871	$ —	$ 197,079
Assets measured on a nonrecurring basis:				
Impaired loans	$ —	$ —	$ 503	$ 503

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Level III inputs were used in determining fair value.

(dollars in thousands)	Quantitative Information About Level III Fair Value Measurements			
December 31, 2015	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted-Average)
Impaired Loans	$ 341	Appraisal of collateral (1)	Appraisal adjustments (2)	0.0% (0.0%)
			Liquidation expenses (2)	9.0% (9.0%)

(dollars in thousands)	Quantitative Information About Level III Fair Value Measurements			
December 31, 2014	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted-Average)
Impaired Loans	$ 503	Appraisal of collateral (1)	Appraisal adjustments (2)	-30.0% to 0.0% (-11.5%)
			Liquidation expenses (2)	0.0% to 9.0% (8.8%)

(1) The fair value is determined through independent appraisals by certified appraisers or internal evaluators of the underlying collateral.
(2) Appraisals and evaluations may be adjusted by management for qualitative factors and estimated liquidation expenses. The range and weighted-average of liquidation expenses are expressed as a percent of discounted collateral value and other appraisal adjustments are presented as a percentage of the appraised amounts.

Collateral-dependent Impaired Loans
The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level III of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral.

Financial Instruments
The reported fair values of financial instruments are based on a variety of factors. Where possible, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Intangible values assigned to customer relationships are not reflected in the reported fair values. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year end or that will be realized in the future.

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

Cash and Cash Equivalents: The carrying amount for cash and cash equivalents is a reasonable estimate of fair value.

Investment Securities Available for Sale: Where quoted market prices are available in an active market, securities are classified within Level I of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters. Such securities are classified in Level II of the valuation hierarchy.

Loans: The fair value for net loans is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality.

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Accrued Interest Receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposits: Noninterest-bearing and interest-bearing demand deposits and savings deposits are valued based on the discounted value of cash flows after estimating the weighted-average remaining term and adding estimated wholesale borrowing costs to the rate. The fair values for time deposits are based on the discounted value of cash flows.

Repurchase Agreements: The carrying amount of repurchase agreements is considered to be a reasonable estimate of fair value.

Federal Home Loan Bank Borrowings: The discounted cash flow method is used to estimate the fair value of Federal Home Loan Bank borrowings.

Accrued Interest Payable: The carrying amount of accrued interest payable approximates its fair value.

Off-Balance-Sheet Instruments: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The amount of fees currently charged on commitments is determined to be insignificant and, therefore, the carrying value and fair value of off-balance-sheet instruments are not shown.

The estimates of fair values of financial instruments are summarized as follows at December 31, 2015 and 2014:

(Amounts expressed in thousands)	December 31, 2015				
		Estimated Fair Value			
	Carrying Amount	Level I	Level II	Level III	Total
Financial assets:					
Cash and cash equivalents	$ 25,929	$ 25,929	$ —	$ —	$ 25,929
Investment securities	203,579	202	203,377	—	203,579
Loans, net	98,300	—	—	100,697	100,697
Accrued interest receivable	1,028	1,028	—	—	1,028
Financial liabilities:					
Deposits	282,287	210,276	58,686	—	268,962
Repurchase agreements	23,619	23,619	—	—	23,619
Federal Home Loan Bank borrowings	3,320	—	3,667	—	3,667
Accrued interest payable	102	102	—	—	102

(Amounts expressed in thousands)	December 31, 2014				
		Estimated Fair Value			
	Carrying Amount	Level I	Level II	Level III	Total
Financial assets:					
Cash and cash equivalents	$ 20,396	$ 20,396	$ —	$ —	$ 20,396
Investment securities	197,079	208	196,871	—	197,079
Loans, net	97,404	—	—	98,445	98,445
Accrued interest receivable	1,015	1,015	—	—	1,015
Financial liabilities:					
Deposits	272,143	199,444	62,289	—	261,733
Repurchase agreements	21,051	21,051	—	—	21,051
Federal Home Loan Bank borrowings	3,420	—	3,714	—	3,714
Accrued interest payable	120	120	—	—	120

NOTE 21 - CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS

Presented below are the consolidated condensed balance sheets, statements of income, comprehensive income, and cash flows for First West Virginia Bancorp, Inc. *(in thousands)*:

CONDENSED BALANCE SHEETS

	December 31,	
	2015	2014
ASSETS		
Cash	**$ 31**	$ 170
Investment securities available for sale (at fair value)	**203**	208
Investment in subsidiary bank	**35,219**	34,715
Other assets	**97**	101
Total assets	**$ 35,550**	$ 35,194
LIABILITIES		
Deferred compensation	**$ 180**	$ 172
Accrued expenses	**7**	7
Other liabilities	**—**	143
Total liabilities	**187**	322
STOCKHOLDERS' EQUITY	**35,363**	34,872
Total liabilities and stockholders' equity	**$ 35,550**	$ 35,194

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31,	
	2015	2014
INCOME		
Dividends from subsidiary bank	**$ 1,419**	$ 1,378
Other income	**224**	181
Total income	**1,643**	1,559
EXPENSES		
Other expenses	**260**	224
Total expenses	**260**	224
Income before income taxes and undistributed net income of subsidiary	**1,383**	1,335
Income tax expense (benefit)	**12**	(23)
Equity in undistributed net income of subsidiary	**1,021**	546
NET INCOME	**$ 2,392**	$ 1,904

NOTE 21 - CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENTS (CONTINUED)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2015	2014
Net Income	**$ 2,392**	$ 1,904
Other comprehensive income (loss):		
Investment securities available for sale		
Unrealized holding gains (losses) arising during the period	**(13)**	6
Income tax effect	**5**	(2)
Equity in other comprehensive income (loss) of subsidiary	**(517)**	3,549
Total other comprehensive income (loss)	**(525)**	3,553
Comprehensive income	**$ 1,867**	$ 5,457

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$ **2,392**	$ 1,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred tax benefit	**12**	(28)
Undistributed earnings of affiliate	**(1,021)**	(546)
Changes in operating assets and liabilities:		
Other assets	**(3)**	10
Deferred compensation	**8**	(2)
Other liabilities	**(144)**	147
Net cash provided by operating activities	**1,244**	1,485
INVESTING ACTIVITIES		
Proceeds from sales of securities	**48**	29
Purchases of investment securities	**(56)**	(27)
Net cash provided by (used in) investing activities	**(8)**	2
FINANCING ACTIVITIES		
Dividends paid	**(1,375)**	(1,375)
Net cash used in financing activities	**(1,375)**	(1,375)
Net increase (decrease) in cash and cash equivalents	**(139)**	112
Cash and cash equivalents at beginning of year	**170**	58
Cash and cash equivalents at end of year	$ **31**	$ 170

NOTE 22 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

BKD LLP
CPAs & Advisors
201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Independent Auditor's Report

Audit Committee, Board of Directors and Stockholders
First West Virginia Bancorp, Inc. and Subsidiary
Wheeling, West Virginia

We have audited the accompanying consolidated financial statements of First West Virginia Bancorp, Inc. and Subsidiary, which comprises the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First West Virginia Bancorp, Inc. and Subsidiary as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
March 22, 2016

BKD LLP
CPAs & Advisors
201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
First West Virginia Bancorp, Inc. and Subsidiary
Wheeling, West Virginia

We have audited the accompanying consolidated balance sheet of First West Virginia Bancorp, Inc. and Subsidiary (Company) as of December 31, 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First West Virginia Bancorp, Inc. and Subsidiary as of December 31, 2014, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

BKD, LLP

Indianapolis, Indiana
March 27, 2015

FIRST WEST VIRGINIA BANCORP, INC. DIRECTORS

Jonathan A. Bedway

Nada E. Beneke

Dr. Clyde D. Campbell

Rosalie J. Dlesk

Robert J. Fitzsimmons

Joseph M. Menendez

R. Clark Morton

Roberta Robinson Olejasz

William G. Petroplus

Thomas L. Sable

Brian L. Schambach

FIRST WEST VIRGINIA BANCORP, INC. OFFICERS

R. Clark Morton
Chairman

William G. Petroplus
President and Chief Executive Officer

Francie P. Reppy
Executive Vice President and Chief Financial Officer
Chief Administrative Officer, Treasurer

Brad D. Winwood
Executive Vice President
Chief Operating Officer and Investment Officer

Connie R. Tenney
Vice President

Deborah A. Kloeppner
Secretary

Nada E. Beneke
Assistant Secretary

PROGRESSIVE BANK, N.A. DIRECTORS

Jonathan A. Bedway
Nada E. Beneke
Dr. Clyde D. Campbell
Robert R. Cicogna
Rosalie J. Dlesk
Robert J. Fitzsimmons
Joseph M. Menendez
Tulane B. Mensore
R. Clark Morton
Roberta Robinson Olejasz
William G. Petroplus
Thomas L. Sable
Brian L. Schambach

DIRECTORS EMERITI: James C. Inman, Jr., Laura G. Inman, and Elizabeth H. Hestick

PROGRESSIVE BANK, N.A. OFFICERS

R. Clark Morton
Chairman of the Board

Nada E. Beneke
Assistant Secretary

William G. Petroplus
President and
Chief Executive Officer

Francie P. Reppy
Executive Vice President
Chief Administrative Officer
Chief Financial Officer

Brad D. Winwood
Executive Vice President
Chief Operating Officer
Investment Officer

Dennis W. Biearman
Senior Vice President
Senior Lender

Gary S. Martin
Senior Vice President
Senior Loan Manager

Connie R. Tenney
Senior Vice President
Business Development Officer
Office Manager
Buckhannon/Weston

Deborah A. Kloeppner
Vice President
Compliance and CRA Officer
Secretary

Susan E. Reinbeau
Vice President
Branch Administrator
Security Officer
Office Manager
Woodsdale

Dena R. Rine
Vice President
Controller

Michele L. Stanley
Vice President
Operations Officer

Kerrie A. Weisenborn
Vice President
Credit Administration

David E. Wharton
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Assistant Vice President
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Assistant Vice President
Business Development Officer

Kimberly A. Hughes
Assistant Vice President
Credit Analyst

Laura A. Schmidt
Assistant Vice President
Accounting Officer

Rebecca A. Palmer
Assistant Vice President
Manager Data Processing

James J. Warman
Assistant Vice President
Credit Analyst

Vickie D. Poling
Loan Officer

Amanda M. Schnelle
Bank Secrecy, AML & OFAC
Officer

Susan M. Scotka
Human Resource Manager

Peggy Burley
Office Manager
Moundsville

Nancy J. Farley
Office Manager
New Martinsville

Beth A. Heyman
Office Manager
Bethlehem

Karen L. Zonker
Office Manager
Bellaire

STOCKHOLDER INFORMATION

Corporate Office:

First West Virginia Bancorp, Inc.
1701 Warwood Avenue
Wheeling, WV 26003
Phone: (304) 277-1100
Fax: (304) 218-2458
www.progbank.com

Annual Meeting:

The Annual Meeting of Shareholders of First West Virginia Bancorp, Inc. will be held at the Corporate Office of Progressive Bank, N.A., 590 National Road, Wheeling, West Virginia, at 4:00 p.m., on May 10, 2016. Refreshments and hors d'oeuvres will be served following the meeting.

Stock Trading Information:

First West Virginia Bancorp, Inc.'s common stock is traded on the OTCQX marketplace under the symbol FWVB.

Stock Registrar and Transfer Agent:

Any inquiries related to stockholder records, stock transfers, changes of ownership, and changes of address should be sent to the transfer agent at the following address:

Computershare, Inc.
P.O. Box 30170
College Station, TX 77842

1-800-522-6645
www.computershare.com

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