ANNUAL REPORT

2015





HIGHLANDS BANKSHARES, INC.

HBI

Taking Banking To A Higher Plateau

A Message to our Shareholders

Highlands Bankshares continued to deliver a solid financial performance in 2015, and we are continuing to see significant momentum in the new year. As a community bank, we play a critical role in the health and prosperity of our local economies. We have helped our communities grow and prosper, directly contributing to the economic vitality by providing capital for business expansion, job creation, and assisting individuals to create wealth. We know the loyalty, commitment, and trust our communities have invested in us is a pillar for our success, and that success depends on the customers and the communities we serve.

Highlands Bankshares, along with our two subsidiary banks, Capon Valley Bank and The Grant County Bank, will continue to change rapidly as technology improves and evolves. As the industry continually changes, we strive to accommodate our customer's needs. Even as mobile banking is becoming one of the fastest growing delivery channels in the banking industry, we will continue our investment in these and other electronic technologies, but there is still an overwhelming focus on finding ways to enhance the branch experience. Branches still account for the majority of all new banking relationships as customers still prefer a personal relationship with their bank.

Given the continued low interest rate environment and intense competition, we are pleased with the financial performance we achieved in 2015. Net Income increased over the previous year attributable to an increase in net interest income and a decrease in non-interest expenses. Our loan portfolio grew $14.9 million or 4.9% while maintaining our high standards of credit quality. At the same time, the quality of our loan portfolio is improving with non-performing assets decreasing to 2.24% of total assets. The demand for all loan types during 2015 is encouraging, and we believe is reflective of a gradually improving local economy.

As a result of continued improvement in earnings, capital, and asset quality, the Board of Directors approved a 35% increase in dividends over the previous year for a yearly dividend of $1.00 per share during 2015. In addition, our capital level at the end of 2015, compared to 2014, increased 4.7% or $2.2 million. Our capital strength and earnings power are stronger than they have ever been, and you should feel confident in your investment in Highlands Bankshares, Inc.

One of the keys to our longstanding success is our highly trained professional management and staff, as they know the banking business and their customers while working alongside them as their banking partner. We sincerely thank you, our shareholders and customers, for the commitment and confidence you have placed in Highlands Bankshares and look forward to a successful future.

Economic conditions are showing signs of improvement in many areas, and we are confident the products we have and markets we operate in will pay off with strong growth in the future. As we reflect on the culture, agility, and planning that have allowed us to serve our customers for many years, we will continue to focus on the long-term growth and health of the company. We have made investments for the future while utilizing proven attributes and investing in products and services that differentiate us to our customer.

Enclosed with this annual report are the Proxy Card and Proxy Statement for our 2016 Annual Meeting of Shareholders. We urge you to complete and return your Proxy Card, and we invite you to attend the Annual Meeting of Shareholders to be held May 10, 2016, at 3:00 pm at the Old Grant County Bank building, 1 North Main Street, Petersburg, WV. We look forward to seeing you!

Respectfully,



John G. Van Meter
Chairman of the Board

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BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Highlands Bankshares, Inc.
Petersburg, West Virginia

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Highlands Bankshares, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 7, 2016

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 6,632	$ 10,979
Interest bearing deposits in banks	6,226	6,534
Federal funds sold	2,764	804
Investment securities available for sale	37,544	39,610
Restricted investments, at cost	822	711
Loans	319,366	304,474
Allowance for loan losses	(3,655)	(4,510)
Bank premises and equipment, net of accumulated depreciation	8,483	8,535
Interest receivable	1,274	1,345
Investment in life insurance contracts	8,367	8,099
Foreclosed assets, net of valuation allowance	4,194	4,946
Goodwill	1,534	1,534
Other intangible assets, net of amortization	3	146
Other assets	4,246	4,886
Total Assets	$ 397,800	$ 388,093
LIABILITIES		
Deposits		
Non-interest bearing deposits	$ 75,419	$ 71,570
Interest bearing transaction and savings accounts	101,260	97,032
Time deposits over $100,000	60,127	54,963
All other time deposits	99,007	105,668
Total Deposits	335,813	329,233
Long term debt instruments	6,058	3,920
Accrued expenses and other liabilities	6,942	8,166
Total Liabilities	$ 348,813	$ 341,319
STOCKHOLDERS' EQUITY		
Common stock, $5 par value; 3,000,000 shares authorized; 1,436,874 shares issued; 1,336,873 shares outstanding	$ 7,184	$ 7,184
Surplus	1,662	1,662
Treasury stock (100,001 shares, at cost)	(3,372)	(3,372)
Retained earnings	46,303	44,309
Other accumulated comprehensive loss	(2,790)	(3,009)
Total Stockholders' Equity	$ 48,987	$ 46,774
Total Liabilities and Stockholders' Equity	$ 397,800	$ 388,093

The accompanying notes are an integral part of these financial statements.

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars, Except Per Share Data)

	Years Ended December 31, 2015	2014
Interest Income		
Interest and fees on loans	$ 17,016	$ 17,050
Interest on federal funds sold	17	22
Interest on deposits in other banks	87	58
Interest and dividends on securities	734	663
Total Interest Income	17,854	17,793
Interest Expense		
Interest on deposits	1,698	1,885
Interest on borrowed money	112	134
Total Interest Expense	1,810	2,019
Net Interest Income	16,044	15,774
Provision for Loan Losses	(82)	(763)
Net Interest Income After Provision for Loan Losses	16,126	16,537
Non-interest Income		
Service charges	1,110	1,189
Life insurance investment income	268	261
Gains on securities transactions	3	24
Other non-interest income	855	776
Total Non-interest Income	2,236	2,250
Non-interest Expense		
Salaries and employee benefits	7,889	7,338
Occupancy and equipment expense	1,328	1,414
Data processing expense	1,459	1,345
Directors fees	344	338
Legal and professional fees	372	492
Office supplies, postage and freight expense	335	312
FDIC premiums	315	391
Loan and foreclosed asset expense	276	378
(Gains) losses on sale of foreclosed property	(19)	65
Losses on impairment of other real estate	111	889
Other non-interest expense	1,121	1,106
Total Non-interest Expense	13,531	14,068
Income Before Provision For Income Taxes	4,831	4,719
Provision for Income Taxes	1,500	1,412
Net Income	$ 3,331	$ 3,307
Per Share Data		
Net Income	$2.49	$2.47
Cash Dividends	$1.00	$0.74
Weighted Average Common Shares Outstanding	1,336,873	1,336,873

The accompanying notes are an integral part of these financial statements.

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of Dollars)

	Years ended December 31,	
	2015	2014
Net income	$ 3,331	$ 3,307
Other comprehensive income (loss):		
Actuarial gain or (loss) on defined pension benefit plan, net of tax of $10 and ($922)	16	(1,569)
Amortization of unrecognized actuarial gains (losses), net of tax $147 and $75	251	127
Unrealized gains or (loss) on investment securities available for sale, net of tax of ($30) and $124	(46)	187
Less: Reclassification adjustment for Gain on sale of securities, net of tax of $1 and $9	(2)	(16)
Total other comprehensive income (loss)	$ 219	$ (1,271)
Total comprehensive income	$ 3,550	$ 2,036

The accompanying notes are an integral part of these financial statements.

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	Years Ended December 31,	
	2015	2014
Cash Flows From Operating Activities		
Net Income	$ 3,331	$ 3,307
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(3)	(24)
(Gains)Losses on sale of foreclosed property	(19)	65
Depreciation	587	689
Income from life insurance investment income	(268)	(261)
Net amortization of securities premiums	310	314
Provision for loan losses	(82)	(763)
Write-down on foreclosed assets	111	889
Deferred income tax benefit	632	214
Amortization of intangibles	143	171
Decrease in interest receivable	71	14
(Increase) decrease in other assets	(652)	(92)
Increase (decrease) in accrued expenses	(780)	342
Net Cash Provided by Operating Activities	3,381	4,865
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	1,580	2,382
Proceeds from paydowns of securities available for sale	3,168	2,888
Proceeds from sale and maturity of securities available for sale	11,650	7,344
Purchase of securities available for sale	(12,623)	(11,946)
Net change in restricted investments	(111)	494
Net change in interest bearing deposits in other banks	308	(1,660)
Net change in federal funds sold	(1,960)	2,939
Net (increase) in loans	(16,586)	(3,801)
Purchase of property and equipment	(535)	(560)
Net Cash Provided by (Used in) Investing Activities	(15,109)	(1,920)
Cash Flows From Financing Activities		
Net change in time deposits	(1,497)	(11,326)
Net change in other deposit accounts	8,077	12,793
Proceeds from long term borrowings	3,200	1,500
Repayment of long term borrowings	(1,062)	(1,372)
Additional (repayment of) short term borrowing	0	(25)
Dividends paid in cash	(1,337)	(989)
Net Cash Provided by (Used in) Financing Activities	7,381	581
Net increase (decrease) in Cash and Cash Equivalents	(4,347)	3,526
Cash and Cash Equivalents, Beginning of Period	10,979	7,453
Cash and Cash Equivalents, End of Period	$ 6,632	$ 10,979
Supplemental Disclosures		
Cash paid for income taxes	$ 954	$ 1,331
Cash paid for interest	$ 1,838	$ 2,041
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	$ 921	$ 1,268

The accompanying notes are an integral part of these financial statements.

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014
(In Thousands of Dollars)

	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2013	$ 7,184	$ 1,662	$ (3,372)	$ 41,991	$ (1,738)	$ 45,727
Net Income				3,307		3,307
Total other comprehensive income (loss), net of tax					(1,271)	(1,271)
Dividends Paid				(989)		(989)
Balances at December 31, 2014	$ 7,184	$1,662	$ (3,372)	$ 44,309	$ (3,009)	$ 46,774
Balances at December 31, 2014	$ 7,184	$ 1,662	$ (3,372)	$ 44,309	$ (3,009)	$ 46,774
Net Income				3,331		3,331
Total other comprehensive income (loss),net of tax					219	219
Dividends Paid				(1,337)		(1,337)
Balances at December 31, 2015	$ 7,184	$ 1,662	$ (3,372)	$ 46,303	$ (2,790)	$ 48,987

The accompanying notes are an integral part of these financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE ONE: SUMMARY OF OPERATIONS

Highlands Bankshares, Inc. the ("Company") is a bank holding company and operates under a charter issued by the State of West Virginia. The Company owns all of the outstanding stock of The Grant County Bank ("Grant") and Capon Valley Bank ("Capon") collectively the ("Banks"), both of which operate under charters issued by the State of West Virginia. The Company also owns all of the outstanding stock of HBI Life Insurance Company, Inc. ("HBI Life"), which operates under a charter issued by the State of Arizona. The banks and holding company are subject to regulation by the West Virginia Division of Financial Institutions, The Federal Reserve Bank and the Federal Deposit Insurance Corporation, while the insurance company is regulated by the Arizona Department of Insurance. The Banks provide services to customers located mainly in Grant, Hardy, Hampshire, Mineral, Pendleton, Randolph and Tucker counties of West Virginia, including the towns of Petersburg, Keyser, Moorefield, Davis and Wardensville through ten locations and in two locations in Virginia in the county of Frederick and the town of Stephens City. The insurance company sells life and accident coverage exclusively through the Banks.

NOTE TWO: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of Highlands Bankshares, Inc. and its subsidiaries conform to accounting principles generally accepted in the United States of America and to accepted practices within the banking industry.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company, The Grant County Bank, Capon Valley Bank and HBI Life Insurance Company, Inc. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements - In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term are the determination of the allowance for loan losses, which is sensitive to changes in local economic conditions, deferred taxes, other real estate owned (OREO), and the fair values of financial instruments.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and non-interest bearing funds at correspondent institutions.

Foreclosed Real Estate - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Capitalized costs include costs that significantly improve the value of the properties. At or near the time of foreclosure, a real estate appraisal is obtained on the properties. The assets are carried at the lesser of carrying amount or the fair value less cost to sell. Gains and losses resulting from the sale or write-down of foreclosed real estate are recorded in other expenses. Revenue and expenses from operations and changes in the valuation allowance are also included in other operating expenses.

Loans - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balances net of unearned interest and the allowance for loan losses. Interest income is computed using the effective interest method based on the daily amount of principal outstanding and is credited to income as earned. Loans are considered past due when they are not paid in accordance with contractual terms.

The accrual of interest on loans in all loan segments is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is well secured and in the process of collection. When a loan is placed on nonaccrual status, all unpaid interest is credited to income. Interest payments received on nonaccrual loans are either applied against principal or reported as interest income according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, or has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Investment Securities - Securities that the Company has both the positive intent and ability to hold to maturity (at time of purchase) are classified as held to maturity securities. All other securities are classified as available for sale. Securities held to maturity are carried at historical cost and adjusted for amortization of premiums and accretion of discounts, using the effective interest method. Securities available for sale are carried at fair value with any valuation adjustments reported, net of deferred taxes, as other accumulated comprehensive income.

Restricted investments consist of investments in the Federal Home Loan Bank of Pittsburgh, the Federal Reserve Bank of Richmond and West Virginia Bankers' Title Insurance Company. Such investments are required as members of these institutions and these investments cannot be sold without a change in the members' borrowing or service levels. Because there is no readily determinable market value for these investments, restricted investments are carried at cost on the Company's balance sheet.

Interest and dividends on securities and amortization of premiums and discounts on securities are reported as interest income using the effective interest method. Gains (losses) realized on sales and calls of securities are determined using the specific identification method.

Investment securities are impaired when fair value is less than cost. An impairment is considered "other than temporary" if any of the following conditions are met: the Company intends to sell the security, it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost basis, or the Company does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The Company does not have any securities impairment that is considered "other than temporary" at December 31, 2015 and 2014.

Allowance For Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is determined to be no longer collectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are determined to be impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The general component covers non-impaired loans and is based on management's internal risk ratings as well as historical loss experience adjusted for qualitative factors. The following risk factors relevant to each portfolio segment are reviewed and evaluated:

- Changes in lending policies and procedures, including changes in underwriting standards or collection, charge-off and recovery practices.
- Changes in national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including unemployment trends and GDP and other leading economic indicators.
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability and depth of lending management and staff.
- Changes in the volume and severity of past due and classified loans, the volume of nonaccrual loans, troubled debt restructurings and other loan modifications.
- Changes in the quality of the Banks' loan review systems.
- The existence and effect of any concentrations of credit, and the changes in the level of such concentrations.
- Changes in the value of underlying collateral.
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Banks do not separately identify individual consumer and residential loans for impairment, unless the loans are the subject of a restructuring agreement.

Authoritative accounting guidance does not specify how an institution should identify loans that are to be evaluated for collectability, nor does it specify how an institution should determine that a loan is impaired. Each subsidiary of the Company uses its standard loan review procedures in making those judgments so that allowance estimates are based on a comprehensive analysis of the loan portfolio. For loans that are individually evaluated and found to be impaired, the associated allowance is based upon the estimated fair value, less costs to sell, of any collateral securing the loan as compared to the existing balance of the loan as of the date of analysis.

All other loans, including individually evaluated loans determined not to be impaired, are included in a group of loans that are measured under the general component of the allowance for loan losses to provide for estimated credit losses that have been incurred on groups of loans with similar risk characteristics. The methodology for measuring estimated credit losses on groups of loans with similar risk characteristics is based on each group's historical net charge-off rate, adjusted for the effects of the qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the group's historical loss experience.

Per Share Calculations - Earnings per share are based on the weighted average number of shares outstanding.

Bank Premises and Equipment - Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets using the straight line method. The costs of maintenance, repairs, renewals, and improvements to buildings, equipment and furniture and fixtures are charged to operations as incurred unless costs add life or value to the asset which would be capitalized and depreciated over the remaining or extended life of the asset. Gains and losses on routine dispositions are reflected in other income or expense.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and accrued pension liabilities, are reported along with net income as the components of comprehensive income in a separate statement of comprehensive income.

Bank Owned Life Insurance Contracts - The Company has invested in and owns life insurance policies on certain current and former officers. The policies are designed so that the Company recovers the interest expenses associated with carrying the policies and the officer will, at the time of retirement, receive any earnings in excess of the amounts earned by the Company. The Company recognizes as an asset the net amount that could be realized under the insurance contract as of the balance sheet date. This amount represents the cash surrender value of the policies less applicable surrender charges. The portion of the benefits which will be received by the executives at the time of their retirement is considered, when taken collectively, to constitute a retirement plan. Authoritative accounting guidance requires that an employers' obligation under a deferred compensation agreement be accrued over the expected service life of the employee through their normal retirement date. Assumptions are used in estimating the present value of amounts due officers after their normal retirement date. These assumptions include the estimated income to be derived from the investments and an estimate of the Company's cost of funds in these future periods. In addition, the discount rate used in the present value calculation will change in future years based on market conditions.

Advertising - Advertising costs are expensed as they are incurred. Advertising expenses for the years ended December 31, 2015 and 2014 were $203,000 and $168,000, respectively.

Goodwill and Other Intangible Assets - In accordance with authoritative accounting guidance, goodwill resulting from the purchase of a bank is not amortized over an estimated useful life, but is tested at least annually for impairment. Core deposit and other intangible assets include premiums paid for acquisitions of core deposits (core deposit intangibles) and other identifiable intangible assets. Intangible assets other than goodwill that are determined to have finite lives, are amortized based upon the estimated economic benefits received.

Income Taxes - Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under federal and state tax laws. Deferred taxes, which arise principally from differences between the period in which certain income and expenses are recognized for financial accounting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes.

Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the statement of income. At December 31, 2015 and 2014 there were no unrecognized tax benefits.

Reclassifications - Certain reclassifications have been made to prior period balances to conform with the current year's presentation format.

Recent Accounting Pronouncements

Adoption of New Accounting Standards

In January 2015, the FASB issued ASU 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* which eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective beginning January 1, 2016, though early adoption is permitted, and is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs* which specifies that debt issuance costs related to a recognized liability are to be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for years beginning after December 31, 2015 and is not expected to have a material impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation – Retirement Benefits (Topic 715) – Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets* which permits an entity with a fiscal year-end that does not coincide with a month-end that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016. Early adoption is permitted. This ASU is not expected to have a material impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes* which eliminates the current requirement to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, the requirement will be to classify all deferred taxes assets and liabilities as noncurrent. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 31, 2017. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This ASU is not expected to have a material impact on the Company's financial statements.

On January 5, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities.*, This ASU requires investments in equity securities (except for those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, ASU 2016-01 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. In addition, ASU 2016-01 requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables), eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organization that are not public business entities, and requires reporting entities to separately present in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (referred to as "own credit") when the financial reporting entity elects to measure such liabilities under the fair value option. ASU 2016-01 is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For private companies, not-for-profit organizations, and employee benefit plans, the new guidance becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for the "own credit" provision. In addition, the new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost.

NOTE THREE: SECURITIES

The income derived from taxable and non-taxable securities for the years ended December 31, 2015 and 2014 is shown below (in thousands of dollars):

	Years Ended December 31,	
	2015	2014
Investment securities, taxable	$ 461	$ 465
Investment securities, non-taxable	273	198
	$ 734	$ 663

The carrying amount and estimated fair value of securities available for sale at December 31, 2015 and 2014 are as follows (in thousands of dollars):

	Available For Sale Securities			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2015				
U.S. Treasuries and Agencies	$ 8,387	$ 9	$ 23	$ 8,373
Mortgage backed securities	6,697	24	43	6,678
Collateralized mortgage obligations	4,014	12	29	3,997
States and municipalities	15,814	140	18	15,936
Corporate Bonds	2,560	7	7	2,560
Total Avail For Sale Securities	$ 37,472	$ 192	$ 120	$ 37,544
December 31, 2014				
U.S. Treasuries and Agencies	$ 11,548	$ 33	$ 13	$ 11,568
Mortgage backed securities	8,912	61	28	8,945
Collateralized mortgage obligations	5,127	14	23	5,118
States and municipalities	11,776	130	23	11,883
Certificates of deposit	2,099	3	6	2,096
Total Avail For Sale Securities	$ 39,462	$ 241	$ 93	$ 39,610

The carrying amount and fair value of securities at December 31, 2015, by contractual maturity are shown below (in thousands of dollars). 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.

	Amortized Cost	**Fair Value**
Securities Available for Sale		
Due in next twelve months	$ 3,845	$ 3,859
Due after one year through five	16,694	16,706
Due beyond five years	10,236	10,301
Mortgage backed securities	6,697	6,678
Total Available For Sale	$ 37,472	$ 37,544

The gross realized gains on available for sale securities in 2015 and 2014 were $3,000 and $24,000 respectively. There were no gross realized losses on available for sale securities in 2015 or 2014.

Securities having a carrying value of $8,345,000 at December 31, 2015 and $7,558,000 at December 31, 2014 were pledged to secure public deposits and for other purposes required by law.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position is shown in the table below (in thousands of dollars):

	Total		Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2015 Investment Category						
U.S. Treasuries and Agencies	$ 6,855	$ (23)	$ 5,860	$ (18)	$ 995	$ (5)
Mortgage backed securities	4,541	(43)	1,069	(2)	3,472	(41)
States and Municipalities	6,586	(18)	5,788	(16)	798	(2)
Collateralized mortgage obligations	2,715	(29)	1,559	(5)	1,156	(24)
Corporate Bonds	1,527	(7)	1,527	(7)	0	0
Total	$ 22,224	$ (120)	$15,803	$ (48)	$ 6,421	$ (72)
December 31, 2014 Investment Category						
U.S. Treasuries and Agencies	$ 1,987	$ (13)	$ 0	$ 0	$ 1,987	$ (13)
Mortgage backed securities	4,540	(28)	1,789	(7)	2,751	(21)
States and Municipalities	3,020	(23)	364	(2)	2,656	(21)
Collateralized mortgage obligations	1,411	(23)	646	(3)	765	(20)
Corporate Bonds	1,055	(6)	551	(2)	504	(4)
Total	$ 12,013	$ (93)	$3,350	$ (14)	$ 8,663	$ (79)

The number of securities available for sale that were in an unrealized loss position at December 31, 2015 is summarized in the table below:

	Total	Loss Position less than 12 Months	Loss Position greater than 12 Months
U.S. Treasuries and Agencies	12	11	1
Mortgage backed securities	11	5	6
Collateralized mortgage obligations	4	1	3
States & Municipalities	20	17	3
Corporate Bonds	3	3	0
Total	50	37	13

It is management's determination that all securities held at December 31, 2015, which have fair values less than the amortized cost, have gross unrealized losses related to increases in the current interest rates for similar issues of securities, and that no material impairment for any securities in the portfolio exists because of downgrades of the securities or as a result of a change in the financial condition of any of the issuers.

NOTE FOUR: RESTRICTED INVESTMENTS

Restricted investments consist of investments in the Federal Home Loan Bank and West Virginia Bankers' Title Insurance Company. Investments are carried at face value and the level of investment is dictated by the level of participation with each institution. Amounts are restricted as to transferability. Investments in the Federal Home Loan Bank act as collateral against the outstanding borrowings from that institution.

NOTE FIVE: LOANS

A summary of loans outstanding as of December 31, 2015 and 2014 is shown in the table below (in thousands of dollars):

	December 31, 2015	December 31, 2014
Commercial Mortgage	$ 131,828	$ 127,511
Commercial Other	20,683	17,646
Consumer Mortgage	144,028	138,510
Consumer Other	22,827	20,807
	$ 319,366	$ 304,474

The following is a summary of information pertaining to impaired loans by portfolio segment at December 31, 2015 and December 31, 2014 (in thousands of dollars):

Impaired Loans
As of December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Mortgage	$ 8,840	$ 8,840	$ 0	$ 9,011	$ 356
Commercial Other	532	532	0	566	40
Consumer Mortgage	2,701	2,701	0	2,736	119
Consumer Other	51	51	0	60	6
Sub-total	$ 12,124	$ 12,124	$ 0	$ 12,373	$ 521
With an allowance recorded:					
Commercial Mortgage	$ 1,858	$ 1,858	$ 239	$ 1,901	$ 178
Commercial Other	51	51	3	56	3
Consumer Mortgage	1,838	1,838	255	1,850	66
Consumer Other	67	67	48	75	2
Sub-total	$ 3,814	$ 3,814	$ 545	$ 3,882	$ 249
Total					
Commercial Mortgage	$ 10,698	$ 10,698	$ 239	$ 10,912	$ 534
Commercial Other	583	583	3	622	43
Consumer Mortgage	4,539	4,539	255	4,586	185
Consumer Other	118	118	48	135	8
Total	$ 15,938	$ 15,938	$ 545	$ 16,255	$ 770

Impaired Loans
As of December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Mortgage	$ 7,823	$ 7,823	$ 0	$ 8,400	$ 397
Commercial Other	736	736	0	1,020	78
Consumer Mortgage	1,478	1,478	0	1,521	86
Consumer Other	87	87	0	100	9
Sub-total	$ 10,124	$ 10,124	$ 0	$ 11,041	$ 570
With an allowance recorded:					
Commercial Mortgage	1,691	1,691	577	1,721	15
Commercial Other	4	4	3	5	0
Consumer Mortgage	2,927	2,927	539	2,987	119
Consumer Other	6	6	0	7	1
Sub-total	$ 4,628	$ 4,628	$ 1,119	$ 4,720	$ 135
Total					
Commercial Mortgage	9,514	9,514	577	10,121	412
Commercial Other	740	740	3	1,025	78
Consumer Mortgage	4,405	4,405	539	4,508	205
Consumer Other	93	93	0	107	10
Total	$ 14,752	$ 14,752	$ 1,119	$ 15,761	$ 705

Balances of non-accrual loans at December 31, 2015 and 2014 are shown below (in thousands of dollars):

	December 31, 2015	December 31, 2014
Loans on non-accrual status		
Commercial Mortgage	$ 2,375	$ 3,176
Commercial Other	27	36
Consumer Mortgage	1,813	2,451
Consumer Other	42	77
Total non-accrual loans	$ 4,257	$ 5,740

Certain loans identified as impaired are placed into non-accrual status, based upon the loan's performance compared with contractual terms. Not all loans identified as impaired are placed into non-accrual status. The interest on loans placed into non-accrual status that was not recognized as income throughout the year (foregone interest) was $146,000 and $231,000 for the years ended December 31, 2015 and 2014, respectively.

The following table presents the contractual aging of the recorded investment in past due loans by class as of December 31, 2015 and 2014 (in thousands of dollars):

Age Analysis of Past Due Financing Receivables
As of December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial - Mortgage	$ 2,120	$ 611	$ 1,812	$ 4,543	$ 127,285	$ 131,828	$ 312
Commercial - Other	39	20	8	67	20,616	20,683	8
Consumer - Mortgage	3,233	1,166	700	5,099	138,929	144,028	98
Consumer - Other	432	64	44	540	22,287	22,827	44
Total	$ 5,824	$ 1,861	$ 2,564	$ 10,249	$ 309,117	$ 319,366	$ 462

Age Analysis of Past Due Financing Receivables
As of December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial - Mortgage	$ 2,213	$ 165	$ 2,677	$ 5,055	$ 122,456	$ 127,511	$ 0
Commercial - Other	494	372	0	866	16,780	17,646	0
Consumer - Mortgage	5,005	1,227	1,645	7,877	130,633	138,510	170
Consumer - Other	486	157	77	720	20,087	20,807	26
Total	$ 8,198	$ 1,921	$ 4,399	$ 14,518	$ 289,956	$ 304,474	$ 196

Troubled Debt Restructurings:

Impaired loans also include loans the Banks may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Banks may have to otherwise incur.

The following tables present the Company's loans restructured during the twelve month reporting periods ending December 31, 2015 and 2014 considered troubled debt by loan type (in thousands of dollars except number of contracts):

	Troubled Debt Restructurings For the Year Ended December 31, 2015			
	Number of Contacts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Allowance associated with TDR's
Troubled Debt Restructurings				
Commercial Mortgage	9	$ 3,056	$ 3,138	$ 168
Commercial Other	0	0	0	0
Consumer Mortgage	6	1,089	1,096	10
Consumer Other	2	100	70	26
Total	17	$ 4,245	$ 4,304	$ 204

	Troubled Debt Restructurings For the Year Ended December 31, 2014			
	Number of Contacts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Allowance associated with TDR's
Troubled Debt Restructurings				
Commercial Mortgage	10	$ 3,564	$ 3,321	$ 1
Commercial Other	0	0	0	0
Consumer Mortgage	6	1,411	1,427	397
Consumer Other	0	0	0	0
Total	16	$ 4,975	$ 4,748	$ 398

The following table presents the Company's loans restructured during the prior twelve months and were 30 days past due at December 31, 2015 and December 31, 2014:

		Defaulted Troubled Debt Restructurings For the Year Ended December 31, 2015		
		Number of Contacts	Recorded Investment	Allowance associated with Defaulted TDR's
Troubled debt restructurings:				
Commercial Mortgage		2	$ 724	$ 0
Commercial Other		0	0	0
Consumer Mortgage		3	240	0
Consumer Other		0	0	0
	Total	5	$ 964	$ 0

		Defaulted Troubled Debt Restructurings For the Year Ended December 31, 2014		
		Number of Contacts	Recorded Investment	Allowance associated with Defaulted TDR's
Troubled debt restructurings:				
Commercial Mortgage		6	$ 2,014	$ 0
Commercial Other		0	0	0
Consumer Mortgage		7	702	220
Consumer Other		1	3	0
	Total	14	$ 2,719	$ 220

NOTE SIX: ALLOWANCE FOR LOAN LOSSES

A summary of the transactions in the allowance for loan losses for the years ended December 31, 2015 and 2014 is shown below (in thousands of dollars):

Allowance for Loan Losses and Recorded Investment in Financing Receivables
For the Year Ended December 31, 2015

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance	$ 1,878	$ 63	$ 958	$ 97	$ 1,514	$ 4,510
Charge-offs	(322)	0	(471)	(170)	0	(963)
Recoveries	25	8	36	121	0	190
Provision	(87)	115	351	140	(601)	(82)
Ending Balance	$ 1,494	$ 186	$ 874	$ 188	$ 913	$ 3,655
Ending Balance: individually evaluated for impairment	$ 239	$ 3	$ 255	$ 48	$ 0	$ 545
Ending Balance: collectively evaluated for impairment	$ 1,255	$ 183	$ 619	$ 140	$ 913	$ 3,110
Financing Receivables:						
Ending Balance	$ 131,828	$ 20,683	$ 144,028	$ 22,827	$ 0	$ 319,366
Ending Balance: individually evaluated for impairment	$ 10,698	$ 583	$ 4,539	$ 118	$ 0	$ 15,938
Ending Balance: collectively evaluated for impairment	$ 121,130	$ 20,100	$ 139,489	$ 22,709	$ 0	$ 303,428

Allowance for Loan Losses and Recorded Investment in Financing Receivables
For the Year Ended December 31, 2014

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance	$ 2,931	$ 421	$ 1,365	$ 150	$ 824	$ 5,691
Charge-offs	(329)	(62)	(106)	(203)	0	(700)
Recoveries	110	41	1	130	0	282
Provision	(834)	(337)	(302)	20	690	(763)
Ending Balance	$ 1,878	$ 63	$ 958	$ 97	$ 1,514	$ 4,510
Ending Balance: individually evaluated for impairment	$ 577	$ 3	$ 539	$ 0	$ 0	$ 1,119
Ending Balance: collectively evaluated for impairment	$ 1,301	$ 60	$ 419	$ 97	$ 1,514	$ 3,391
Financing Receivables:						
Ending Balance	$ 127,511	$ 17,646	$ 138,510	$ 20,807	$ 0	$ 304,474
Ending Balance: individually evaluated for impairment	$ 9,514	$ 740	$ 4,405	$ 93	$ 0	$ 14,752
Ending Balance: collectively evaluated for impairment	$ 117,997	$ 16,906	$ 134,105	$ 20,714	$ 0	$ 289,722

The following table presents the Company's loans by internally assigned grades and by loan type (in thousands of dollars).

Credit Quality Indicators
As of December 31, 2015

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Total
Grade:					
Excellent	$ 322	$ 1,130	$ 1,349	$ 2,368	$ 5,169
Very Good	12,248	3,086	25,473	3,293	44,100
Pass	93,088	13,948	105,154	15,678	227,868
Pass-Watch	11,500	1,544	1,877	115	15,036
Special Mention	6,854	382	7,159	1,280	15,675
Substandard	7,335	593	3,016	93	11,037
Doubtful	481	0	0	0	481
Loss	0	0	0	0	0
Total	$ 131,828	$ 20,683	$ 144,028	$ 22,827	$ 319,366

Credit Quality Indicators
As of December 31, 2014

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Total
Grade:					
Excellent	$ 446	$ 2,315	$ 1,423	$ 2,136	$ 6,320
Very Good	10,799	1,896	25,837	3,197	41,729
Pass	92,814	11,697	99,992	14,475	218,978
Pass-Watch	6,842	175	1,514	105	8,636
Special Mention	8,623	840	6,300	793	16,556
Substandard	7,987	723	3,444	101	12,255
Doubtful	0	0	0	0	0
Loss	0	0	0	0	0
Total	$ 127,511	$ 17,646	$ 138,510	$ 20,807	$ 304,474

Loans classified as "special mention" have potential weaknesses that deserve management's close attention. Loans classified as "substandard" have been determined to be inadequately protected by the current collateral pledged, if any, or the cash flow and/or the net worth of the borrower, with well-defined weaknesses that make it possible to incur some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in substandard loans, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans classified as "loss" are loans with expected loss of the entire principal balance. The loan may be carried in this classified status if circumstances indicate a remote possibility that the

amount will be repaid; however, the principal balance is included in the impairment calculation and carried in the allowance for loan losses. Loans not categorized as special mention, substandard, or doubtful are classified as "pass", "very good" or "excellent" loans and are considered to exhibit acceptable risk. Additionally, the Company classifies certain loans as "pass-watch" loans. This category includes satisfactory borrowing relationships that require close monitoring because of complexity, information deficiencies, or emerging signs of weakness.

NOTE SEVEN: BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2015	2014
Land	$ 2,368	$ 2,368
Buildings and improvements	9,703	9,565
Furniture and equipment	5,224	4,953
Total Cost	17,295	16,886
Less accumulated depreciation	(8,812)	(8,351)
Net Book Value	$ 8,483	$ 8,535

Provisions for depreciation charged to operations during 2015 and 2014 were as follows (in thousands of dollars):

Year	Provision for Depreciation
2015	$ 587
2014	689

NOTE EIGHT: EARNINGS PER SHARE

Earnings per share represent income available to common stockholders divided by the weighted average number of common shares outstanding during the period. During 2015 and 2014, there were no changes to the outstanding shares of common stock.

NOTE NINE: RESTRICTIONS ON DIVIDENDS OF SUBSIDIARY BANKS

The principal source of funds of the Company is dividends paid by the Banks. The various regulatory authorities impose restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits (net income less dividends paid) of the current year combined with the retained earnings of the prior reporting period. As of December 31, 2015, the Banks could pay dividends to the Company of approximately $4,232,000 without permission of their regulatory authorities.

NOTE TEN: DEPOSITS

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

Year	Amount Maturing
2016	95,755
2017	29,275
2018	14,738
2019	9,012
2020 and after	10,354
Total	$ 159,134

Included in the table above are Certificate of Deposit Account Registry Service (CDARS) deposits totaling $2,609,000 at December 31, 2015.

Interest expense on time deposits of $100,000 and over aggregated $648,000 and $696,000 for 2015 and 2014, respectively.

The aggregate amount of demand deposit overdrafts reclassified as loan balances were $74,000 and $90,500 at December 31, 2015 and 2014, respectively.

NOTE ELEVEN: CONCENTRATIONS

The Banks grant commercial, residential real estate and consumer loans to customers located primarily in the eastern portion of the State of West Virginia. Although the Banks have a diversified loan portfolio, a substantial portion of the debtors' ability to honor their contracts is dependent upon the agribusiness, mining, trucking and logging sectors. Collateral required by the Banks is determined on an individual basis depending on the purpose of the loan and the financial condition of the borrower. The ultimate collectability of the loan portfolios is susceptible to changes in local economic conditions. Of the $319,366,000 and $304,474,000 loans held by the Company at December 31, 2015 and 2014, respectively, $271,100,000 and $261,400,000 are secured by real estate.

The Company's subsidiaries had cash deposited in and federal funds sold to other commercial banks totaling $8,990,000 and $7,338,000 at December 31, 2015 and 2014, respectively. Deposits with other correspondent banks are generally unsecured and have limited insurance under current banking insurance regulations, which management considers to be normal business risk.

NOTE TWELVE: TRANSACTIONS WITH RELATED PARTIES

During the year, officers and directors (and companies controlled by them) of the Company and the Banks were customers of and had transactions with the Banks in the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. The table below summarizes changes to balances of loans and to unused commitments to related parties during the years ended December 31, 2015 and 2014 (in thousands of dollars):

	2015	2014
Loans to related parties, beginning of year	$ 4,114	$ 3,650
New loans	105	220
Additions for new executives	20	653
Repayments	(962)	(409)
Loans to related parties, end of year	$ 3,277	$ 4,114

At December 31, 2015 and December 31, 2014, deposits of related parties including directors, executive officers, and their related interests of the Company and subsidiaries approximated $6,220,000, and $5,584,000, respectively.

NOTE THIRTEEN: DEBT INSTRUMENTS

The Company has borrowed money from the Federal Home Loan Bank of Pittsburgh (FHLB). This debt consists of both borrowings with terms of maturities of six months or greater and also certain debts with maturities of thirty days or less.

The borrowings with long term maturities may have either single payment maturities or amortize. The various borrowings mature from 2016 to 2024. The interest rates on the various borrowings at December 31, 2015 range from 1.68% to 5.80%. The weighted average interest rate on the borrowings at December 31, 2015 was 2.44%.

The maturities of long-term debt as of December 31, 2015 are as follows (in thousands of dollars):

Year	Balance
2016	$ 303
2017	0
2018	890
2019	2,573
2020	332
Thereafter	1,960
Total	$ 6,058

In addition to utilization of the FHLB for borrowings of long term debt, the Banks also can utilize the FHLB for overnight and other short term borrowings. There were no overnight or short term borrowings outstanding as of December 31, 2015 or December 31, 2014. The Banks have total borrowing capacity from the FHLB of $132,853,000 of which $6,088,000 was outstanding at December 31, 2015. The Banks have pledged mortgage loans as collateral on the FHLB borrowings in the approximate amount of $12,528,000 at December 31, 2015.

The subsidiary Banks also have short term borrowing capacity from each of their respective correspondent banks. As of December 31, 2015, the Company has total borrowing capacity from its correspondent banks of $17,500,000. The interest rates on these lines are variable and are subject to change daily based on current market conditions. There were no borrowings outstanding on these lines as of December 31, 2015 or 2014.

NOTE FOURTEEN: INCOME TAX EXPENSE

The Company files federal and State of West Virginia income tax returns. With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2012.

Included in the balance sheet at December 31, 2015 are tax positions related to loan charge offs for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The components of income tax expense for the years ended December 31, 2015 and 2014 are summarized on the table below (in thousands of dollars):

	2015	2014
Current Expense		
Federal	$ 805	$ 1,074
State	63	124
Total Current Expense	868	1,198
Deferred Expense (Benefit)		
Federal	592	200
State	40	14
Total Deferred Expense (Benefit)	632	214
Income Tax Expense	$ 1,500	$ 1,412

The net deferred tax assets arising from temporary differences as of December 31, 2015 and 2014 are shown on the table below and reported in Other Assets on the Balance Sheet (in thousands of dollars):

	2015	2014
Deferred Tax Assets		
Provision for loan losses	$ 779	$ 1,048
OREO deferred expenses	343	483
Insurance commissions	5	10
Deferred compensation	1,010	958
Pension obligation	1,665	1,822
Unrealized Loss on Securities available for sale	60	0
Other	148	99
Total Assets	4,010	4,420
Deferred Tax Liabilities		
Unrealized Gain on securities available for sale	0	55
Depreciation	449	442
Pension Expense	812	425
Total Liabilities	1,261	922
Net Deferred Tax Asset	$ 2,749	$ 3,498

The Company has not recorded a valuation allowance for the deferred tax assets as management believes it is more likely than not that they will be ultimately realized.

NOTE FIFTEEN: EMPLOYEE BENEFITS

In addition to an Employee Stock Ownership Plan (ESOP), which provides stock ownership to all employees of the Company, Grant and Capon have separate retirement and profit sharing plans which cover substantially all full time employees at each Bank. A summary of the employee benefits provided by each Bank is provided below. The Company's ESOP plan provides stock ownership to all employees of the Company. The Plan provides total vesting upon the attainment of seven years of service. Contributions to the plan are made at the discretion of the board of directors and are allocated based on the compensation of each employee relative to total compensation paid by the Company. All shares held by the Plan are considered outstanding in the computation of earnings per share. Shares of Company stock, when distributed, may have restrictions on transferability. Certain current and former executives of both Grant and Capon have post-retirement benefits indirectly related to the Banks' investment in life insurance policies. Expenses related to all retirement benefit plans charged to operations totaled $1,365,000 in 2015 and $932,000 in 2014.

Capon has a 401(k) retirement plan that is funded by employee contributions, employer matches, and discretionary contributions made by the employer. Capon matches the employees' contribution 100% up to 3% of the employees' compensation and an additional match of 50% of the amount of the matched employee contributions that exceed 3% of the employees' compensation but that do not exceed 5%. Investment of employee balances is at the direction of each employee. Employer contributions are vested over a six-year period. Expenses under the plan for the years ended December 31, 2015 and 2014 were $194,000 and $179,000, respectively which includes the employer match and discretionary contributions.

Grant also maintains a 401(k) profit sharing plan covering substantially all employees to which contributions are made at the discretion of the board of directors. Employee balances are invested at the direction of each employee, with employer contributions vested over a six year period. Profit sharing expenses for the years ended December 31, 2015 and 2014 were $65,000 and $70,000, respectively.

Grant has a defined benefit pension plan with benefits under the Plan based on compensation and years of service with full vesting after six years of service. The employer contributed $1,629,000 during 2015. The employer contribution during 2016 is projected to be $129,000. At December 31, 2015, Grant has recognized liabilities of approximately $2,293,000 relating to unfunded pension liabilities. A portion of this liability, representing unrecognized actuarial losses, is reflected as a decrease in other comprehensive income of approximately $2,835,000 (net of $1,665,000 tax).

The following table provides a reconciliation of the changes in the Plan's obligations and fair value of assets as of December 31, 2015 and 2014 using a measurement date of December 31, 2015 and December 31, 2014 respectively (in thousands of dollars):

	2015	2014
Change in Projected Benefit Obligation		
Benefit obligation, beginning	$ 10,417	$ 7,758
Service Cost	240	230
Interest Cost	402	374
Actuarial Loss (Gain)	(528)	2,340
Settlements	(2)	0
Benefits Paid	(328)	(285)
Benefit obligation, ending	$ 10,201	$ 10,417
Accumulated Benefit Obligation	$ 9,362	$ 9,526
Change in Plan Assets		
Fair value of assets, beginning	$ 6,652	$ 6,398
Actual return on assets, net of administrative expenses	(42)	342
Employer contributions	1,628	197
Settlements	(2)	0
Benefits paid	(328)	(285)
Fair value of assets, ending	$ 7,908	$ 6,652
Funded Status		
Fair value of plan assets	$ 7,908	$ 6,652
Projected benefit obligation	10,201	10,417
Funded status	$ (2,293)	$ (3,765)
Amounts Recognized in the Statement of Financial Position		
Accumulated other comprehensive loss	$ 4,501	$ 4,924
(Prepaid) pension expense	(2,208)	(1,159)
Net liability recognized	$ 2,293	$ 3,765
Amounts Recognized in Accumulated Other Comprehensive Income		
Unrecognized actuarial loss	$ 4,501	$ 4,924

The following table provides the components of the net periodic pension expense for the Plan for the years ended December 31, 2015 and 2014 (in thousands of dollars):

	2015	2014
Service cost	$ 240	$ 230
Interest cost	402	374
Expected return on plan assets	(460)	(493)
Recognized net actuarial loss	398	202
Net Periodic Pension Expense	$ 580	$ 313

The expected pension expense for 2016 is $417,000. The amount of unrecognized actuarial loss expected to be recognized in net periodic benefit cost in 2016 is $338,000.

The table below summarizes the benefits expected to be paid to participants in the plan (in thousands of dollars):

Year	Expected Benefit Payments
2016	$ 492
2017	499
2018	504
2019	506
2020	520
Years 2021 – 2025	2,921

The weighted average assumptions used in the measurement of the benefit obligation and net periodic pension expense are as follows:

	2015	2014
Discount rate	4.34%	3.95%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

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

The following table provides the pension plan's asset allocation as of December 31, 2015 and 2014:

	2015	2014
Equity Securities	60%	67%
Debt Securities	39%	32%
Other	1%	1%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return. The targeted asset allocation and allowable range of allocation is set forth in the table below:

Plan Assets	Target Allocation 2015	Allowable Allocation Range
Equity securities	65%	55-75%
Debt securities	35%	25-45%
Other		0-3%

Fair Value

The fair value of the Company's pension plan assets at December 31, 2015 and 2014, by asset category is as follows:

		Fair Value Measurements Using		
Asset Category	Balance as of December 31, 2015	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 73	$ 73	$ 0	$ 0
Equity securities:				
U.S. Companies	3,507	3,087	420	
International Companies	1,250	1,250		
Debt Securities	3,078	3,078		
Totals	$ 7,908	$ 7,488	$ 420	$ 0

		Fair Value Measurements Using		
Asset Category	Balance as of December 31, 2014	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 82	$ 82	$ 0	$ 0
Equity securities:				
U.S. Companies	3,322	2,917	405	
International Companies	1,109	1,109		
Debt Securities	2,139	2,139		
Totals	$ 6,652	$ 6,247	$ 405	$ 0

NOTE SIXTEEN: COMMITMENTS AND GUARANTEES

The Banks make commitments to extend credit in the normal course of business and issue standby letters of credit to meet the financing needs of their customers. The amount of the commitments represents the Banks' exposure to credit loss that is not included in the balance sheet.

The Banks use the same credit policies in making commitments and issuing letters of credit as used for the loans reflected in the balance sheet. 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 Banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment.

As of December 31, 2015 and 2014, the Banks had outstanding the following commitments (in thousands of dollars):

	2015	2014
Commitments to extend credit	$ 30,213	$ 23,957
Standby letters of credit	781	567

NOTE SEVENTEEN: CHANGES IN OTHER COMPREHENSIVE INCOME

The components of changes in other comprehensive income, net of deferred tax, for the years ended December 31, 2015 and 2014 are as follows (in thousands of dollars):

	Unrealized Gains(losses) on Securities	Defined Benefit Plan Obligation	Total
Balance, December 31, 2013	(78)	(1,660)	(1,738)
2014 Change	171	(1,442)	(1,271)
Balance, December 31, 2014	93	(3,102)	(3,009)
2015 Change	(48)	267	219
Balance, December 31, 2015	$ 45	$ (2,835)	$ (2,790)

NOTE EIGHTEEN: FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements and Disclosures, define fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level One: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level Two: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level Three: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value on the Company's balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities
Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Impaired Loans
Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value,

then a Level 3 valuation is considered to measure the fair value. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. At December 31, 2015, the Company had impaired loans with an unpaid principal balance of $15,938,000 of which $3,814,000 required an allowance of $545,000. (see Note Five).

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value. Real estate acquired through foreclosure is recorded at an estimated fair value less cost to sell. At or near the time of foreclosure, a real estate appraisal is obtained on the properties. In the event that a sales agreement is in place at the time of valuation, the fair value of the collateral is determined to be the agreed-upon sale price, net of anticipated selling costs (Level 1). In the absence of a sales agreement, the real estate is then valued at the appraised value, net of anticipated selling costs. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser (Level 2). If the acquired property is a house or building in the process of construction or if an appraisal of the real estate property is over twelve months old, the fair value is considered Level 3. The estimate of costs to sell the property is based on historical transactions of similar holdings.

The Company, at December 31, 2015 and December 31, 2014, had no liabilities subject to fair value reporting requirements.

The table below summarizes assets at December 31, 2015 and December 31, 2014 measured at fair value on a recurring basis (in thousands of dollars):

December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value Measurements**
U.S. Treasuries and Agencies	$ 0	$ 8,372	$ 0	$ 8,372
Mortgage backed securities	0	6,679	0	6,679
Collateralized mortgage obligations	0	3,997	0	3,997
States and municipalities	0	15,936	0	15,936
Corporate Bonds	0	2,560	0	2,560
Total Available For Sale Securities	$ 0	$ 37,544	$ 0	$ 37,544

December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value Measurements**
U.S. Treasuries and Agencies	$ 0	$ 11,568	$ 0	$ 11,568
Mortgage backed securities	0	8,945	0	8,945
Collateralized mortgage obligations	0	5,118	0	5,118
States and municipalities	0	11,883	0	11,883
Corporate Bonds	0	2,096	0	2,096
Total Available For Sale Securities	$ 0	$ 39,610	$ 0	$ 39,610

The table below summarizes assets at December 31, 2015 and December 31, 2014, measured at fair value on a nonrecurring basis (in thousands of dollars):

	Level 1	Level 2	Level 3	Total Fair Value Measurements	Twelve Months Ended December 31, 2015 Total Gains/(Losses)
Other real estate owned	$ 0	$ 1,906	$ 2,288	$ 4,194	$ (111)
Impaired loans	0	344	2,924	3,268	0

	Level 1	Level 2	Level 3	Total Fair Value Measurements	Twelve Months Ended December 31, 2014 Total Gains/(Losses)
Other real estate owned	$ 0	$ 3,156	$ 1,790	$ 4,946	$ (889)
Impaired loans	0	149	3,360	3,509	0

The table below displays quantitative information about Level 3 Fair Value measurements for certain financial assets measured at fair value on a nonrecurring basis for December 31, 2015:

	Quantitative information about Level 3 Fair Value Measurements for December 31, 2015		
	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:			
Impaired loans	Appraised Value	Selling Cost	6% - 10% (10%)
Other real estate owned	Appraised Value	Selling Cost	10% (10%)

The information above discusses financial instruments carried on the Company's balance sheet at fair value. Other financial instruments on the Company's balance sheet, while not carried at fair value, do have fair values which may differ from the carrying value. GAAP requires disclosure relating to these fair values. The following information shows the carrying values and estimated fair values of financial instruments and discusses the methods and assumptions used in determining these fair values.

The fair value of the Company's assets and liabilities is influenced heavily by market conditions. Fair value applies to both assets and liabilities, either on or off the balance sheet. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The methods and assumptions detailed below were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Due from Banks and Money Market Investments

The carrying amount of cash, due from bank balances, interest bearing deposits and federal funds sold is a reasonable estimate of fair value.

Securities
Fair values of securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Restricted Investments
The carrying amount of restricted investments is a reasonable estimate of fair value.

Loans
The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, taking into consideration the credit risk in various loan categories.

Life Insurance
The carrying amount of life insurance contracts is assumed to be a reasonable fair value. Life insurance contracts are carried on the balance sheet at their redemption value. This redemption value is based on existing market conditions and therefore represents the fair value of the contract.

Deposits
The fair value of demand, interest checking, regular savings and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Long Term Debt
The fair value of fixed rate loans is estimated using the rates currently offered by the Federal Home Loan Bank for indebtedness with similar maturities.

Short Term Debt
The fair value of short-term variable rate debt is deemed to be equal to the carrying value.

Interest Payable and Receivable
The carrying value of amounts of interest receivable and payable is a reasonable estimate of fair value.

Off-Balance-Sheet Items
The carrying amount and estimated fair value of off-balance-sheet items were not material at December 31, 2015 or 2014.

The carrying amount and estimated fair values of financial instruments as of December 31, 2015 and 2014 are shown in the table below (in thousands of dollars):

		Fair Value Measurements at December 31, 2015 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value Balance
Financial Assets:					
Cash and due from banks	$ 6,632	$ 6,632			$ 6,632
Interest bearing deposits	6,226	6,226			6,226
Federal funds sold	2,764	2,764			2,764
Securities available for sale	37,544		$ 37,544		37,544
Restricted investments	822		822		822
Loans, net	315,711		313,159	$ 3,268	316,427
Interest receivable	1,274		1,274		1,274
Life insurance contracts	8,367		8,367		8,367
Financial Liabilities:					
Demand and savings deposits	$ 176,679		$ 176,679		$ 176,679
Time deposits	159,134		159,987		159,987
Long term debt instruments	6,058		5,938		5,938
Interest payable	164		164		164

		Fair Value Measurements at December 31, 2014 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value Balance
Financial Assets:					
Cash and due from banks	$ 10,979	$ 10,979			$ 10,979
Interest bearing deposits	6,534	6,534			6,534
Federal funds sold	804	804			804
Securities available for sale	39,610		$ 39,610		39,610
Restricted investments	711		711		711
Loans, net	299,964		297,370	$ 3,509	300,879
Interest receivable	1,345		1,345		1,345
Life insurance contracts	8,099		8,099		8,099
Financial Liabilities:					
Demand and savings deposits	$ 168,602		$ 168,602		$ 168,602
Time deposits	160,631		161,661		161,661
Long term debt instruments	3,920		3,768		3,768
Interest payable	192		192		192

NOTE NINETEEN: REGULATORY MATTERS

The Company 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). The Company meets all capital adequacy requirements to which it is subject and as of the most recent examination, the Banks were classified as well capitalized.

To be categorized as well capitalized the Banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the Company's category from a well-capitalized status.

Capital ratios and amounts are applicable both at the individual Bank level and on a consolidated basis. At December 31, 2015, both subsidiary Banks and the Company had capital levels in excess of minimum requirements.

In addition, HBI Life is subject to certain capital requirements and dividend restrictions. At present, HBI Life is well within any capital limitations and no conditions or events have occurred to change this capital status, nor does management expect any such occurrence in the foreseeable future.

On July 2, 2013, the Federal Reserve Board approved Basel III Final Rule to begin implementation January 1, 2015. The desired overall objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Final Rule changes minimum capital ratios and raises the Tier 1 Risk Weighted Assets to 6% from 4%. In addition, the new rules require a bank to maintain a capital conservation buffer of between 2 and 2 ½ % beginning in 2016. The new rules were phased in beginning in 2015 with complete compliance required by 2019. Generally, the Basel III Final Rule will require banks to maintain higher levels of common equity and regulatory capital.

The actual and required capital amounts and ratios of the Company and its subsidiary banks at December 31, 2015 are presented in the following table (in thousands of dollars):

			Regulatory Requirements			
	Actual		Adequately Capitalized		Well Capitalized	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Total Risk Based Capital Ratio						
Highlands Bankshares	$ 53,654	18.03%	$ 23,807	8.00%		
Capon Valley Bank	17,308	16.73%	8,276	8.00%	$ 10,345	10.00%
The Grant County Bank	34,079	17.59%	15,499	8.00%	19,374	10.00%
Tier 1 Leverage Ratio						
Highlands Bankshares	50,242	12.75%	15,762	4.00%		
Capon Valley Bank	16,012	10.76%	5,952	4.00%	7,441	5.00%
The Grant County Bank	31,963	13.06%	9,790	4.00%	12,237	5.00%
Common Equity Tier 1 Capital Ratio						
Highlands Bankshares	50,242	16.89%	13,386	4.50%		
Capon Valley Bank	16,012	15.48%	4,655	4.50%	6,723	6.50%
The Grant County Bank	31,963	16.50%	8,717	4.50%	12,591	6.50%
Tier 1 Risk Based Capital Ratio						
Highlands Bankshares	50,242	16.89%	11,899	6.00%		
Capon Valley Bank	16,012	15.48%	4,173	6.00%	6,260	8.00%
The Grant County Bank	31,963	16.50%	7,749	6.00%	11,623	8.00%

The actual and required capital amounts and ratios of the Company and its subsidiary banks at December 31, 2014 are presented in the following table (in thousands of dollars):

	Actual		Regulatory Requirements Adequately Capitalized		Well Capitalized	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Total Risk Based Capital Ratio						
Highlands Bankshares	$ 51,682	18.10%	$ 22,843	8.00%		
Capon Valley Bank	16,604	15.91%	8,349	8.00%	$ 10,436	10.00%
The Grant County Bank	32,883	18.18%	14,470	8.00%	18,087	10.00%
Tier 1 Leverage Ratio						
Highlands Bankshares	48,102	12.48%	15,417	4.00%		
Capon Valley Bank	15,295	10.23%	5,980	4.00%	7,476	5.00%
The Grant County Bank	30,620	12.95%	9,458	4.00%	11,822	5.00%
Tier 1 Risk Based Capital Ratio						
Highlands Bankshares	48,102	16.85%	11,419	4.00%		
Capon Valley Bank	15,295	14.66%	4,173	4.00%	6,260	6.00%
The Grant County Bank	30,620	16.93%	7,234	4.00%	10,852	6.00%

NOTE TWENTY: INTANGIBLE ASSETS

The Company's balance sheet contains several components of intangible assets. The total balance of intangible assets was comprised of Goodwill in the amount of $1,534,000 and intangible assets related to long term advertising with local school systems located within the Company's primary business area in the amount of $3,000 as of December 31, 2015. The amortized amount for core deposits during 2015 and 2014 was $138,000 and $165,000 respectively for each of the reporting periods. Other intangible assets amortized during 2015 and 2014 were $5,000 and $6,000 respectively for each of the reporting periods.

A summary of the changes in balances of intangible assets for the twelve month periods ended December 31, 2015 and 2014 is shown below (in thousands of dollars):

	2015	2014
Balance beginning of period	$ 1,680	$ 1,851
Additional intangible assets	0	0
Amortization of intangible assets	(143)	(171)
Balance end of period	$ 1,537	$ 1,680

The expected amortization of the intangible balances at December 31, 2016 is summarized in the table below (in thousands of dollars):

Year	Expected Expense
2016	$ 3
2017	0
Total	$ 3

NOTE TWENTY ONE: SUBSEQUENT EVENTS

The Company evaluates subsequent events that have occurred after the balance sheet, but before the financial statements are available to be issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 7, 2016, the date these financial statements were available to be issued. Based on management's evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

NOTE TWENTY TWO: PARENT COMPANY FINANCIAL STATEMENTS

The investment of the Company in its wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to the Company's balance sheets at December 31, 2015 and December 31, 2014, and the related statements of income, retained earnings, and cash flows is presented below:

Balance Sheets
(in thousands of dollars)

	December 31,	
	2015	2014
Assets		
Cash	$ 21	$ 25
Investment in subsidiaries	48,560	46,568
Receivable from subsidiaries	401	165
Other assets	5	19
Total Assets	$ 48,987	$ 46,777
Liabilities		
Accrued expenses	$ 0	$ 3
Total Liabilities	0	3
Stockholders' Equity		
Common stock, par value $5 per share, 3,000,000 shares authorized, 1,436,874 issued, 1,336,873 outstanding	7,184	7,184
Surplus	1,662	1,662
Treasury stock, at cost, 100,001 shares	(3,372)	(3,372)
Retained earnings	46,303	44,309
Other accumulated comprehensive income (loss)	(2,790)	(3,009)
Total Stockholders' Equity	48,987	46,774
Total Liabilities and Stockholders' Equity	$ 48,987	$ 46,777

Statements of Income and Retained Earnings
(in thousands of dollars)

	Years ended December 31,	
	2015	2014
Income		
Dividends from subsidiaries	$ 1,587	$ 1,069
Management fees from subsidiaries	281	316
Total Income	1,868	1,385
Expenses		
Salary and benefits expense	196	225
Professional fees	112	96
Directors fees	77	84
Other expenses	66	83
Total Expenses	451	488
Net income before income tax benefit and undistributed subsidiaries net income	1,417	897
Income tax expense (benefit)	(66)	(71)
Income before undistributed subsidiaries net income	1,483	968
Undistributed subsidiaries net income	1,848	2,339
Net Income	$ 3,331	$ 3,307
Retained earnings, beginning of period	$ 44,309	$ 41,991
Dividends paid in cash	(1,337)	(989)
Net income	3,331	3,307
Retained earnings, end of period	$ 46,303	$ 44,309

Statements of Cash Flows
(in thousands of dollars)

	Years Ended December 31, 2015	2014
Cash Flows From Operating Activities		
Net Income	$ 3,331	$ 3,307
Adjustments to net income		
Depreciation	0	10
Undistributed subsidiary income	(1,773)	(2,339)
Increase (decrease) in payables	(3)	3
(Increase) decrease in receivables from subsidiaries	(236)	(165)
(Increase) decrease in other assets	14	(1)
Net Cash Provided by Operating Activities	1,333	815
Cash Flows From Investing Activities		
Net (payments to) subsidiaries	0	0
Net Cash Used in Investing Activities	0	0
Cash Flows From Financing Activities		
Dividends paid in cash	(1,337)	(989)
Net Cash Used in Financing Activities	(1,337)	(989)
Net Increase (Decrease) in Cash	(4)	(174)
Cash, beginning of year	25	199
Cash, end of year	$ 21	$ 25

About Grant County Bank

Financial Data

(in thousands of dollars)

Assets at 12/31/15	
Cash and due from banks	$ 6,325
Earning assets	$ 228,208
Allowance for loan losses	$ (2,116)
Other assets	$ 15,669
Total Assets	**$ 248,086**
Liabilities and Equity at 12/31/15	
Deposits	$ 208,807
Borrowings	$ 3,553
Other liabilites	$ 4,996
Shareholders' Equity	$ 30,730
Total Liabilities and equity	**$ 248,086**
Net income for 2015	$ 2,381

Grant County Bank Directors

Donald J. Baker, Jr., Chairman
Jack C. Barr, Vice Chairman
George L. Ford, President & CEO
Amy F. Barb
Allen V. Evans
Morris M. Homan, Jr.
John Paul Hott, II
Kathy G. Kimble
Gerald R. Sites
John G. Van Meter

Riverton Advisory Board

Byron Bland, Jr.
John R. Harman
Lucy Ruddle

The Grant County Team

Those employees listed below in bold indicate 20 years or more of service

Jared Amtower
Joanne Beavers
Dana Bennett
Debra Bennett
Cathy Berg
Sarah Blankenbeckler
Kimberly Bonner
Sherry Bonner
Melissa Brown
Sandra Brown
Sheila Clauze
G. James Cornett
Michael Cosner
Rebecca Crites
Shannon Cutter
Donna Davis
Tammy Elza
Darlene Evans
Marlene Evans
Donna Feaster
Sharon Feaster
Sally George
Bonnie Hannas
Shirley Harper
Kayla Harris
Cindy Haugh
Elizabeth Heare
Jessica Hedrick
Samantha Hendrix
Courtney Hesse
Lisa Hinkle
Edsel Hogan
Erin Howard
Wilma Keplinger
Tracy Kesner
Kathy Kile
Janice Krieger
Amber Kuh
Jeff Liller
Judy Lough
Hannah Ludwick
Judy Mallow
Ryanne Michael
Paul Miley
Scotty Miley
Barbara Miller
Vickie Mitchell
Rosa Mongold
Shelley Mongold
Danette Mullenax
Shawna Mussser
Melissa Nestor
Barbara Ours
Brooke Redman
Jeffrey Reedy
Taylor Regester
Robin Reynolds
Stephanie Roy
Alicia Ruffner
Beverly Scott
Gene Simpson
Rebecca Sites
Wayne Smith
Emily Snyder
Brenda Stump
Janice Sturgill
Pamela Taylor
Kathy Thomas
Chelsea Thorne
Deidra Thorne
Jennifer Turner
Michele Turner
Aimee Vance
Gale Vance
Catherine VanDevander
Corinna Virts
J.D. Wilkins
Brenda Wolford
Marcie Yokum
Desiree Yost

Locations

Main Office
3 North Main Street
P.O. Box 929
Petersburg, WV 26847
304-257-4111

Riverton Office
16198 Mountaineer Drive
P.O. Box 16
Riverton, WV 26814
304-567-2224

New Creek-Keyser Office
1336 New Creek HWY
Keyser, WV 26726
304-788-8040

Moorefield Office
500 South Main Street
Moorefield, WV 26836
304-538-6566

Harman Office
Main Street
P.O. Box 129
Harman, WV 26270
304-227-4104

Davis Office
901 William Avenue
P.O. Box 517
Davis, WV 26260
304-259-5201

Canaan Valley Office
5502 Appalachian HWY
Davis, WV 26260
304-866-4848

About Capon Valley Bank

Financial Data

(in thousands of dollars)

Assets at 12/31/15		
Cash and due from banks	$	6,210
Earning assets	$	132,288
Allowance for loan losses	$	(1,539)
Other assets	$	11,976
Total Assets	**$**	**148,935**
Liabilities and Equity at 12/31/15		
Deposits	$	128,608
Borrowings	$	2,506
Other liabilites	$	1,832
Shareholders' Equity	$	15,989
Total Liabilities and equity	**$**	**148,935**
Net income for 2015	$	1,054

Capon Valley Bank Directors

Leslie A. Barr, Chairman
Jack H. Walters, Vice Chairman
Alan L. Brill, President & CEO
Morris M. Homan, Jr.
John Mitchell Orndorff
James R. Pyles
Gerald W. Smith
John G. Van Meter

The Capon Valley Team

Those employees listed below in bold indicate 20 years or more of service

Angie Baker
Teresa Baker
Jackelyn Baldwin
Pamela Barney
Melinda Biser
Debra Boyce
Carla Brill
Fred Brooks
Joann Byrd
John Coffman
Pati Combs
Krystal Connelly
Ricky Dolly
Candi Fitzwater
Brandon Foster
Connie Fraley
Lillian Franks
Rhonda French
Ann Funkhouser
Deborah Furrow
Abby Hefner
Don Henderson
Kathleen Hott
Kristopher Kerr
Donna Kuykendall
Rebecca Lucas
Barry Lupton
Michael McDonald
Angela Miller
Crystal Miller
Wendy Miller
Amanda Mongold
Krystal Moreland
Yvonne Orndorff
Laura Pennington
Hunter Phillips
Vickie Poulin
Marty Rinard
Candy Shanholtz
Teresa Shockey
Stephen Sirbaugh
Glenda Smith
Karen Smith
Linda Smith
Pamela Snapp
Beverly Staggs
Melissa Thompson
Derek Thorne
Candace Webster
Carissa Western
Patricia Westfall
Amanda Wilkins
Katrina Wilkins
Connie Wilson
Phyllis Yankey
Carol Zuber

Locations

Main Office
2 West main Street
P.O. Box 119
Wardensville, WV 26851
304-874-3531

Moorefield Office
717 North Main Street
P.O. Box 240
Moorefield, WV 26836
304-530-7714

Gore Office
6701 Northwestern Pike
P.O. Box 124
Gore, VA 22637
540-858-3010

Stephens City Office
5511 South Main Street
P.O. Box 1238
Stephens City, VA 22655
540-686-1140

Baker office
17558 SR55
P.O. Box 230
Baker, WV 26801
304-897-7117

Our Stock

The common stock of Highlands Bankshares is not traded on any national or regional stock exchange, although brokers may occasionally initiate or be a participant in a trade. The Company's stock is listed on OTC Markets. The Company may not know terms of an exchange between individual parties. The following table outlines the dividends paid and market prices of the Company's stock, based on prices disclosed to management. Prices have been provided using a nationally recognized online stock quote system. Such prices may not include retail mark-ups, mark-downs or commissions. Dividends are subject to the restrictions described in Note Nine to the Financial Statements found in the Company's Annual Report of the period ended December 31, 2015.

		Estimated Market Price Range	
2015	Dividends per Share	High	Low
First Quarter	$0.25	$27.50	$24.25
Second Quarter	$0.25	$25.25	$24.15
Third Quarter	$0.25	$25.00	$23.00
Fourth Quarter	$0.25	$26.00	$23.75

The company's stock is listed on OTC Markets - OTCQB Tier.

Stock transfers and inquiries should be addressed to our transfer agent at:

Computershare
P.O. Box 30170
College Station, TX 77842-3170
800-368-5948
www.computershare.com

A copy of this annual report can be obtained by accessing the investor relations page through the subsidiary banks' websites at: www.grantcountybank.com or www.caponvalleybank.com or by contacting the Company at the following:

Highlands Bankshares, Inc.
Attn: Tammy Kesner
P.O. Box 929
Petersburg, WV 26847
304-257-4111

Board of Directors/Officers

John G. Van Meter
Chairman, President & Chief Executive Officer
Retired Attorney

Jack H. Walters
Vice Chairman
Attorney - Walters & Heishman, PLLC

Alan L.Brill
Treasurer
President & Chief Executive Officer
Capon Valley Bank

George L. Ford
Secretary
President & Chief Executive Officer
Grant County Bank

Donald J. Baker, Jr.
Director
Self-Employed Insurance Agent

Jack C. Barr
Director
Retired Attorney

Leslie A. Barr
Director
Retired CEO of Highlands Bankshares, Inc.
and Capon Valley Bank

Morris M. Homan, Jr.
Director
Self-Employed Veterinarian

Kathy G. Kimble
Director
Retired Retail Business Owner

James R. Pyles
Director
Self-Employed Funeral Director

Tammy L. Kesner
Accounting Manager

Dan Fabbri
Information Technology Officer

HIGHLANDS BANKSHARES, INC.

HBI

Taking Banking To A Higher Plateau

Highlands Bankshares, Inc.

3 North Main Street • P.O. Box 929 • Petersburg, WV 26847 • 304-257-4111 • Fax 304-257-4386







Capon Valley Bank

www.caponvalleybank.com

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17558 SR 55
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Baker, WV 26801
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Gore Office
6701 Northwestern Pike
P.O. Box 124
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Keyser, WV 26726
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