Your Friendly Neighborhood Bank

Eastern Bancshares, Inc.
2014 Annual Report

Office Comptroller.
MAY 21 1910
OF CURRENCY.

9766

TREASURY DEPARTMENT,
OFFICE OF COMPTROLLER OF THE CURRENCY.
Form No. 1904.—Ed. Nov. 1-07—3,000.

ARTICLES OF ASSOCIATION.

(Executed in duplicate.)

For the purpose of organizing an Association to carry on the business of banking, under the laws of the United States, the undersigned subscribers for the stock of the Association hereinafter named do enter into the following Articles of Association:

First. The title of this Association shall be "The First National Bank of Romney

Second. The place where its banking house or office shall be located, and its operations of discount and deposit carried on, and its general business conducted, shall be town of Romney Hampshire Co. W. Va.

Third. The Board of Directors shall consist of not less than nine … more than fifteen shareholders.

The first meeting of the shareholders for the election of Directors shall be held at Court Ho… in Romney W. Va. on the tenth day of May 1910, or at such other place and time as a m… the undersigned shareholders may direct.

Fourth. The regular annual meetings of the shareholders for the election of Directors shall be … banking house of this Association on the second Tuesday of January of each year; but if no election s… on that day, it may be held on any other day according to the provisions of section 5149 of the Revi… of the United States, and all elections shall be held according to such regulations as may be presc… Board of Directors, not inconsistent with the provisions of the National Banking Law, and of these …

Fifth. The capital stock of this Association shall be $ Fifty Thousa… (50.000.) divided into shares of one hundred dollars each; but the capital may, with the approval of the Co… Currency, be increased at any time by shareholders owning two-thirds of the stock, according to … an act of Congress approved May 1, 1886; and in case of the increase of the capital of the … shareholder shall have the privilege of subscribing for such number of shares of the propose… capital stock as he may be entitled to according to the number of shares owned by him before the …

Sixth. The Board of Directors, a majority of whom shall be a quorum to do business, sh… members President of this Association, who shall hold his office (unless he shall be disqualified, o… … thirds vote of all the members of the Board) for the term for which he was elect… … power to elect a Vice-President, who shall also be a member of the Bo… … absence or inability of the President from any cause, to perf… … such as the President only is authorized by … … clerks as may be required to transa… … them in office, or to …

EASTERN EBI BANCSHARES

CORPORATE PROFILE

Eastern Bancshares, Inc. is a one bank holding company incorporated in the State of West Virginia in 1988. Its wholly owned subsidiary, FNB Bank, Inc., formerly First National Bank of Romney, is a Federal Deposit Insurance Corporation (FDIC) insured bank, founded in 1910. FNB Bank, with its ongoing commitment of service to the community, strives to offer the best in facilities and personal banking hours to its many customers. It is the commitment by the Directors, Officers, and Employees and the continued support of its shareholders and customers, that has enabled the bank to grow and prosper over the past 104 years.

Dear Shareholders,

The Directors, Officers, and customer service staff of FNB Bank, Inc. (FNB), and its parent company Eastern Bancshares, Inc. (EBI), are proud to share with you our 2014 Annual Report.

While the country's economic conditions began to improve, albeit slowly, FNB continued to grow and position itself for the years ahead. Our Consolidated Total Assets grew to $165.7 million, an increase of approximately 2% from December 31, 2013. Although net interest margins continued to contract in this low rate environment, our 2014 Net Income of $1.03 million was slightly higher than prior year earnings.

This year our community and the FNB family lost a man who understood and embraced the spirit of "community banking;" Mr. Walter A. Layman. Mr. Layman came to Romney in 1985 to accept the position of Executive Vice-President of the First National Bank of Romney. He was later named President / CEO, a position he held until his retirement in 2005. Mr. Layman served as a director from 1986 until his passing, and served as Chairman of the Board from 2012 to 2014. Through the giving of both his time and resources, Mr. Layman dedicated his life to the service of our Bank and the people of our community.

Throughout 2014 FNB reenergized its consumer lending portfolio, the foundation of any community bank. Through the hiring of talented local people and the creation of competitive mortgage products, FNB reestablished itself as a "go to" place for a mortgage loan. Even though 2014 came in with a wave of burdensome mortgage compliance standards, our residential mortgage portfolio grew by over $2 million.

FNB Bank also continued its focus on the financial needs of our small business and agricultural communities. These efforts lead to the establishment of new banking relationships and loan growth of $4.6 million. In a market area with limited large scale employers, those entrepreneurs and farmers with the drive to succeed represent the backbone of our economy.

Into 2015, FNB Bank vows to continue its support of the core principles of home ownership, agri-business, and the entrepreneurial spirit. As shareholders, we value your support which allows us to uphold the longstanding traditions of FNB Bank… "*Your **F**riendly **N**eighborhood **B**ank*."

Sincerely,

Alex R. Sowers

Alex R. Sowers
Chairman of the Board

Travis G. Delaplain

Travis G. Delaplain, CPA
FNB Bank, Inc.
President / CEO

At FNB, investing in and being part of the communities we serve is what community banking is all about. People working with people. That's where it began and that's where it still is today. A tradition of commitment that has lived for over 100 years.

Your Friendly Neighborhood Bank is not just a motto; it's our way of doing business.

FNB stands by its firm foundation of supporting our schools and students, making contributions to community organizations, and being involved in our community. After all, it's our home.

Board of Directors

Seated L to R: William J. Milleson, Sr.; Alex R. Sowers, *Chairman of the Board*; John Bakanowsky, Sr.
Standing L to R: Carter R. Wagoner; Timothy J. Nichols, DDS; E. Garry Shanholtz; Eugene H. Williams; Gary P. Saville; Gregory L. Bohrer

Alex R. Sowers
Farming – Owner
Patriot Collision Center,
Winchester, Virginia

John Bakanowsky, Sr.
Retired FNB Bank
Executive

Gregory L. Bohrer
Farming – Business
Entrepreneur

William J. Milleson, Sr.
Farming – Retired
Engineer

Dr. Timothy J. Nichols
Owner – Tim Nichols
DDS, Inc.

Gary P. Saville
Owner – Saville
Insurance Agency

E. Garry Shanholtz
Owner – Shanholtz
Orchards

Carter R. Wagoner
Owner - Shaffer
Funeral Home

Eugene H. Williams
Antiques,
Cabinetmaking &
Property Management

Director Emeritus
May 2014
Kenneth E. Voit

EBI OPERATING OFFICERS

William J. Milleson, Sr.
President

Travis G. Delaplain, CPA
Vice President

Brian A. Hott
Treasurer

Della J. Davis
Secretary

Officers

Seated L to R: *Della J. Davis, VP/Compliance & Human Resources Officer;*
Mark E. Landis, VP/Chief Credit Officer;
Travis G. Delaplain, President & Chief Executive Officer;
Brian A. Hott, VP/Chief Financial Officer
Standing L to R:
Vickie B. McGuire, AVP/Loan Processing Officer;
Christine S. Cooper, AVP/Ass't. Financial Officer;
Robert L. Kidwell, AVP/Loan Officer;
D. Dawn White, AVP/Loan Officer;
Paula A. Tingler, AVP/Loan Officer;
(not pictured) Lisa C. Shreve, Loan Review Officer

Main Office Staff

Bookkeeping/IT Department
L to R: Eric Billmeyer, Dawn Taulbee, Cindy Judy,
Judy Fields – Operations Manager

Loan Processing Department
L to R: Alyssa McGuire, Sandy Lipscomb, Brenda Myers,
Brenda Feller, Terra Mason (not pictured)

Administration
L to R: Maria Eversole, Barbie Kline, Gina Currence

Residential Lending Department
L to R: Marti Moreland, Trisha Brafford,
Gabby Newcomer – Residential Lending Manager

Branch Staff

Branch Managers
L to R: Sheila Hines – **Main Office**, Amanda Dicks – **Hampshire Square**
Michele Embrey – **System Branch Manager**
Kim Hudson – **Capon Bridge**, Aaron Edwards – **Fort Ashby**

Main Office Branch
L to R: Mary Costolo, Cheryl Engle, Jeannie Dean, Barbara Harris

Fort Ashby Branch
L to R: Kristin Malcolm, Jennifer Junkins, Ashley Mills

Hampshire Square Branch
L to R: Ashley Clem, Allison Ellis, Tracy Gagliardo,
Michele Boley, Lexie Kimble

Capon Bridge Branch
L to R: Donna Beydler, Joe Hott, Debbie Broadwater

EASTERN BANCSHARES, INC.
AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Eastern Bancshares, Inc. and subsidiaries
Romney, West Virginia

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Eastern Bancshares, Inc. and subsidiaries which comprise the consolidated balance sheets as of December 31, 2014 and 2013; the related consolidated statements of income, comprehensive income (loss), shareholders' 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 Eastern Bancshares, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.

April 1, 2015
Wexford, Pennsylvania

Eastern Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and due from banks	$ 3,646,475	$ 2,008,326
Interest-bearing deposits with other banks	1,425,027	220,206
Total cash and cash equivalents	5,071,502	2,228,532
Certificates of deposit	3,819,000	3,074,000
Securities available for sale	48,212,114	52,988,839
Loans, net of allowance for loan losses of $1,441,268 and $1,237,201, respectively	96,095,513	90,089,635
Premises and equipment, net	4,058,045	4,073,813
Accrued interest receivable	729,209	743,427
Bank-owned life insurance	4,034,243	4,401,968
Other real estate owned	1,500,788	2,270,531
Restricted stock	641,500	829,200
Other assets	1,507,880	1,804,895
Total assets	$ 165,669,794	$ 162,504,840
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 23,468,254	$ 21,395,411
Interest-bearing	109,908,476	109,099,754
Total deposits	133,376,730	130,495,165
Short-term borrowings	11,507,000	13,144,000
Long-term borrowings	1,471,225	475,986
Other liabilities	2,258,583	2,256,389
Total liabilities	148,613,538	146,371,540
Shareholders' Equity		
Preferred stock, $5,000 par value, authorized 300 shares; none issued	-	-
Common stock, $5 par value, authorized 2,000,000 shares; 559,587 shares issued for 2014 and 2013; 509,165 and 512,720 shares outstanding for 2014 and 2013, respectively	2,797,935	2,797,935
Capital surplus	4,371,190	4,371,190
Retained earnings	11,496,669	10,927,650
Treasury stock, at cost (50,422 and 46,867 shares for 2014 and 2013, respectively)	(1,804,823)	(1,687,810)
Accumulated other comprehensive income (loss)	195,285	(275,665)
Total Shareholders' Equity	17,056,256	16,133,300
Total Liabilities and Shareholders' Equity	$ 165,669,794	$ 162,504,840

See notes to consolidated financial statements.

Eastern Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2014 and 2013

	2014	2013
Interest Income		
Interest and fees on loans	$ 4,948,862	$ 4,568,436
Interest and dividends on securities:		
Taxable	829,611	842,724
Tax-exempt	612,111	826,368
Interest on federal funds sold	3,602	1,488
Interest on interest-bearing deposits with other banks	55,209	42,606
Total interest income	6,449,395	6,281,622
Interest Expense		
Interest expense on deposits	1,117,978	1,263,106
Interest expense on borrowings	96,803	50,473
Total interest expense	1,214,781	1,313,579
Net interest income	5,234,614	4,968,043
Provision for Loan Losses	781,853	190,000
Net interest income after provision for loan losses	4,452,761	4,778,043
Other Income		
Service fees on deposit accounts	475,954	430,988
Securities gains, net	367,539	46,271
Loss on sale of other real estate owned	(245,153)	(67,425)
Write-down on other real estate owned	(325,310)	(126,234)
Earnings on bank-owned life insurance	305,392	148,974
Other income	435,198	420,770
Total other income	1,013,620	853,344
Other Expenses		
Salaries and employee benefits	2,341,327	2,513,708
Net occupancy expense	292,565	272,378
Equipment rentals, depreciation, and maintenance	232,147	230,172
Data processing expense	523,459	472,708
Professional fees	124,827	139,699
FDIC assessment	139,999	129,521
Other expenses	837,536	841,691
Total other expenses	4,491,860	4,599,877
Income before income tax (benefit) expense	974,521	1,031,510
Income Tax (Benefit) Expense	(50,855)	18,856
Net income	$ 1,025,376	$ 1,012,654
Earnings Per Share	$ 2.01	$ 1.97
Average Common Shares Outstanding	$ 509,109	$ 512,745

See notes to consolidated financial statements.

Eastern Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2014 and 2013

	2014	2013
Net income	$ 1,025,376	$ 1,012,654
Other comprehensive income (loss):		
Gross unrealized gains (losses) on available for sale securities	1,115,078	(2,198,945)
Income tax (expense) benefit	(412,578)	813,609
	702,500	(1,385,336)
Reclassification adjustment for gains on available for sale securities included in net income	(367,539)	(46,271)
Income tax expense	135,989	17,119
	(231,550)	(29,152)
Total other comprehensive income (loss)	470,950	(1,414,488)
Total comprehensive income (loss)	$ 1,496,326	$ (401,834)

See notes to consolidated financial statements.

Eastern Bancshares, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2012	$ 2,797,935	$ 4,371,190	$ 10,273,899	$ (1,682,690)	$ 1,138,823	$ 16,899,157
Net income	-	-	1,012,654	-	-	1,012,654
Cash dividend declared on common stock ($0.70 per share)	-	-	(358,903)	-	-	(358,903)
Purchase of 160 shares of treasury stock	-	-	-	(5,120)	-	(5,120)
Other comprehensive loss	-	-	-	-	(1,414,488)	(1,414,488)
Balance, December 31, 2013	2,797,935	4,371,190	10,927,650	(1,687,810)	(275,665)	16,133,300
Net income	-	-	1,025,376	-	-	1,025,376
Cash dividend declared on common stock ($0.90 per share)	-	-	(456,357)	-	-	(456,357)
Purchase of 9,080 shares of treasury stock	-	-	-	(299,338)	-	(299,338)
Sale of 5,525 shares of treasury stock	-	-	-	182,325	-	182,325
Other comprehensive income	-	-	-	-	470,950	470,950
Balance, December 31, 2014	$ 2,797,935	$ 4,371,190	$ 11,496,669	$ (1,804,823)	$ 195,285	$ 17,056,256

See notes to consolidated financial statements.

Eastern Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Net income	$ 1,025,376	$ 1,012,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	201,002	191,460
Provision for loan losses	781,853	190,000
Securities gains, net	(367,539)	(46,271)
Loss on sale of other real estate owned	245,153	67,425
Deferred income tax expense	(39,352)	(123,677)
Amortization of securities premiums, net	194,143	350,171
Earnings on bank-owned life insurance	(305,392)	(148,974)
Decrease in accrued interest receivable	14,218	20,950
Decrease in other assets	59,778	481,204
Increase (decrease) in other liabilities	2,194	(185,054)
Write-down of other real estate owned	325,310	126,234
Net cash provided by operating activities	2,136,744	1,936,122
Cash Flows from Investing Activities		
Proceeds from sales of securities available for sale	26,266,811	12,111,512
Proceeds from calls and maturities of securities available for sale	2,202,500	3,675,000
Principal payments received on securities available for sale	508,617	231,260
Purchases of securities available for sale	(23,280,268)	(16,368,442)
Proceeds from maturities/redemptions of certificates of deposit	2,231,000	-
Purchases of certificates of deposit	(2,976,000)	-
Proceeds from sales of restricted stock	292,500	123,900
Purchases of restricted stock	(104,800)	(574,000)
Decrease in federal funds sold	-	791,000
Net increase in loans	(7,167,207)	(16,346,954)
Proceeds from bank-owned life insurance	673,117	-
Purchases of premises and equipment	(185,234)	(81,159)
Proceeds from sale of other real estate owned and repossessed assets	578,756	430,419
Net cash used in investing activities	(960,208)	(16,007,464)
Cash Flows from Financing Activities		
Net increase in noninterest-bearing demand deposits	2,072,843	1,125,713
Net increase in interest-bearing demand deposit, money market, and savings accounts	1,609,305	1,858,347
Net decrease in time deposits	(800,583)	(1,935,644)
Net increase (decrease) in short-term borrowings	(1,637,000)	13,144,000
Payments on long-term borrowings	(149,761)	(141,057)
Proceeds from long-term borrowings	1,145,000	-
Purchase of treasury stock	(299,338)	(5,120)
Sale of treasury stock	182,325	-
Dividends paid	(456,357)	(358,903)
Net cash provided by financing activities	1,666,434	13,687,336
Net increase (decrease) in cash and cash equivalents	2,842,970	(384,006)
Cash and Cash Equivalents, Beginning of Year	2,228,532	2,612,538
Cash and Cash Equivalents, End of Year	$ 5,071,502	$ 2,228,532
Supplementary Cash Flows Information		
Interest paid	$ 1,226,544	$ 1,322,354
Income taxes paid	35,000	-
Supplementary Schedule of Non-Cash Investing and Financing Activities		
Other real estate and assets acquired in settlement of loans	$ 379,476	$ 1,358,244

See notes to consolidated financial statements.

Note 1. Significant Accounting Policies

Nature of business: Eastern Bancshares, Inc. (the "Company") is a bank holding company. The wholly owned bank subsidiary, FNB Bank, Inc., (the "Bank") formerly First National Bank of Romney, is a commercial bank with operations in Hampshire and Mineral County, West Virginia. The Bank provides retail and commercial loans and deposit services principally to customers in Hampshire County and the adjacent counties in West Virginia. The Company's other subsidiary, FNB Insurance Agency of Romney, LLC, had no significant operations during the years ended December 31, 2014 and 2013.

Basis of financial statement presentation: The accounting and reporting policies of Eastern Bancshares, Inc. and its subsidiaries conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Eastern Bancshares, Inc. and its subsidiaries, FNB Bank, Inc. and FNB Insurance Agency of Romney, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Presentation of cash flows: For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits with other banks with original maturities of 90 days or less.

Securities: Securities are classified as "held to maturity," "available for sale," or "trading" at the time of purchase of each security. The appropriate classification is determined as follows:

Securities held to maturity - Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. There are no securities classified as "held to maturity" in the accompanying consolidated financial statements.

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

Note 1. Significant Accounting Policies (Continued)

Securities: (Continued)

Trading securities - Securities classified as trading are those that management has bought principally for the purpose of selling in the near future. They are carried at fair value with valuation adjustments included in non-interest income.There are no securities classified as "trading" in the accompanying consolidated financial statements.

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

Other-than-temporary impairment: Declines in the fair value of securities deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost; (2) the financial condition and near-term prospects of the issuers; and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value.

Loans and allowance for loan losses: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are stated at the amount of unpaid principal and reduced by an allowance for loan losses.

Interest income on loans is accrued daily using methods which approximate a level yield on the outstanding principal balances.

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

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

Generally, after management's evaluation, a loan is placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans, unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loans are both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method.

Note 1. Significant Accounting Policies (Continued)

Loans and allowance for loan losses: (Continued)
Certain loan fees and direct loan costs are recognized as income or expense when incurred. U.S. generally accepted accounting principles require such fees and costs to be deferred and amortized as adjustments of the related loan's yield over the contractual life of the loan. The Bank's method of recognition of loan fees and direct loan costs produces results which are not materially different from those that would be recognized had this requirement been adopted.

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

Other real estate owned: Other real estate owned consists of real estate held for resale that was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at fair value, less cost to sell, with any write-down being charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management. Expenses incurred in connection with operating these properties are charged to operating expenses as incurred. Gains and losses on the sales of these properties are charged or recorded to operating income in the year of the transaction.

Restricted stock: Federal Home Loan Bank (“FHLB”) of Pittsburgh stock and Community Bankers Bank stock are equity securities. These securities are carried at cost, since they may only be sold back to their respective issuer or another member at par value.

The Bank is a member of the FHLB of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock’s value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB.

Management evaluated the stock of both the FHLB and Community Bankers Bank and concluded that the stock was not impaired for the periods presented herein.

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

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

Note 1. Significant Accounting Policies (Continued)

Earnings per share: Earnings per common share are computed based upon the weighted-average shares outstanding. The Company did not have any potentially dilutive shares for the years presented.

Comprehensive Income (Loss): The Company is required to present comprehensive (loss) income in a full set of general-purpose financial statements for all periods presented. Other comprehensive (loss) income comprises unrealized holding gains (losses) on the available-for-sale securities portfolio.

Advertising Costs: Advertising costs are expensed as the costs are incurred. Advertising expense amounted to $43,896 and $56,265 for 2014 and 2013, respectively.

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

Note 2. Restrictions on Cash and Due from Banks

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. At December 31, 2014 and 2013, the reserve requirement approximated $903,000 and $785,000, respectively.

Note 3. Securities

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of securities at December 31 are summarized as follows:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Taxable:				
U.S. government agencies and corporations	$ 26,313,209	$ 124,090	$ (259,769)	$ 26,177,530
Mortgage-backed securities	7,092,522	9,012	(8,007)	7,093,527
Obligations of states and political subdivisions	3,709,309	233,801	(1,687)	3,941,423
Total taxable	37,115,040	366,903	(269,463)	37,212,480
Tax exempt:				
Obligations of states and political subdivisions	10,768,548	212,536	-	10,981,084
Total tax exempt	10,768,548	212,536	-	10,981,084
Total debt securities	47,883,588	579,439	(269,463)	48,193,564
Equity security in financial institutions	18,550	-	-	18,550
Total	$ 47,902,138	$ 579,439	$ (269,463)	$ 48,212,114

Note 3. Securities (Continued)

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Taxable:				
U.S. government agencies and corporations	$ 34,723,385	$ 175,658	$ (825,442)	$ 34,073,601
Mortgage-backed securities	697,549	-	(17,797)	679,752
Obligations of states and political subdivisions	3,001,755	33,794	(27,044)	3,008,505
Total taxable	38,422,689	209,452	(870,283)	37,761,858
Tax exempt:				
Obligations of states and political subdivisions	15,003,713	379,655	(156,387)	15,226,981
Total tax exempt	15,003,713	379,655	(156,387)	15,226,981
Total	$ 53,426,402	$ 589,107	$ (1,026,670)	$ 52,988,839

At December 31, 2014 and 2013, securities carried at fair values of $22,337,414 and $21,043,108, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Included in the obligations of states and political subdivisions at December 31, 2014 and 2013, are securities having a par value totaling approximately $14,478,000 and $18,025,000, respectively, which were issued by political subdivisions within the state of West Virginia. There were no significant concentrations to any one entity.

Provided below is a summary of securities available for sale that were in an unrealized loss position at December 31:

	2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
Available for sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Taxable:						
U.S. government agencies and corporations	$ 11,543,494	$ (69,829)	$ 10,419,373	$ (189,940)	$ 21,962,867	$ (259,769)
Mortgage-backed securites	1,020,288	(6,285)	595,490	(1,722)	1,615,778	(8,007)
Obligations of states and political subdivisions	502,665	(1,687)	-	-	502,665	(1,687)
Total taxable	13,066,447	(77,801)	11,014,863	(191,662)	24,081,310	(269,463)
Total	$ 13,066,447	$ (77,801)	$ 11,014,863	$ (191,662)	$ 24,081,310	$ (269,463)

Note 3. Securities (Continued)

	2013					
	Less than Twelve Months		Twelve Months or Greater		Total	
Available for sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Taxable:						
U.S. government agencies and corporations	$ 18,192,482	$ (502,458)	$ 2,690,672	$ (322,984)	$ 20,883,154	$ (825,442)
Mortgage-backed securites	679,752	(17,797)	-	-	679,752	(17,797)
Obligations of states and political subdivisions	996,680	(27,044)	-	-	996,680	(27,044)
Total taxable	19,868,914	(547,299)	2,690,672	(322,984)	22,559,586	(870,283)
Tax exempt:						
Obligations of states and political subdivisions	5,381,010	(156,387)	-	-	5,381,010	(156,387)
Total tax exempt	5,381,010	(156,387)	-	-	5,381,010	(156,387)
Total	$ 25,249,924	$ (703,686)	$ 2,690,672	$ (322,984)	$ 27,940,596	$ (1,026,670)

The Bank had 27 securities in an unrealized loss position at December 31, 2014. These securities are rated investment grade securities, and the unrealized losses are due to overall market interest rates fluctuations and not due to any underlying credit concerns of the issuers. The Company has the intent and ability to hold such investments until recovery of the amortized cost, which may be maturity. Accordingly, the Company has concluded that none of the securities in its securities portfolio are other-than-temporarily impaired at December 31, 2014.

Note 3. Securities (Continued)

The amortized costs and fair values of debt securities by, contractual maturity, at December 31, 2014, are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	21,373,793	21,229,488
Due after five years through ten years	9,113,727	9,186,254
Due after ten years	17,396,068	17,777,822
Total	$ 47,883,588	$ 48,193,564

The scheduled maturities above are based on the contractual maturity date. At December 31, 2014, securities with an amortized cost of approximately $19,334,000 have provisions which allow the issuer to "call" the security prior to its contractual maturity date. Should these "call" provisions be exercised, the scheduled maturities disclosed above would change.

The proceeds from sales on securities and the related gross gains and losses realized are as follows:

	2014	2013
Proceeds from sales	$ 26,266,811	$ 12,111,512
Gross gains	416,474	205,782
Gross losses	48,935	159,511

Note 4. Loans

Loans are summarized as follows at December 31:

	2014	2013
Residential real estate	$ 43,761,509	$ 41,754,491
Commercial real estate	28,294,582	26,390,196
Commercial non-real estate	8,412,292	6,107,791
Agricultural real estate	11,360,375	11,027,187
Agricultural non-real estate	1,132,237	1,096,688
Consumer	2,619,627	2,901,469
Other	1,956,159	2,049,014
	97,536,781	91,326,836
Less:		
Allowance for loan losses	1,441,268	1,237,201
Net loans	$ 96,095,513	$ 90,089,635

Note 4. Loans (Continued)

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

	2014	2013
Residential real estate	$ 363,756	$ 558,187
Commercial real estate	526,918	1,028,389
Commercial non-real estate	525,378	549,537
Agricultural real estate	411,247	342,987
Consumer	-	58,385
	$ 1,827,299	$ 2,537,485

Interest income that was not recognized on nonaccrual loans was $113,755 as of December 31, 2014. The differences between interest income received and recognized on nonaccrual loans and interest income that would have been recorded on the accrual basis during the year ended December 31, 2013, were insignificant.

The following table includes an aging analysis of the recorded investment of past due loans as of December 31 including loans that are in nonaccrual status.

2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	Greater Than 90 Days and Accruing
Residential real estate	$ 1,529,757	$ 447,039	$ -	$ 1,976,796	$ 41,784,713	$ 43,761,509	$ -
Commercial real estate	18,432	-	-	18,432	28,276,150	28,294,582	-
Commercial non-real estate	-	-	506,446	506,446	7,905,846	8,412,292	-
Agricultural real estate	586,549	51,270	265,387	903,206	10,457,169	11,360,375	-
Agricultural non-real estate	-	18,932	-	18,932	1,113,305	1,132,237	-
Consumer	37,606	8,874	-	46,480	2,573,147	2,619,627	-
Other	-	-	-	-	1,956,159	1,956,159	-
Total	$ 2,172,344	$ 526,115	$ 771,833	$ 3,470,292	$ 94,066,489	$ 97,536,781	$ -

2013	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	Greater Than 90 Days and Accruing
Residential real estate	$ 1,284,009	$ 264,625	$ 291,009	$ 1,839,643	$ 39,914,848	$ 41,754,491	$ -
Commercial real estate	372,024	188,814	979,896	1,540,734	24,849,462	26,390,196	-
Commercial non-real estate	-	45,210	504,327	549,537	5,558,254	6,107,791	-
Agricultural real estate	-	-	286,866	286,866	10,740,321	11,027,187	-
Agricultural non-real estate	-	-	-	-	1,096,688	1,096,688	-
Consumer	30,741	-	56,063	86,804	2,814,665	2,901,469	-
Other	8,237	-	-	8,237	2,040,777	2,049,014	-
Total	$ 1,695,011	$ 498,649	$ 2,118,161	$ 4,311,821	$ 87,015,015	$ 91,326,836	$ -

Note 4. Loans (Continued)

The following table presents information about impaired loans as of December 31:

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential real estate	$ 2,124,596	$ 2,124,596	$ -	$ 1,981,006	$ 85,236
Commercial real estate	2,048,333	2,048,333	-	1,912,191	63,422
Commercial non-real estate	18,932	18,932	-	55,640	-
Agricultural real estate	144,729	144,729	-	315,093	360
Agricultural non-real estate	-	-	-	6,000	-
Consumer	-	-	-	1,475	-
Total with no related allowance	$ 4,336,590	$ 4,336,590	$ -	$ 4,271,405	$ 149,018
With a related allowance:					
Residential real estate	$ 78,396	$ 78,396	$ 30,036	$ 161,420	$ 2,173
Commercial real estate	358,735	358,735	195,985	545,071	15,662
Commercial non-real estate	703,686	703,686	293,617	647,937	9,431
Agricultural real estate	-	-	-	-	-
Agricultural non-real estate	-	-	-	5,809	-
Consumer	2,379	2,379	2,379	43,270	374
Total with a related allowance	$ 1,143,196	$ 1,143,196	$ 522,017	$ 1,403,507	$ 27,640
Total:					
Residential real estate	$ 2,202,992	$ 2,202,992	$ 30,036	$ 2,142,426	$ 87,409
Commercial real estate	2,407,068	2,407,068	195,985	2,457,262	79,084
Commercial non-real estate	722,618	722,618	293,617	703,577	9,431
Agricultural real estate	144,729	144,729	-	315,093	360
Agricultural non-real estate	-	-	-	11,809	-
Consumer	2,379	2,379	2,379	44,745	374
Total	$ 5,479,786	$ 5,479,786	$ 522,017	$ 5,674,912	$ 176,658

Note 4. Loans (Continued)

	2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential real estate	$ 3,653,211	$ 3,653,211	$ -	$ 3,588,426	$ 179,421
Commercial real estate	3,818,209	3,818,209	-	3,788,073	342,420
Commercial non-real estate	169,115	169,115	-	112,654	7,886
Agricultural real estate	1,103,644	1,103,644	-	1,103,644	-
Agricultural non-real estate	-	-	-	-	-
Consumer	7,375	7,375	-	7,515	676
Total with no related allowance	$ 8,751,554	$ 8,751,554	$ -	$ 8,600,312	$ 530,403
With a related allowance:					
Residential real estate	$ 156,868	$ 156,868	$ 34,225	$ 149,997	$ 2,999
Commercial real estate	602,075	602,075	209,320	591,867	11,838
Commercial non-real estate	623,720	623,720	84,146	599,437	12,570
Agricultural real estate	-	-	-	-	-
Agricultural non-real estate	29,043	29,043	2,043	53,265	-
Consumer	55,408	55,408	37,408	29,043	2,131
Total with a related allowance	$ 1,467,114	$ 1,467,114	$ 367,142	$ 1,423,609	$ 29,538
Total					
Residential real estate	$ 3,810,079	$ 3,810,079	$ 34,225	$ 3,738,423	$ 182,420
Commercial real estate	4,420,284	4,420,284	209,320	4,379,940	354,258
Commercial non-real estate	792,835	792,835	84,146	712,091	20,456
Agricultural real estate	1,103,644	1,103,644	-	1,103,644	-
Agricultural non-real estate	29,043	29,043	2,043	53,265	-
Consumer	62,783	62,783	37,408	36,558	2,807
Total	$ 10,218,668	$ 10,218,668	$ 367,142	$ 10,023,921	$ 559,941

Note 4. Loans (Continued)

The following tables present by class the troubled debt restructurings ("TDRs") that were restructured during the years ended December 31, 2014 and 2013. Generally, the modifications were extensions of term, modifying payment terms for principal and interest to interest only for an extended period of term, or reductions in interest rate. All TDRs are evaluated individually for allowances for loan losses purposes. There was one TDR modified in 2014 that subsequently defaulted in 2014. There were no TDRs modified in 2012 that subsequently defaulted during the year ended December 31, 2013.

	December 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	4	$ 916,369	$ 916,369
Commercial real estate	5	1,120,561	1,120,561
Total	9	$ 2,036,930	$ 2,036,930

	December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	7	$ 634,848	$ 652,700
Commercial real estate	5	624,685	625,366
Commercial non-real estate	1	101,426	101,441
Total	13	$ 1,360,959	$ 1,379,507

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

Pass: Borrowers of near average to average quality, presently and prospectively. These loans have acceptable risk overall. Manageable weakness or uncertainty may be evident in one or more factors.

Special Mention: Borrowers with potential and/or correctable weaknesses. This is a temporary classification. Management must be willing and able to develop or implement a plan that will eliminate or mitigate weaknesses in a reasonable timeframe (generally one year or less). No loss is anticipated on these loans.

Substandard: Borrowers with well-defined weaknesses that jeopardize the liquidation of debt. This category includes Special Mention borrowers who have failed to achieve the benchmarks of their plan. Loss potential may or may not exist on these loans.

Doubtful: Borrowers of poor quality with extreme weaknesses. The potential for improvement is dependent on specific pending material events, which are expected to work to the benefit of the Company. The possibility of a loss is high with these loans.

Note 4. Loans (Continued)

The following table presents the recorded investment in loans that are evaluated based upon the internal risk ratings defined above at December 31:

2014	Commercial Real Estate	Commerical Non-Real Estate	Agricultural Real Estate	Agricultural Non-Real Estate
Pass	$ 22,818,080	$ 6,760,963	$ 8,195,465	$ 1,086,473
Special Mention	4,015,378	694,969	1,581,919	45,764
Substandard	1,191,043	449,914	1,582,991	-
Doubtful	270,081	506,446	-	-
Ending balance	$ 28,294,582	$ 8,412,292	$ 11,360,375	$ 1,132,237

2013	Commercial Real Estate	Commercial Non-Real Estate	Agricultural Real Estate	Agricultural Non-Real Estate
Pass	$ 17,535,151	$ 5,114,655	$ 7,811,429	$ 220,705
Special Mention	4,567,738	293,575	1,769,127	875,983
Substandard	3,307,412	176,017	1,446,631	-
Doubtful	979,895	523,544	-	-
Ending balance	$ 26,390,196	$ 6,107,791	$ 11,027,187	$ 1,096,688

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

2014	Performing	Nonperforming
Residential real estate	$ 43,397,753	$ 363,756
Consumer	2,619,627	-
Other	1,956,159	-
Total	$ 47,973,539	$ 363,756

The following table presents the recorded investment in consumer, residential real estate, and other loans, which are generally evaluated based on the aging status of the loans and payment activity.

2013	Performing	Nonperforming
Residential real estate	$ 41,196,304	$ 558,187
Consumer	2,843,084	58,385
Other	2,049,014	-
Total	$ 46,088,402	$ 616,572

Note 4. Loans (Continued)

All floating rate loans reprice at least annually based on indices that are set by sources independent of the Bank and are generally subject to interest rate floors, caps, and ceilings which limit changes in the interest rate over the life of the loan.

Concentrations of credit risk: The Bank strives to maintain a diversified loan portfolio and grants installment, commercial, and residential loans to customers primarily in Hampshire and Mineral County, West Virginia. Group concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. While the Bank strives to maintain a diversified loan portfolio, exposures to credit losses can be adversely impacted by downturns in local economic and employment conditions.

At December 31, 2014 and 2013, outstanding loans totaling approximately $12,492,612 and $12,123,875, respectively, were extended to finance the purchase of agricultural type properties, including a large number of poultry farms. Such loans are secured by mortgages on each respective note. Management evaluates the credit worthiness of each of these customers on a case-by-case basis, and the required amount of collateral securing each loan is based upon management's credit evaluation and normal underwriting standards.

Loans to related parties: The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following table presents the activity with respect to related-party loans at December 31, 2014.

	2014
Balance, January 1	$ 2,624,008
Additions	1,659,723
Amounts collected	(540,613)
Balance, December 31	$ 3,743,118

Note 5. Allowance for Loan Losses

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

Specific Reserve for Loans Individually Evaluated

The Bank identifies loan relationships on its watchlist that may have credit weaknesses. Such loan relationships are identified primarily through the analysis of internal loan evaluations, past-due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events; it is probable that the Bank will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. The Bank measures impairment based on the fair value of the loan's collateral, which is generally, determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell.

Quantitative Reserve for Loans Collectively Evaluated

The Bank stratifies the loan portfolio into the following loan pools: commercial non-real estate, commercial real estate, residential real estate, agricultural real estate, agricultural non-real estate, and consumer. Loans within each pool are then further segmented between (1) loans which were individually evaluated for impairment and not deemed to be impaired, and (2) smaller-balance homogenous loans.

Quantitative reserves relative to each loan pool are established using an allocation equaling 100 percent of the respective pool's average 12-month historical net loan charge-off rate (determined based upon the most recent three years) which is applied to the aggregate recorded investment in the nonimpaired pool of loans.

Qualitative Reserve for Loans Collectively Evaluated

The Bank considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above loan pools for potential risk factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) effects of changes in lending policies and procedures, including changes in underwriting standards and collections, charge-off, and recovery practices; (2) international, national, regional, and local economic conditions; (3) nature and volume of the portfolio and the terms of the loans; (4) changes in the experience, ability, and depth of lending management and other relevant staff; (5) levels and trends in delinquencies, nonaccrual loans, and classified loans; (6) changes in the quality of the loan review system; (7) value of the underlying collateral for collateral-dependent loans; (8) levels of concentrations; and (9) effect of external factors, such as competition and legal and regulatory requirements.

Note 5. Allowance for Loan Losses (Continued)

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

	2014							
	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Agricultural Real Estate	Agricultural Non-Real Estate	Consumer	Other	Total
Beginning balance	$ 208,159	$ 751,614	$ 197,081	$ 13,233	$ 3,644	$ 60,474	$ 2,996	$ 1,237,201
Charge-offs	(185,325)	(402,409)	-	-	-	(38,319)	-	(626,053)
Recoveries	6,037	14,852	8,274	-	-	19,104	-	48,267
Provision	158,305	400,658	245,377	226	(1,719)	(21,126)	132	781,853
Ending balance	$ 187,176	$ 764,715	$ 450,732	$ 13,459	$ 1,925	$ 20,133	$ 3,128	$ 1,441,268
Allowance related to:								
Individually evaluated for impairment	$ 30,036	$ 195,985	$ 293,617	$ -	$ -	$ 2,379	$ -	$ 522,017
Collectively evaluated for impairment	157,140	568,730	157,115	13,459	1,925	17,754	3,128	919,251
Ending balance	$ 187,176	$ 764,715	$ 450,732	$ 13,459	$ 1,925	$ 20,133	$ 3,128	$ 1,441,268
Loans:								
Individually evaluated for impairment	$ 2,202,992	$ 2,407,068	$ 722,618	$ 144,729	$ -	$ 2,379	$ -	$ 5,479,786
Collectively evaluated for impairment	41,558,517	25,887,514	7,689,674	11,215,646	1,132,237	2,617,248	1,956,159	92,056,995
Ending balance	$ 43,761,509	$ 28,294,582	$ 8,412,292	$ 11,360,375	$ 1,132,237	$ 2,619,627	$ 1,956,159	$ 97,536,781

Note 5. Allowance For Loan Losses (Continued)

	2013							
	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Agricultural Real Estate	Agricultural Non-Real Estate	Consumer	Other	Total
Beginning balance	$ 152,621	$ 1,131,385	$ 310,261	$ 9,908	$ -	$ 28,169	$ -	$ 1,632,344
Charge-offs	(27,191)	(383,456)	(167,795)	-	-	(17,796)	-	(596,238)
Recoveries	50	-	56	-	-	10,989	-	11,095
Provision	82,679	3,685	54,559	3,325	3,644	39,112	2,996	190,000
Ending balance	$ 208,159	$ 751,614	$ 197,081	$ 13,233	$ 3,644	$ 60,474	$ 2,996	$ 1,237,201
Allowance related to:								
Individually evaluated for impairment	$ 34,225	$ 209,320	$ 84,146	$ -	$ 2,043	$ 37,408	$ -	$ 367,142
Collectively evaluated for impairment	173,934	542,294	112,935	13,233	1,601	23,066	2,996	870,059
Ending balance	$ 208,159	$ 751,614	$ 197,081	$ 13,233	$ 3,644	$ 60,474	$ 2,996	$ 1,237,201
Loans:								
Individually evaluated for impairment	$ 3,810,079	$ 4,420,284	$ 792,835	$ 1,103,644	$ 29,043	$ 62,783	$ -	$ 10,218,668
Collectively evaluated for impairment	37,944,412	21,969,912	5,314,956	9,923,543	1,067,645	2,838,686	2,049,014	81,108,168
Ending balance	$ 41,754,491	$ 26,390,196	$ 6,107,791	$ 11,027,187	$ 1,096,688	$ 2,901,469	$ 2,049,014	$ 91,326,836

Note 6. Premises and Equipment

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

	2014	2013
Land	$ 1,263,889	$ 1,263,889
Building and improvements	4,075,248	4,022,749
Furniture, fixtures, and equipment	1,438,134	1,842,206
	6,777,271	7,128,844
Less accumulated depreciation	2,719,226	3,055,031
Total	$ 4,058,045	$ 4,073,813

Depreciation expense for the years ended December 31, 2014 and 2013, was $201,002 and $191,460, respectively.

Note 7. Deposits

The following is a summary of interest-bearing deposits by type as of December 31:

	2014	2013
NOW accounts	$ 23,249,394	$ 22,101,216
Money market accounts	8,677,245	9,013,022
Savings deposits	14,891,716	14,094,812
Regular certificates of deposit	53,660,477	53,855,818
Individual retirement accounts and other time deposits	9,429,644	10,034,886
Total	$ 109,908,476	$ 109,099,754

Time certificates of deposit in denominations of $250,000 or more totaled $17,191,579 and $15,636,914 at December 31, 2014 and 2013, respectively. Interest paid on time certificates in denominations of $100,000 or more was $579,228 and $628,875 for the years ended December 31, 2014 and 2013, respectively.

A summary of the maturities of certificates of deposit, individual retirement accounts, and other time deposits is as follows:

Years ending December 31:	Amount
2015	$ 29,098,802
2016	12,240,813
2017	12,198,890
2018	6,477,212
2019	3,074,404
Total	$ 63,090,121

Included in regular certificates of deposits are $14,080,453 and $13,906,053 as of December 31, 2014 and 2013, respectively, of brokered certificates of deposit issued in denominations of more than $100,000 and obtained through other financial institutions.

Note 8. Short-Term Borrowings

The Bank has entered into a borrowing arrangement with the FHLB of Pittsburgh and Community Bankers Bank. These borrowings include fixed-rate repurchase agreements and federal funds purchased. The following table summarizes the information as of December 31:

	2014	2013
Balance at year-end	$ 11,507,000	$ 13,144,000
Year-to-date average balance outstanding	13,294,083	5,513,121
Maximum month-end balance	15,022,000	13,144,000
Weighted-average rate at year-end	0.33%	0.29%
Weighted-average rate during the year	0.35%	0.27%

Note 8. Short-Term Borrowings (Continued)

The Bank is a member of the FHLB of Pittsburgh. As a member, the Bank obtained a commitment from the FHLB to finance loan growth and/or meet liquidity needs as necessary. The total commitment fluctuates quarterly and is based on the maximum borrowing capacity of the Bank as calculated by the FHLB, which approximated $44,963,800 at December 31, 2014. Any borrowing bears interest at the interest rate posted by the FHLB on the day of the borrowing. This line of credit is secured by a blanket lien on all unpledged and unencumbered assets of the Bank. The commitment is renewable on an annual basis.

Note 9. Long-Term Borrowings

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

	2014	2013
Note payable, dated June 15, 2011, to the Bank of Romney at 6 percent interest, with five annual principal and interest payments of $178,080, due June 15, 2016	$ 326,225	$ 475,986
Note payable, dated April 14, 2014, to the Bank of Romney at 5 percent interest, with two annual interest payments and five annual principal and interest payments of $173,239, due April 14, 2021	750,000	-
Notes payable, entered into in 2014, to the Federal Home Loan Bank at stated interest rates ranging from 1.74 percent to 2.24 percent (weighted-average interest rate of 2.10%) with monthly principal and interest payments of $4,027, with a maturity range from October 10, 2021 to October 16, 2024	395,000	-
	$ 1,471,225	$ 475,986

A summary of the maturities of these long-term notes is as follows:

Years ending December 31:	Amount
2015	$ 205,828
2016	209,014
2017	177,118
2018	184,896
2019	193,046
Thereafter	501,323
Total	$ 1,471,225

Note 10. Income Taxes

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

	2014	2013
Current		
Federal	$ (32,140)	$ 124,579
State	20,637	17,954
	(11,503)	142,533
Deferred		
Federal	(34,748)	(109,207)
State	(4,604)	(14,470)
	(39,352)	(123,677)
Total	$ (50,855)	$ 18,856

Note 10. Income Taxes (Continued)

A reconciliation between the amount of reported income tax (benefit) expense and the amount computed by multiplying the statutory federal and state income tax rates to income before taxes at December 31, is as follows:

	2014		2013	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed at statutory rate	$ 331,337	34.0 %	$ 350,713	34.0 %
Tax-exempt interest	(234,903)	(24.1)	(306,891)	(29.8)
State income taxes, net of federal tax benefit	13,621	1.4	1,373	0.1
Nondeductible interest to carry tax-exempt assets	7,307	0.7	11,056	1.1
Increase (decrease) in deferred tax asset valuation allowance	6,260	0.6	(60,836)	(5.9)
Life insurance premiums, net of increase in cash surrender values	(103,833)	(10.7)	(50,651)	(4.9)
Other	(70,644)	(7.1)	74,092	7.2
Income tax (benefit) expense and effective rate	$ (50,855)	(5.2) %	$ 18,856	1.8 %

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

Note 10. Income Taxes (Continued)

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

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 326,000	$ 259,505
Net unrealized losses on securities	-	161,897
Deferred compensation	656,532	679,830
Alternative minimum tax credit carryforward	419,097	293,885
Deferred losses on other real estate	113,998	215,271
Net operating loss carryforward	386,462	380,500
Other	63,066	21,553
Total deferred tax assets	1,965,155	2,012,441
Less valuation allowance	(395,398)	(389,138)
Total net deferred tax assets	1,569,757	1,623,303
Deferred tax liabilities:		
Depreciation	75,835	4,386
Net unrealized gains on securities	114,691	-
Other	37,605	40,055
Total deferred tax liabilities	228,131	44,441
Net deferred tax assets	$ 1,341,626	$ 1,578,862

The valuation allowance as of December 31, 2014 and 2013, consisted of a 100 percent allowance against specific deferred tax assets. These deferred tax assets are subject to expiration periods ranging from three years to twenty-eight years. It could not be determined that it was more than likely that the Company would be in a taxable position adequate to utilize these deferred tax assets prior to their expiration. These deferred tax assets consist of the federal net operating loss carryforward and a charitable contribution carryforward. A valuation allowance was not established at December 31, 2014 and 2013, for the remaining deferred tax assets, in view of certain tax strategies, coupled with the anticipated future taxable income.

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. U.S. generally accepted accounting principles also provide guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties.

Note 10. Income Taxes (Continued)

In accordance with U.S. generally accepted accounting principles, interest or penalties incurred for income taxes will be recorded as a component of other expenses. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. The Company's federal and state income tax returns for taxable years through 2010 have been closed for purposes of examination by the Internal Revenue Service and the West Virginia State Tax Department.

Note 11. Employee Benefit Plans

Retirement Plans: The Bank has a 401(k) plan which is a voluntary employee savings plan. Participation is available to all employees 21 years old or older after one full year of employment. Covered employees may contribute up to 10 percent of their annual compensation to the 401(k) plan. Employer matching contributions are at the discretion of the Board of Directors, which has approved to match employee contributions up to a maximum of 4.0 percent of an employee's annual compensation. For the years ended December 31, 2014 and 2013, the Bank charged to operations $40,021 and $57,233, respectively, for matching contributions. Matching employer contributions are fully vested after seven years. The Bank also contributed a profit-sharing contribution to the plan for the years ended December 31, 2014 and 2013, of $127,100 and $149,050, respectively.

Deferred Compensation Agreements: The Bank has non-qualified deferred compensation agreements with certain executive officers which provide for future compensation upon termination or retirement at age 65. The liability accrued for these deferred compensation agreements totaled $77,383 and $161,672 at December 31, 2014 and 2013, respectively. These accruals are included in other liabilities in the accompanying Consolidated Balance Sheets.

In addition, the Bank purchased life insurance contracts in connection with these agreements. At December 31, 2014 and 2013, these insurance contracts had a combined cash surrender value of $511,270 and $778,783, respectively.

Supplemental Retirement Plan: The Bank has a non-qualified Supplemental Retirement Plan (the "Plan") with the directors, certain officers, and certain employees of the Bank which provides an income benefit payable at retirement age or death. The liability accrued at December 31, 2014 and 2013, was $1,627,896 and $1,604,119, respectively, which is included in other liabilities in the accompanying Consolidated Balance Sheets. In addition, the Bank also purchased certain life insurance contracts on the directors, officers, and employees in connection with the Plan. At December 31, 2014 and 2013, the cash surrender value of these insurance contracts was $3,522,973 and $3,623,185, respectively.

Note 12. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk: The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Balance Sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Financial Instruments Whose Contract Amounts Represent Credit Risk	2014	2013
Commitments to extend credit on unused lines of credit	$ 4,786,457	$ 4,997,912
Other commitments to lend	391,700	30,850
Total	$ 5,178,157	$ 5,028,762

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans, whereby the Bank evaluates each letter of credit on a case-by-case basis. These letters of credit are generally collateralized with cash deposits and/or real estate.

Litigation: The Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

Note 13. Regulatory Restrictions on Capital and Dividends

The primary source of funds for the dividends paid by Eastern Bancshares, Inc. is dividends received from the Bank. Dividends paid by the Bank are subject to restrictions by banking regulations. The most restrictive provision requires approval by the regulatory agency if dividends declared in any year exceed the year's net income, as defined, plus the net retained profits of the two preceding years. During 2015, the net retained profits available for distribution to Eastern Bancshares, Inc. as dividends without regulatory approval approximates $2,048,318 plus net retained profits for the Bank for the interim periods through the date of declaration.

Note 13. Regulatory Restrictions on Capital and Dividends (Continued)

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank'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 and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined), more commonly referred to as the leverage ratio. Management believes, as of December 31, 2014, that the Company and the Bank met all capital adequacy requirements to which they were subject.

The most recent notification from the Company's and Bank's primary regulatory authority categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Company's category. The Company's and Bank's actual capital amounts and ratios at December 31, 2014 and 2013, are also presented in the following table (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Eastern Bancshares, Inc.	$ 16,929	16.06 %	$ 8,431	8.00 %	$ 10,518	10.00 %
FNB Bank, Inc.	16,912	16.08	8,414	8.00	10,517	10.00
Tier I capital (to risk-weighted assets)						
Eastern Bancshares, Inc.	$ 15,608	14.81 %	$ 4,216	4.00 %	$ 6,324	6.00 %
FNB Bank, Inc.	15,591	14.82	4,207	4.00	6,310	6.00
Tier I capital (to average assets)						
Eastern Bancshares, Inc.	$ 15,608	9.38 %	$ 4,216	4.00 %	$ 5,270	5.00 %
FNB Bank, Inc.	15,591	9.37	4,207	4.00	5,258	5.00

Note 13. Regulatory Restrictions on Capital and Dividends (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Eastern Bancshares, Inc.	$ 16,302	16.49 %	$ 7,908	8.00 %	$ 9,885	10.00 %
FNB Bank, Inc.	16,393	16.59	7,907	8.00	9,884	10.00
Tier I capital (to risk-weighted assets)						
Eastern Bancshares, Inc.	$ 15,067	15.24 %	$ 3,957	4.00 %	$ 5,931	6.00 %
FNB Bank, Inc.	15,157	15.34	3,953	4.00	5,930	6.00
Tier I capital (to average assets)						
Eastern Bancshares, Inc.	$ 15,067	9.40 %	$ 3,954	4.00 %	$ 4,942	5.00 %
FNB Bank, Inc.	15,157	9.45	3,953	4.00	4,942	5.00

Note 14. Fair Value of Financial Instruments

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

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

Interest-bearing deposits with other banks: The fair values of interest-bearing deposits with other banks are estimated by discounting scheduled future receipts of principal and interest at the current rates offered on similar instruments with similar remaining maturities.

Certificates of Deposit: The carrying values of certificates of deposit approximate their estimated fair values.

Securities available for sale: Fair values of securities available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

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

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

Bank-owned life insurance: The carrying values of the cash value of life insurance policies approximate their fair value.

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

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

Note 14. Fair Value of Financial Instruments (Continued)

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

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

The carrying values and estimated fair values of the Company's financial instruments at December 31, 2014 and 2013, are summarized below:

	2014				
	Carrying Amount	Level I	Level II	Level III	Fair Value
Financial assets:					
Cash and cash equivalents	$ 3,646,475	$ 3,646,475	$ -	$ -	$ 3,646,475
Interest-bearing deposits with other banks	1,425,027	1,425,027	-	-	1,425,027
Certificates of deposit	3,819,000	3,819,000	-	-	3,819,000
Securities available for sale	48,212,114	18,550	48,193,564	-	48,212,114
Loans, net of allowance for loan losses	96,095,513	-	-	96,981,518	96,981,518
Accrued interest receivable	729,209	729,209	-	-	729,209
Bank-owned life insurance	4,034,243	4,034,243	-	-	4,034,243
Financial liabilities:					
Deposits	133,376,730	70,286,609	-	63,529,113	133,815,722
Short-term borrowings	11,507,000	11,507,000	-	-	11,507,000
Long-term borrowings	1,471,225	-	-	1,489,763	1,489,763
Accrued interest payable	72,200	72,200	-	-	72,200

	2013				
	Carrying Amount	Level I	Level II	Level III	Fair Value
Financial assets:					
Cash and cash equivalents	$ 2,008,326	$ 2,008,326	$ -	$ -	$ 2,008,326
Interest-bearing deposits with other banks	220,206	220,206	-	-	220,206
Certificates of deposit	3,074,000	3,074,000	-	-	3,074,000
Securities available for sale	52,988,839	-	52,988,839	-	52,988,839
Loans, net of allowance for loan losses	90,089,635	-	-	93,098,422	93,098,422
Accrued interest receivable	743,427	743,427	-	-	743,427
Bank-owned life insurance	4,401,968	4,401,968	-	-	4,401,968
Financial liabilities:					
Deposits	130,495,165	66,604,461	-	64,789,627	131,394,088
Short-term borrowings	13,144,000	13,144,000	-	-	13,144,000
Long-term borrowings	475,986	-	-	501,701	501,701
Accrued interest payable	83,963	83,963	-	-	83,963

Note 14. Fair Value of Financial Instruments (Continued)

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

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

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

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

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

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

Available-for-sale securities: Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Level I securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level II securities include mortgage-backed securities issued by government-sponsored entities, mortgage-backed securities, and municipal bonds.

Impaired loans: Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans. As such, the Company classifies loans subject to nonrecurring fair value adjustments as Level III.

Note 14. Fair Value of Financial Instruments (Continued)

Other real estate owned ("OREO"): OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the Consolidated Balance Sheets at fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level II). However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level III). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest income in the Consolidated Statements of Income.

Assets at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis at December 31, 2014 and 2013.

	December 31, 2014			
	Level I	Level II	Level III	Total
Available-for-Sale Securities				
Taxable:				
U.S. government agencies and corporations	$ -	$ 26,177,530	$ -	$ 26,177,530
Mortgage-backed securities	-	7,093,527	-	7,093,527
Obligations of states and political subdivisions	-	3,941,423	-	3,941,423
Equity securities in financial institutions	18,550	-	-	18,550
Taxable exempt:	-		-	
Obligations of states and political subdivisions	-	10,981,084	-	10,981,084
Total	$ 18,550	$ 48,193,564	$ -	$ 48,212,114

Note 14. Fair Value of Financial Instruments (Continued)

Assets at Fair Value on a Recurring Basis (Continued)

	December 31, 2013			
Available-for-Sale Securities	Level I	Level II	Level III	Total
Taxable:				
U.S. government agencies and corporations	$ -	$ 34,073,601	$ -	$ 34,073,601
Mortgage-backed securities	-	679,752	-	679,752
Obligations of states and political subdivisions	-	3,008,505	-	3,008,505
Taxable exempt:				
Obligations of states and political subdivisions	-	15,226,981	-	15,226,981
Total	$ -	$ 52,988,839	$ -	$ 52,988,839

Assets Recorded at Fair Value on a Nonrecurring Basis

The tables below present the recorded amount of assets measured on a nonrecurring basis at December 31, 2014 and 2013.

	December 31, 2014			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 4,957,769	$ 4,957,769
Other real estate owned	-	-	1,500,788	1,500,788

	December 31, 2013			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 9,851,526	$ 9,851,526
Other real estate owned	-	-	2,270,531	2,270,531

2014

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 4,957,769	Property appraisals	Management discount for property type and recent market volatility	7% discount
Other real estate owned	1,500,788	Property appraisals	Management discount for property type and recent market volatility	7% discount

2013

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 9,851,526	Property appraisals	Management discount for property type and recent market volatility	5% discount
Other real estate owned	2,270,531	Property appraisals	Management discount for property type and recent market volatility	5% discount

Note 15. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2014 and 2013:

		Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive income, December 31, 2012	$	1,138,823
Other comprehensive loss before reclassification		(1,385,336)
Amount reclassified from accumulated other comprehensive income		(29,152)
Total other comprehensive loss		(1,414,488)
Accumulated other comprehensive loss, December 31, 2013		(275,665)
Other comprehensive income before reclassification		702,500
Amount reclassified from accumulated other comprehensive income		(231,550)
Total other comprehensive income		470,950
Accumulated other comprehensive income, December 31, 2014	$	195,285

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013:

2014		Amount Reclassified from Accumulated Other Comprehensive Income Is Presented in:	
Unrealized gains (losses) on available-for-sale securities	$	(367,539)	Security gains, net
		135,989	Income tax (benefit) expense
	$	(231,550)	

2013		Amount Reclassified from Accumulated Other Comprehensive Income Is Presented in:	
Unrealized gains (losses) on available-for-sale securities	$	(46,271)	Security gains, net
		17,119	Income tax (benefit) expense
	$	(29,152)	

Note 16. Subsequent Events

Management has reviewed events occurring through April 1, 2015, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

BANKING HOURS & LOCATIONS

Main Office
105 N. High Street, Romney, WV
(304) 822-8700

LOBBY

Monday - Friday	9 am - 5 pm
Saturday	Closed

DRIVE-IN

Monday - Friday	8 am - 5 pm
Saturday	9 am - Noon

Capon Bridge Branch Office
Route 50, Capon Bridge, WV
(304) 856-3426

LOBBY

Monday - Thursday	9 am - 5 pm
Friday	9 am - 6 pm
Saturday	9 am - Noon

DRIVE-IN

Monday - Thursday	8 am - 5 pm
Friday	8 am - 6 pm
Saturday	9 am - Noon

Fort Ashby Branch Office
Route 28, Fort Ashby, WV
(304) 298-3496

LOBBY

Monday – Thursday	9 am - 4 pm
Friday	9 am - 5 pm
Saturday	9 am - Noon

DRIVE-IN

Monday - Thursday	8 am - 5 pm
Friday	8 am - 6 pm
Saturday	9 am - Noon

Hampshire Square Office
HC 63, Box 2550
(304) 822-8383

LOBBY

Monday - Thursday	9 am - 5 pm
Friday	9 am - 6 pm
Saturday	9 am - Noon

DRIVE-IN

Monday - Thursday	8 am - 5 pm
Friday	8 am - 6 pm
Saturday	9 am - Noon

BANKING SERVICES

Money Market Accounts	Checking Accounts	Savings Accounts
Now Accounts	IRA Retirement Accounts	Certificates of Deposit
Commercial Loans	Christmas Clubs	Consumer Loans
Bank-By-Mail	Real Estate Loans	Visa Gift Cards
Home Improvement Loans	Safe Deposit Boxes	Home Equity Lines of Credit
Money Orders	Cashier's Checks	Direct Deposit
Drive-In Windows	FNB Cash Line	Merchant Bank Card Services
Internet Banking	Web Bill Pay	MasterMoney® ATM/Debit Card
Remote Deposit Services	ATMs	E-Statements
Mobile Banking	Secondary Mortgage Market	

ANNUAL DISCLOSURE STATEMENT

NOTICE OF AVAILABILITY:

Financial information about this bank is available to our Customers, Shareholders and the General Public on request. In accordance with Federal regulations to facilitate more informed decision-making by depositors, and the general public, we will provide an **Annual Disclosure Statement** containing financial information for the last two years. This information will be updated annually and available as of March 31.

To obtain a copy of the **Annual Disclosure Statement**, please contact: **Travis G. Delaplain, FNB Bank, Inc., P. O. Box 1037, Romney, WV 26757 – (304) 822-8700.**

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