

OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2012
United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-20914

OHIO VALLEY BANC CORP.

(Exact name of registrant as specified in its charter)

Ohio
(State of Incorporation)

31-1359191
(I.R.S. Employer Identification No.)

420 Third Avenue
Gallipolis, Ohio
(Address of principal executive offices)

45631
(ZIP Code)

(740) 446-2631
(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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| | | | |
|----------------------------|-----------------------|------------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input checked="" type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input type="radio"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of common shares of the registrant outstanding as of November 9, 2012 was 4,029,439.

OHIO VALLEY BANC CORP.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OHIO VALLEY BANC CORP.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

| | September 30, 2012 UNAUDITED | December 31, 2011 |
|---|------------------------------------|-------------------------|
| ASSETS | | |
| Cash and noninterest-bearing deposits with banks | \$ 10,140 | \$8,914 |
| Interest-bearing deposits with banks | 51,707 | 42,716 |
| Total cash and cash equivalents | 61,847 | 51,630 |
| Securities available for sale | 103,489 | 85,670 |
| Securities held to maturity (estimated fair value: 2012 - \$24,311; 2011 - \$22,847) | 23,678 | 22,848 |
| Federal Home Loan Bank stock | 6,281 | 6,281 |
| Total loans | 562,535 | 598,308 |
| Less: Allowance for loan losses | (8,185) | (7,344) |
| Net loans | 554,350 | 590,964 |
| Premises and equipment, net | 8,836 | 9,216 |
| Other real estate owned | 3,234 | 4,256 |
| Accrued interest receivable | 2,396 | 2,872 |
| Goodwill | 1,267 | 1,267 |
| Bank owned life insurance and annuity assets | 24,958 | 23,097 |
| Prepaid FDIC insurance | 1,034 | 1,609 |
| Other assets | 4,584 | 4,467 |
| Total assets | \$ 795,954 | \$804,177 |
| LIABILITIES | | |
| Noninterest-bearing deposits | \$ 138,192 | \$138,143 |
| Interest-bearing deposits | 538,507 | 549,743 |
| Total deposits | 676,699 | 687,886 |
| Other borrowed funds | 20,098 | 20,296 |
| Subordinated debentures | 13,500 | 13,500 |
| Accrued liabilities | 10,019 | 10,652 |
| Total liabilities | 720,316 | 732,334 |
| COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5) | ---- | ---- |
| SHAREHOLDERS' EQUITY | | |
| Common stock (\$1.00 stated value per share, 10,000,000 shares authorized; | 4,689 | 4,686 |

| 2012 – 4,689,178 shares issued; 2011 - 4,686,295 shares issued) | | |
|---|------------|------------|
| Additional paid-in capital | 33,525 | 33,473 |
| Retained earnings | 51,184 | 48,435 |
| Accumulated other comprehensive income | 1,952 | 961 |
| Treasury stock, at cost (659,739 shares) | (15,712) | (15,712) |
| Total shareholders' equity | 75,638 | 71,843 |
| Total liabilities and shareholders' equity | \$ 795,954 | \$ 804,177 |

OHIO VALLEY BANC CORP.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest and dividend income: | | | | |
| Loans, including fees | \$8,781 | \$10,011 | \$27,678 | \$31,400 |
| Securities | | | | |
| Taxable | 369 | 455 | 1,241 | 1,373 |
| Tax exempt | 152 | 144 | 445 | 424 |
| Dividends | 66 | 63 | 204 | 204 |
| Other Interest | 37 | 20 | 159 | 134 |
| | 9,405 | 10,693 | 29,727 | 33,535 |
| Interest expense: | | | | |
| Deposits | 1,235 | 2,079 | 3,911 | 6,662 |
| Other borrowed funds | 124 | 158 | 372 | 516 |
| Subordinated debentures | 179 | 272 | 612 | 816 |
| | 1,538 | 2,509 | 4,895 | 7,994 |
| Net interest income | 7,867 | 8,184 | 24,832 | 25,541 |
| Provision for loan losses | 1,183 | 1,152 | 3,023 | 4,855 |
| Net interest income after provision for loan losses | 6,684 | 7,032 | 21,809 | 20,686 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 471 | 578 | 1,381 | 1,671 |
| Trust fees | 51 | 52 | 151 | 167 |
| Income from bank owned life insurance and annuity assets | 198 | 184 | 592 | 545 |
| Mortgage banking income | 166 | 97 | 398 | 234 |
| Electronic refund check / deposit fees | 15 | ---- | 2,279 | 2,533 |
| Debit / credit card interchange income | 422 | 367 | 1,238 | 1,011 |
| Gain (loss) of other real estate owned | 30 | (474) | 181 | (464) |
| Other | 321 | 254 | 907 | 707 |
| | 1,674 | 1,058 | 7,127 | 6,404 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 4,118 | 4,165 | 12,571 | 12,272 |
| Occupancy | 397 | 394 | 1,182 | 1,198 |
| Furniture and equipment | 238 | 282 | 710 | 844 |
| FDIC insurance | 63 | 181 | 629 | 793 |
| Data processing | 278 | 278 | 786 | 729 |
| Foreclosed assets, net | 69 | 29 | 244 | 86 |
| Other | 1,794 | 1,672 | 5,329 | 5,158 |
| | 6,957 | 7,001 | 21,451 | 21,080 |
| Income before income taxes | 1,401 | 1,089 | 7,485 | 6,010 |
| Provision for income taxes | 294 | 203 | 2,037 | 1,536 |

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| | | | | |
|--|---------|---------|---------|---------|
| NET INCOME | \$1,107 | \$886 | \$5,448 | \$4,474 |
| Other comprehensive income: | | | | |
| Change in unrealized gain/losses on securities, net of taxes | 566 | 235 | 991 | 1,004 |
| Comprehensive income | \$1,673 | \$1,121 | \$6,439 | \$5,478 |
| Earnings per share | \$.27 | \$.22 | \$1.35 | \$1.12 |

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (UNAUDITED)
(dollars in thousands, except share and per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period | \$74,811 | \$70,805 | \$71,843 | \$68,128 |
| Comprehensive income: | | | | |
| Net income | 1,107 | 886 | 5,448 | 4,474 |
| Change in unrealized gain on available for sale securities | 858 | 356 | 1,502 | 1,521 |
| Income tax effect | (292) | (121) | (511) | (517) |
| Total comprehensive income | 1,673 | 1,121 | 6,439 | 5,478 |
| Proceeds from issuance of common stock through dividend reinvestment plan | | | | |
| | ---- | ---- | 55 | ---- |
| Cash dividends | (846) | (840) | (2,699) | (2,520) |
| Balance at end of period | \$75,638 | \$71,086 | \$75,638 | \$71,086 |
| Cash dividends per share | \$0.21 | \$0.21 | \$0.67 | \$0.63 |

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS (UNAUDITED)
(dollars in thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|-----------|
| | 2012 | 2011 |
| Net cash provided by operating activities: | \$9,277 | \$13,789 |
| Investing activities: | | |
| Proceeds from maturities of securities available for sale | 26,121 | 28,739 |
| Purchases of securities available for sale | (43,436) | (28,237) |
| Proceeds from maturities of securities held to maturity | 1,562 | 1,104 |
| Purchases of securities held to maturity | (2,435) | ---- |
| Net change in loans | 33,088 | 18,189 |
| Proceeds from sale of other real estate owned | 1,706 | 419 |
| Purchases of premises and equipment | (368) | (294) |
| Purchases of bank owned life insurance | (1,269) | ---- |
| Net cash provided by (used in) investing activities | 14,969 | 19,920 |
| Financing activities: | | |
| Change in deposits | (11,187) | 11,721 |
| Proceeds from common stock through dividend reinvestment plan | 55 | ---- |
| Cash dividends | (2,699) | (2,520) |
| Change in securities sold under agreements to repurchase | ---- | (37,095) |
| Proceeds from Federal Home Loan Bank borrowings | 2,000 | 703 |
| Repayment of Federal Home Loan Bank borrowings | (1,899) | (7,360) |
| Change in other short-term borrowings | (299) | 380 |
| Net cash provided by (used in) financing activities | (14,029) | (34,171) |
| Change in cash and cash equivalents | 10,217 | (462) |
| Cash and cash equivalents at beginning of period | 51,630 | 59,751 |
| Cash and cash equivalents at end of period | \$61,847 | \$59,289 |
| Supplemental disclosure: | | |
| Cash paid for interest | \$5,432 | \$8,623 |
| Cash paid for income taxes | 3,630 | 330 |
| Non-cash transfers from loans to other real estate owned | 503 | 502 |
| Other real estate owned sales financed by the Bank | 1,133 | 329 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share data)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The accompanying consolidated financial statements include the accounts of Ohio Valley Banc Corp. (“Ohio Valley”) and its wholly-owned subsidiaries, The Ohio Valley Bank Company (the “Bank”), Loan Central, Inc. (“Loan Central”), a consumer finance company, and Ohio Valley Financial Services Agency, LLC (“Ohio Valley Financial Services”), an insurance agency. Ohio Valley and its subsidiaries are collectively referred to as the “Company”. All material intercompany accounts and transactions have been eliminated in consolidation.

These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2012, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2012. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by U.S. generally accepted accounting principles (“US GAAP”) that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2011 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2011 have been reclassified to conform to the presentation for 2012. These reclassifications had no effect on the net results of operations or equity shareholders.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The accounting and reporting policies followed by the Company conform to US GAAP. The preparation of financial statements in conformity with US GAAP 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. Actual results could differ from those estimates. Areas involving the use of management’s estimates and assumptions that are more susceptible to change in the near term involve the allowance for loan losses, mortgage servicing rights, deferred tax assets, the fair value of certain securities, the fair value of financial instruments and the determination and carrying value of impaired loans and other real estate owned.

INDUSTRY SEGMENT INFORMATION: Internal financial information is primarily reported and aggregated in two lines of business, banking and consumer finance.

EARNINGS PER SHARE: Earnings per share are computed based on net income divided by the weighted average number of common shares outstanding during the period. The weighted average common shares outstanding were 4,029,439 and 4,000,056 for the three months ended September 30, 2012 and 2011, respectively. Weighted average common shares outstanding were 4,028,944 and 4,000,056 for the nine months ended September 30, 2012 and 2011, respectively. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS:

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for

measuring fair value or for disclosing information about fair value measurements. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition, but the additional disclosures are included in Note 2 – Fair Value of Financial Instruments.

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In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The adoption of this amendment changed the presentation of the statement of comprehensive income for the Company to one continuous statement instead of presented as part of the consolidated statement of shareholder's equity.

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment." The provisions of ASU No. 2012-02 provide the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible assets is impaired. If, after assessing the totality of events and circumstances, it is concluded that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. However, if the conclusion is otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. The provisions of this new guidance are effective for fiscal years beginning after September 15, 2012. The adoption of ASU No. 2012-02 is not expected to have a material impact on the Company's financial statements of operations and condition.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

The following is a description of the Company's valuation methodologies used to measure and disclose the fair values of its financial assets on a recurring or nonrecurring basis:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3

classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical

knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with management's own assumptions of fair value based on factors that include recent market data or industry-wide statistics. On an as-needed basis, the Company reviews the fair value of collateral, taking into consideration current market data, as well as all selling costs that are typically in the range of 10%.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

| | Fair Value Measurements at September 30, 2012, Using | | |
|--|--|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| U.S. Treasury securities | ---- | ---- | ---- |
| U.S. Government sponsored entity securities | ---- | \$ 1,016 | ---- |
| Agency mortgage-backed securities, residential | ---- | 102,473 | ---- |

| | Fair Value Measurements at December 31, 2011, Using | | |
|---------|--|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |

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| | | | |
|--|------|---------|------|
| U.S. Treasury securities | ---- | \$5,513 | ---- |
| U.S. Government sponsored entity securities | ---- | 2,559 | ---- |
| Agency mortgage-backed securities, residential | ---- | 77,598 | ---- |

There were no transfers between Level 1 and Level 2 during 2012 or 2011.

Assets Measured on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis are summarized below:

| | Fair Value Measurements at September 30, 2012, Using | | |
|-------------------------|--|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| Impaired Loans: | | | |
| Commercial real estate: | | | |
| Nonowner-occupied | ---- | ---- | \$ 2,380 |
| Construction | ---- | ---- | 395 |

| | Fair Value Measurements at December 31, 2011, Using | | |
|---------------------------|--|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| Impaired Loans: | | | |
| Commercial real estate: | | | |
| Owner-occupied | ---- | ---- | \$ 290 |
| Nonowner-occupied | ---- | ---- | 1,959 |
| Construction | ---- | ---- | 587 |
| Other real estate owned: | | | |
| Commercial real estate: | | | |
| Construction | ---- | ---- | 1,814 |
| Commercial and industrial | ---- | ---- | 1,134 |

The portion of impaired loans at September 30, 2012 with specific allocations of the allowance for loan losses had a carrying amount of \$4,853 and was measured for impairment using the income approach. This measurement resulted in a valuation allowance of \$2,078 at September 30, 2012, which contributed to an increase of \$2,343 in provision for loan loss expense during the nine months ended September 30, 2012. This is compared to a decrease of \$32 in provision for loan loss expense from impaired loans during the nine months ended September 30, 2011. The portion of impaired loans at December 31, 2011 with specific allocations of the allowance for loan losses had a carrying amount of \$3,491. The loans were measured for impairment using the income approach. This measurement resulted in a valuation allowance of \$655 at December 31, 2011.

During the nine months ended September 30, 2012, there were no no fair value adjustments to other real estate owned. Other real estate owned that was measured at fair value less costs to sell at December 31, 2011 had a net carrying amount of \$2,948, which was made up of the outstanding balance of \$4,214, net of a valuation allowance of \$1,266, which resulted in a corresponding write-down of \$1,266 for the year ended December 31, 2011.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2012:

| | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | (Weighted Average) |
|-------------------------|------------|------------------------|-----------------------|-----------|--------------------|
| Impaired Loans: | | | | | |
| Commercial real estate: | | | | | |
| Nonowner-occupied | \$ 2,380 | Income approach | Capitalization rate | 10% - 20% | 15% |
| Construction | 395 | Income approach | Capitalization rate | 10% | 10% |

The carrying amounts and estimated fair values of financial instruments at September 30, 2012 and December 31, 2011 are as follows:

| | Fair Value Measurements at September 30, 2012 Using: | | | | |
|-------------------------------|--|-----------|---------|----------------|------------|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 61,847 | \$ 61,847 | \$ --- | \$ --- | \$ 61,847 |
| Securities available for sale | 103,489 | --- | 103,489 | --- | 103,489 |
| Securities held to maturity | 23,678 | --- | 11,597 | 12,714 | 24,311 |
| Federal Home Loan Bank stock | 6,281 | N/A | N/A | N/A | N/A |
| Loans, net | 554,350 | --- | --- | 577,280 | 577,280 |
| Accrued interest receivable | 2,396 | --- | 532 | 1,864 | 2,396 |
| Financial liabilities: | | | | | |
| Deposits | 676,699 | 138,164 | 540,482 | --- | 678,646 |
| Other borrowed funds | 20,098 | --- | 20,558 | --- | 20,558 |
| Subordinated debentures | 13,500 | --- | 10,225 | --- | 10,225 |
| Accrued interest payable | 1,358 | --- | 1,358 | --- | 1,358 |
| December 31, 2011 | | | | | |
| | | | | Carrying Value | Fair Value |
| Financial Assets: | | | | | |
| Cash and cash equivalents | | | | \$51,630 | \$51,630 |
| Securities available for sale | | | | 85,670 | 85,670 |
| Securities held to maturity | | | | 22,848 | 22,847 |
| Federal Home Loan Bank stock | | | | 6,281 | N/A |
| Loans | | | | 590,964 | 599,782 |
| Accrued interest receivable | | | | 2,872 | 2,872 |

Financial liabilities:

| | | |
|--------------------------|---------|---------|
| Deposits | 687,886 | 690,607 |
| Other borrowed funds | 20,296 | 20,565 |
| Subordinated debentures | 13,500 | 11,085 |
| Accrued interest payable | 1,894 | 1,894 |

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Federal Home Loan Bank stock: It is not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability.

Securities Held to Maturity: The fair values for securities held to maturity are determined in the same manner as securities held for sale and discussed earlier in this note. Level 3 securities consist of nonrated municipal bonds and tax credit (“QZAB”) bonds.

Loans: Fair values of loans are estimated as follows: The fair value of fixed rate loans is estimated by discounting future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposit Liabilities: The fair values disclosed for noninterest-bearing deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Other Borrowed Funds: The carrying values of the Company’s short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification. The fair values of the Company’s long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Subordinated Debentures: The fair values of the Company’s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable and Payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification.

Off-balance Sheet Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of commitments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and estimated fair value of the available for sale and held to maturity securities portfolio at September 30, 2012 and December 31, 2011 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income for available for sale securities and gross unrecognized gains and losses for held to maturity securities:

| Securities Available for Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------|--------------------------|---------------------------|----------------------|
| September 30, 2012 | | | | |
| U.S. Treasury securities | ---- | ---- | ---- | ---- |
| U.S. Government sponsored entity securities | \$1,010 | \$6 | \$---- | \$1,016 |
| Agency mortgage-backed securities, residential | 99,519 | 2,954 | ---- | 102,473 |
| Total securities | \$100,529 | \$2,960 | \$---- | \$103,489 |
| December 31, 2011 | | | | |
| U.S. Treasury securities | \$5,510 | \$3 | \$---- | \$5,513 |
| U.S. Government sponsored entity securities | 2,501 | 58 | ---- | 2,559 |
| Agency mortgage-backed securities, residential | 76,203 | 1,407 | (12) | 77,598 |
| Total securities | \$84,214 | \$1,468 | \$(12) | \$85,670 |
| Securities Held to Maturity | | | | |
| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Estimated Fair Value |
| September 30, 2012 | | | | |
| Obligations of states and political subdivisions | \$23,660 | \$ 664 | \$ (31) | \$24,293 |
| Agency mortgage-backed securities, residential | 18 | ---- | ---- | 18 |
| Total securities | \$23,678 | \$ 664 | \$ (31) | \$24,311 |
| December 31, 2011 | | | | |
| Obligations of states and political subdivisions | \$22,825 | \$ 558 | \$ (559) | \$22,824 |
| Agency mortgage-backed securities, residential | 23 | ---- | ---- | 23 |
| Total securities | \$22,848 | \$ 558 | \$ (559) | \$22,847 |

The amortized cost and estimated fair value of the securities portfolio at September 30, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay the debt obligations prior to their contractual maturities. Securities not due at a single maturity are shown separately.

| Debt Securities: | Available for Sale | | Held to Maturity | |
|-------------------------------|--------------------|----------------------|------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$---- | \$---- | \$420 | \$423 |
| Due in over one to five years | 1,010 | 1,016 | 4,220 | 4,288 |
| Due in over five to ten years | ---- | ---- | 9,648 | 9,889 |
| Due after ten years | ---- | ---- | 9,372 | 9,693 |

| | | | | |
|--|-----------|-----------|----------|----------|
| Agency mortgage-backed securities, residential | 99,519 | 102,473 | 18 | 18 |
| Total debt securities | \$100,529 | \$103,489 | \$23,678 | \$24,311 |

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The following table summarizes the investment securities with unrealized losses at September 30, 2012 and December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

| September 30, 2012 | Less Than 12 Months | | 12 Months or More | | Total | |
|-----------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss |
| Securities Held to Maturity | | | | | | |
| Obligations of states and | | | | | | |
| political subdivisions | \$ 1,491 | \$ (10) | \$ 1,607 | \$ (21) | \$ 3,098 | \$ (31) |
| Total held to maturity | \$ 1,491 | \$ (10) | \$ 1,607 | \$ (21) | \$ 3,098 | \$ (31) |

| December 31, 2011 | Less Than 12 Months | | 12 Months or More | | Total | |
|-------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Securities Available for Sale | | | | | | |
| Agency mortgage-backed | | | | | | |
| securities, residential | \$ 7,621 | \$ (12) | \$ ---- | \$ ---- | \$ 7,621 | \$ (12) |
| Total available for sale | \$ 7,621 | \$ (12) | \$ ---- | \$ ---- | \$ 7,621 | \$ (12) |

| September 30, 2012 | Less Than 12 Months | | 12 Months or More | | Total | |
|-----------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss |
| Securities Held to Maturity | | | | | | |
| Obligations of states and | | | | | | |
| political subdivisions | \$ 664 | \$ (21) | \$ 3,557 | \$ (538) | \$ 4,221 | \$ (559) |
| Total held to maturity | \$ 664 | \$ (21) | \$ 3,557 | \$ (538) | \$ 4,221 | \$ (559) |

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality, and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at September 30, 2012 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

| Loans are comprised of the following: | September 30, 2012 | December 31, 2011 |
|---------------------------------------|--------------------|-------------------|
| Residential real estate | \$ 229,749 | \$ 238,490 |
| Commercial real estate: | | |
| Owner-occupied | 105,784 | 129,364 |
| Nonowner-occupied | 58,420 | 56,620 |

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| | | |
|---------------------------------|-----------|-----------|
| Construction | 21,163 | 21,471 |
| Commercial and industrial | 47,229 | 45,200 |
| Consumer: | | |
| Automobile | 41,508 | 45,702 |
| Home equity | 18,859 | 20,507 |
| Other | 39,823 | 40,954 |
| | 562,535 | 598,308 |
| Less: Allowance for loan losses | 8,185 | 7,344 |
| Loans, net | \$554,350 | \$590,964 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2012 and 2011:

| September 30, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|--------------------------------|----------------------------|---------------------------|---------------------------------|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$1,443 | \$4,369 | \$653 | \$1,062 | \$7,527 |
| Provision for loan losses | 257 | 394 | 359 | 173 | 1,183 |
| Loans charged off | (61) | (54) | (429) | (430) | (974) |
| Recoveries | 23 | 27 | 159 | 240 | 449 |
| Total ending allowance balance | \$1,662 | \$4,736 | \$742 | \$1,045 | \$8,185 |

| September 30, 2011 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|--------------------------------|----------------------------|---------------------------|---------------------------------|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$1,133 | \$3,392 | \$770 | \$1,184 | \$6,479 |
| Provision for loan losses | 904 | (82) | (74) | 404 | 1,152 |
| Loans charged off | (741) | (113) | (26) | (476) | (1,356) |
| Recoveries | 59 | --- | 48 | 129 | 236 |
| Total ending allowance balance | \$1,355 | \$3,197 | \$718 | \$1,241 | \$6,511 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2012 and 2011:

| September 30, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|--------------------------------|----------------------------|---------------------------|---------------------------------|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$1,730 | \$3,623 | \$636 | \$1,355 | \$7,344 |
| Provision for loan losses | 552 | 2,290 | (48) | 229 | 3,023 |
| Loans charged off | (739) | (1,212) | (499) | (1,247) | (3,697) |
| Recoveries | 119 | 35 | 653 | 708 | 1,515 |
| Total ending allowance balance | \$1,662 | \$4,736 | \$742 | \$1,045 | \$8,185 |

| September 30, 2011 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|--------------------------------|----------------------------|---------------------------|---------------------------------|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$1,051 | \$3,083 | \$3,795 | \$1,457 | \$9,386 |
| Provision for loan losses | 1,918 | 903 | 1,531 | 503 | 4,855 |
| Loans charged off | (1,710) | (1,700) | (4,727) | (1,223) | (9,360) |
| Recoveries | 96 | 911 | 119 | 504 | 1,630 |
| Total ending allowance balance | \$1,355 | \$3,197 | \$718 | \$1,241 | \$6,511 |

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of September 30, 2012 and December 31, 2011:

| September 30, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|----------------------------|---------------------------|---------------------------------|----------|----------|
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment | \$128 | \$2,078 | \$--- | \$--- | \$2,206 |
| Collectively evaluated for impairment | 1,534 | 2,658 | 742 | 1,045 | 5,979 |
| Total ending allowance balance | \$1,662 | \$4,736 | \$742 | \$1,045 | \$8,185 |
| Loans: | | | | | |
| | \$1,194 | \$12,524 | \$--- | \$219 | \$13,937 |

Loans individually evaluated for impairment

| | | | | | |
|---|-----------|-----------|----------|-----------|-----------|
| Loans collectively evaluated for impairment | 228,555 | 172,843 | 47,229 | 99,971 | 548,598 |
| Total ending loans balance | \$229,749 | \$185,367 | \$47,229 | \$100,190 | \$562,535 |

| December 31, 2011 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|-------------------|-------------------------|------------------------|---------------------------|----------|-------|
|-------------------|-------------------------|------------------------|---------------------------|----------|-------|

Allowance for loan losses:

Ending allowance balance attributable to loans:

| | | | | | |
|---------------------------------------|---------|---------|-------|---------|---------|
| Individually evaluated for impairment | \$130 | \$525 | \$--- | \$--- | \$655 |
| Collectively evaluated for impairment | 1,730 | 2,968 | 636 | 1,355 | 6,689 |
| Total ending allowance balance | \$1,860 | \$3,493 | \$636 | \$1,355 | \$7,344 |

Loans:

| | | | | | |
|---|-----------|-----------|----------|-----------|-----------|
| Loans individually evaluated for impairment | \$1,505 | \$9,733 | \$334 | \$--- | \$11,572 |
| Loans collectively evaluated for impairment | 236,985 | 197,722 | 44,866 | 107,163 | 586,736 |
| Total ending loans balance | \$238,490 | \$207,455 | \$45,200 | \$107,163 | \$598,308 |

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The following table presents information related to loans individually evaluated for impairment by class of loans:

| Nine months ended September 30, 2012 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|--------------------------------------|--------------------------|---------------------|-------------------------------------|------------------------|----------------------------|--------------------------------|
| With no related allowance recorded: | | | | | | |
| Residential real estate | \$914 | \$774 | \$---- | \$662 | \$ 22 | \$ 22 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 5,557 | 5,557 | ---- | 4,529 | 23 | 11 |
| Nonowner-occupied | 3,948 | 3,048 | ---- | 3,657 | 25 | 22 |
| Construction | 1,713 | 1,433 | ---- | 811 | 33 | 33 |
| Consumer: | | | | | | |
| Home equity | 219 | 219 | ---- | 165 | 7 | 7 |
| With an allowance recorded: | | | | | | |
| Residential real estate | 420 | 420 | 128 | 420 | 7 | 4 |
| Commercial real estate: | | | | | | |
| Nonowner-occupied | 2,737 | 2,486 | 2,078 | 1,520 | 26 | 26 |
| Total | \$15,508 | \$13,937 | \$2,206 | \$11,764 | \$ 143 | \$ 125 |

| Nine months ended September 30, 2011 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|--------------------------------------|--------------------------|---------------------|-------------------------------------|------------------------|----------------------------|--------------------------------|
| With no related allowance recorded: | | | | | | |
| Residential real estate | \$1,761 | \$1,489 | \$---- | \$1,171 | \$ 62 | \$ 45 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 5,941 | 5,213 | ---- | 4,510 | 283 | 279 |
| Nonowner-occupied | 5,827 | 5,827 | ---- | 5,840 | 230 | 209 |
| Construction | 674 | 674 | ---- | 678 | 27 | 26 |
| Commercial and industrial | 7,196 | 3,002 | ---- | 4,490 | 340 | 251 |
| With an allowance recorded: | | | | | | |
| Commercial real estate: | | | | | | |
| Nonowner-occupied | 2,405 | 2,405 | 405 | 2,418 | 100 | 90 |
| Total | \$23,804 | \$18,610 | \$405 | \$19,107 | \$ 1,042 | \$ 900 |

| Year ended December 31, 2011 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|-------------------------------------|--------------------------|---------------------|-------------------------------------|------------------------|----------------------------|--------------------------------|
| With no related allowance recorded: | | | | | | |
| Residential real estate | \$1,136 | \$1,085 | \$---- | \$748 | \$ 36 | \$ 31 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 2,774 | 2,531 | ---- | 2,418 | 207 | 309 |
| Nonowner-occupied | 4,131 | 4,131 | ---- | 4,339 | 174 | 57 |
| Commercial and industrial | 614 | 334 | ---- | 483 | 40 | 40 |

With an allowance recorded:

| | | | | | | |
|-------------------------|----------|----------|-------|----------|-------|-------|
| Residential real estate | 420 | 420 | 130 | 84 | 27 | 22 |
| Commercial real estate: | | | | | | |
| Nonowner-occupied | 2,396 | 2,396 | 437 | 2,414 | 128 | 118 |
| Construction | 675 | 675 | 88 | 677 | 35 | 31 |
| Total | \$12,146 | \$11,572 | \$655 | \$11,163 | \$647 | \$608 |

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans:

| September 30, 2012 | Loans Past Due 90 Days And Still Accruing | Nonaccrual |
|---------------------------|---|------------|
| Residential real estate | \$260 | \$3,385 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 758 |
| Nonowner-occupied | ---- | 959 |
| Construction | ---- | 1,519 |
| Commercial and industrial | ---- | 36 |
| Consumer: | | |
| Automobile | 59 | 25 |
| Home equity | 43 | 53 |
| Other | 9 | 37 |
| Total | \$371 | \$6,772 |

| December 31, 2011 | Loans Past Due 90 Days And Still Accruing | Nonaccrual |
|-------------------------|---|------------|
| Residential real estate | \$439 | \$2,536 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 125 |
| Consumer: | | |
| Automobile | 13 | 12 |
| Home equity | ---- | 5 |
| Other | 7 | ---- |
| Total | \$459 | \$2,678 |

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and loans individually classified as impaired.

The following table presents the aging of the recorded investment of past due loans by class of loans:

| September 30, 2012 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|-------------------------|---------------------|---------------------|--------------------------|----------------|--------------------|-----------|
| Residential real estate | \$3,946 | \$1,007 | \$3,645 | \$8,598 | \$221,151 | \$229,749 |
| Commercial real estate: | | | | | | |

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| | | | | | | |
|---------------------------|---------|---------|---------|----------|-----------|-----------|
| Owner-occupied | 1,144 | ---- | 758 | 1,902 | 103,882 | 105,784 |
| Nonowner-occupied | 52 | ---- | 959 | 1,011 | 57,409 | 58,420 |
| Construction | 80 | ---- | 1,519 | 1,599 | 19,564 | 21,163 |
| Commercial and industrial | 90 | ---- | 36 | 126 | 47,103 | 47,229 |
| Consumer: | | | | | | |
| Automobile | 593 | 187 | 59 | 839 | 40,669 | 41,508 |
| Home equity | 182 | ---- | 96 | 278 | 18,581 | 18,859 |
| Other | 646 | 98 | 46 | 790 | 39,033 | 39,823 |
| Total | \$6,733 | \$1,292 | \$7,118 | \$15,143 | \$547,392 | \$562,535 |

| December 31, 2011 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|---------------------------|---------------------------|---------------------------|--------------------------------|-------------------|-----------------------|-----------|
| Residential real estate | \$3,731 | \$1,144 | \$2,975 | \$7,850 | \$230,640 | \$238,490 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 182 | ---- | 125 | 307 | 129,057 | 129,364 |
| Nonowner-occupied | ---- | 232 | ---- | 232 | 56,388 | 56,620 |
| Construction | 204 | ---- | ---- | 204 | 21,267 | 21,471 |
| Commercial and industrial | 171 | 14 | ---- | 185 | 45,015 | 45,200 |
| Consumer: | | | | | | |
| Automobile | 864 | 110 | 13 | 987 | 44,715 | 45,702 |
| Home equity | 75 | 76 | 5 | 156 | 20,351 | 20,507 |
| Other | 506 | 162 | 7 | 675 | 40,279 | 40,954 |
| Total | \$5,733 | \$1,738 | \$3,125 | \$10,596 | \$587,712 | \$598,308 |

Troubled Debt Restructurings:

A troubled debt restructuring (“TDR”) occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. All TDR's are considered to be impaired. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a reduction in the contractual principal and interest payments of the loan; or short-term interest-only payment terms.

The Company has allocated reserves for a portion of its TDR's to reflect the fair values of the underlying collateral or the present value of the concessionary terms granted to the customer.

The following table presents the types of TDR loan modifications by class of loans as of September 30, 2012 and December 31, 2011:

| | TDR's Performing to Modified Terms | TDR's Not Performing to Modified Terms | Total TDR's |
|---|---|---|----------------|
| September 30, 2012 | | | |
| Residential real estate | | | |
| Interest only payments | \$---- | \$252 | \$252 |
| Rate reduction | 420 | ---- | 420 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | ---- | 675 | 675 |
| Rate reduction | ---- | 440 | 440 |
| Maturity extension at lower stated rate than market rate | 199 | ---- | 199 |
| Reduction of principal and interest payments | 4,244 | ---- | 4,244 |
| Nonowner-occupied | | | |
| Interest only payments | 3,899 | 958 | 4,857 |

| | | | |
|--|---------|---------|----------|
| Reduction of principal and interest payments | 676 | ---- | 676 |
| Construction | | | |
| Interest only payments | ---- | 395 | 395 |
| Total TDR's | \$9,438 | \$2,720 | \$12,158 |

| | TDR's Performing to Modified Terms | TDR's Not Performing to Modified Terms | Total TDR's |
|---|---|---|----------------|
| December 31, 2011 | | | |
| Residential real estate | | | |
| Interest only payments | \$---- | \$283 | \$283 |
| Rate reduction | 420 | ---- | 420 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | 680 | ---- | 680 |
| Rate reduction | 449 | ---- | 449 |
| Maturity extension at lower stated rate than market rate | 219 | ---- | 219 |
| Nonowner-occupied | | | |
| Interest only payments | 6,296 | ---- | 6,296 |
| Construction | | | |
| Interest only payments | 674 | ---- | 674 |
| Commercial and industrial | | | |
| Interest only payments | 334 | ---- | 334 |
| Total TDR's | \$9,072 | \$283 | \$9,355 |

At September 30, 2012, the balance in TDR loans increased \$2,803, or 30.0%, from year-end 2011. The increase was largely due to the modification of one commercial real estate loan totaling \$4,244 during the first quarter of 2012. The loan's contractual principal and interest payments were reduced, which created a concession to the borrower. At September 30, 2012 and December 31, 2011, 78% and 97% of the Company's TDR's were performing according to their modified terms. The Company allocated \$2,206 and \$655 in reserves to customers whose loan terms have been modified in TDR's as of September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the Company had \$101 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to \$81 at December 31, 2011.

During the three months ended September 30, 2012, there was one \$676 loan whose terms were modified that resulted in a TDR classification. The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the nine months ended September 30, 2012:

| | TDR's Performing to Modified Terms | | TDR's Not Performing to Modified Terms | |
|--|--|---|--|---|
| | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |
| Nine months ended September 30, 2012 | | | | |
| Commercial real estate: | | | | |
| Owner-occupied | | | | |
| Reduction of principal and interest payments | \$4,308 | \$ 4,266 | \$---- | \$ ---- |
| Nonowner-occupied | | | | |

| | | | | |
|--|---------|----------|--------|---------|
| Reduction of principal and interest payments | 686 | 676 | ---- | ---- |
| Total TDR's | \$4,994 | \$ 4,942 | \$---- | \$ ---- |

All of the Company's TDR's that occurred during the nine months ended September 30, 2012 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at September 30, 2012 that experienced any payment defaults within twelve months following their loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. TDR loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The TDR's

described above had no impact on the allowance for loan losses or charge-offs during the nine months ended September 30, 2012. As of September 30, 2012, the Company had no allocation of reserves to customers whose loan terms have been modified during the first nine months of 2012.

Credit Quality Indicators:

The Company categorizes loans 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, public information, and current economic trends, among other factors. These risk categories are represented by a loan grading scale from 1 through 10. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called "criticized" and "classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 through 10. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed \$500.

The Company uses the following definitions for its criticized loan risk ratings:

Special Mention (Loan Grade 8). Loans classified as special mention indicate considerable risk due to deterioration of repayment (in the earliest stages) due to potential weak primary repayment source, or payment delinquency. These loans will be under constant supervision, are not classified and do not expose the institution to sufficient risks to warrant classification. These deficiencies should be correctable within the normal course of business, although significant changes in company structure or policy may be necessary to correct the deficiencies. These loans are considered bankable assets with no apparent loss of principal or interest envisioned. The perceived risk in continued lending is considered to have increased beyond the level where such loans would normally be granted. Credits that are defined as a troubled debt restructuring should be graded no higher than special mention until they have been reported as performing over one year after restructuring.

The Company uses the following definitions for its classified loan risk ratings:

Substandard (Loan Grade 9). Loans classified as substandard represent very high risk, serious delinquency, nonaccrual, or unacceptable credit. Repayment through the primary source of repayment is in jeopardy due to the existence of one or more well defined weaknesses and the collateral pledged may inadequately protect collection of the loans. Loss of principal is not likely if weaknesses are corrected, although financial statements normally reveal significant weakness. Loans are still considered collectible, although loss of principal is more likely than with special mention loan grade 8 loans. Collateral liquidation is considered likely to satisfy debt.

Doubtful (Loan Grade 10). Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification. These loans exhibit all substandard characteristics with the addition that weaknesses make collection or liquidation in full highly questionable and improbable. This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonable specific pending factors which may strengthen the credit can be more

accurately determined. These factors may include proposed acquisitions, liquidation procedures, capital injection, receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date.

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As of September 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of commercial loans by class of loans is as follows:

| September 30, 2012 | Pass | Criticized | Classified | Total |
|---------------------------|-----------|------------|------------|-----------|
| Commercial real estate: | | | | |
| Owner-occupied | \$87,329 | \$12,992 | \$5,463 | \$105,784 |
| Nonowner-occupied | 39,088 | 8,960 | 10,372 | 58,420 |
| Construction | 19,644 | ---- | 1,519 | 21,163 |
| Commercial and industrial | 39,456 | 427 | 7,346 | 47,229 |
| Total | \$185,517 | \$22,379 | \$24,700 | \$232,596 |

| December 31, 2011 | Pass | Criticized | Classified | Total |
|---------------------------|-----------|------------|------------|-----------|
| Commercial real estate: | | | | |
| Owner-occupied | \$103,743 | \$15,030 | \$10,591 | \$129,364 |
| Nonowner-occupied | 30,375 | 12,815 | 13,430 | 56,620 |
| Construction | 19,519 | ---- | 1,952 | 21,471 |
| Commercial and industrial | 36,633 | 3,250 | 5,317 | 45,200 |
| Total | \$190,270 | \$31,095 | \$31,290 | \$252,655 |

The Company also obtains the credit scores of its borrowers upon origination (if available by the credit bureau), but the scores are not updated. The Company focuses mostly on the performance and repayment ability of the borrower as an indicator of credit risk and does not consider a borrower's credit score to be a significant influence in the determination of a loan's credit risk grading.

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. Nonperforming loans are defined as loans that are past due 90 days and still accruing or loans that have been placed on nonaccrual. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of September 30, 2012 and December 31, 2011:

| September 30, 2012 | Automobile | Consumer Home Equity | Other | Residential Real Estate | Total |
|--------------------|------------|----------------------|----------|-------------------------|-----------|
| Performing | \$41,424 | \$18,763 | \$39,777 | \$226,104 | \$326,068 |
| Nonperforming | 84 | 96 | 46 | 3,645 | 3,871 |
| Total | \$41,508 | \$18,859 | \$39,823 | \$229,749 | \$329,939 |

| December 31, 2011 | Automobile | Consumer Home Equity | Other | Residential Real Estate | Total |
|-------------------|------------|----------------------|----------|-------------------------|-----------|
| Performing | \$45,677 | \$20,502 | \$40,947 | \$235,515 | \$342,641 |
| Nonperforming | 25 | 5 | 7 | 2,975 | 3,012 |
| Total | \$45,702 | \$20,507 | \$40,954 | \$238,490 | \$345,653 |

The Company, through its subsidiaries, grants residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 4.20% of total loans were unsecured at September 30, 2012, up from 3.98% at December 31, 2011.

NOTE 5 - 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, standby letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those

instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At September 30, 2012, the contract amounts of these instruments totaled approximately \$55,596, compared to \$61,802 at December 31, 2011. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. Since many of these instruments are expected to expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTE 6 - OTHER BORROWED FUNDS

Other borrowed funds at September 30, 2012 and December 31, 2011 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes.

| | FHLB Borrowings | Promissory Notes | Totals |
|--------------------|--------------------|---------------------|----------|
| September 30, 2012 | \$ 16,649 | \$3,449 | \$20,098 |
| December 31, 2011 | \$ 16,548 | \$3,748 | \$20,296 |

Pursuant to collateral agreements with the FHLB, advances are secured by \$243,913 in qualifying mortgage loans, \$94,381 in commercial loans and \$6,281 in FHLB stock at September 30, 2012. Fixed-rate FHLB advances of \$16,649 mature through 2042 and have interest rates ranging from 1.79% to 3.42% and a year-to-date weighted average cost of 2.31%. There were no variable-rate FHLB borrowings at September 30, 2012.

At September 30, 2012, the Company had a cash management line of credit enabling it to borrow up to \$95,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was \$95,000 available on this line of credit at September 30, 2012.

Based on the Company's current FHLB stock ownership, total assets and pledgeable loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of \$180,677 at September 30, 2012. Of this maximum borrowing capacity of \$180,677, the Company had \$147,327 available to use as additional borrowings, of which \$95,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.50% to 5.00% and are due at various dates through a final maturity date of December 8, 2014. At September 30, 2012, there were no promissory notes payable by Ohio Valley to related parties.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$16,700 at September 30, 2012 and \$27,000 at December 31, 2011.

Scheduled principal payments as of September 30, 2012:

| | FHLB Borrowings | Promissory Notes | Totals |
|------|--------------------|---------------------|---------|
| 2012 | \$267 | \$1,887 | \$2,154 |
| 2013 | 3,814 | 166 | 3,980 |
| 2014 | 3,705 | 1,396 | 5,101 |
| 2015 | 1,109 | ---- | 1,109 |
| 2016 | 1,027 | ---- | 1,027 |

| | | | |
|------------|----------|---------|----------|
| Thereafter | 6,727 | ---- | 6,727 |
| | \$16,649 | \$3,449 | \$20,098 |

NOTE 7 – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and consumer finance. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments, and deposits provide the majority of the net revenues from the banking operation, while loans provide the majority of the net revenues for the consumer finance segment. All Company segments are domestic.

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 91.0% and 91.5% of total consolidated revenues for the years ended September 30, 2012 and 2011, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note 1 - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Information for the Company's reportable segments is as follows:

| | Three Months Ended September 30, 2012 | | |
|---------------------|--|---------------------|------------------|
| | Banking | Consumer Finance | Total Company |
| Net interest income | \$7,239 | \$628 | \$7,867 |
| Provision expense | \$1,170 | \$13 | \$1,183 |
| Noninterest income | \$1,603 | \$71 | \$1,674 |
| Noninterest expense | \$6,417 | \$540 | \$6,957 |
| Tax expense | \$245 | \$49 | \$294 |
| Net income | \$1,010 | \$97 | \$1,107 |
| Assets | \$782,183 | \$13,771 | \$795,954 |

| | Three Months Ended September 30, 2011 | | |
|---------------------|--|---------------------|------------------|
| | Banking | Consumer Finance | Total Company |
| Net interest income | \$7,562 | \$622 | \$8,184 |
| Provision expense | \$1,150 | \$2 | \$1,152 |
| Noninterest income | \$985 | \$73 | \$1,058 |
| Noninterest expense | \$6,516 | \$485 | \$7,001 |
| Tax expense | \$133 | \$70 | \$203 |
| Net income | \$748 | \$138 | \$886 |
| Assets | \$810,306 | \$13,810 | \$824,116 |

Nine Months Ended September 30, 2012

| | Banking | Consumer Finance | Total Company |
|---------------------|-----------|---------------------|------------------|
| Net interest income | \$22,322 | \$2,510 | \$24,832 |
| Provision expense | \$2,957 | \$66 | \$3,023 |
| Noninterest income | \$6,491 | \$636 | \$7,127 |
| Noninterest expense | \$19,732 | \$1,719 | \$21,451 |
| Tax expense | \$1,577 | \$460 | \$2,037 |
| Net income | \$4,547 | \$901 | \$5,448 |
| Assets | \$782,183 | \$13,771 | \$795,954 |

Nine Months Ended September 30, 2011

| | Banking | Consumer Finance | Total Company |
|---------------------|-----------|---------------------|------------------|
| Net interest income | \$23,113 | \$2,428 | \$25,541 |
| Provision expense | \$4,795 | \$60 | \$4,855 |
| Noninterest income | \$5,598 | \$806 | \$6,404 |
| Noninterest expense | \$19,492 | \$1,588 | \$21,080 |
| Tax expense | \$1,000 | \$536 | \$1,536 |
| Net income | \$3,424 | \$1,050 | \$4,474 |
| Assets | \$810,306 | \$13,810 | \$824,116 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except share and per share data)

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, and taxes; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in management's discussion and analysis is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading "Item 1A. Risk Factors" of Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements, whether as a result of new information, unanticipated future events or otherwise.

Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial and consumer banking services within southeastern Ohio as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; the making of construction and real estate loans; and credit card services. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. In addition, the Bank is one of a limited number of financial institutions which facilitates the payment of tax refunds through a third-party tax software provider. The Bank has facilitated the

payment of these tax refunds through electronic refund check/deposit (“ERC/ERD”) transactions. ERC/ERD transactions involve the issuing of a tax refund to the taxpayer after the Bank has received the refund from the federal/state government. ERC/ERD transactions occur primarily during the tax refund loan season, typically during the first quarter of each year. Prior to 2012, the Bank also offered refund anticipation loans (“RALs”) through the same third-party tax software provider. RALs are short-term cash advances

against a customer's anticipated income tax refund. The Bank ceased offering RALs effective April 19, 2011, although it still provides ERC/ERD transactions. Loan Central continues to offer RALs.

For the three months ended September 30, 2012, net income increased by \$221, or 24.9%, to finish at \$1,107, compared to the same period in 2011. Earnings per share for the third quarter of 2012 also increased by \$.05, or 22.7%, compared to the same period in 2011, to finish at \$.27 per share. For the nine months ended September 30, 2012, net income increased by \$974, or 21.8%, to finish at \$5,448, compared to the same period in 2011. Earnings per share during the first nine months of 2012 also increased by \$.23, or 20.5%, to finish at \$1.35 per share compared to the same period in 2011. The annualized net income to average asset ratio, or return on assets (ROA), improved to 0.87% at September 30, 2012, as compared to 0.68% at September 30, 2011. The Company's net income to average equity ratio, or return on equity (ROE), improved to 9.89% at September 30, 2012, as compared to 8.60% at September 30, 2011.

The largest contributor to the Company's growth in net income for 2012 has been lower provision expense. While provision expense was limited to a minimal increase of \$31 during the three months ended September 30, 2012, provision expense has remained below the previous year-to-date results, decreasing \$1,832, or 37.7%, during the nine months ended September 30, 2012, compared to the same periods in 2011. Lower provision expense during the nine months ended September 30, 2012 was impacted mostly by lower net charge-offs, which were down \$5,548 when compared to the same period in 2011. This was primarily the result of higher net charge-offs taken on certain impaired loans during the first and second quarters of 2011, resulting in higher general allocations of the allowance for loan losses associated with the Company's average historical loan loss factor. A large portion of these higher net charge-offs during 2011 was related to \$3,839 in partial charge-offs taken on one impaired commercial loan relationship during the first quarter of 2011. While \$2,906 had already been allocated within the allowance for loan losses for this charge-off, an additional impairment charge to provision expense of \$933 was recognized due to a continued deterioration of collateral values. The partial charge-offs from this commercial relationship also contributed to the increase in general allocations during the first nine months of 2011.

Partially offsetting the reduction in provision expense for the nine months ended September 30, 2012 was a decrease in the Company's net interest income of \$317 and \$709 for the three and nine months ended September 30, 2012, as compared to the same periods in 2011. Contributing to the overall decrease in net interest income were lower average earning assets, which decreased \$29,199 during the third quarter of 2012, and \$43,736 during the first nine months of 2012, compared to the same periods in 2011, largely from loans. Also contributing to lower net interest income was the elimination of the Bank's RAL product. After the 2011 tax season, the Bank ceased offering RALs as recommended by the FDIC and, as a result, did not record any RAL fee income during the nine months ended September 30, 2012, as compared to \$561 in RAL fees during the nine months ended September 30, 2011.

Further impacting the net income results were changes in the Company's noninterest income and noninterest expenses during the three and nine months ended September 30, 2012. When compared to the three and nine months ended September 30, 2011, the Company's noninterest income during the three and nine months ended September 30, 2012 increased \$616 and \$723, respectively, while noninterest expense decreased \$44 and increased \$371, respectively. Noninterest income was largely impacted by increases in the Company's gains of other real estate owned, debit and credit card interchange income, and mortgage banking revenue. A decrease in the Company's ERC/ERD fees partially offset the growth in noninterest income during the year-to-date period ended September 30, 2012, decreasing \$254, or 10.0%, as compared to the same period in 2011. ERC/ERD fees are discussed further under the caption "Noninterest Income" in this Management's Discussion and Analysis. Higher noninterest expense was impacted by increased salaries and employee benefits related to higher healthcare and retirement benefit costs.

The consolidated total assets of the Company decreased \$8,223, or 1.0%, during the first nine months of 2012 as compared to year-end 2011, to finish at \$795,954. This change in assets was mostly due to a decrease in the Company's earning assets of \$8,133 from year-end 2011, resulting from lower loans partially offset by increases in both interest-bearing deposits with banks and investment securities. The first nine months of 2012 saw the Company's loan portfolio decrease \$35,773, or 6.0%, from year-end 2011. This change in loan balances came primarily from the commercial real estate loan portfolio, which

decreased \$22,088, or 10.6%, from year-end 2011, largely due to increases in loan payoffs as well as additional charge-offs recorded during the first nine months of 2012. Further decreasing the Company's loan portfolio were residential real estate and consumer loans, which decreased \$8,741 and \$6,973, respectively, from year-end 2011. The decrease in residential real estate loans came mostly from longer-term, fixed-rate loans, while lower consumer loan balances were largely due to auto loans.

Interest-bearing deposits with banks increased \$8,991 from year-end 2011. Interest-bearing deposits with banks largely consist of short-term investments in the Company's Federal Reserve Bank clearing account, which earns 0.25%. During the first quarter of 2012, the Company experienced a significant increase in tax refund volume related to its ERC/ERD business. These short-term tax refunds, facilitating through several of the Company's noninterest-bearing checking accounts, were invested with the Federal Reserve Bank clearing account. As the tax season ended during the second quarter of 2012, the short-term tax refund deposits had disbursed out of the Federal Reserve Bank clearing account, leaving a portion of excess funds retained in the account. With loan demand being challenged and payments and payoffs increasing at a faster pace than new loan balances, a portion of the retained excess funds from the Company's Federal Reserve Bank clearing account were used to fund investment security purchases as well as to satisfy increased maturities within the Company's time deposit portfolio. The Company's investment securities increased \$18,649, or 17.2%, from year-end 2011, mostly from purchases of long-term U.S. Government agency ("Agency") mortgage-backed securities.

The Company continues to place more emphasis on growing its core deposit sources, such as noninterest-bearing demand accounts as well as interest-bearing NOW, money market and savings account balances. This emphasis has contributed to a larger balance shift away from its noncore deposit sources such as retail and wholesale time deposits. As a result, during the first nine months of 2012, the Company experienced a \$28,162 decrease in its noncore time deposit balances from year-end 2011. This is compared to increases in the Company's interest- and noninterest-bearing core deposit balances, which were up \$16,926 and \$49, respectively, from year-end 2011. Interest-bearing deposits benefited from increased NOW and savings account balances while noninterest-bearing balances were largely impacted by excess funds retained from the ERC/ERD transactions that had processed during the tax season of 2012, as well as increased balances within the Company's rewards checking products.

The Company will continue to utilize its excess liquidity to fund potential earning asset growth during the fourth quarter of 2012.

Comparison of
Financial Condition
at September 30, 2012 and December 31, 2011

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at September 30, 2012 compared to December 31, 2011. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of cash, as well as interest- and non-interest bearing balances due from banks. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At September 30, 2012, cash and cash equivalents had increased \$10,217, or 19.8%, to \$61,847, as compared to \$51,630 at December 31, 2011. The change in cash and cash equivalents was largely affected by the Company's increase in interest-bearing Federal Reserve Bank clearing account balances caused by increased liquidity from seasonal tax deposits, increased loan payoffs and growth in core deposits from year-end 2011. The Company will generally experience higher levels of excess funds during the first quarter than any other part of the year due to

increased tax refund deposits from its ERC/ERD tax business. Liquidity levels normalize during the second quarter as these short-term tax refund deposits are fully disbursed from its Federal Reserve Bank clearing account, leaving a portion of retained excess funds. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain these excess funds while loan demand remains challenged. In addition, the Company

will utilize its Federal Reserve Bank clearing account to manage both investment security purchases and maturities, as well as to fund continued maturities of retail and wholesale certificates of deposit (“CD’s”). The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee. As of the filing date of this report, the interest rate calculated by the Federal Reserve continues to be 0.25%. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently in a range of less than 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. The Company’s focus will be to continue to re-invest these liquid funds back into longer-term, higher-yielding assets, such as loans and investment securities, during 2012 when the opportunities arise. Further information regarding the Company’s liquidity can be found under the caption “Liquidity” in this Management’s Discussion and Analysis.

Securities

The balance of total securities increased \$18,649, or 17.2%, as compared to year-end 2011. The Company’s investment securities portfolio has consisted of U.S. Treasury securities, U.S. Government sponsored entity (“GSE”) securities, Agency mortgage-backed securities and obligations of states and political subdivisions. During the first nine months of 2012, the Company experienced an increase in its liquidity position impacted by retained excess funds from seasonal tax clearing activities and increased loan payments and payoffs. As a result, the Company invested a portion of its excess funds into new long-term Agency mortgage-backed securities, which increased \$24,870, or 32.0%, from year-end 2011. Typically, the primary advantage of Agency mortgage-backed securities has been the increased cash flows due to the more rapid monthly repayment of principal as compared to other types of investment securities, which deliver proceeds upon maturity or call date. However, with the current low interest rate environment and loan balances at a declining pace, the cash flow that is being collected is being reinvested at lower rates. Principal repayments from Agency mortgage-backed securities totaled \$17,721 from January 1, 2012 through September 30, 2012.

While security growth has been evident within the Agency mortgage-backed securities portfolio, the Company saw its U.S. Treasury and GSE securities balances decrease \$7,056, or 87.4%, collectively, from year-end 2011. In addition to helping achieve diversification within the Company’s investment securities portfolio, U.S. Treasury and GSE securities have been used to satisfy pledging requirements for repurchase agreements. However, during the third quarter of 2011, newly enacted legislation permitted business checking accounts to earn interest on their deposits. This legislation prompted all of the Company’s repurchase agreement accounts to reinvest into either interest-bearing demand accounts subject to normal FDIC insurance coverage or noninterest-bearing demand accounts with unlimited FDIC insurance coverage until the end of 2012. As a result, the Company’s repurchase agreement balances were \$0 at December 31, 2011, eliminating the need to secure these balances with U.S. Treasury and GSE investment securities. For the remainder of 2012, the Company’s focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets.

Loans

The loan portfolio represents the Company’s largest asset category and is its most significant source of interest income. During the first nine months of 2012, total loan balances decreased from year-end 2011 by \$35,773, or 6.0%. Lower loan balances were mostly influenced by the commercial loan portfolio, which includes both commercial real estate and commercial and industrial loans. While commercial loans were down, management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Commercial real estate, the Company's largest segment of commercial loans, decreased \$22,088, or 10.6%, from year-end 2011. Commercial real estate consists of owner-occupied, nonowner-occupied and construction loans. Commercial real estate also includes loan participations with other banks outside the Company's primary market area. Although the Company is not actively seeking to participate in loans

originated outside its primary market area, it has taken advantage of the relationships it has with certain lenders in those areas where the Company believes it can profitably participate with an acceptable level of risk. Commercial real estate loans were down largely from its owner-occupied portfolio during 2012, which decreased \$23,580, or 18.2%, from year-end 2011. This decrease was mostly due to large loan payoffs during the first quarter of 2012 totaling \$16,537 on various owner-occupied commercial real estate loans with two borrowers. Owner-occupied loans consist of nonfarm, nonresidential properties. A commercial owner-occupied loan is a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans of the Company include loans secured by hospitals, churches, and hardware and convenience stores. Nonowner-occupied loans increased \$1,800, or 3.2%, from year-end 2011 in large part due to one commercial loan relationship that transitioned from the construction/land development phase of its borrowing arrangement during the third quarter of 2012. Nonowner-occupied loans are property loans for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property, such as apartment buildings, condominiums, hotels and motels. These loans are primarily impacted by local economic conditions, which dictate occupancy rates and the amount of rent charged. Commercial construction loans, which decreased \$308, or 1.4%, from year-end 2011, are extended to individuals as well as corporations for the construction of an individual property or multiple properties and are secured by raw land and the subsequent improvements.

At September 30, 2012, the Company's commercial and industrial loan portfolio was up from year-end 2011 by \$2,029, or 4.5%. Commercial and industrial loans consist of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock.

Over sixty-five percent of the Company's total commercial loan portfolio, including participation loans, consists of rental property loans (29.6% of portfolio), construction and land development loans (10.2% of portfolio), medical industry loans (6.9% of portfolio), hotel and motel loans (6.8% of portfolio), government and education loans (6.4% of portfolio), and church loans (5.3% of portfolio). At September 30, 2012, the primary market areas for the Company's commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson and Pike counties of Ohio, which accounted for 47.1% of total originations. The growing West Virginia markets also accounted for 37.3% of total originations for the same time period. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company, the effects of competitive pressure and normal underwriting considerations.

Generating residential real estate loans remains a significant focus of the Company's lending efforts. Residential real estate loan balances comprise the largest portion of the Company's loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During the first nine months of 2012, total residential real estate loan balances decreased \$8,741, or 3.7%, from year-end 2011. The decrease was mostly from the Company's 15-, 20- and 30-year fixed-rate loans, which declined \$18,549, or 11.3%, from year-end 2011. Long-term interest rates continue to remain at historic low levels and have prompted periods of increased refinancing demand for long-term, fixed-rate real estate loans in recent years. Management has determined that originating 100% of the demand for long-term fixed-rate real estate loans at such low rates would present an unacceptable level of interest rate risk. Therefore, to help manage interest rate risk while also satisfying the demand for long-term, fixed-rate real estate loans, the Company has strategically chosen to originate and sell most of its fixed-rate mortgage loans to the secondary market, which allowed its customers to take advantage of low rates and reduce their monthly costs. The Company maintains its relationship with the customer by servicing the loan. The customer must qualify to take advantage of a secondary market loan based on various criteria which could limit volume growth. The Company has experienced an increase in refinancing volume, which has led to higher secondary market sales in 2012 versus 2011. During the first nine months of 2012, a total of 153 loans totaling

\$19,798 were sold, compared to 70 loans sold totaling \$7,839 during the first nine months of 2011. The remaining real estate loan portfolio balances increased \$9,808, or 13.2%. This increase came primarily from the Company's

other variable-rate loan products being offered to its customers as alternative financing options. A customer that may not qualify for a long-term, secondary market loan may choose from one of the Company's other adjustable-rate mortgage products. This has contributed to higher balances of five-year, adjustable-rate mortgages, which were up \$11,263 or 67.9%, from year-end 2011. The Company believes it has limited its interest rate risk exposure due to its practice of promoting and selling residential mortgage loans to the secondary market. The Company will continue to follow this secondary market strategy until long-term interest rates increase back to a range that falls within an acceptable level of interest rate risk.

Lower loan balances during 2012 were also influenced by the Company's total consumer loans, which decreased \$6,973, or 6.5%, from year-end 2011. The Company's consumer loans are primarily secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The decrease in consumer loans came mostly from the Company's automobile lending portfolio, which decreased \$4,194, or 9.2%, from year-end 2011. The automobile lending component comprises the largest portion of the Company's consumer loan portfolio, representing 41.4% of total consumer loans at September 30, 2012. In recent years, growing economic factors have weakened the economy and have limited consumer spending. During this time of economic challenge, the Company continues to maintain a strict loan underwriting process on its consumer auto loan offerings to limit future loss exposure. The Company's interest rates offered on indirect automobile opportunities have struggled to compete with the more aggressive lending practices of local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates related to this segment. The decreasing trend of auto loan balances should continue during the fourth quarter 2012, as the larger institutions and captive finance companies will continue to aggressively compete for a larger share of the market.

The remaining consumer loan products not discussed above declined \$2,779, or 4.5%, which include general decreases in loan balances from recreational vehicles, mobile homes, home equity lines of credit and unsecured loans. Management will continue to place more emphasis on other loan portfolios (i.e. commercial and, to a smaller extent, residential real estate) that will promote increased profitable loan growth and higher returns. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return.

The Company continues to monitor the pace of its loan volume. The well-documented housing market crisis and other disruptions within the economy have negatively impacted consumer spending, which has continued to limit the lending opportunities within the Company's market locations. Declines in the housing market since 2007, with falling home prices and increasing foreclosures and unemployment, have continued to result in significant write-downs of asset values by financial institutions. To combat this ongoing potential for loan loss, the Company will remain consistent in its approach to sound underwriting practices and a focus on asset quality. The Company anticipates its overall loan growth in 2012 to remain challenged.

Allowance for Loan Losses

Management evaluates the adequacy of the allowance for loan losses quarterly based on several factors, including, but not limited to, general economic conditions, loan portfolio composition, prior loan loss experience, and management's estimate of probable incurred losses. Management continually monitors the loan portfolio to identify potential portfolio risks and to detect potential credit deterioration in the early stages, and then establishes reserves based upon its evaluation of these inherent risks. Actual losses on loans are reflected as reductions in the reserve and are referred to as charge-offs. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in management's opinion, to maintain the allowance for loan losses at an adequate level that is reflective of probable and inherent loss. The allowance required is primarily a function of the relative quality of the loans in the loan portfolio, the mix of loans in the portfolio and the rate of growth of outstanding loans. Impaired loans, which include loans classified as troubled debt restructurings ("TDR's"), are considered in the determination of the overall adequacy of

the allowance for loan losses.

The struggles of our U.S. economy in recent years have had a direct impact on the Company's borrowers,

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as they continue to experience financial difficulties and liquidity strains. The Company is faced with the ongoing decision of whether to foreclose on these troubled loans and take possession of the collateral or to work with the borrower to modify the original terms of the loan. A successful loan modification not only avoids costly foreclosure proceedings but, more importantly, could result in the full repayment of the loan principal amount. The Company continues to monitor and make loan modifications to certain troubled loans that would ease payment pressures on the borrower. Most generally, the modification "period" of the original terms of the loan is only temporary (i.e. 12 months), after which the loan would resume under the original contractual terms of the loan. GAAP and regulatory guidance identifies certain loan modifications that would be classified as TDR's, which, in general, is when a bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the bank would not otherwise consider. One such qualification would be if the bank modified the original terms of the loan for the remaining original life of the debt. Modifications of the original terms would include temporarily adjusting the contractual interest rate of the loan or converting the payment method from principal and interest amortization payments to interest-only for a temporary period of time.

During the first nine months of 2012, the Company's allowance for loan losses increased \$841, or 11.5%, to finish at \$8,185 as compared to \$7,344 at year-end 2011. This increase in the allowance was largely from additional reserves required during the first nine months of 2012 from various loan impairments which contributed to a \$1,551 increase in specific allocations from year-end 2011. These additional specific allocations include the impairments in collateral values and ongoing cash flows of one commercial real estate loan relationship identified during the second and third quarters of 2012. The impairment required specific allocations within the allowance for loan losses and corresponding increases to provision for loan losses expense during both periods.

Partially offsetting the increases in the allowance mentioned above were lower general allocations related to improving economic risk trends and lower loan balances. As previously mentioned, the U.S. economy has been under financial stress in recent years, causing the Company's borrowers to experience financial difficulties and liquidity strains. Management has focused on improving asset quality and lowering credit risk while working to maintain its relationships with its borrowers. The Company has continued to work with its borrowers during their periods of financial hardship to grant temporary concessions on their loan terms in the form of TDRs. As part of the Company's quarterly analysis of the allowance for loan losses, an improving trend has been identified within its economic risk allocation, which, among other things, accounts for unemployment rates and classified/criticized asset levels. Since year-end 2011, unemployment rates within the Company's lending markets have decreased, while classified and criticized asset balances have also decreased. These improving trends have placed less pressure on the economic risk allocation of the allowance for loans losses. In addition, the Company's total loan portfolio balance decreased \$35,773 from year-end 2011, having a direct impact on lower general allocations of the allowance. As a result, these factors contributed to a \$710 decrease in the Company's total general allocation from year-end 2011.

The Company's impaired loans increased \$2,365, or 20.4%, from year-end 2011 in large part due to the addition of one commercial real estate loan totaling \$4,244. Modifications of the contractual terms of this loan were performed during the first quarter of 2012, which provided the borrower a temporary concession. An impairment analysis was performed on the collateral values of the loan which revealed no need for a specific allocation of the allowance for loan losses. The portions of impaired loans for which there are specific allocations reflect losses that the Company expects to incur, as they will not likely be able to collect all amounts due according to the contractual terms of the loan. At September 30, 2012, there was \$2,206 in specific allocations reserved for expected losses of impaired loans. Although impaired loans have been identified as potential problem loans, they may never become delinquent or classified as nonperforming.

The Company experienced a \$4,006 increase in its nonperforming loans from year-end 2011. Nonperforming loans consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans finished at \$7,143 at September 30, 2012, compared to \$3,137 at year-end 2011. The increase was mostly related to three impaired

commercial real estate loans totaling \$1,353 that were classified as nonaccrual during the first quarter of 2012 and two commercial real estate loans totaling

\$1,124 that became over 90 days past due but still accruing during the second quarter of 2012. As a result, the Company's ratio of nonperforming loans to total loans increased from 0.52% at December 31, 2011 to 1.27% at September 30, 2012. Furthermore, the Company experienced an increase in its nonperforming assets to total assets ratio, increasing from 0.92% at December 31, 2011 to 1.30% at September 30, 2012. Approximately 28.4% of nonperforming assets is related to two loans with one commercial borrower totaling \$2,948 that were transferred into other real estate owned during the second quarter of 2008. Both nonperforming loans and nonperforming assets at September 30, 2012 continue to be in various stages of resolution for which management believes such loans are adequately collateralized or otherwise appropriately considered in its determination of the adequacy of the allowance for loan losses.

The ratio of the allowance for loan losses to total loans increased to 1.46% at September 30, 2012, compared to 1.23% at December 31, 2011, largely due to a \$1,551 increase in specific allocations combined with a \$35,773 decrease in total loan balances from year-end 2011. Management believes that the allowance for loan losses at September 30, 2012 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits are used as part of the Company's liquidity management strategy to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Deposits, both interest- and noninterest-bearing, continue to be the most significant source of funds used by the Company to support earning assets. The Company seeks to maintain a proper balance of core deposit relationships on hand while also utilizing various wholesale deposit sources, such as brokered and internet CD balances, as an alternative funding source to manage efficiently the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. Total deposits decreased \$11,187, or 1.6%, to finish at \$676,699 at September 30, 2012, mostly from lower time deposits. This change in time deposits from year-end 2011 fits within management's strategy of focusing on more "core" deposit balances that include interest-bearing demand, savings, money market and noninterest-bearing deposit balances. Core relationship deposits are considered by management as a primary source of the Bank's liquidity. The Bank focuses on these kinds of deposit relationships with consumers from local markets who can maintain multiple accounts and services at the Bank. The Company views core deposits as the foundation of its long-term funding sources because it believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors. As a result, the Bank's core customer relationship strategy has resulted in a higher portion of its deposits being held in NOW and savings accounts at September 30, 2012 than at December 31, 2011, combined with a lesser portion of deposits being held in brokered and retail time deposits at September 30, 2012 than at December 31, 2011. Furthermore, the Company's core noninterest-bearing demand accounts increased from year-end 2011.

Due to the increased emphasis on core relationship deposits, time deposits represented 32.5% of total deposits at September 30, 2012 compared to 36.0% of total deposits December 31, 2011, a decrease of \$28,162, or 11.4%. With loan balances down 6.0% from year-end 2011, the Company has not needed to employ aggressive measures, such as offering higher rates, to attract customer investments in CD's. Furthermore, as market rates remain at low levels, the Company has seen the cost of its retail CD balances continue to reprice downward to reflect current deposit rates. As a result, the Bank's CD customers have been more likely to consider re-investing their matured CD balances into other short-term deposit products or with other institutions offering the most attractive rates. This has led to an increased maturity runoff within its "customer relation" retail CD portfolio. Furthermore, with the significant downturn in economic conditions, the Bank's CD customers in general have experienced reduced funds available to deposit with

structured terms, choosing to remain more liquid. As a result, the Company has experienced a decrease within its retail CD balances, which were down \$15,749 from year-end 2011. The Company's preference of core deposit funding sources has created a lesser reliance on wholesale funding deposits (i.e., brokered

and internet CD issuances), which were also down \$12,413 from year-end 2011. The Company will continue to evaluate its use of brokered CD's to manage interest rate risk associated with longer-term, fixed-rate loan demand.

Further decreases in the Company's deposit balances came from money market accounts, which were down \$1,119, or 0.7%, from year-end 2011. The decrease came largely from the Company's Market Watch product. The Market Watch product is a limited transaction investment account with tiered rates that competes with current market rate offerings and serves as an alternative to certificates of deposit for some customers. With an added emphasis on further building and maintaining core deposit relationships, the Company has marketed several attractive incentive offerings in the past several years to draw customers to this particular product. As the terms of these special incentive offerings have ended, the interest rates have adjusted down to current market rates, which has resulted in the decrease in Market Watch balances.

Partially offsetting the decreases in time deposits and money market account balances was growth in the Company's interest-bearing NOW account balances, which increased \$12,337, or 12.1%, during the first nine months of 2012. This increase was largely driven by public fund balances related to local city and county school construction projects within Gallia County, Ohio. While the Company feels confident in the relationships it has with its public fund customers, these balances will continue to experience larger fluctuations than other deposit account relationships due to the nature of the account activity. Larger public fund balance fluctuations are, at times, seasonal and can be predicted while most other large fluctuations are outside of management's control. The Company values these public fund relationships it has secured and will continue to market and service these accounts to maintain its long-term relationships.

Also partially offsetting overall deposit decreases was growth in the Company's savings account balances, which increased \$5,708, or 12.2%, from year-end 2011, coming primarily from the statement savings product. As CD market rates continue to adjust downward, the spread between a short-term CD rate and a statement savings rate has become small enough for the customer to invest balances into a more liquid statement savings account, perhaps hoping for rising rates in the near future.

The Company's interest-free funding source, noninterest-bearing demand deposits, was relatively stable at September 30, 2012, increasing \$49, or 0.04%, from year-end 2011. Decreases within the Company's business checking accounts from year-end 2011 were offset by growth in the Company's other noninterest-bearing products, particularly those offering incentive rewards to customers.

The Company will continue to experience increased competition for deposits in its market areas that could challenge growth within its core deposit products. The Company will continue to emphasize growth in its core deposit relationships during the fourth quarter of 2012, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

Other Borrowed Funds

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund potential asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of Federal Home Loan Bank ("FHLB") advances and promissory notes. During the first nine months of 2012, other borrowed funds were down \$198, or 1.0%, from year-end 2011. With net loan demand continuing on a declining pace during 2012, management will consider the use of its core deposit growth and retained deposit proceeds from the first quarter's seasonal tax activity to repay FHLB borrowings, as necessary. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

Shareholders' Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At September 30, 2012, the Bank's capital exceeded the minimum requirements to be deemed "well capitalized" under applicable prompt corrective action regulations. Total shareholders' equity at September 30, 2012 of \$75,638 increased \$3,795, or 5.3%, as compared to the balance of \$71,843 at

December 31, 2011. Contributing most to this increase was year-to-date net income of \$5,448, partially offset by cash dividends paid of \$2,699, or \$.67 per share.

Comparison of Results of Operations
for the Three and Nine Months Ended
September 30, 2012 and 2011

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three months and nine months ended September 30, 2012 compared to the same periods in 2011. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. The Company earns interest and dividend income from loans, investment securities and short-term investments while incurring interest expense on interest-bearing deposits and short- and long-term borrowings. Net interest income is affected by changes in both the average volume and mix of assets and liabilities and the level of interest rates for financial instruments. During the third quarter of 2012, net interest income decreased \$317, or 3.9%, as compared to the third quarter of 2011. During the nine months ended September 30, 2012, net interest income decreased \$709, or 2.8%, as compared to the nine months ended September 30, 2011. The quarterly and year-to-date decreases were largely due to a decline in fees on loans and lower average earning asset balances which yielded less interest income.

Total interest and fee income earned on the Company's earning assets decreased \$1,288, or 12.0%, during the third quarter of 2012, and decreased \$3,808, or 11.4%, during the first nine months of 2012, as compared to the same periods in 2011. This drop in earnings came largely from the commercial loan portfolio. The Company experienced lower average balances within the commercial loan portfolio during the first nine months of 2012 versus the same period in 2011. This change primarily came from significant charge-offs of underperforming commercial loans, as well as large payoffs of various commercial loans during those periods. These lower loan balances have contributed to a \$637, or 16.7%, decrease in commercial interest and fee revenue during the third quarter of 2012, and a \$1,570, or 13.7%, decrease during the first nine months of 2012, versus the same periods in 2011.

Total interest and fee income was also impacted by the Company's consumer loan portfolio, which saw consumer interest and fees decrease \$258, or 10.3%, during the third quarter of 2012, and \$1,290, or 14.7%, during the first nine months of 2012, as compared to the same periods in 2011. Contributing to this were lower consumer loan average balances during 2012, primarily from auto loan balances, where competition for loan demand continues to be challenged by other financial institutions and captive finance companies. Also contributing to the decrease in consumer interest and fee revenue was a decrease in tax refund anticipation loan fees during the first nine months of 2012. The Company's participation with a third-party tax software provider had given the Bank the opportunity to make RALs during the tax refund loan season, typically from January through March. During the first nine months of 2011, the Company recognized \$561 in RAL fees. In response to the FDIC's expressions of concern about RALs, the Bank determined to discontinue offering RALs after April 19, 2011. As a result, the Bank did not originate RAL loans during the first nine months of 2012. The FDIC's concern and recommendation does not affect the Bank's offering of other tax refund products, such as ERC's and ERD's. Furthermore, the FDIC's recommendation does not affect the offerings of RALs by Loan Central.

The Company's average residential real estate loan portfolio decreased during the first nine months of 2012 versus the same period in 2011. The decreases in residential real estate loans has been largely the result of management's strategy to sell the majority of its long-term, fixed-rate real estate loans to the secondary market, while retaining the servicing rights to these loans. This action continues to generate loan sale and servicing fee revenue within noninterest income, but has resulted in a \$335, or 9.1%, decrease in real estate

interest and fee income during the three months ended September 30, 2012, and an \$862, or 7.7%, decrease during the nine months ended September 30, 2012, as compared to the same periods in 2011.

Further contributing to lower interest and fee income was a decrease in the yields earned on average earning assets during the quarterly and year-to-date periods ended September 30, 2012, as compared to the same periods in 2011. The average yield on earning assets decreased 45 basis points during the third quarter of 2012 to finish at 5.04%, and decreased 35 basis points during the first nine months of 2012 to finish at 5.13%, as compared to the same periods in 2011. Lower asset yields were mostly impacted by decreasing market rates and the elimination of RAL fees in 2012.

Total interest expense incurred on the Company's interest-bearing liabilities decreased \$971, or 38.7%, during the third quarter of 2012, and \$3,099, or 38.8%, during the first nine months of 2012, as compared to the same periods in 2011. The benefits of lower interest expense are the result of lower rates paid on interest-bearing liabilities. The Federal Reserve continues to hold the prime interest rate at 3.25%, and the target federal funds rate remains at a range from 0.0% to 0.25%. The sustained low short-term rates have continued to impact the repricings of various Bank deposit products, including public fund NOW, Gold Club and Market Watch accounts. Interest rates on CD balances have also repriced to lower rates (as a lagging effect to the Federal Reserve's action to drop short-term interest rates from 2008), which have lowered funding costs during the quarterly and year-to-date periods ending September 30, 2012, as compared to the same periods in 2011. The Company also continues to experience a deposit composition shift from a higher level of average time deposits to an increasing level of average core deposit balances. During the first nine months of 2012, the Company's average time deposit balances, with a weighted average cost of 1.5%, decreased \$56,642, as compared to the average time deposit balances during the same period in 2011. This is compared to an average balance increase of \$43,296 in the Company's lower costing, core deposit balances, with a weighted average cost of 0.56% during the first nine months of 2012 as compared to the first nine months of 2011. As a result of decreases in the average market interest rates mentioned above and the deposit composition shift to lower costing deposit balances, the Company's total weighted average funding costs have decreased 46 basis points from 1.22% at September 30, 2011 to 0.76% at September 30, 2012.

During the three and nine months ended September 30, 2012, the decline in asset yields was completely offset by a larger decline in funding costs. As a result, the Company's net interest margin has improved 2 basis points to 4.23% during the third quarter of 2012, and improved 12 basis points to 4.30% during the nine months ended September 30, 2012, as compared to the same periods in 2011. The Company attributes this margin enhancement to higher average balances held in noninterest-bearing deposit accounts from increased tax refund deposits and a higher deposit mix of lower-costing, core deposit average balances of savings, NOW and money market balances. The Company will continue to focus on re-deploying the Federal Reserve balances earning 0.25% into higher yielding instruments as opportunities arise. Net interest margin will benefit if these deposits with the Federal Reserve Bank can be re-invested in loans and other longer-term, higher yielding investments. It is difficult to speculate on future changes in net interest margin and the frequency and size of changes in market interest rates. The past several years has seen the banking industry under continued stress due to declining real estate values and asset impairments. Earlier in 2012, the Federal Reserve announced it would maintain the current state of low interest rates through 2014 or longer to help boost the economy as its recovery has been short of expectations. However, further decreases in interest rates by the Federal Reserve are estimated to have a negative effect on the Company's net interest income, as most of its deposit balances are perceived to be at or near their interest rate floors. The Company will also continue to face pressure on its net interest income and margin improvement unless loan balances begin to expand and become a larger component of overall earning assets. For additional discussion on the Company's rate sensitive assets and liabilities, please see Item 3, Quantitative and Qualitative Disclosure About Market Risk, of this Form 10-Q.

Provision for Loan Losses

Credit risk is inherent in the business of originating loans. The Company sets aside an allowance for loan losses through charges to income, which are reflected in the consolidated statement of income as the provision for loan losses. This provision charge is recorded to achieve an allowance for loan losses that is

adequate to absorb losses in the Company's loan portfolio. Management performs, on a quarterly basis, a detailed analysis of the allowance for loan losses that encompasses loan portfolio composition, loan quality, loan loss experience and other relevant economic factors.

Provision expense largely impacted the Company's earnings during the nine months ended September 30, 2012, decreasing \$1,832, or 37.7%, when compared to the same period in 2011. Provision expense during the third quarter of 2012 increased slightly by \$31, or 2.7%, over the same period in 2011. Year-to-date provision expense decreased in large part due to decreases in both net charge-offs and general allocations when comparing the first nine months of 2012 to the same period in 2011. These changes were largely the result of commercial loan adjustments that occurred during the previous year's first quarter. During the first nine months of 2012, the Company's net charge-offs totaled \$2,182, a decrease from the \$7,730 in net charge-offs recognized during the first nine months of 2011. This was largely due to the partial charge-offs of various commercial and residential real estate loans classified as impaired and TDRs during the first two quarters of 2011. Management believed these charge-offs of collateral dependent loans were necessary given the status of the economy and the customers' continued financial weakness. The largest of these charge-offs occurred during the first quarter of 2011, when the Company partially charged off \$3,839 on two commercial loans classified as TDRs from one relationship due to a continued deterioration in collateral values. Of this partially charged-off amount, a specific allocation of approximately \$2,906 already had been reserved in the allowance for loan losses from prior impairment analysis. A current analysis of the loans' collateral values at that time revealed a \$933 impairment that required a corresponding increase to provision expense that was used to absorb part of the \$3,839 write-down during the first quarter of 2011.

The Company continues to monitor and make loan modifications to certain TDR loans that will ease payment performance pressures off of the borrower. GAAP guidance requires an impairment analysis to be performed on loans classified as TDR's, which includes the evaluation of collateral values that could potentially reveal impairment. For TDR loans that have had existing loan terms modified, an impairment analysis would also be measured by comparing the present value of expected future cash flows discounted at the loan's effective interest rate to the cash flows based on the original contractual terms of the loan. The difference between the two measurements results in an impairment charge. Any impairment deficiency resulting from either analysis method would require a specific allocation of the allowance for loan losses and a corresponding increase to provision for loan losses expense.

As a result of the previously mentioned impaired and TDR loan charge-offs during the first and second quarters of 2011, the Company's general allocations related to the historical loan loss factor was also impacted at that time. The Company's general allocation evaluates, among other things, the average historical loan losses over the previous 36 months. These charge-offs, including the \$3,839 charge-off mentioned above, during the first half of 2011 contributed to an increase in the general charge-off allocation for commercial loans from \$1,231 at December 31, 2010 to \$2,701 at September 30, 2011, impacting provision expense during that period. As the charge-off amounts complete their 36-month progression, their balances will no longer be a part of the 3-year historical loan loss. The general allocation also evaluates other factors, such as economic risk, as well as changes in classified and criticized assets.

Management believes that the allowance for loan losses was adequate at September 30, 2012 to absorb probable losses in the portfolio. The allowance for loan losses was 1.46% of total loans at September 30, 2012, as compared to 1.23% at December 31, 2011. Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

Noninterest Income

Noninterest income for the three months ended September 30, 2012 was \$1,674, an increase of \$616, or 58.2%, over the same quarterly period in 2011. Noninterest income for the nine months ended September 30, 2012 was \$7,127, an increase of \$723, or 11.3%, over the nine months ended September 30, 2011. The growth in noninterest income was affected mostly by increased net gains of other real estate owned

("OREO") properties, which were up \$504 and \$645 during the third quarter of 2012 and the first nine months of 2012, respectively, as compared to the same periods in 2011. The increase in both the third quarter and nine months ending September 30, 2012 was largely attributed to impairment charges taken on two commercial real estate foreclosed properties classified as OREO during the third quarter of 2011. These losses were the result of a re-evaluation of the carrying values for both OREO properties. Based on weakened market conditions, management applied a discount to the appraised value of the properties and increased the estimated liquidation expenses associated with both properties. The result was a \$480 impairment charge that was recorded in September 2011 and contributed to higher quarterly and year-to-date losses of OREO at that time. Further impacting the improvement in net OREO income during 2012 was a \$100 gain realized during the second quarter of 2012 on the sale of one piece of commercial real estate property classified as OREO.

Further improvements to noninterest revenue came from growth in debit and credit interchange income, which increased \$55, or 15.0%, during the third quarter of 2012, and \$227, or 22.5%, during the first nine months of 2012, as compared to the same periods in 2011. The volume of transactions utilizing the Company's credit card and Jeanie® Plus debit card continue to increase from a year ago. Beginning in the second half of 2010, the Company began offering incentive based credit cards that would permit its users to redeem accumulated points for merchandise, as well as cash incentives paid, particularly to business users based on transaction criteria. In addition, similar incentives were introduced to the Company's Jeanie® Plus debit cards during the first quarter of 2011 to promote customer spending. While incenting debit/credit card customers has increased customer use of electronic payments, which has contributed to higher interchange revenue, the strategy also fits well with the Company's emphasis on growing and enhancing its customer relationships.

Noninterest revenue improvement was also driven by higher mortgage banking income affected by an increase in the volume of real estate loans sold to the secondary market. To help manage consumer demand for longer-termed, fixed-rate real estate mortgages during the first nine months of 2012, the Company sold a portion of the real estate loans it originated during that period. Historic low interest rates on long-term fixed-rate mortgage loans continue to provide consumers with opportunities to refinance their existing mortgages. The decision to sell long-term fixed-rate mortgages at lower rates also helps to minimize the interest rate risk exposure to rising rates. During the third quarter of 2012 and the first nine months of 2012, the Company experienced an increase in the number of loans sold to the secondary market by 30 and 83 loans, respectively, as compared to the same periods in 2011. This generated an increase in mortgage banking income of \$69 and \$164 during the third quarter and the first nine months of 2012, respectively, as compared to the same periods in 2011.

Also improving noninterest income during the three and nine months ended September 30, 2012 were revenues received from the Company's interest rate swap agreements. The Company utilizes interest rate swaps to satisfy the desire of large commercial customers to have a fixed-rate loan while permitting the Company to originate a variable-rate loan, which helps mitigate interest rate risk. In association with establishing an interest rate swap agreement, the Company earns a swap fee at the time of origination. The increase in transactions involving an interest rate swap during 2012 led to increases in swap fees of \$82 during the third quarter of 2012, and \$168 during the first nine months of 2012, as compared to the same periods in 2011.

Partially offsetting the noninterest improvements mentioned above was lower seasonal tax refund processing fees classified as ERC/ERD fees. While ERC/ERD fees increased \$15 during the third quarter of 2012 as compared to the third quarter of 2011, revenues from the Company's ERC/ERD activity decreased \$254, or 10.0%, during the nine months ended September 30, 2012, as compared to the same period in 2011. During the first and second quarters of 2012, the volume of ERC/ERD items increased over the same periods in 2011. However, the fee per ERC/ERD transaction was reduced from the prior year, which contributed to lower fee revenue. While ERC/ERD fee income has generated less income during 2012, management is pleased with the significant contribution this revenue source has made, accounting for 32.0% of the overall noninterest income during the first nine months of 2012. As a result of

ERC/ERD fee activity being mostly seasonal, the majority of income was recorded during the first half of 2012.

The Company also experienced less income from service charges on deposit accounts, which decreased \$107, or 18.5%, during the third quarter of 2012, and \$290, or 17.4%, during the first nine months of 2012, as compared to the same periods in 2011. This decrease was in large part due to lower overdraft fees related to a lower volume of non-sufficient fund transactions that were processed due to customer behavior.

Changes in the remaining categories within noninterest income during the third quarter and first nine months of 2012 as compared to the same periods in 2011 were minimal.

Noninterest Expense

Noninterest expense decreased \$44, or 0.6%, during the third quarter of 2012, and increased \$371, or 1.8%, during the first nine months of 2012, as compared to the same periods in 2011. Contributing most to the changes in net overhead expense were costs related to salaries and employee benefits, foreclosed assets and FDIC premiums.

The Company's largest noninterest expense item, salaries and employee benefits, increased \$299, or 2.4%, during the first nine months of 2012, as compared to the same period in 2011. The year-to-date increase was largely due to higher healthcare and retirement benefit costs, while salary expense remained relatively stable. Although salaries and employee benefit expense increased 2.4% on a year-to-date basis, the Company recognized less salaries and employee benefit expense during the third quarter of 2012, decreasing \$47, or 1.1%, as compared to the same quarterly period in 2011. This decrease during the third quarter was primarily due to the elimination of salary and benefit expenses associated with the Company's Columbus, Ohio branch that closed operations during the fourth quarter of 2011. This also contributed to a lower full-time employee equivalent base, which has decreased from 278 employees on staff at September 30, 2011 to 274 employees at September 30, 2012.

Also contributing to additional noninterest expense during 2012 were foreclosed asset costs, which increased \$40 and \$158 during the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increases in foreclosed asset costs were mostly related to two commercial real estate properties. Foreclosure expenses include the costs in maintaining the properties, which consist of taxes and general maintenance.

The Company's other noninterest expense category also increased \$122, or 7.3%, during the third quarter of 2012, and \$171, or 3.3%, during the first nine months of 2012, as compared to the same periods in 2011. Contributing most to this change were increasing incentives incurred on the Company's demand deposit and credit card products, which were part of management's added emphasis on further building and maintaining core deposit relationships while increasing interchange revenue.

Further impacting noninterest expense was the Company's data processing costs, which increased \$57, or 7.8%, during the first nine months of 2012, while experiencing no change during the third quarter of 2012, as compared to the same periods in 2011. The Company continues to take great strides in utilizing the growing technology offered to financial institutions to enhance its loan and deposit products to better serve its customers. Data processing costs include processing services for the Company's debit and credit cards as well as online and mobile banking technology.

Various noninterest expense categories decreased during the three months and nine months ended September 30, 2012, as compared to the same periods in 2011, which partially offset the expense increases described above. The Company's FDIC premium expense decreased \$118, or 65.2%, and \$164, or 20.7%, during the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The Company has benefited from lower FDIC assessment rates and a change in assessment method. Beginning April 1, 2011, the assessment base for deposit insurance premiums changed from total domestic deposits to average total assets minus average tangible equity. The new assessment method has afforded the Company lower net premium assessments. While the Company

has benefited from these changes in calculation methods, continued declines in the Deposit Insurance Fund could result in the FDIC imposing assessments in the future, which could adversely affect the Company's

capital levels and earnings.

Also partially offsetting overhead expense increases during 2012 were decreases in the Company's occupancy and furniture/equipment costs, which decreased \$41, or 6.1%, during the third quarter of 2012, and decreased \$150, or 7.3%, during the first nine months of 2012, as compared to the same periods in 2011. This decrease was largely due to lower depreciation expense on purchased equipment from prior years based on a declining balance method that accelerates depreciation costs in the early stages of the assets' useful life. With no significant equipment purchases during 2012, the acceleration effect of depreciation has decreased. Also contributing to lower facility and equipment costs was the closing of the Company's Columbus, Ohio branch during the fourth quarter of 2011.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity to help expand the net interest margin as well as developing more innovative ways to generate noninterest revenue. However, revenue levels have been negatively affected by lower net interest income due to decreases in RAL fees combined with lower average earning assets. Furthermore, higher overhead expense was the result of increased health insurance and retirement benefit costs, which placed additional pressure on efficiency improvement during 2012. As a result, overhead expense during the nine months ended September 30, 2012 outpaced revenue levels, causing the year-to-date efficiency ratio to increase (worsen) to 66.4% at September 30, 2012, as compared to 65.3% at September 30, 2011. However, the efficiency ratio during the third quarter of 2012 benefited from a non-recurring OREO impairment charge of \$408 recorded in September 2011. This contributed to lower losses within net OREO revenue during the third quarter of 2012, causing the quarter-to-date efficiency ratio to decrease (improve) to 72.0% from 74.9% during the third quarter of 2011.

Capital Resources

All of the Company's capital ratios exceeded the regulatory minimum guidelines as identified in the following table:

| | Company Ratios | | | | Regulatory | |
|--------------------------------|----------------|---|----------|---|------------|---|
| | 9/30/12 | | 12/31/11 | | Minimum | |
| Tier 1 risk-based capital | 15.9 | % | 14.4 | % | 4.00 | % |
| Total risk-based capital ratio | 17.1 | % | 15.6 | % | 8.00 | % |
| Leverage ratio | 10.8 | % | 10.3 | % | 4.00 | % |

Cash dividends paid of \$2,699 during the first nine months of 2012 represent a 7.1% increase over the cash dividends paid during the same period in 2011. The increase in cash dividends paid is mostly due to the special one-time dividend of \$.04 per share paid in the second quarter of 2012. As a result, the cash dividend rate per share increased to \$0.67 per share during the nine months ended September 30, 2012, as compared to \$0.63 during the same period in 2011.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities, totaling \$165,756, represented 20.8% of total assets at September 30, 2012. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At September 30, 2012, the Bank could borrow an additional \$147,327 from the FHLB, of which \$95,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At September 30, 2012, this line had total

availability of \$41,973. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank. For further cash flow information, see the condensed consolidated statement of cash flows. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

Off-Balance Sheet Arrangements

As discussed in Note 5 – Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. 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. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the financial statements in the Company's 2011 Annual Report to Shareholders. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses to be a critical accounting policy.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. 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 according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of \$200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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 and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt

restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is

considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

Commercial and industrial loans consist of borrowings for commercial purposes to individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial and industrial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. The Company's risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure, which may require the Company to write-down the value significantly to sell.

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop raw land into one- to four-family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

Residential real estate loans consist of loans to individuals for the purchase of one- to four-family primary residences with repayment primarily through wage or other income sources of the individual borrower. The Company's loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 5 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most

significant portions of the Company's net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

Concentration of Credit Risk

The Company maintains a diversified credit portfolio, with residential real estate loans currently comprising the most significant portion. Credit risk is primarily subject to loans made to businesses and individuals in southeastern Ohio and western West Virginia. Management believes this risk to be general in nature, as there are no material concentrations of loans to any industry or consumer group. To the extent possible, the Company diversifies its loan portfolio to limit credit risk by avoiding industry concentrations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's goal for interest rate sensitivity management is to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations. Interest rate risk ("IRR") is the exposure of the Company's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability, but excessive levels of IRR can threaten the Company's earnings and capital.

The Company evaluates IRR through the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The modeling process starts with a base case simulation, which assumes a static balance sheet and flat interest rates. The base case scenario is compared to rising and falling interest rate scenarios assuming a parallel shift in all interest rates. Comparisons of net interest income and net income fluctuations from the flat rate scenario illustrate the risks associated with the current balance sheet structure.

The Company's Asset/Liability Committee monitors and manages IRR within Board approved policy limits. The current IRR policy limits anticipated changes in net interest income to an instantaneous increase or decrease in market interest rates over a 12 month horizon to +/- 5% for a 100 basis point rate shock, +/- 7.5% for a 200 basis point rate shock and +/- 10% for a 300 basis point rate shock. Based on the level of interest rates, management did not test interest rates down 200 or 300 basis points.

The following table presents the Company's estimated net interest income sensitivity:

| Change in Interest Rates in Basis Points | September 30, 2012 Percentage Change in Net Interest Income | December 31, 2011 Percentage Change in Net Interest Income |
|---|---|--|
| +300 | (2.72%) | (2.89%) |
| +200 | (1.56%) | (1.75%) |
| +100 | (.62%) | (.76%) |
| -100 | (2.02%) | (2.36%) |

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. With the historical low interest rate environment, management generally has been focused on limiting the duration of assets, while trying to extend the duration of our funding sources to the extent customer preferences will permit us to do so. At September 30, 2012, the interest rate risk profile reflects a liability sensitive position, which produces lower net interest income due to an increase in interest rates. The exposure to rising rates has decreased from year end due to an increase in liquidity, which was funded by a reduction in loans. This additional liquidity is maintained in our account at the Federal Reserve and the interest rate is highly correlated to any rate change implemented by the Federal Reserve as part of its monetary policy. In a declining rate environment, net interest income is impacted by the interest rate on many deposit accounts not being able to adjust downward. With interest rates so low, deposit accounts are perceived to be at or near an interest rate floor. Overall, management is comfortable with the current interest rate risk profile which reflects minimal exposure to interest rate

changes.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, Ohio Valley's President and Chief Executive Officer and Vice President and Chief Financial Officer have concluded that Ohio Valley's disclosure controls and procedures are effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

The discontinuance of tax refund clearing services pursuant to an arrangement with a single tax software provider could have a material adverse effect on our net income.

Through our relationship with a single tax software provider, the Bank offers a service to facilitate the payment of tax refunds for customers who electronically file their tax returns. Under this program, the Bank acts as a tax refund clearing agent for ERC/ERD transactions and, in return, charges a fee for this service. For the nine months ended September 30, 2012, the Company recorded ERC/ERD fee income of \$2,279.

Prior to 2012, the Bank also offered RALs through the same tax software provider. On February 3, 2011, the Bank received a recommendation from the FDIC to discontinue offering RALs through third parties following the completion of the 2011 tax filing season. The FDIC expressed concerns regarding the underwriting of RALs by the Bank based on the 2010 decision by the Internal Revenue Service (the "IRS") to cease providing debt indicator information. The debt indicator information provided an indication of whether an individual taxpayer would have any portion of the anticipated tax refund offset for delinquent taxes or other debts, such as unpaid child support or delinquent federally funded student loans. In response to the FDIC's expression of concern, the Bank discontinued offering RALs through unrelated third-party vendors after April 19, 2011. The Bank's termination of this product had a negative effect on the Company's results of operations. The Bank does, though, continue to offer ERCs and ERDs through its tax refund clearing agreement with the current software provider. In addition, Loan Central continues to

offer RALs, but is not under any agreements with the current software provider.

The Company will continue to face risks within its ERC/ERD tax refund processing business that could potentially terminate its agreement with the third-party software provider. These risks include not being

able to perform the amount of service desired by the vendor, competition from other financial companies that might be chosen by the vendor to replace the Company, less favorable terms being negotiated with the vendor or a reduction in the vendor's business. The Company might not be able to obtain a contract with another vendor if the current vendor terminates its contracts with the Bank. The termination of the tax refund products would have a negative effect on the Company's earnings.

The Company could be subject to additional regulatory and public pressure to exit the tax refund facilitation business, which could have a material adverse effect on the Company's profits.

The Bank provides an ERC/ERD service in which they facilitate the payment of tax refunds for customers who electronically file their tax returns. The Bank is one of only a few financial institutions in the United States that provide this service to taxpayers. Under this program, the Bank accepts an electronic deposit of a taxpayer's refund and disburses the proceeds as agreed by the taxpayer, in return for which the taxpayer pays a fee. At September 30, 2012, gross income from ERC/ERD activities accounted for approximately 32.0% of the Company's total noninterest income. In addition, Loan Central makes RAL loans to taxpayers for which it receives repayment from the taxpayers' refunds.

Various governmental, regulatory and consumer groups have, from time to time, objected to the provision of RALs, ERCs and ERDs, claiming that the costs are unfair to taxpayers. Although the Bank ceased providing RALs, management of the Company believes that these groups may pressure Loan Central to discontinue offering RALs and the Bank to discontinue offering ERCs and ERDs. Actions of these groups and others could result in regulatory, governmental or legislative action, litigation against the Company or reputational pressure. If such actions result in the Company discontinuing RALs, ERCs and ERDs, either voluntarily or involuntarily, the Company's earnings could be materially reduced.

Tax refund products present significant compliance and regulatory challenges. If the Company fails to comply with all statutory and regulatory requirements, penalties for violations and litigation could have a material negative impact on net income.

Federal and state laws and regulations govern numerous matters relating to the offering of RALs, ERCs and ERDs, and to the preparation of tax returns, with which Loan Central assists customers. Failure to comply with disclosure requirements, interest rate and fee limits, and tax return preparation laws and regulations could expose the Company to significant penalties or litigation. Either penalties or litigation could have a material adverse effect on the Company's net income.

In addition to the above risk factors, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 15, 2012 and available at www.sec.gov. These risk factors could materially affect the Company's business, financial condition or future results. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Ohio Valley did not purchase any of its shares during the three months ended September 30, 2012.

Ohio Valley did not sell any unregistered equity securities during the three months ended September 30, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

(a) Exhibits:

Reference is made to the Exhibit Index set forth immediately following the signature page of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OHIO VALLEY BANC CORP.

Date: November 9, 2012

By: /s/Thomas E. Wiseman
Thomas E. Wiseman
President and Chief Executive
Officer

Date: November 9, 2012

By: /s/Scott W. Shockey
Scott W. Shockey
Vice President and Chief Financial
Officer

EXHIBIT INDEX

The following exhibits are included in this Form 10-Q or are incorporated by reference as noted in the following table:

| Exhibit Number | Exhibit Description |
|----------------|---|
| 3(a) | Amended Articles of Incorporation of Ohio Valley (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914). |
| 3(b) | Code of Regulations of Ohio Valley (as amended by the shareholders on May 12, 2010): Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (SEC File No. 0-20914). |
| 4 | Agreement to furnish instruments and agreements defining rights of holders of long-term debt: Filed herewith. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer): Filed herewith. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer): Filed herewith. |
| 32 | Section 1350 Certifications (Principal Executive Officer and Principal Accounting Officer): Filed herewith. |
| 101.INS* | XBRL Instance Document: Filed herewith.* |
| 101.SCH* | XBRL Taxonomy Extension Schema: Filed herewith.* |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase: Filed herewith.* |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase: Filed herewith.* |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase: Filed herewith.* |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase: Filed herewith.* |

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.