OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2011

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

OR

o 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	31-1359191
(State of Incorporation)	(I.R.S. Employer Identification No.)

420 Third Avenue	
Gallipolis, Ohio	45631
(Address of principal executive offices)	(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 x   No o

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 x   No o

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):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

The number of common shares of the registrant outstanding as of November 9, 2011 was 4,000,056.

OHIO VALLEY BANC CORP.
Index

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2011	December 31, 2010
ASSETS		
Cash and noninterest-bearing deposits with banks	$8,788	$8,979
Interest-bearing deposits with banks	50,501	50,772
Total cash and cash equivalents	59,289	59,751
Securities available for sale	86,041	85,839
Securities held to maturity		
(estimated fair value: 2011 - $21,013; 2010 - $21,198)	21,134	22,178
Federal Home Loan Bank stock	6,281	6,281
Total loans	614,901	641,322
Less: Allowance for loan losses	(6,511)	(9,386)
Net loans	608,390	631,936
Premises and equipment, net	9,317	9,738
Other real estate owned	4,022	4,403
Accrued income receivable	2,508	2,704
Goodwill	1,267	1,267
Bank owned life insurance	20,306	19,761
Prepaid FDIC insurance	1,838	2,576
Other assets	3,723	5,080
Total assets	$824,116	$851,514
LIABILITIES		
Noninterest-bearing deposits	$126,122	$91,949
Interest-bearing deposits	580,380	602,832
Total deposits	706,502	694,781
Securities sold under agreements to repurchase	1,012	38,107
Other borrowed funds	21,466	27,743
Subordinated debentures	13,500	13,500
Accrued liabilities	10,550	9,255
Total liabilities	753,030	783,386
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		

Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 4,659,795 shares issued)	4,660	4,660
Additional paid-in capital	33,003	33,003
Retained earnings	47,914	45,960
Accumulated other comprehensive income	1,221	217
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	71,086	68,128
Total liabilities and shareholders' equity	$824,116	$851,514

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest and dividend income:				
Loans, including fees	$10,011	$10,670	$31,400	$32,913
Securities				
Taxable	455	544	1,373	1,734
Tax exempt	144	133	424	349
Dividends	63	71	204	212
Other Interest	20	20	134	57
	10,693	11,438	33,535	35,265
Interest expense:				
Deposits	2,079	2,745	6,662	8,452
Securities sold under agreements to repurchase	1	13	17	44
Other borrowed funds	157	298	499	1,056
Subordinated debentures	272	272	816	816
	2,509	3,328	7,994	10,368
Net interest income	8,184	8,110	25,541	24,897
Provision for loan losses	1,152	2,225	4,855	3,867
Net interest income after provision for loan losses	7,032	5,885	20,686	21,030
Noninterest income:				
Service charges on deposit accounts	578	558	1,671	1,687
Trust fees	52	55	167	174
Income from bank owned life insurance	184	189	545	553
Mortgage banking income	97	131	234	260
Electronic refund check / deposit fees	----	2	2,533	773
Debit / credit card interchange income	367	264	1,011	721
Loss on sale of other real estate owned	(474)	(83)	(464)	(160)
Other	254	266	707	763
	1,058	1,382	6,404	4,771
Noninterest expense:				
Salaries and employee benefits	4,165	3,991	12,272	11,876
Occupancy	394	402	1,198	1,213
Furniture and equipment	282	297	844	893
FDIC insurance	181	265	793	786
Data processing	278	208	729	613
Other	1,701	1,700	5,244	5,339
	7,001	6,863	21,080	20,720
Income before income taxes	1,089	404	6,010	5,081
Provision for income taxes	203	(17)	1,536	1,283

NET INCOME	$886	$421	$4,474	$3,798
Earnings per share	$.22	$.10	$1.12	$.95

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,	
	2011	2010	2011	2010
Balance at beginning of period	$70,805	$68,339	$68,128	$66,521
Comprehensive income:				
Net income	886	421	4,474	3,798
Change in unrealized gain on available for sale securities	356	39	1,521	212
Income tax effect	(121)	(13)	(517)	(72)
Total comprehensive income	1,121	447	5,478	3,938
Cash dividends	(840)	(837)	(2,520)	(2,510)
Balance at end of period	$71,086	$67,949	$71,086	$67,949
Cash dividends per share	$0.21	$0.21	$0.63	$0.63

5

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

	Nine months ended September 30, 2011	2010
Net cash provided by operating activities:	$13,789	$9,358
Investing activities:		
Proceeds from maturities of securities available for sale	28,739	52,856
Purchases of securities available for sale	(28,237)	(52,597)
Proceeds from maturities of securities held to maturity	1,104	1,879
Purchases of securities held to maturity	----	(6,686)
Net change in loans	18,189	3,893
Proceeds from sale of other real estate owned	419	1,143
Purchases of premises and equipment	(294)	(623)
Purchases of bank owned life insurance	----	(287)
Net cash provided by (used in) investing activities	19,920	(422)
Financing activities:		
Change in deposits	11,721	51,948
Cash dividends	(2,520)	(2,510)
Change in securities sold under agreements to repurchase	(37,095)	(5,537)
Proceeds from Federal Home Loan Bank borrowings	703	11,475
Repayment of Federal Home Loan Bank borrowings	(7,360)	(16,599)
Change in other short-term borrowings	380	(34)
Net cash provided by (used in) financing activities	(34,171)	38,743
Change in cash and cash equivalents	(462)	47,679
Cash and cash equivalents at beginning of period	59,751	15,670
Cash and cash equivalents at end of period	$59,289	$63,349
Supplemental disclosure:		
Cash paid for interest	$8,623	$11,884
Cash paid for income taxes	330	1,611
Non-cash transfers from loans to other real estate owned	502	484
Other real estate owned sales financed by the Bank	329	143

6

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, 2011, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2011. 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, 2010 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2010 have been reclassified to conform to the presentation for 2011. These reclassifications had no effect on the net results of operations.

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 4,000,056 for the three and nine months ended September 30, 2011, and 3,984,009 for the three and nine months ended September 30, 2010. 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 April 2011, the FASB issued guidance within the ASU 2011-02 A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring ("TDR"). ASU 2011-02 clarifies when a loan modification or restructuring is considered a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and will be applied retrospectively to the beginning of the annual period of adoption. The adoption of this guidance created additional TDR disclosures within Note 4 – Loans and Allowance for Loan Losses, but did not have an impact on the Company’s consolidated financial statements. The retrospective application of this guidance also led to the identification of two commercial loans that were modified during the first quarter of 2011 totaling $2,153 that were reclassified as TDR's as of September 30, 2011.

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. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is currently evaluating the impact of this amendment and does not anticipate a significant impact to its consolidated financial statements.

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 amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment will change the presentation of the components of comprehensive income for the Company as part of the consolidated statement of shareholder's equity.

NOTE 2 – FAIR VALUE

The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to 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, and 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 and liabilities on a recurring or nonrecurring basis:

Securities Available For Sale: Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements using pricing models that vary based on asset class and include available trade, bid and other market information. Fair value of securities available for sale may also be determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Impaired Loans: Impaired loans with specific allocations of the allowance for loan losses are reported at the fair value of the underlying collateral adjusted for selling costs or the present value of estimated future cash flows using the loans' effective rate at inception. Collateral values are estimated using Level 3 inputs based on third party appraisals.

Mortgage Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use 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.

Assets and Liabilities Measured on a Recurring Basis
Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at September 30, 2011, 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	----	$ 14,533	----
U.S. Government sponsored entity securities	----	2,589	----
Obligations of states and political subdivisions	----	677	----
Agency mortgage-backed securities, residential	----	68,242	----

	Fair Value Measurements at December 31, 2010, 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	----	$ 17,079	----
U.S. Government sponsored entity securities	----	7,731	----
Agency mortgage-backed securities, residential	----	61,029	----

Assets and Liabilities Measured on a Nonrecurring Basis
Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurements at September 30, 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:			
Commercial real estate-nonowner occupied	----	----	$ 2,000

Mortgage servicing rights	----	----	408
Other real estate owned	----	----	3,734

	Fair Value Measurements at December 31, 2010, 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:			
Commercial real estate-owner occupied	----	----	$ 3,606
Commercial real estate-nonowner occupied	----	----	2,187
Commercial and industrial	----	----	3,785
Residential real estate	----	----	414
Mortgage servicing rights	----	----	434

9

Impaired loans had a principal balance of $18,610 at September 30, 2011. The portion of impaired loans with specific allocations of the allowance for loan losses had a carrying amount of $2,405 and was measured for impairment using the present value of estimated future cash flows. This resulted in a valuation allowance of $405 at September 30, 2011, which contributed to a decrease of $32 in provision for loan loss expense during the nine months ended September 30, 2011. This is compared to an increase of $2,164 in provision for loan loss expense during the nine months ended September 30, 2010. At December 31, 2010, impaired loans had a principal balance of $23,106. The portion of impaired loans with specific allocations of the allowance for loan losses had a carrying amount of $15,222. The loans were measured for impairment using fair value of the underlying collateral and the present value of estimated future cash flows. This resulted in a valuation allowance of $5,230 at December 31, 2010.

Mortgage servicing rights, which are carried at lower of cost or fair value, were carried at their fair value of $408, which is made up of the outstanding balance of $583, net of a valuation allowance of $175 at September 30, 2011. This is compared to a fair value of $434, made up of the outstanding balance of $609, net of a valuation allowance of $175 at December 31, 2010.

Other real estate owned is carried at the estimated fair value of the property less estimated selling costs. Costs incurred to carry other real estate are charged to expense. If fair value declines subsequent to foreclosure, a valuation allowance is recorded. Other real estate owned totaled $4,022 at September 30, 2011 as compared to $4,403 at December 31, 2010.

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

Cash and Cash Equivalents: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities: The Company obtains fair value measurements using pricing models that vary based on asset class and include available trade, bid and other market information. Fair value of securities may also be determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

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.

Loans: The fair value of fixed-rate loans is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of loan commitments and standby letters of credit was not material at September 30, 2011 or December 31, 2010. The fair value for variable rate loans is estimated to be equal to carrying value. This fair value represents an entry price in accordance with ASC 825. While ASC 820 amended ASC 825 in several respects, this approach to fair value remains an acceptable approach under generally accepted accounting principles.

Deposit Liabilities: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings: For other borrowed funds and subordinated debentures, rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value. For securities sold under agreements to repurchase, carrying value is a reasonable estimate of fair value.

Accrued Interest Receivable and Payable: For accrued interest receivable and payable, the carrying amount is a reasonable estimate of fair value.

In addition, other assets and liabilities that are not defined as financial instruments were not included in the disclosures below, such as premises and equipment and life insurance contracts. The fair value of off-balance sheet items is not considered material (or is based on the current fees or cost that would be charged to enter into or terminate such arrangements).

The following table presents the fair values of financial assets and liabilities carried on the Company's consolidated balance sheet at September 30, 2011 and December 31, 2010, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	$59,289	$59,289	$59,751	$59,751
Securities	107,175	107,054	108,017	107,037
Federal Home Loan Bank stock	6,281	N/A	6,281	N/A
Loans	608,390	618,529	631,936	637,986
Accrued interest receivable	2,508	2,508	2,704	2,704
Financial liabilities:				
Deposits	706,502	709,416	694,781	698,199
Securities sold under agreements to repurchase	1,012	1,012	38,107	38,107
Other borrowed funds	21,466	21,682	27,743	26,968
Subordinated debentures	13,500	11,532	13,500	11,507
Accrued interest payable	1,970	1,970	2,600	2,600

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 investment securities portfolio at September 30, 2011 and December 31, 2010 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011				
U.S. Treasury securities	$14,525	$8	$----	$14,533
U.S. Government sponsored entity securities	2,501	88	----	2,589
Obligations of states and political subdivisions	703	----	(26)	677
Agency mortgage-backed securities, residential	66,460	1,782	----	68,242

Total securities	$84,189	$1,878	$(26)	$86,041
December 31, 2010				
U.S. Treasury securities	$17,081	$6	$(8)	$17,079
U.S. Government sponsored entity securities	7,513	230	(12)	7,731
Agency mortgage-backed securities, residential	60,916	383	(270)	61,029
Total securities	$85,510	$619	$(290)	$85,839

11

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
September 30, 2011				
Obligations of states and political subdivisions	$ 21,110	$ 463	$ (584)	$ 20,989
Agency mortgage-backed securities, residential	24	----	----	24
Total securities	$ 21,134	$ 463	$ (584)	$ 21,013
December 31, 2010				
Obligations of states and political subdivisions	$ 22,149	$ 130	$ (1,109)	$ 21,170
Agency mortgage-backed securities, residential	29	----	(1)	28
Total securities	$ 22,178	$ 130	$ (1,110)	$ 21,198

The amortized cost and estimated fair value of the investment securities portfolio at September 30, 2011, 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.

	Available for Sale		Held to Maturity	
Debt Securities:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$17,026	$17,122	$556	$558
Due in one to five years	----	----	5,042	4,946
Due in five to ten years	703	677	7,529	7,692
Due after ten years	----	----	7,983	7,793
Agency mortgage-backed securities, residential	66,460	68,242	24	24
Total debt securities	$84,189	$86,041	$21,134	$21,013

The following table summarizes the investment securities with unrealized losses at September 30, 2011 and December 31, 2010 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
September 30, 2011	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
Obligations of states and political subdivisions	$ 677	$ (26)	$ ----	$ ----	$ 677	$ (26)
Total available for sale	$ 677	$ (26)	$ ----	$ ----	$ 677	$ (26)

	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	$ ----	$ ----	$ 3,547	$ (584)	$ 3,547	$ (584)
Total held to maturity	$ ----	$ ----	$ 3,547	$ (584)	$ 3,547	$ (584)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2010	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Treasury securities	$9,041	$(8)	$----	$----	$9,041	$(8)
U.S. Government sponsored						
entity securities	1,990	(12)	----	----	1,990	(12)
Agency mortgage-backed						
securities, residential	27,953	(270)	----	----	27,953	(270)
Total available for sale	$38,984	$(290)	$----	$----	$38,984	$(290)

	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	$ 7,510	$ (690)	$ 970	$ (419)	$ 8,480	$ (1,109)
Agency mortgage-backed securities, residential	----	----	21	(1)	21	(1)
Total held to maturity	$ 7,510	$ (690)	$ 991	$ (420)	$ 8,501	$ (1,110)

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, 2011 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	September 30, 2011	December 31, 2010
Residential real estate	$227,916	$236,878
Commercial real estate:		
Owner-occupied	145,989	149,042
Nonowner-occupied	58,019	55,989
Construction	24,466	21,591
Commercial and industrial	49,343	55,306
Consumer:		
Automobile	48,754	58,271
Home equity	20,246	20,527
Other	40,168	43,718
	614,901	641,322
Less: Allowance for loan losses	6,511	9,386
Loans, net	$608,390	$631,936

The Bank originated refund anticipation loans that contributed fee income of $561 and $655 during the nine months ended September 30, 2011 and September 30, 2010, respectively. As recommended by the FDIC, the Bank ceased offering refund anticipation loans effective April 19, 2011.

Activity in the allowance for loan losses was as follows:	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Beginning balance	$6,479	$7,823	$9,386	$8,198
Loans charged off:				

Residential real estate	741	152	1,325	676
Commercial real estate	113	102	2,085	1,139
Commercial and industrial	26	7	4,727	191
Consumer	476	498	1,223	1,544
Total loans charged off	1,356	759	9,360	3,550
Recoveries of loans:				
Residential real estate	57	11	94	20
Commercial real estate	2	----	913	70
Commercial and industrial	48	----	119	25
Consumer	129	166	504	836
Total recoveries of loans	236	177	1,630	951
Net loan charge-offs	(1,120)	(582)	(7,730)	(2,599)
Provision charged to operations	1,152	2,225	4,855	3,867
Balance, end of year	$6,511	$9,466	$6,511	$9,466

As a result of management's evaluation of the trends in the real estate market, the status of long-term, collateral dependent impaired loans and the current regulatory environment, management decided to take partial charge-offs more quickly on collateral dependent impaired loans during the second quarter of 2011.

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

September 30, 2011	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$1,008	$3,517	$770	$1,184	$----	$6,479
Provision for loan losses	887	(65)	(74)	404	----	1,152
Loans charged off	741	113	26	476	----	1,356
Recoveries	57	2	48	129	----	236
Total ending allowance balance	$1,211	$3,341	$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, 2011:

September 30, 2011	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$993	$3,141	$3,795	$1,457	$----	$9,386
Provision for loan losses	1,449	1,372	1,531	503	----	4,855
Loans charged off	1,325	2,085	4,727	1,223	----	9,360
Recoveries	94	913	119	504	----	1,630
Total ending allowance balance	$1,211	$3,341	$718	$1,241	$----	$6,511

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees. The difference in the unpaid principal balance and recorded investment of the Company's loans was not materially different at year-end 2010.

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, 2011 and December 31, 2010:

September 30, 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	$----	$405	$----	$----	$405
Collectively evaluated for impairment	1,211	2,936	718	1,241	6,106
Total ending allowance balance	$1,211	$3,341	$718	$1,241	$6,511

Loans:					
Loans individually evaluated for impairment	$1,287	$14,321	$3,002	$----	$18,610
Loans collectively evaluated for impairment	226,629	214,153	46,341	109,168	596,291
Total ending loans balance	$227,916	$228,474	$49,343	$109,168	$614,901

December 31, 2010	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	$125	$1,698	$3,407	$----	$5,230
Collectively evaluated for impairment	868	1,443	388	1,457	4,156
Total ending allowance balance	$993	$3,141	$3,795	$1,457	$9,386
Loans:					
Loans individually evaluated for impairment	$1,784	$13,460	$7,862	$----	$23,106
Loans collectively evaluated for impairment	235,094	213,162	47,444	122,516	618,216
Total ending loans balance	$236,878	$226,622	$55,306	$122,516	$641,322

Information regarding impaired loans is as follows:	September 30, 2011	December 31, 2010
Loans with no allocated allowance for loan losses	$16,205	$7,884
Loans with allocated allowance for loan losses	2,405	15,222
Total impaired loans	$18,610	$23,106
Amount of the allowance for loan losses allocated	$405	$5,230
Average of individually impaired loans during year	$19,107	$24,589

Average impaired loans during the nine months ended September 30, 2011 and 2010 were $19,107 and $26,615, respectively. Average impaired loans for the three months ended September 30, 2011 and 2010 were $18,182 and $21,953, respectively. Interest recognized on impaired loans during the nine months ended September 30, 2011 and 2010 were $1,042 and $1,027, respectively. Interest recognized on impaired loans during the three months ended September 30, 2011 and 2010 were $474 and $514, respectively. Accrual basis income was not materially different from cash basis income for the periods presented.

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

Three 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	$1,427	$1,287	$----	$1,026	$29	$20
Commercial real estate:						
Owner-occupied	8,880	8,152	----	7,701	142	137
Nonowner-occupied	3,222	3,090	----	3,293	117	105
Construction	674	674	----	677	8	9
Commercial and industrial	7,196	3,002	----	3,071	148	92
Consumer:						
Automobile	----	----	----	----	----	----
Home equity	----	----	----	----	----	----
Other	----	----	----	----	----	----
With an allowance recorded:						
Residential real estate	----	----	----	----	----	----
Commercial real estate:						
Owner-occupied	----	----	----	----	----	----
Nonowner-occupied	2,405	2,405	405	2,414	30	30
Construction	----	----	----	----	----	----
Commercial and industrial	----	----	----	----	----	----
Consumer:						
Automobile	----	----	----	----	----	----
Home equity	----	----	----	----	----	----
Other	----	----	----	----	----	----

Total	$23,804	$18,610	$405	$18,182	$474	$393

15

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	$1,427	$1,287	$----	$901	$38	$23
Commercial real estate:						
Owner-occupied	8,880	8,152	----	7,640	381	369
Nonowner-occupied	3,222	3,090	----	2,980	156	141
Construction	674	674	----	678	27	26
Commercial and industrial	7,196	3,002	----	4,490	340	251
Consumer:						
Automobile	----	----	----	----	----	----
Home equity	----	----	----	----	----	----
Other	----	----	----	----	----	----
With an allowance recorded:						
Residential real estate	----	----	----	----	----	----
Commercial real estate:						
Owner-occupied	----	----	----	----	----	----
Nonowner-occupied	2,405	2,405	405	2,418	100	90
Construction	----	----	----	----	----	----
Commercial and industrial	----	----	----	----	----	----
Consumer:						
Automobile	----	----	----	----	----	----
Home equity	----	----	----	----	----	----
Other	----	----	----	----	----	----
Total	$23,804	$18,610	$405	$19,107	$ 1,042	$ 900

December 31, 2010	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:		
Residential real estate	$1,244	$----
Commercial real estate:		
Owner-occupied	4,234	----
Nonowner-occupied	992	----
Construction	743	----
Commercial and industrial	671	----
Consumer:		
Automobile	----	----
Home equity	----	----
Other	----	----
With an allowance recorded:		
Residential real estate	540	125
Commercial real estate:		
Owner-occupied	4,731	1,125

Nonowner-occupied	2,760	573
Construction	----	----
Commercial and industrial	7,191	3,407
Consumer:		
Automobile	----	----
Home equity	----	----
Other	----	----
Total	$23,106	$5,230

Nonaccrual loans and loans past due 90 days or more and still accruing were as follows:

	September 30, 2011	December 31, 2010
Loans past due 90 days or more and still accruing	$1,026	$1,714
Nonaccrual loans	$4,704	$3,295

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 individually classified as impaired loans.

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, 2011	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$965	$3,044
Commercial real estate:		
Owner-occupied	----	1,497
Nonowner-occupied	----	86
Construction	----	----
Commercial and industrial	----	----
Consumer:		
Automobile	19	8
Home equity	----	69
Other	42	----
Total	$1,026	$4,704

December 31, 2010	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$1,487	$2,200
Commercial real estate:		
Owner-occupied	----	428
Nonowner-occupied	----	432
Construction	----	----
Commercial and industrial	----	----

Consumer:		
Automobile	114	100
Home equity	43	104
Other	70	31
Total	$1,714	$3,295

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

September 30, 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	$3,239	$541	$3,916	$7,696	$220,220	$227,916
Commercial real estate:						
Owner-occupied	609	47	1,497	2,153	143,836	145,989
Nonowner-occupied	----	----	86	86	57,933	58,019
Construction	----	----	----	----	24,466	24,466
Commercial and industrial	52	37	----	89	49,254	49,343
Consumer:						
Automobile	715	143	19	877	47,877	48,754
Home equity	76	46	69	191	20,055	20,246
Other	674	135	42	851	39,317	40,168
Total	$5,365	$949	$5,629	$11,943	$602,958	$614,901

December 31, 2010	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	$4,731	$1,951	$3,448	$10,130	$226,748	$236,878
Commercial real estate:						
Owner-occupied	1,564	17	428	2,009	147,033	149,042
Nonowner-occupied	87	----	432	519	55,470	55,989
Construction	----	----	----	----	21,591	21,591
Commercial and industrial	15	----	----	15	55,291	55,306
Consumer:						
Automobile	1,010	342	213	1,565	56,706	58,271
Home equity	78	50	147	275	20,252	20,527
Other	793	238	101	1,132	42,586	43,718
Total	$8,278	$2,598	$4,769	$15,645	$625,677	$641,322

Troubled Debt Restructurings:

A troubled debt restructuring (“TDR”) is where 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; 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, 2011 and December 31, 2010:

September 30, 2011	TDR's Performing to Modified Terms	TDR's Not Performed to Modified Terms	Total TDR's
Residential real estate			
Interest only payments	$----	$283	$283
Commercial real estate:			
Owner-occupied			
Interest only payments	3,624	----	3,624
Rate reduction	452	----	452
Maturity extension at lower stated rate than market rate	226	----	226
Nonowner-occupied			
Interest only payments	3,365	----	3,365
Maturity extension at lower stated rate than market rate	1,927	----	1,927
Construction			
Interest only payments	675	----	675
Commercial and industrial			
Interest only payments	356	----	356
Rate reduction	2,646	----	2,646
Total TDR's	$13,271	$283	$13,554

December 31, 2010	TDR's Performing to Modified Terms	TDR's Not Performed to Modified Terms	Total TDR's
Residential real estate			
Interest only payments	$456	$----	$456
Rate reduction	584	----	584
Commercial real estate:			
Owner-occupied			
Interest only payments	3,886	----	3,886
Rate reduction	887	----	887
Nonowner-occupied			
Interest only payments	2,983	----	2,983
Construction			
Interest only payments	679	----	679
Commercial and industrial			
Interest only payments	671	----	671
Rate reduction	6,668	----	6,668
Total TDR's	$16,814	$----	$16,814

At September 30, 2011, the balance in TDR loans decreased $3,260, or 19.4%, from year-end 2010. This was largely impacted by partial charge-offs taken on one impaired commercial and industrial loan relationship totaling $3,839 during the first quarter of 2011. At September 30, 2011 and December 31, 2010, 98% and 100% of the Company's TDR's were performing according to their modified terms. The Company allocated $405 and $3,791 in reserves to customers whose loan terms have been modified in TDR's as of September 30, 2011 and December 31, 2010, respectively. The Company had no commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's at September 30, 2011 and December 31, 2010.

The following table presents the post-modification balances of TDR loan modifications by class of loans that occurred during the three and nine months ended September 30, 2011:

September 30, 2011	TDR's Performing to Modified Terms Three Months Ended	TDR's Performing to Modified Terms Nine Months Ended	TDR's Not Performing to Modified Terms Three Months Ended	TDR's Not Performing to Modified Terms Nine Months Ended	Total TDR's Three Months Ended	Total TDR's Nine Months Ended
Residential real estate	$----	$----	$----	$----	$----	$----
Commercial real estate:						
Owner-occupied						
Rate reduction	----	1,094	----	----	----	1,094
Maturity extension at lower stated rate than market rate	----	226	----	----	----	226
Nonowner-occupied						
Interest only payments	----	400	----	----	----	400
Maturity extension at lower stated rate than market rate	----	1,927	----	----	----	1,927
Construction	----	----	----	----	----	----
Commercial and industrial	----	----	----	----	----	----
Total TDR's	$----	$3,647	$----	$----	$----	