OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2016

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, 2016

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	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 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):

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

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, 2016 was 4,665,765.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2016 UNAUDITED	December 31, 2015
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 13,864	$ 9,475
Interest-bearing deposits with banks	48,021	36,055
Total cash and cash equivalents	61,885	45,530
Certificates of deposit in financial institutions	1,670	1,715
Securities available for sale	104,860	91,651
Securities held to maturity (estimated fair value: 2016 - $20,737; 2015 - $20,790)	19,651	19,903
Restricted investments in bank stocks	6,939	6,576
Total loans	721,587	585,752
Less: Allowance for loan losses	(7,537)	(6,648)
Net loans	714,050	579,104
Premises and equipment, net	12,484	10,404
Other real estate owned	2,616	2,358
Accrued interest receivable	2,247	1,819
Goodwill	7,052	1,267
Bank owned life insurance and annuity assets	29,199	28,352
Other assets	7,577	7,606
Total assets	$ 970,230	$ 796,285
LIABILITIES		
Noninterest-bearing deposits	$ 215,933	$ 176,499
Interest-bearing deposits	589,850	484,247
Total deposits	805,783	660,746
Other borrowed funds	35,665	23,946
Subordinated debentures	8,500	8,500
Accrued liabilities	14,494	12,623
Total liabilities	864,442	705,815
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 2016 - 5,325,504 shares issued; 2015 - 4,777,414 shares issued)	5,326	4,777
Additional paid-in capital	46,788	35,318
Retained earnings	68,073	65,782

Accumulated other comprehensive income	1,313	305
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	105,788	90,470
Total liabilities and shareholders' equity	$ 970,230	$ 796,285

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$9,085	$8,323	$26,147	$25,372
Securities				
Taxable	486	463	1,465	1,365
Tax exempt	111	130	337	403
Dividends	75	73	222	219
Other Interest	67	27	336	150
	9,824	9,016	28,507	27,509
Interest expense:				
Deposits	597	569	1,605	1,659
Other borrowed funds	190	119	462	360
Subordinated debentures	52	43	149	126
	839	731	2,216	2,145
Net interest income	8,985	8,285	26,291	25,364
Provision for loan losses	1,708	(11)	2,328	710
Net interest income after provision for loan losses	7,277	8,296	23,963	24,654
Noninterest income:				
Service charges on deposit accounts	575	415	1,414	1,161
Trust fees	58	52	174	167
Income from bank owned life insurance and annuity assets	175	172	575	486
Mortgage banking income	44	77	162	191
Electronic refund check / deposit fees	13	12	2,037	2,362
Debit / credit card interchange income	653	604	1,864	1,769
Gain (loss) on other real estate owned	(8)	----	----	60
Gain on sale of securities	----	28	----	163
Other	183	224	563	631
	1,693	1,584	6,789	6,990
Noninterest expense:				
Salaries and employee benefits	5,032	4,556	14,130	13,382
Occupancy	466	404	1,300	1,194
Furniture and equipment	285	192	671	564
Professional fees	342	347	1,020	1,056
Marketing expense	249	232	744	701
FDIC insurance	81	144	378	442
Data processing	380	323	1,069	1,053
Software	368	304	962	813
Foreclosed assets	61	74	247	171
Merger related expenses	416	----	777	----
Other	1,148	1,151	3,272	3,332
	8,828	7,727	24,570	22,708

Income before income taxes	142	2,153	6,182	8,936
Provision for income taxes	(216)	511	1,286	2,260
NET INCOME	$358	$1,642	$4,896	$6,676
Earnings per share	$.08	$.40	$1.15	$1.62

See accompanying notes to consolidated financial statements

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OHIO VALLEY BANC CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net Income	$358	$1,642	$4,896	$6,676
Other comprehensive income:				
Change in unrealized gain on available for sale securities	91	472	1,528	(44)
Reclassification adjustment for realized (gains)	----	(28)	----	(163)
	91	444	1,528	(207)
Related tax (expense) benefit	(31)	(151)	(520)	71
Total other comprehensive income (loss), net of tax	60	293	1,008	(136)
Total comprehensive income	$418	$1,935	$5,904	$6,540

See accompanying notes to consolidated financial statements

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,	
	2016	2015	2016	2015
Balance at beginning of period	$94,796	$88,885	$90,470	$86,216
Net income	358	1,642	4,896	6,676
Other comprehensive income (loss), net of tax	60	293	1,008	(136)
Acquisition – Milton Bancorp, Inc., 523,518 shares	11,444	----	11,444	----
Common stock issued to ESOP, 24,572 shares	----	----	575	----
Cash dividends	(870)	(865)	(2,605)	(2,801)
Balance at end of period	$105,788	$89,955	$105,788	$89,955
Cash dividends per share	$.19	$.21	$.61	$.68

See accompanying notes to consolidated financial statements
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OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Nine months ended September 30, 2016	2015
Net cash provided by operating activities:	$9,761	$8,585
Investing activities:		
Net cash acquired from Milton Bancorp, Inc., acquisition	1,686	----
Proceeds from maturities of securities available for sale	13,818	11,604
Purchases of securities available for sale	(17,691)	(25,150)
Proceeds from maturities of securities held to maturity	1,218	1,967
Purchases of securities held to maturity	(3,193)	(626)
Proceeds from sale of available for sale securities	----	10,550
Proceeds from maturities of certificates of deposit in financial institutions	490	----
Purchases of certificates of deposit in financial institutions	(445)	(735)
Proceeds from restricted investments in bank stocks	1	----
Net change in loans	(24,186)	6,933
Proceeds from sale of other real estate owned	593	487
Purchases of premises and equipment	(633)	(1,418)
Net cash provided by (used in) investing activities	(28,342)	3,612
Financing activities:		
Change in deposits	25,822	24,634
Cash dividends	(2,605)	(2,801)
Proceeds from Federal Home Loan Bank borrowings	8,202	400
Repayment of Federal Home Loan Bank borrowings	(1,450)	(1,343)
Change in other long-term borrowings	5,000	----
Change in other short-term borrowings	(33)	96
Net cash provided by financing activities	34,936	20,986
Change in cash and cash equivalents	16,355	33,183
Cash and cash equivalents at beginning of period	45,530	30,977
Cash and cash equivalents at end of period	$61,885	$64,160
Supplemental disclosure:		
Cash paid for interest	$2,112	$2,047
Cash paid for income taxes	1,675	2,450
Transfers from loans to other real estate owned	851	525
Other real estate owned sales financed by The Ohio Valley Bank Company	316	----
Issuance of common stock for Milton Bancorp, Inc., acquisition	11,444	----

See Note 2 for non-cash transactions related to business combination

See accompanying notes to consolidated financial statements

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, Ohio Valley Financial Services Agency, LLC ("Ohio Valley Financial Services"), an insurance agency, and OVBC Captive, Inc. ("the Captive"), a limited purpose property and casualty insurance company. 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, 2016, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2016. 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, 2015 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.
On August 5, 2016, the Company completed the merger of Milton Bancorp, Inc. ("Milton Bancorp") into Ohio Valley ("the Merger"). Immediately following the Merger, Milton Bancorp's wholly-owned subsidiary, The Milton Banking Company ("Milton Bank"), was merged with and into the Bank. Further information regarding the merger can be found within Note 2 – Business Combinations of this Form 10-Q.

The consolidated financial statements for 2015 have been reclassified to conform to the presentation for 2016. These reclassifications had no effect on the net results of operations or shareholders' equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The accounting and reporting policies followed by the Company conform to US GAAP established by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

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 4,466,601 and 4,246,311 for the three and nine months ended September 30, 2016, respectively. The weighted average common shares outstanding were 4,117,675 for the three and nine months ended September 30, 2015. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

NEW ACCOUNTING PRONOUNCEMENTS: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018, with early adoption permitted on January 1, 2017. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The update provides updated accounting and reporting requirements for both public and non-public entities. The most significant provisions that will impact the Company are: 1) equity securities available for sale will be measured at fair value, with the changes in fair value recognized in the income statement; 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments at amortized cost on the balance sheet; 3) utilization of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) require separate presentation of both financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The update will be effective for interim and annual periods beginning after December 15, 2017, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. Early adoption is not permitted. Management is currently evaluating the impact of this update on its Consolidated Financial Statements.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which will require lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of this update on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses". ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted, for annual periods and interim periods within those annual periods, beginning after December 15, 2018. Management is currently evaluating the impact this update will have on the Company's financial statements and results of operations.

In August 2016, FASB issued ASU 2016-15, "Statement of Cash Flows" (Topic 230), Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

· Debt prepayment or debt extinguishment costs.
· Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
· Contingent consideration payments made after a business combination.
· Proceeds from the settlement of insurance claims.
· Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
· Distributions received from equity method investees.
· Beneficial interests in securitization transactions.
· Separately identifiable cash flows and application of the predominance principle.

For public business entities, the guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

NOTE 2 – BUSINESS COMBINATIONS

As of the close of business on August 5, 2016, Ohio Valley completed its merger with Milton Bancorp pursuant to the terms of the Agreement and Plan of Merger dated as of January 7, 2016, by and between Ohio Valley and Milton Bancorp (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, Milton Bancorp was merged with and into Ohio Valley. Immediately following the Merger, Milton Bank was merged with and into the Bank. As a result of the Merger and in accordance with the terms of the Merger Agreement, each Milton Bancorp share was converted into the right to receive either 1,636 Ohio Valley common shares, no par value, or cash in the amount of $37,219, subject to certain allocation procedures set forth in the Merger Agreement pursuant to which 80% of the 400 outstanding Milton Bancorp common shares were converted into the right to receive Ohio Valley common shares and the remaining 20% of the outstanding Milton Bancorp common shares were converted into the right to receive cash. Each of the 1,237 Milton Bancorp preferred shares issued and outstanding were converted into the right to receive a cash payment in the amount of $3,600 per preferred share. The consideration paid for Milton Bancorp totaled $18,875, of which $11,444 was the market value of the Company's common shares and $7,431 was cash. Ohio Valley financed part of the cash portion of the purchase price through $5,000 in borrowed funds. Milton Bank's results of operations were included in the Company's results beginning August 6, 2016. Through September 30, 2016, merger-related costs of $777 associated with the acquisition have been expensed, and the remaining merger-related costs will be expensed in future periods as incurred. Since the majority of merger costs have been incurred at September 30, 2016, the Company expects the remaining merger-related expenses to be immaterial. The fair value of the common shares issued as part of the consideration paid for Milton Bancorp was determined in the basis of the closing price of the Company's common shares on the acquisition date. After the Merger, the Company's assets totaled approximately $950 million and branches increased to 19 locations.

Goodwill of $5,785 arising from the acquisition consisted largely of synergies from combining the operations of the companies. The following table summarizes the consideration paid for Milton Bancorp and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Consideration:	
Cash	$7,431
Equity Instruments	11,444
Fair value of total consideration transferred	$18,875

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$9,117
Securities	5,868
Restricted investments in bank stock	364
Loans	113,298
Premises and equipment	2,216
Other real estate owned	641
Bank owned life insurance	272
Other assets	520
Total assets acquired	132,296
Deposits	119,215
Other liabilities	(9)
Total liabilities assumed	119,206
Total identifiable net assets	13,090
Goodwill	5,785
	$18,875

The fair value of net assets acquired reflect only the fair value adjustments to securities. We are continuing to evaluate the fair value adjustments associated with loans, premises and equipment, and time deposits, as well as the valuation of intangible assets related to core deposits. As such, the amounts presented in the table above are considered to be preliminary and are subject to change. The remaining purchase accounting adjustments are expected to be posted in the fourth quarter of 2016. Currently, management does not believe that purchase credit impaired loans acquired in the acquisition to be material.

NOTE 3 – 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 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, 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 and liabilities 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 typically approximate 10%.

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, 2016 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. Government sponsored entity securities	----	$ 10,636	----
Agency mortgage-backed securities, residential	----	94,224	----

	Fair Value Measurements at December 31, 2015 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. Government sponsored entity securities	----	$ 8,965	----
Agency mortgage-backed securities, residential	----	82,686	----

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

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, 2016, Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

	(Level 1)		
Assets:			
Impaired loans:			
Commercial real estate:			
Owner-occupied	----	----	$ 3,843
Nonowner-occupied	----	----	2,147
Commercial and industrial	----	----	298
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,147

	Fair Value Measurements at December 31, 2015, 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	----	----	$ 2,473
Commercial and industrial	----	----	3,779
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,147

At September 30, 2016, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $9,169, with a corresponding valuation allowance of $2,881, resulting in an increase of $819 in provision expense during the three months ended September 30, 2016, and an increase of $2,477 during the nine months ended September 30, 2016, with no additional charge-offs recognized. This is compared to an increase of $107 in provision expense during the three months ended September 30, 2015, and an increase of $94 in provision expense during the nine months ended September 30, 2015, with $1,782 in additional charge-offs recognized. At December 31, 2015, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $7,811, with a corresponding valuation allowance of $1,559, resulting in an increase of $741 in provision expense during the year ended December 31, 2015, with $1,422 in additional charge-offs recognized.

Other real estate owned that was measured at fair value less costs to sell at September 30, 2016 and December 31, 2015 had a net carrying amount of $1,147, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,070 at December 31, 2015. There were no corresponding write downs during the three and nine months ended September 30, 2016 and 2015.

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, 2016 and December 31, 2015:

September 30, 2016	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Owner-occupied	$ 3,843	Sales approach	Adjustment to comparables	0% to 45%	15.99%
		Cost approach	Adjustment to comparables	0% to 29.5%	14.76%
Nonowner-occupied	2,147	Sales approach	Adjustment to comparables	0% to 12.5%	6.9%
Commercial and industrial	298	Sales approach	Adjustment to comparables	0.9% to 9.7%	5.2%
Other real estate owned:					
Commercial real estate:					
Construction	1,147	Sales approach	Adjustment to comparables	0% to 35%	15.2%

December 31, 2015	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Nonowner-occupied	$ 2,473	Sales approach	Adjustment to comparables	0% to 12.5%	5.7%
Commercial and industrial	3,779	Sales approach	Adjustment to comparables	0.9% to 30%	14.3%
Other real estate owned:					
Commercial real estate:					
Construction	1,147	Sales approach	Adjustment to comparables	0% to 35%	15.2%

The carrying amounts and estimated fair values of financial instruments at September 30, 2016 and December 31, 2015 are as follows:

Fair Value Measurements at September 30, 2016 Using:

	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$61,885	$61,885	$----	$----	$61,885
Certificates of deposit in financial institutions	1,670	----	1,670	----	1,670
Securities available for sale	104,860	----	104,860	----	104,860
Securities held to maturity	19,651	----	10,356	10,381	20,737
Restricted investments in bank stocks	6,939	N/A	N/A	N/A	N/A
Loans, net	714,050	----	----	722,276	722,276
Accrued interest receivable	2,247	----	361	1,886	2,247
Financial liabilities:					
Deposits	805,783	215,933	590,489	----	806,422
Other borrowed funds	35,665	----	35,990	----	35,990
Subordinated debentures	8,500	----	5,801	----	5,801
Accrued interest payable	517	2	515	----	517

	Carrying Value	Fair Value Measurements at December 31, 2015 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$45,530	$45,530	$----	$----	$45,530
Certificates of deposit in financial institutions	1,715	----	1,715	----	1,715
Securities available for sale	91,651	----	91,651	----	91,651
Securities held to maturity	19,903	----	9,814	10,976	20,790
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	N/A	N/A	N/A	N/A
Loans, net	579,104	----	----	582,427	582,427
Accrued interest receivable	1,819	----	224	1,595	1,819
Financial liabilities:					
Deposits	660,746	176,499	484,636	----	661,135
Other borrowed funds	23,946	----	23,672	----	23,672
Subordinated debentures	8,500	----	5,368	----	5,368
Accrued interest payable	449	4	445	----	449

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.

Certificates of Deposit in Financial Institutions: The carrying amounts of certificates of deposit in financial institutions approximate fair values and are classified as Level 2.

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.

Restricted Investments in Bank Stocks: It is not practical to determine the fair value of Federal Home Loan Bank, Federal Reserve Bank and United Bankers Bank stock due to restrictions placed on its transferability.

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 amount of accrued interest approximates fair value, resulting in a classification that is consistent with the earning assets and interest-bearing liabilities with which it is associated.

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 4 – SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at September 30, 2016 and December 31, 2015 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, 2016				
U.S. Government sponsored entity securities	$ 10,627	$ 9	$ ----	$ 10,636
Agency mortgage-backed securities, residential	92,243	1,986	(5)	94,224
Total securities	$ 102,870	$ 1,995	$ (5)	$ 104,860
December 31, 2015				
U.S. Government sponsored entity securities	$ 9,011	$ ----	$ (46)	$ 8,965
Agency mortgage-backed securities, residential	82,178	981	(473)	82,686
Total securities	$ 91,189	$ 981	$ (519)	$ 91,651

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
September 30, 2016				
Obligations of states and political subdivisions	$ 19,646	$ 1,090	$ (4)	$ 20,732
Agency mortgage-backed securities, residential	5	----	----	5
Total securities	$ 19,651	$ 1,090	$ (4)	$ 20,737
December 31, 2015				
Obligations of states and political subdivisions	$ 19,898	$ 892	$ (5)	$ 20,785
Agency mortgage-backed securities, residential	5	----	----	5
Total securities	$ 19,903	$ 892	$ (5)	$ 20,790

The amortized cost and estimated fair value of debt securities at September 30, 2016, 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 Amortized Cost	Available for Sale Estimated Fair Value	Held to Maturity Amortized Cost	Held to Maturity Estimated Fair Value
Due in one year or less	$4,002	$4,003	$395	$ 398
Due in over one to five years	6,625	6,633	7,160	7,540
Due in over five to ten years	----	----	9,800	10,471
Due after ten years	----	----	2,291	2,323
Agency mortgage-backed securities, residential	92,243	94,224	5	5
Total debt securities	$102,870	$104,860	$19,651	$ 20,737

The following table summarizes securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position:

September 30, 2016	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	$1,067	$ (5)	$----	$ ----	$1,067	$ (5)
Total available for sale	$1,067	$ (5)	$----	$ ----	$1,067	$ (5)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Held to Maturity						
Obligations of states and political subdivisions	$587	$ (4)	$----	$ ----	$587	$ (4)
Total held to maturity	$587	$ (4)	$----	$ ----	$587	$ (4)

December 31, 2015	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						
U.S. Government sponsored entity securities	$7,964	$ (46)	$----	$ ----	$7,964	$ (46)
Agency mortgage-backed securities, residential	42,112	(407)	3,645	(66)	45,757	(473)
Total available for sale	$50,076	$ (453)	$3,645	$ (66)	$53,721	$ (519)

	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	$995	$ (5)	$----	$ ----	$995	$ (5)
Total held to maturity	$995	$ (5)	$----	$ ----	$995	$ (5)

There were no sales of investment securities during the three and nine months ended September 30, 2016. During the three and nine months ended September 30, 2015, the Company had proceeds of $10,550 pertaining to securities sales on available for sale securities with gross gains recognized of $28 and $163 for both periods. Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality as of September 30, 2016, 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, 2016 and December 31, 2015 represents an other-than-temporary impairment.

NOTE 5 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	September 30, 2016	December 31, 2015
Residential real estate	$ 273,335	$ 223,875
Commercial real estate:		
Owner-occupied	82,204	73,458
Nonowner-occupied	98,923	72,002
Construction	34,494	23,852
Commercial and industrial	97,192	81,936
Consumer:		
Automobile	58,359	44,566
Home equity	20,159	20,841
Other	56,921	45,222
	721,587	585,752
Less: Allowance for loan losses	7,537	6,648
Loans, net	$ 714,050	$ 579,104

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2016 and 2015:

September 30, 2016	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 906	$ 3,464	$ 1,416	$ 1,148	$6,934
Provision for loan losses	228	802	149	529	1,708
Loans charged off	(151)	(11)	(587)	(704)	(1,453)
Recoveries	30	19	1	298	348
Total ending allowance balance	$ 1,013	$ 4,274	$ 979	$ 1,271	$7,537

September 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 1,230	$ 2,795	$ 2,287	$ 1,132	$7,444
Provision for loan losses	(166)	(214)	205	164	(11)
Loans charged-off	(40)	(596)	----	(309)	(945)
Recoveries	219	15	11	169	414
Total ending allowance balance	$ 1,243	$ 2,000	$ 2,503	$ 1,156	$6,902

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2016 and 2015:

September 30, 2016	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 1,087	$ 1,959	$ 2,589	$ 1,013	$6,648
Provision for loan losses	10	2,264	(1,035)	1,089	2,328
Loans charged off	(322)	(63)	(587)	(1,540)	(2,512)
Recoveries	238	114	12	709	1,073
Total ending allowance balance	$ 1,013	$ 4,274	$ 979	$ 1,271	$7,537

September 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 1,426	$ 4,195	$ 1,602	$ 1,111	$8,334
Provision for loan losses	(256)	(272)	697	541	710
Loans charged-off	(263)	(1,970)	(24)	(1,016)	(3,273)
Recoveries	336	47	228	520	1,131
Total ending allowance balance	$ 1,243	$ 2,000	$ 2,503	$ 1,156	$6,902

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, 2016 and December 31, 2015:

September 30, 2016	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total

			and Industrial		
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ ----	$ 2,705	$ 245	$ 2	$ 2,952
Collectively evaluated for impairment	1,013	1,569	734	1,269	4,585
Total ending allowance balance	$ 1,013	$ 4,274	$ 979	$ 1,271	$ 7,537
Loans:					
Loans individually evaluated for impairment	$ 724	$ 13,391	$ 9,099	$ 216	$ 23,430
Loans collectively evaluated for impairment	272,611	202,230	88,093	135,223	698,157
Total ending loans balance	$ 273,335	$ 215,621	$ 97,192	$ 135,439	$ 721,587

December 31, 2015	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	$ ----	$ 311	$ 1,850	$ 3	$ 2,164
Collectively evaluated for impairment	1,087	1,648	739	1,010	4,484
Total ending allowance balance	$ 1,087	$ 1,959	$ 2,589	$ 1,013	$ 6,648
Loans:					
Loans individually evaluated for impairment	$ 1,001	$ 7,318	$ 8,691	$ 218	$ 17,228
Loans collectively evaluated for impairment	222,874	161,994	73,245	110,411	568,524
Total ending loans balance	$ 223,875	$ 169,312	$ 81,936	$ 110,629	$ 585,752

The following tables present information related to loans individually evaluated for impairment by class of loans as of September 30, 2016 and December 31, 2015:

September 30, 2016	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial real estate:			
Owner-occupied	$ 5,918	$ 5,918	$ 2,603
Nonowner-occupied	387	387	102
Commercial and industrial	391	391	245
Consumer:			
Home equity	216	216	2
With no related allowance recorded:			
Residential real estate	724	724	----
Commercial real estate:			
Owner-occupied	3,291	2,744	----
Nonowner-occupied	5,614	3,798	----
Construction	641	544	----
Commercial and industrial	8,708	8,708	----
Total	$ 25,890	$ 23,430	$ 2,952

December 31, 2015	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial real estate:			
Owner-occupied	$ 204	$ 204	$ 204
Nonowner-occupied	396	396	107
Commercial and industrial	4,355	4,355	1,850
Consumer:			
Home equity	218	218	3
With no related allowance recorded:			
Residential real estate	1,001	1,001	----

Commercial real estate:			
Owner-occupied	3,812	3,265	----
Nonowner-occupied	5,178	2,773	----
Construction	680	680	----
Commercial and industrial	4,336	4,336	----
Total	$ 20,180	$ 17,228	$ 2,164

The following tables present information related to loans individually evaluated for impairment by class of loans for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial real estate:						
Owner-occupied	$5,427	$ 94	$ 94	$2,815	$ 241	$ 241
Nonowner-occupied	389	5	5	392	15	15
Commercial and industrial	391	----	----	391	----	----
Consumer:						
Home equity	217	1	1	218	5	5
With no related allowance recorded:						
Residential real estate	725	4	4	728	20	20
Commercial real estate:						
Owner-occupied	2,797	37	37	2,879	120	120
Nonowner-occupied	3,680	33	33	3,557	75	75
Construction	363	11	11	521	108	108
Commercial and industrial	8,575	103	103	8,234	290	290
Total	$22,564	$ 288	$ 288	$19,735	$ 874	$ 874

	Three months ended September 30, 2015			Nine months ended September 30, 2015		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Residential real estate	$895	$ ----	$ ----	$895	$ ----	$ ----
Commercial real estate:						
Owner-occupied	204	11	11	204	11	11
Nonowner-occupied	401	5	5	404	70	70
Commercial and industrial	3,589	52	52	3,343	117	117
Consumer:						
Home equity	218	2	2	219	6	6
With no related allowance recorded:						
Residential real estate	1,005	11	11	761	36	36
Commercial real estate:						
Owner-occupied	2,873	74	74	2,617	135	135
Nonowner-occupied	2,910	12	12	3,605	37	37
Construction	680	----	----	510	----	----
Commercial and industrial	3,800	26	26	3,897	133	133
Total	$16,575	$ 193	$ 193	$16,455	$ 545	$ 545

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

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 Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of September 30, 2016 and December 31, 2015, other real estate owned secured by residential real estate totaled $986 and $1,131, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $1,042 and $988 as of September 30, 2016 and December 31, 2015, respectively.

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 as of September 30, 2016 and December 31, 2015:

September 30, 2016	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$ 152	$ 3,387
Commercial real estate:		
Owner-occupied	207	1,575
Nonowner-occupied	----	2,711
Construction	----	544
Commercial and industrial	----	661
Consumer:		
Automobile	53	16
Home equity	----	35
Other	31	98
Total	$ 443	$ 9,027

December 31, 2015	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$ 20	$ 2,048
Commercial real estate:		
Owner-occupied	----	404
Nonowner-occupied	----	2,737
Construction	----	769
Commercial and industrial	----	1,152
Consumer:		
Automobile	18	27
Home equity	----	96
Other	1	3
Total	$ 39	$ 7,236

The following table presents the aging of the recorded investment of past due loans by class of loans as of September 30, 2016 and December 31, 2015:

September 30, 2016	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	$4,355	$1,677	$2,164	$8,196	$265,139	$273,335
Commercial real estate:						
Owner-occupied	162	338	1,508	2,008	80,196	82,204
Nonowner-occupied	226	316	2,235	2,777	96,146	98,923
Construction	414	----	182	596	33,898	34,494
Commercial and industrial	370	230	602	1,202	95,990	97,192
Consumer:						
Automobile	1,030	228	63	1,321	57,038	58,359
Home equity	174	----	----	174	19,985	20,159
Other	1,120	199	56	1,375	55,546	56,921
Total	$7,851	$2,988	$6,810	$17,649	$703,938	$721,587

December 31, 2015	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	$2,564	$1,484	$1,708	$5,756	$218,119	$223,875
Commercial real estate:						
Owner-occupied	141	33	371	545	72,913	73,458
Nonowner-occupied	35	334	2,737	3,106	68,896	72,002
Construction	----	2	769	771	23,081	23,852
Commercial and industrial	31	88	1,077	1,196	80,740	81,936
Consumer:						
Automobile	727	197	36	960	43,606	44,566
Home equity	75	----	76	151	20,690	20,841
Other	420	104	4	528	44,694	45,222
Total	$3,993	$2,242	$6,778	$13,013	$572,739	$585,752

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, 2016 and December 31, 2015:

September 30, 2016	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
Residential real estate			
Interest only payments	$ 724	$ ----	$724
Commercial real estate:			
Owner-occupied			
Interest only payments	316	----	316
Rate reduction	----	232	232
Reduction of principal and interest payments	586	----	586
Maturity extension at lower stated rate than market rate	1,610	----	1,610
Credit extension at lower stated rate than market rate	204	----	204
Nonowner-occupied			
Interest only payments	600	2,374	2,974

Rate reduction	387	----	387
Credit extension at lower stated rate than market rate	574	----	574
Commercial and industrial			
Interest only payments	7,750	----	7,750
Credit extension at lower stated rate than market rate	957	392	1,349
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	216	----	216
Total TDR's	$ 13,924	$ 2,998	$16,922

December 31, 2015	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
Residential real estate			
Interest only payments	$ 1,001	$ ----	$ 1,001
Commercial real estate:			
Owner-occupied			
Interest only payments	433	----	433
Rate reduction	----	232	232
Reduction of principal and interest payments	604	----	604
Maturity extension at lower stated rate than market rate	1,996	----	1,996
Credit extension at lower stated rate than market rate	204	----	204
Nonowner-occupied			
Interest only payments	300	2,473	2,773
Rate reduction	396	----	396
Commercial and industrial			
Interest only payments	7,579	----	7,579
Credit extension at lower stated rate than market rate	226	391	617
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	218	----	218
Total TDR's	$ 12,957	$ 3,096	$ 16,053

During the three months ended September 30, 2016, the TDR's described above increased the provision expense and the allowance for loan losses by $14, with corresponding charge-offs of $11. During the nine months ended September 30, 2016, the TDR's described above decreased the provision expense and the allowance for loan losses by $1,105, with corresponding charge-offs of $11. These results are compared to a $44 decrease in both the provision expense and the allowance for loan losses during the three and nine months ended September 30, 2015, with corresponding charge-offs of $1,422. During the year ended December 31, 2015, the TDR's described above increased the allowance for loan losses and provision expense by $93 with corresponding charge-offs of $1,422. The charge-offs of $1,422 during 2015 included $1,304 that were related to specific reserves that had already been provided for during 2014, and, as a result, did not impact provision expense during 2015.

At September 30, 2016, the balance in TDR loans increased $869, or 5.4%, from year-end 2015. The increase was largely from additional funds advanced to one commercial and industrial loan relationship during the third quarter of 2016. The Company had 82% of its TDR's performing according to their modified terms at September 30, 2016, as compared to 81% at December 31, 2015. The Company's specific allocations in reserves to customers whose loan terms have been modified in TDR's totaled $553 at September 30, 2016, as compared to $1,669 in reserves at December 31, 2015. At September 30, 2016, the Company had $1,292 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to $995 at December 31, 2015.

There were no TDR loan modifications during the three months ended September 30, 2016. The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended September 30, 2015:

	TDR's	TDR's Not

Three months ended September 30, 2015	Performing to Modified Terms Pre-Modification Recorded Investment	Performing to Modified Terms Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial real estate:				
Owner-occupied				
Maturity extension at lower stated rate than market rate	$ 1,025	$ 1,025	$ ----	$ ----
Total TDR's	$ 1,025	$ 1,025	$ ----	$ ----

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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, 2016 and 2015:

Nine months ended September 30, 2016	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
Commercial real estate:				
Nonowner-occupied				
Interest only payments	$ ----	$ ----	$ 226	$ 226
Credit extension at lower stated rate than market rate	574	574	----	----
Total TDR's	$ 574	$ 574	$ 226	$ 226

Nine months ended September 30, 2015	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
Residential real estate:				
Interest only payments	$ 495	$ 495	$ ----	$ ----
Commercial real estate:				
Owner-occupied				
Maturity extension at lower stated rate than market rate	1,025	1,025	----	----
Total TDR's	$ 1,520	$ 1,520	$ ----	$ ----

During the third quarter of 2016, the Company placed one commercial real estate TDR totaling $226 on nonaccrual status. The borrower continues to experience financial difficulty and the Company has started the foreclosure process. The Company reviewed the loan's collateral during the third quarter and identified $11 in collateral impairment, which resulted in a partial charge-off of principal. There were no specific allocations of the allowance for loan losses recorded on the impaired TDR loan at September 30, 2016. All of the Company's loans that were restructured during the nine months ended September 30, 2015 were performing in accordance with their modified terms. Excluding the commercial real estate loan of $226 previously mentioned, there were no other TDR's described above at September 30, 2016 and 2015 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 loans modified during the nine months ended September 30, 2016 increased the provision expense and the allowance for loan losses by $11. As of September 30, 2016, the Company had no allocation of reserves to customers whose loan terms were modified during the first nine months of 2016. The loans modified during the nine months ended September 30, 2015 had no impact on the provision expense or the allowance for loan losses. As of September 30, 2015, the Company had no allocation of reserves to customers whose loan terms were modified during the first nine months of 2015.

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 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. As of September 30, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of commercial loans by class of loans was as follows:

September 30, 2016	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$72,943	$ 370	$ 8,891	$82,204
Nonowner-occupied	88,613	367	9,943	98,923
Construction	33,951	----	543	34,494
Commercial and industrial	94,011	----	3,181	97,192
Total	$289,518	$ 737	$ 22,558	$312,813

December 31, 2015	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$62,287	$ 6,738	$ 4,433	$73,458
Nonowner-occupied	61,577	6,305	4,120	72,002
Construction	23,080	----	772	23,852

Commercial and industrial	70,852	5,232	5,852	81,936
Total	$217,796	$ 18,275	$ 15,177	$251,248

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.

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For residential and consumer loan classes, the Company 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, 2016 and December 31, 2015:

September 30, 2016	Consumer				
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	$58,290	$20,124	$56,792	$ 269,796	$405,002
Nonperforming	69	35	129	3,539	3,772
Total	$58,359	$20,159	$56,921	$ 273,335	$408,774

December 31, 2015	Consumer				
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	$44,521	$20,745	$45,218	$ 221,807	$332,291
Nonperforming	45	96	4	2,068	2,213
Total	$44,566	$20,841	$45,222	$ 223,875	$334,504

The Company, through its subsidiaries, originates 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 5.09% of total loans were unsecured at September 30, 2016, down from 6.06% at December 31, 2015.

NOTE 6 - 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, 2016, the contract amounts of these instruments totaled approximately $67,556, compared to $62,415 at December 31, 2015. 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 7 - OTHER BORROWED FUNDS

Other borrowed funds at September 30, 2016 and December 31, 2015 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes. At September 30, 2016 and December 31, 2015, FHLB Borrowings included $84 and $117 in capitalized lease obligations, respectively.

	FHLB Borrowings	Promissory Notes	Totals
September 30, 2016	$ 26,747	$ 8,918	$35,665
December 31, 2015	$ 20,028	$ 3,918	$23,946

Pursuant to collateral agreements with the FHLB, advances were secured by $263,867 in qualifying mortgage loans, $80,092 in commercial loans and $5,365 in FHLB stock at September 30, 2016. Fixed-rate FHLB advances of $26,663 mature through 2042 and have interest rates ranging from 1.34% to 3.31% and a year-to-date weighted average cost of 2.08%. There were no variable-rate FHLB borrowings at September 30, 2016.

At September 30, 2016, the Company had a cash management line of credit enabling it to borrow up to $75,000 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 $75,000 available on this line of credit at September 30, 2016.

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 $189,639 at September 30, 2016. Of this maximum borrowing capacity, the Company had $115,976 available to use as additional borrowings, of which $75,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, are due at various dates through a final maturity date of August 1, 2026, and have fixed rates ranging from 1.25% to 4.09% through August 1, 2021 and a year-to-date weighted average cost of 2.05% at September 30, 2016, as compared to 1.38% at December 31, 2015. Promissory notes payable by Ohio Valley to related parties totaled $360 at September 30, 2016. Promissory notes payable to other banks totaled $5,000 at September 30, 2016.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled $47,000 at September 30, 2016 and $34,800 at December 31, 2015.

Scheduled principal payments as of September 30, 2016:

	FHLB Borrowings	Promissory Notes	Totals
2016	$ 585	$ 1,905	$2,490
2017	5,022	2,019	7,041
2018	1,967	946	2,913
2019	1,906	453	2,359
2020	1,817	471	2,288
Thereafter	15,450	3,124	18,574
	$ 26,747	$ 8,918	$35,665

NOTE 8 – 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 90.9% and 90.2% of total consolidated revenues for the quarters ended September 30, 2016 and 2015, 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, 2016		
	Banking	Consumer Finance	Total Company
Net interest income	$8,396	$ 589	$8,985

Provision expense	1,675	33	1,708
Noninterest income	1,655	38	1,693
Noninterest expense	8,167	661	8,828
Tax expense (benefit)	(193)	(23)	(216)
Net income (loss)	402	(44)	358
Assets	957,889	12,341	970,230

	Three Months Ended September 30, 2015		
	Banking	Consumer Finance	Total Company
Net interest income	$7,627	$ 658	$ 8,285
Provision expense (benefit)	10	(21)	(11)
Noninterest income	1,522	62	1,584
Noninterest expense	7,106	621	7,727
Tax expense	471	40	511
Net income	1,562	80	1,642
Assets			