GREENHILL & CO INC
Form SC 13G/A
February 14, 2013

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# SCHEDULE 13G

**Under the Securities Exchange Act of 1934**

**(Amendment No. 1)***

Greenhill & Co., Inc.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

395259104

(CUSIP Number)

December 31, 2012

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[ ] Rule 13d-1(c)

[ ] Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 (the "Act") or otherwise subject to the liabilities of that section of the Act, but shall be subject to all other provisions of the Act (however, see the Notes.)

CUSIP No. 395259104

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Wellington Management Company, LLP
04-2683227

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) [ ]
(b) [ ]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Massachusetts

| | | |
|---|---|---|
| NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH | 5. SOLE VOTING POWER | 0 |
| | 6. SHARED VOTING POWER | 853,760 |
| | 7. SOLE DISPOSITIVE POWER | 0 |
| | 8. SHARED DISPOSITIVE POWER | 1,063,724 |

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,063,724

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

[ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

3.75%

12. TYPE OF REPORTING PERSON

IA

**Item 1.**

**(a) Name of Issuer**
Greenhill & Co., Inc.

**(b) Address of Issuer's Principal Executive Offices**
300 Park Avenue
23rd Floor
New York, NY 10022

**Item 2.**

**(a) Name of Person Filing**
Wellington Management Company, LLP ("Wellington Management")

**(b) Address of Principal Business Office or, if None, Residence**
280 Congress Street
Boston, MA 02210

**(c) Citizenship**
Massachusetts

**(d) Title of Class of Securities**
Common Stock

**(e) CUSIP Number**
395259104

**Item 3. If This Statement is Filed Pursuant to Rule 13d-1(b), or 13d-2(b) or (c), Check Whether the Person Filing is a:**

(a) [ ] Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o).

(b) [ ] Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) [ ] Insurance Company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) [ ] Investment Company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) [X] An investment adviser in accordance with Rule 240.13d-1(b)(1)(ii)(E);

(f) [ ] An employee benefit plan or endowment fund in accordance with Rule 240.13d-1(b)(1)(ii)(F);

(g) [ ] A parent holding company or control person in accordance with Rule 240.13d-1(b)(1)(ii)(G);

(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) [ ] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) [ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box [ ]

**Item 4. Ownership.**

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount Beneficially Owned:

Wellington Management, in its capacity as investment adviser, may be deemed to beneficially own 1,063,724 shares of the Issuer which are held of record by clients of Wellington Management.

(b) Percent of Class:

3.75%

(c) Number of shares as to which such person has:

| | | |
|---|---|---|
| (i) | sole power to vote or to direct the vote | 0 |
| (ii) | shared power to vote or to direct the vote | 853,760 |
| (iii) | sole power to dispose or to direct the disposition of | 0 |
| (iv) | shared power to dispose or to direct the disposition of | 1,063,724 |

**Item 5. Ownership of Five Percent or Less of Class.**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following: [X]

**Item 6. Ownership of More than Five Percent on Behalf of Another Person.**

The securities as to which this Schedule is filed by Wellington Management, in its capacity as investment adviser, are owned of record by clients of Wellington Management. Those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. No such client is known to have such right or power with respect to more than five percent of this class of securities, except as follows:

Not Applicable.

**Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.**

Not Applicable.

**Item 8. Identification and Classification of Members of the Group.**

Not Applicable.

**Item 9. Notice of Dissolution of Group.**

Not Applicable.

**Item 10. Certification.**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

By: /s/ Steven M. Hoffman

--------------------------------------

Name: Steven M. Hoffman

Title: Vice President

Date: February 14, 2013

Fair
Value

Unrealized
Loss

Fair
Value

Unrealized
Loss

Fair
Value

Unrealized
Loss

Securities Available for Sale

U.S. Government sponsored

entity securities
$7,780 $(243) $---- $---- $7,780 $(243)
Agency mortgage-backed

securities, residential
36,815 (832) ---- ---- 36,815 (832)

Total available for sale
$44,595 $(1,075) $---- $---- $44,595 $(1,075)

| | 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 | $8,427 | $ (404) | $242 | $ (21) | $8,669 | $ (425) |
| Total held to maturity | $8,427 | $ (404) | $242 | $ (21) | $8,669 | $ (425) |

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2012 | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss |
| Securities Held to Maturity | | | | | | |
| Obligations of states and political subdivisions | $ 2,018 | $ (63) | $ 260 | $ (2) | $ 2,278 | $ (65) |
| Total held to maturity | $ 2,018 | $ (63) | $ 260 | $ (2) | $ 2,278 | $ (65) |

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 June 30, 2013 represents an other-than-temporary impairment.

14

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

| Loans are comprised of the following: | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Residential real estate | $220,290 | $226,022 |
| Commercial real estate: | | |
| Owner-occupied | 99,232 | 104,842 |
| Nonowner-occupied | 53,759 | 52,792 |
| Construction | 21,308 | 17,376 |
| Commercial and industrial | 58,299 | 57,239 |
| Consumer: | | |
| Automobile | 40,104 | 41,168 |
| Home equity | 18,223 | 18,332 |
| Other | 40,230 | 40,517 |
| | 551,445 | 558,288 |
| Less: Allowance for loan losses | 6,468 | 6,905 |
| | | |
| Loans, net | $544,977 | $551,383 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2013 and 2012:

| June 30, 2013 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,314 | $3,744 | $761 | $853 | $6,672 |
| Provision for loan losses | (182) | (715) | 565 | 143 | (189) |
| Loans charged off | (100) | ---- | ---- | (284) | (384) |
| Recoveries | 160 | 5 | 16 | 188 | 369 |
| Total ending allowance balance | $1,192 | $3,034 | $1,342 | $900 | $6,468 |

| June 30, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,491 | $3,423 | $623 | $1,310 | $6,847 |
| Provision for loan losses | 18 | 1,004 | (319) | (179) | 524 |
| Loans charged-off | (85) | (62) | ---- | (298) | (445) |
| Recoveries | 19 | 4 | 349 | 229 | 601 |
| Total ending allowance balance | $1,443 | $4,369 | $653 | $1,062 | $7,527 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2013 and 2012:

| June 30, 2013 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,329 | $3,946 | $783 | $847 | $6,905 |
| Provision for loan losses | 145 | (1,193) | 532 | 358 | (158) |
| Loans charged off | (457) | (2) | ---- | (721) | (1,180) |
| Recoveries | 175 | 283 | 27 | 416 | 901 |
| Total ending allowance balance | $1,192 | $3,034 | $1,342 | $900 | $6,468 |

| June 30, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,730 | $3,623 | $636 | $1,355 | $7,344 |
| Provision for loan losses | 295 | 1,896 | (407) | 56 | 1,840 |
| Loans charged-off | (678) | (1,158) | (70) | (817) | (2,723) |
| Recoveries | 96 | 8 | 494 | 468 | 1,066 |
| Total ending allowance balance | $1,443 | $4,369 | $653 | $1,062 | $7,527 |

15

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 June 30, 2013 and December 31, 2012:

| June 30, 2013 | 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 | $123 | $ 1,476 | $ 878 | $---- | $2,477 |
| Collectively evaluated for impairment | 1,069 | 1,558 | 464 | 900 | 3,991 |
| Total ending allowance balance | $1,192 | $ 3,034 | $ 1,342 | $900 | $6,468 |
| | | | | | |
| Loans: | | | | | |
| Loans individually evaluated for impairment | $916 | $ 10,968 | $ 3,518 | $---- | $15,402 |
| Loans collectively evaluated for impairment | 219,374 | 163,331 | 54,781 | 98,557 | 536,043 |
| Total ending loans balance | $220,290 | $ 174,299 | $ 58,299 | $98,557 | $551,445 |

| December 31, 2012 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment | $128 | $ 1,979 | $ ---- | $---- | $2,107 |
| Collectively evaluated for impairment | 1,201 | 1,967 | 783 | 847 | 4,798 |
| Total ending allowance balance | $1,329 | $ 3,946 | $ 783 | $847 | $6,905 |
| | | | | | |
| Loans: | | | | | |
| Loans individually evaluated for impairment | $827 | $ 16,354 | $ ---- | $220 | $17,401 |
| Loans collectively evaluated for impairment | 225,195 | 158,656 | 57,239 | 99,797 | 540,887 |
| Total ending loans balance | $226,022 | $ 175,010 | $ 57,239 | $100,017 | $558,288 |

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

| Six months ended June 30, 2013 | 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 | $490 | $490 | $---- | $481 | $ 13 | $ 13 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 1,485 | 1,483 | ---- | 1,362 | 22 | 22 |
| Nonowner-occupied | 6,849 | 6,049 | ---- | 6,717 | 186 | 186 |
| Commercial and industrial | 2,376 | 2,376 | ---- | 792 | 23 | 23 |

| | | | | | | |
|---|---|---|---|---|---|---|
| With an allowance recorded: | | | | | | |
| Residential real estate | 426 | 426 | 123 | 424 | 8 | 8 |
| Commercial real estate: | | | | | | |
| Nonowner-occupied | 3,436 | 3,436 | 1,476 | 3,450 | 53 | 53 |
| Commercial and industrial | 1,142 | 1,142 | 878 | 381 | 45 | 45 |
| Total | $ 16,204 | $ 15,402 | $ 2,477 | $ 13,607 | $ 350 | $ 350 |

16

| Six months ended June 30, 2012 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Residential real estate | $1,174 | $1,034 | $---- | $886 | $18 | $13 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 7,410 | 7,159 | ---- | 5,631 | 264 | 244 |
| Nonowner-occupied | 1,790 | 889 | ---- | 934 | 24 | 23 |
| Construction | 675 | 395 | ---- | 488 | 6 | 6 |
| Consumer: | | | | | | |
| Automobile | 22 | 22 | ---- | 15 | 1 | 1 |
| Home equity | 220 | 220 | ---- | 147 | 5 | 5 |
| With an allowance recorded: | | | | | | |
| Residential real estate | 420 | 420 | 128 | 420 | 17 | 13 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 3,614 | 3,614 | 1,207 | 3,529 | 77 | 69 |
| Nonowner-occupied | 1,298 | 1,047 | 638 | 1,198 | 18 | 17 |
| Total | $16,623 | $14,800 | $1,973 | $13,248 | $430 | $391 |

| Year ended December 31, 2012 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Residential real estate | $ 619 | $ 407 | $ ---- | $ 493 | $ ---- | $ ---- |
| Commercial real estate: | | | | | | |
| Owner-occupied | 5,528 | 5,528 | ---- | 4,729 | 338 | 338 |
| Nonowner-occupied | 10,085 | 8,847 | ---- | 4,767 | 456 | 456 |
| Commercial and industrial | 426 | ---- | ---- | ---- | ---- | ---- |
| Consumer: | | | | | | |
| Home equity | 220 | 220 | ---- | 176 | 9 | 9 |
| With an allowance recorded: | | | | | | |
| Residential real estate | 420 | 420 | 128 | 420 | 23 | 23 |
| Commercial real estate: | | | | | | |
| Nonowner-occupied | 1,979 | 1,979 | 1,979 | 1,132 | 38 | 38 |
| Total | $ 19,277 | $ 17,401 | $ 2,107 | $ 11,717 | $ 864 | $ 864 |

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees, as these amounts are immaterial.

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:

| June 30, 2013 | Loans Past Due | Nonaccrual |
|---|---|---|

| | 90 Days And Still Accruing | |
|---|---|---|
| Residential real estate | $381 | $2,632 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 1,085 |
| Nonowner-occupied | ---- | 52 |
| Consumer: | | |
| Automobile | 8 | 4 |
| Home equity | 58 | ---- |
| Other | 1 | 3 |
| Total | $448 | $3,776 |

17

| December 31, 2012 | Loans Past Due 90 Days And Still Accruing | Nonaccrual |
|---|---|---|
| Residential real estate | $341 | $2,533 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 675 |
| Nonowner-occupied | ---- | 352 |
| Consumer: | | |
| Automobile | 11 | 4 |
| Home equity | ---- | 62 |
| Other | 7 | ---- |
| Total | $359 | $3,626 |

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 aging of the recorded investment of past due loans by class of loans:

| June 30, 2013 | 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 | $4,420 | $1,179 | $3,003 | $8,602 | $211,688 | $220,290 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 38 | ---- | 1,085 | 1,123 | 98,109 | 99,232 |
| Nonowner-occupied | ---- | ---- | 52 | 52 | 53,707 | 53,759 |
| Construction | ---- | ---- | ---- | ---- | 21,308 | 21,308 |
| Commercial and industrial | 61 | ---- | ---- | 61 | 58,238 | 58,299 |
| Consumer: | | | | | | |
| Automobile | 540 | 139 | 9 | 688 | 39,416 | 40,104 |
| Home equity | 116 | 33 | 58 | 207 | 18,016 | 18,223 |
| Other | 491 | 61 | 4 | 556 | 39,674 | 40,230 |
| Total | $5,666 | $1,412 | $4,211 | $11,289 | $540,156 | $551,445 |

| December 31, 2012 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| Residential real estate | $5,525 | $1,033 | $2,797 | $9,355 | $216,667 | $226,022 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 753 | 111 | 675 | 1,539 | 103,303 | 104,842 |
| Nonowner-occupied | ---- | ---- | 352 | 352 | 52,440 | 52,792 |
| Construction | ---- | ---- | ---- | ---- | 17,376 | 17,376 |
| Commercial and industrial | 202 | ---- | ---- | 202 | 57,037 | 57,239 |
| Consumer: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Automobile | 905 | 138 | 13 | 1,056 | 40,112 | 41,168 |
| Home equity | 112 | 37 | 62 | 211 | 18,121 | 18,332 |
| Other | 1,066 | 162 | 7 | 1,235 | 39,282 | 40,517 |
| Total | $8,563 | $1,481 | $3,906 | $13,950 | $544,338 | $558,288 |

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 June 30, 2013 and December 31, 2012:

| | TDR's Performing to Modified Terms | TDR's Not Performing to Modified Terms | Total TDR's |
|---|---|---|---|
| June 30, 2013 | | | |
| Residential real estate | | | |
| Interest only payments | $249 | $---- | $249 |
| Rate reduction | ---- | 426 | 426 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | ---- | 580 | 580 |
| Rate reduction | ---- | 262 | 262 |
| Maturity extension at lower stated rate than market rate | 176 | ---- | 176 |
| Nonowner-occupied | | | |
| Interest only payments | 8,825 | ---- | 8,825 |
| Reduction of principal and interest payments | 660 | ---- | 660 |
| Total TDR's | $9,910 | $1,268 | $11,178 |

| | TDR's Performing to Modified Terms | TDR's Not Performing to Modified Terms | Total TDR's |
|---|---|---|---|
| December 31, 2012 | | | |
| Residential real estate | | | |
| Interest only payments | $---- | $180 | $180 |
| Rate reduction | 420 | ---- | 420 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | ---- | 675 | 675 |
| Rate reduction | 440 | ---- | 440 |
| Maturity extension at lower stated rate than market rate | 191 | ---- | 191 |
| Reduction of principal and interest payments | 4,222 | ---- | 4,222 |
| Nonowner-occupied | | | |
| Interest only payments | 9,856 | 300 | 10,156 |
| Reduction of principal and interest payments | 670 | ---- | 670 |
| Total TDR's | $15,799 | $1,155 | $16,954 |

During the three and six months ended June 30, 2013, the TDR's described above decreased the provision expense and the allowance for loan losses by $513 and $233, respectively, with no corresponding charge-offs. This was largely due to a $503 reduction in specific reserves on a commercial real estate loan based on an updated impairment analysis of collateral during the second quarter of 2013. This decrease in reserves was partially offset by a $275 recovery during the first quarter of 2013 on a previously charged-off commercial real estate loan that had been classified as a TDR at December 31, 2012. During the year ended December 31, 2012, the TDR's described above increased the allowance for loan losses by $2,169, resulting in charge-offs of $536.

At June 30, 2013, the balance in TDR loans decreased $5,776, or 34.1%, from year-end 2012. The decrease was largely due to the removal of one commercial real estate loan from TDR status during the second quarter of 2013. This previously reported TDR loan, for which there was no principal forgiveness, totaled $4,222 at December 31, 2012. The loan paid as agreed under the modified terms through maturity in April, 2013. During the three months ended June 30, 2013, the Bank re-underwrote and re-modified the loan at terms that were considered to be at market for loans with comparable risk. Management expects the borrower will continue to perform under the re-modified terms based on the borrower's past history of performance

19

and the overall cash flows of the borrower. Based on the terms of the re-modification, the loan no longer meets the criteria for a troubled debt restructuring and, as such, was removed from TDR status at June 30, 2013 and is no longer evaluated individually for impairment. During the three and six months ended June 30, 2013 and 2012, no other loans were removed from TDR status as a result of a re-modification. Further reducing the TDR balance from year-end 2012 were principal payments of $995 received on one commercial real estate loan during the first half of 2013 and a $300 payoff of another commercial real estate loan during the first quarter of 2013. At June 30, 2013 and December 31, 2012, a total of 89% and 93% of the Company's TDR's were performing according to their modified terms, respectively. The Company allocated $1,599 and $2,107 in reserves to customers whose loan terms have been modified in TDR's as of June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, the Company had $724 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to $109 at December 31, 2012.

The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the six months ended June 30, 2013 and 2012:

| | TDR's Performing to Modified Terms | | TDR's Not Performing to Modified Terms | |
|---|---|---|---|---|
| Six months ended June 30, 2013 | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |
| Residential real estate | | | | |
| Interest only payments | $249 | $ 249 | $---- | $ ---- |
| Total TDR's | $249 | $ 249 | $---- | $ ---- |

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

As of June 30, 2013, all of the Company's loans that were restructured during the six months ended June 30, 2013 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at June 30, 2013 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 six months ended June 30, 2013 had no impact on the allowance for loan losses or charge-offs during those six months. As of June, 2013, the Company had no allocation of reserves to customers whose loan terms have been modified during the first six months of 2013.

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.

20

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

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

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

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

Doubtful (Loan Grade 10). Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification. These loans exhibit all substandard characteristics with the addition that weaknesses make collection or liquidation in full highly questionable and improbable. This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonable specific pending factors which may strengthen the credit can be more accurately determined. These factors may include proposed acquisitions, liquidation procedures, capital injection, receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of June 30, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of commercial loans by class of loans is as follows:

June 30, 2013

| | Pass | Criticized | Classified | Total |
|---|---|---|---|---|
| Commercial real estate: | | | | |

| | | | | |
|---|---|---|---|---|
| Owner-occupied | $88,357 | $7,981 | $2,894 | $99,232 |
| Nonowner-occupied | 43,530 | 601 | 9,628 | 53,759 |
| Construction | 20,273 | ---- | 1,035 | 21,308 |
| Commercial and industrial | 53,539 | 557 | 4,203 | 58,299 |
| Total | $205,699 | $9,139 | $17,760 | $232,598 |

21

| December 31, 2012 | Pass | Criticized | Classified | Total |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Owner-occupied | $87,614 | $14,057 | $3,171 | $104,842 |
| Nonowner-occupied | 39,627 | 2,171 | 10,994 | 52,792 |
| Construction | 16,276 | ---- | 1,100 | 17,376 |
| Commercial and industrial | 47,226 | 4,793 | 5,220 | 57,239 |
| Total | $190,743 | $21,021 | $20,485 | $232,249 |

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

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. Nonperforming loans are defined as loans that are past due 90 days and still accruing or loans that have been placed on nonaccrual. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of June 30, 2013 and December 31, 2012:

| June 30, 2013 | | Consumer | | | |
|---|---|---|---|---|---|
| | Automobile | Home Equity | Other | Residential Real Estate | Total |
| Performing | $40,092 | $18,165 | $40,226 | $217,277 | $315,760 |
| Nonperforming | 12 | 58 | 4 | 3,013 | 3,087 |
| Total | $40,104 | $18,223 | $40,230 | $220,290 | $318,847 |

| December 31, 2012 | | Consumer | | | |
|---|---|---|---|---|---|
| | Automobile | Home Equity | Other | Residential Real Estate | Total |
| Performing | $41,153 | $18,270 | $40,510 | $223,148 | $323,081 |
| Nonperforming | 15 | 62 | 7 | 2,874 | 2,958 |
| Total | $41,168 | $18,332 | $40,517 | $226,022 | $326,039 |

The Company, through its subsidiaries, grants residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 5.14% of total loans were unsecured at June 30, 2013, up from 4.87% at December 31, 2012.

NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At June 30, 2013, the contract amounts of these instruments totaled approximately $67,957, compared to $56,448 at December 31, 2012. 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.

22

NOTE 6 - OTHER BORROWED FUNDS

Other borrowed funds at June 30, 2013 and December 31, 2012 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes.

| | FHLB Borrowings | Promissory Notes | Totals |
|---|---|---|---|
| June 30, 2013 | $ 16,235 | $3,529 | $19,764 |
| December 31, 2012 | $ 10,759 | $3,526 | $14,285 |

Pursuant to collateral agreements with the FHLB, advances are secured by $202,309 in qualifying mortgage loans, $90,656 in commercial loans and $6,281 in FHLB stock at June 30, 2013. Fixed-rate FHLB advances of $16,235 mature through 2042 and have interest rates ranging from 1.53% to 3.31% and a year-to-date weighted average cost of 2.23%. There were no variable-rate FHLB borrowings at June 30, 2013.

At June 30, 2013, the Company had a cash management line of credit enabling it to borrow up to $95,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was $95,000 available on this line of credit at June 30, 2013.

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 $213,753 at June 30, 2013. Of this maximum borrowing capacity, the Company had $172,519 available to use as additional borrowings, of which $95,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.15% to 5.00% and are due at various dates through a final maturity date of December 8, 2014. At June 30, 2013, there were no promissory notes payable by Ohio Valley to related parties.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled $25,000 at June 30, 2013 and $14,200 at December 31, 2012.

Scheduled principal payments as of June 30, 2013:

| | FHLB Borrowings | Promissory Notes | Totals |
|---|---|---|---|
| 2013 | $1,096 | $1,743 | $2,839 |
| 2014 | 1,398 | 1,786 | 3,184 |
| 2015 | 1,307 | ---- | 1,307 |
| 2016 | 1,228 | ---- | 1,228 |
| 2017 | 1,161 | ---- | 1,161 |
| Thereafter | 10,045 | ---- | 10,045 |
| | $16,235 | $3,529 | $19,764 |

NOTE 7 – SEGMENT INFORMATION

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

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 89.1% and 90.1% of total consolidated revenues for the quarters ended June 30, 2013 and 2012, 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.

| | Three Months Ended June 30, 2013 | | |
|---|---|---|---|
| | Banking | Consumer Finance | Total Company |
| Net interest income | $7,198 | $643 | $7,841 |
| Provision expense | $(200) | $11 | $(189) |
| Noninterest income | $1,792 | $173 | $1,965 |
| Noninterest expense | $6,706 | $611 | $7,317 |
| Tax expense | $671 | $65 | $736 |
| Net income | $1,813 | $129 | $1,942 |
| Assets | $738,236 | $13,876 | $752,112 |

| | Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Banking | Consumer Finance | Total Company |
| Net interest income | $7,426 | $627 | $8,053 |
| Provision expense | $576 | $(52) | $524 |
| Noninterest income | $1,823 | $151 | $1,974 |
| Noninterest expense | $6,588 | $574 | $7,162 |
| Tax expense | $536 | $86 | $622 |
| Net income | $1,549 | $170 | $1,719 |
| Assets | $787,885 | $13,487 | $801,372 |

| | Six Months Ended June 30, 2013 | | |
|---|---|---|---|
| | Banking | Consumer Finance | Total Company |
| Net interest income | $14,347 | $1,915 | $16,262 |
| Provision expense | $(265) | $107 | $(158) |
| Noninterest income | $5,285 | $620 | $5,905 |
| Noninterest expense | $14,002 | $1,263 | $15,265 |
| Tax expense | $1,501 | $394 | $1,895 |
| Net income | $4,394 | $771 | $5,165 |
| Assets | $738,236 | $13,876 | $752,112 |

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Banking | Consumer Finance | Total Company |
| Net interest income | $15,083 | $1,882 | $16,965 |
| Provision expense | $1,787 | $53 | $1,840 |
| Noninterest income | $4,888 | $565 | $5,453 |
| Noninterest expense | $13,315 | $1,179 | $14,494 |

| | | | |
|---|---|---|---|
| Tax expense | $1,332 | $411 | $1,743 |
| Net income | $3,537 | $804 | $4,341 |
| Assets | $787,885 | $13,487 | $801,372 |

24

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

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

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, taxes, the effects of implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 and the continuing economic uncertainty in various parts of the world; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in management's discussion and analysis is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading “Item 1A. Risk Factors” of Part 1 of the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2012. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements, whether as a result of new information, unanticipated future events or otherwise.

Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial and consumer banking services within southeastern Ohio as well as western West Virginia.  The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; the making of construction and real estate loans; and credit card services.  The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services.  In addition, the Bank is one of a limited number of financial institutions which facilitates the payment of tax refunds through a third-party tax software provider.  The Bank has facilitated the payment of these tax refunds through electronic refund check/deposit (“ERC/ERD”) transactions.  ERC/ERD transactions involve the issuing of a tax refund to the taxpayer after the Bank has received the refund from the federal/state government.  ERC/ERD transactions occur primarily during the tax refund loan season, typically during the first quarter of each year.  Prior to 2012, the Bank also offered refund anticipation loans (“RALs”) through the same third-party tax software provider.  RALs are short-term cash advances against a customer's anticipated income tax refund.  The Bank ceased offering RALs effective April 19, 2011, although it still provides ERC/ERD transactions.  Loan Central continues to provide RALs to its customers.

For the three months ended June 30, 2013, the Company’s net income increased by $223, or 13.0%, as compared to the same period in 2012, to finish at $1,942.  Earnings per share for the second quarter of 2013 also increased by $.05, or 11.6%, compared to the same period in 2012, to finish at $.48 per share.  For the six months ended June 30, 2013, net income increased by $824, or 19.0%, to finish at $5,165, compared to the same period in 2012.  Earnings per share for the first six months of 2013 also increased by $.19, or 17.6%, compared to the same period in 2012, to finish at $1.27 per share. The annualized net income to average asset ratio, or return on assets (ROA), improved to 1.28% at June 30, 2013, as compared to 1.03% at June 30, 2012. The Company's net income to average equity ratio, or return on equity (ROE), improved to 13.45% at June 30, 2013, as compared to 11.97% at June 30, 2012.

25

The largest contributor to the Company's growth in net income was lower provision expense during both the three and six months ended June 30, 2013, decreasing $713 and $1,998, respectively, compared to the same periods in 2012. The decreases in provision expense were impacted mostly by lower levels of net charge-offs and decreasing nonperforming loans. During the three months ended June 30, 2013, net charge-offs were reduced to $15, an increase of $171 from the same period in 2012, due to higher recoveries during the second quarter of 2012. During the six months ended June 30, 2103, net charge-offs totaled $279, a decrease of $1,378 from the same period in 2012. The ratio of nonperforming loans to total loans was 0.77% at June 30, 2013 compared to 0.95% at June 30, 2012. With the continued improvement in asset quality trends, the historical loan loss factors that impact the general allocations of the allowance for loan losses have decreased. As a result, these required general reserves have decreased, which led to negative provision for both the three and six months ended June 30, 2013.

Further impacting the net income results were changes in the Company's noninterest income during 2013. Noninterest income finished comparably at $1,965 during the three months ended June 30, 2013, as compared to $1,974 during the same period in 2012, while improving to $5,905 during the six months ended June 30, 2013, an increase of $452 when compared to the same period in 2012. Noninterest income has been largely impacted by net life insurance proceeds, as well as increased transaction volume related to the Company's ERC/ERD fees and debit and credit card interchange income. Bank owned life insurance proceeds of $452 were collected in the first quarter of 2013 in conjunction with the Company's investment in various benefit plans for its directors and key employees. Also, during the three and six months ended June 30, 2013, ERC/ERD fees increased $180 and $247, respectively, from the same periods in 2012, due to an increase in the number of tax refund items processed. Management has been pleased with the significant contribution from this revenue source, which has accounted for over 42 percent of the Company's noninterest income for the first half of 2013. Further contributing to revenue growth was the increase in interchange fees earned on debit and credit card transactions. By continuing to offer incentives to customers to utilize the bank's debit and credit card for purchases, interchange income increased $72 and $129 during the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012.

Partially offsetting the benefits of lower provision expense and higher noninterest income during 2013 was lower net interest income combined with higher noninterest expenses. The Company's net interest income during the three and six months ended June 30, 2013 decreased $212 and $703, respectively, as compared to the same periods in 2012. The decreases were impacted mostly from lower average earning assets of $761,633 at June 30, 2013 as compared to $798,212 at June 30, 2012, largely from loans. The decline in loan balances was reflective of the continued stagnant economic environment, which has reduced the amount of lending opportunities within the Company's market areas.

The Company's noninterest expenses during the three and six months ended June 30, 2013 increased $155 and $771, respectively, as compared to the same periods in 2012. Higher noninterest expense was impacted by increases in salaries and employee benefits of $182 and $353 during the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. The increases were largely due to annual merit increases and retirement benefit costs. Noninterest expense was also impacted by fluctuations in foreclosed asset costs, which were down $21 during the three months ended June 30, 2013, but increased $164 during the six months ended June 30, 2013, as compared to the same periods in 2012. Foreclosed asset costs are related to the liquidation of real estate assets in process of foreclosure. Further impacting noninterest expense was a fee of $212 associated with the redemption of $5,000 in trust preferred securities classified as subordinated debentures in March 2013. While this contributed to the growth in overhead expenses during the six months ended June 30, 2013, the $5,000 redemption in trust preferred securities is anticipated to have a favorable impact on future earnings due to the elimination of $530 in annual interest expense.

The consolidated total assets of the Company decreased $17,111, or 2.2%, during the first six months of 2013 as compared to year-end 2012, to finish at $752,112. This change in assets was due to a decrease in the Company's earning assets of $14,006 from year-end 2012, mostly from lower loans and investment securities. The first half of 2013 saw the Company's loan portfolio decrease $6,843, or 1.2%, from year-end 2012. This change in loan balances came primarily from the residential real estate loan portfolio, which decreased $5,732, or 2.5%, from year-end 2012, largely due to a decline in loan demand of long-term, fixed-rate mortgages. Further impacting the Company's loan portfolio were consumer loans, which decreased $1,460 from year-end 2012, largely due to lower auto loan balances. The Company's total commercial loan portfolio, which includes commercial real estate and commercial and industrial loan balances, remained relatively stable, finishing at $232,598 at June 30, 2013, as compared to $232,249 at year-end 2012.

The Company's investment securities also decreased $4,781, or 4.0%, during the first half of 2013 as compared to year-end 2012. This change was impacted mostly by a $12,795, or 13.6%, decrease in the Company's U.S. Government agency ("Agency") mortgage-backed securities portfolio, which continue to experience increased cash flows from monthly principal repayments. A portion of the mortgage-backed security proceeds were used to invest in new, long-term U.S. Government sponsored entity ("GSE") securities, which increased $7,776 from year-end 2012, providing added diversification within the Company's investment securities portfolio at June 30, 2013.

Further impacting lower assets was the Company's interest-bearing deposits with banks, which decreased $3,877 from year-end 2012, largely from short-term investments in the Company's Federal Reserve Bank clearing account. During the first quarter of 2013, the Company experienced an increase in tax refund volume related to its ERC/ERD business. These short-term tax refunds, facilitating through several of the Company's noninterest-bearing checking accounts, were invested in its Federal Reserve Bank clearing account, which had increased during the first quarter of 2013. As the tax season ended during the second quarter of 2013, these short-term tax refund deposits were fully disbursed out of the Federal Reserve Bank clearing account. Also during the second quarter of 2013, the Company used its Federal Reserve Bank clearing account to fund investment security purchases as well as to satisfy increased maturities within the Company's time deposit portfolio, which contributed to lower interest-bearing deposit balances at June 30, 2013.

The Company continues to place more emphasis on growing its core deposit sources, such as noninterest-bearing demand accounts as well as interest-bearing NOW, money market and savings account balances. This emphasis has contributed to a larger balance shift away from its noncore deposit sources such as retail and wholesale time deposits. As a result, during the first half of 2013, the Company experienced a $27,346 decrease in its noncore time deposit balances from year-end 2012. This is compared to increases in the Company's interest- and noninterest-bearing core deposit balances, which were up $1,889 and $4,950, respectively, from year-end 2012. Interest-bearing deposits benefited from increased NOW and savings account balances while noninterest-bearing balances were largely impacted by excess funds retained from the ERC/ERD transactions that had processed during the tax season of 2013, as well as increased balances within the Company's rewards checking products.

Comparison of
Financial Condition
at June 30, 2013 and December 31, 2012

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at June 30, 2013 compared to December 31, 2012. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of cash, as well as interest- and non-interest bearing balances due from banks. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At June 30, 2013, cash and cash equivalents had decreased $5,677, or 12.4%, to $39,974, as compared to $45,651 at December 31, 2012. The decrease in cash and cash equivalents was largely affected by the Company's use of excess funds retained from seasonal tax deposits during the first half of 2013. The

27

Company will generally experience higher levels of excess funds during the first quarter than any other part of the year due to increased tax refund deposits from its ERC/ERD tax business. Liquidity levels normalize during the second quarter as these short-term tax refund deposits are fully disbursed from its Federal Reserve Bank clearing account, leaving a portion of retained excess funds. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain these excess funds while loan demand remains challenged. With loan demand continuing to decline during the second quarter of 2013, the Company used its Federal Reserve Bank clearing account deposits to help manage investment security purchases and fund a net reduction in deposits of $20,507, primarily related to maturities of retail and wholesale certificates of deposit ("CD's"). The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee. As of the filing date of this report, the interest rate calculated by the Federal Reserve continues to be 0.25%. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently in a range of less than 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time.  Carrying excess cash has a negative impact on interest income since the Company currently only earns 0.25% on its deposits with the Federal Reserve.  As a result, the Company's focus will be to continue to re-invest these excess funds back into longer-term, higher-yielding assets, such as loans and investment securities, during 2013 when the opportunities arise.  Further information regarding the Company's liquidity can be found under the caption "Liquidity" in this Management's Discussion and Analysis.

Securities

The balance of total securities decreased $4,781, or 4.0%, as compared to year-end 2012.  The Company's investment securities portfolio consists of GSE investment securities, agency mortgage-backed securities and obligations of states and political subdivisions.  During the first half of 2013, the Company continued to experience increased cash flows from monthly principal repayments of its agency mortgage-backed securities from year-end 2012.  Typically, the monthly repayment of principal has been the primary advantage of agency mortgage-backed securities as compared to other types of investment securities, which deliver proceeds upon maturity or call date.  However, with the current low interest rate environment and loan balances at a declining pace, the cash flow that is being collected is being reinvested at lower rates.  Principal repayments from agency mortgage-backed securities totaled $14,850 from January 1, 2013 through June 30, 2013.   As a result of increasing principal repayments, the Company's agency mortgage-backed securities decreased $12,795, or 13.6%, from year-end 2012.

The Company invested a portion of the excess funds from its agency mortage-backed securities into new long-term GSE securities, which increased $7,776 from year-end 2012.  The Company's investment in new GSE securities increased diversification within the investment securities portfolio, which was comprised mostly of agency mortgage-backed securities, totaling 71.4% of total investment securities at June 30, 2013.

For the remainder of 2013, the Company's focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets.

Loans

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income.  During the first six months of 2013, total loan balances decreased from year-end 2012 by $6,843, or 1.2%.  Lower loan balances were mostly influenced by the residential real estate and consumer loan portfolios, which were collectively down $7,192, or 2.2% from year-end 2012.  The Company's commercial loan portfolio, which includes commercial real estate and commercial and industrial loans, increased $349, or 0.2%, from year-end 2012.

28

Generating residential real estate loans remains a significant focus of the Company’s lending efforts. Residential real estate loan balances comprise the largest portion of the Company’s loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During the first half of 2013, total residential real estate loan balances decreased $5,732, or 2.5%, from year-end 2012. The decrease was mostly from the Company’s fixed-rate loans, which declined $12,558, or 9.2%, from year-end 2012. Long-term interest rates continue to remain at historic low levels and have prompted periods of increased refinancing demand for long-term, fixed-rate real estate loans in recent years. Originating long-term fixed-rate real estate loans at such low rates presents interest rate risk. Therefore, to help manage interest rate risk while also satisfying the demand for long-term, fixed-rate real estate loans, the Company has strategically chosen to originate and sell most of its long-term fixed-rate mortgage loans to the secondary market, which allowed its customers to take advantage of low rates. The Company maintains its relationship with the customer by servicing the loan. The customer must qualify to take advantage of a secondary market loan based on various criteria which could limit volume growth. In 2012, the Company experienced an increase in refinancing volume for long-term fixed-rate real estate loans, particularly during the second half of 2012. As a result, during the first six months of 2013, refinancing volume that led to secondary market sales has trended down, with 74 loans sold totaling $9,210 as compared to 87 loans sold totaling $11,155 during the first six months of 2012.

The remaining real estate loan portfolio balances increased $6,826, or 7.6%, from year-end 2012.  This increase came primarily from the Company's other variable-rate loan products being offered to its customers as alternative financing options. A customer that does not qualify for a long-term, secondary market loan may choose from one of the Company's other adjustable-rate mortgage products. This has contributed to higher balances of five-year, adjustable-rate mortgages, which were up $10,873, or 32.2%, from year-end 2012.  The Company will continue to follow its secondary market strategy until long-term interest rates increase back to a range that falls within an acceptable level of interest rate risk.

Lower loan balances during 2013 were also influenced by the Company’s total consumer loans, which decreased $1,460, or 1.5%, from year-end 2012.  The Company’s consumer loans are primarily secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The decrease in consumer loans came mostly from the Company’s automobile lending portfolio, which decreased $1,064, or 2.6%, from year-end 2012. The automobile lending component comprises the largest portion of the Company’s consumer loan portfolio, representing 40.7% of total consumer loans at June 30, 2013. In recent years, growing economic factors have weakened the economy and have limited consumer spending.  The Company continues to maintain a strict loan underwriting process on its consumer auto loan offerings to limit future loss exposure. The Company’s interest rates offered on indirect automobile opportunities have struggled to compete with the more aggressive lending practices of local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates. The decreasing trend of auto loan balances is expected to continue during the remainder of 2013.

The remaining consumer loan products not discussed above declined $396, or 0.7%, which included general decreases in loan balances from recreational vehicles, mobile homes, home equity lines of credit and unsecured loans.

Commercial real estate, the Company’s largest segment of commercial loans, decreased $711, or 0.4%, from year-end 2012.  Commercial real estate consists of owner-occupied, nonowner-occupied and construction loans.  Commercial real estate also includes loan participations with other banks outside the Company’s primary market area.  Although the Company is not actively seeking to participate in loans originated outside its primary market area, it has taken advantage of the relationships it has with certain lenders in those areas where the Company believes it can profitably participate with an acceptable level of risk.  Commercial real estate loans were down largely from its owner-occupied portfolio during 2013, which decreased $5,610, or 5.4%, from year-end 2012.  This change was in large part due to the larger loan payoffs and paydowns of six owner-occupied loans totaling $4,122.  Owner-occupied loans consist of nonfarm, nonresidential properties.  A commercial owner-occupied loan is a borrower purchased building or space for which the repayment of principal is dependent upon cash

29

flows from the ongoing operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans of the Company include loans secured by hospitals, churches, and hardware and convenience stores. Nonowner-occupied loans increased $967, or 1.8%, from year-end 2012 due to increases in originations. Nonowner-occupied loans are property loans for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property, such as apartment buildings, condominiums, hotels and motels. These loans are primarily impacted by local economic conditions, which dictate occupancy rates and the amount of rent charged. Commercial construction loans, which also increased $3,932, or 22.6%, from year-end 2012, are extended to individuals as well as corporations for the construction of an individual property or multiple properties and are secured by raw land and the subsequent improvements. The increase was largely due to the origination of one construction line during the first quarter of 2013 that had a balance of $2,489 at June 30, 2013.

At June 30, 2013, the Company's commercial and industrial loan portfolio was up from year-end 2012 by $1,060, or 1.9%. Commercial and industrial loans consist of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock.

Over half of the Company's total commercial loan portfolio, including participation loans, consists of rental property loans (27.7% of portfolio), hotel and motel loans (6.7% of portfolio), government & education loans (6.4% of portfolio), church loans (5.6% of portfolio) and construction & remodeling loans (5.3% of portfolio). At June 30, 2013, the primary market areas for the Company's commercial loan originations, excluding loan participations, continued to be in the areas of Gallia, Jackson and Pike counties of Ohio, which accounted for 38.6% of total originations. The growing West Virginia markets also accounted for 17.9% of total originations for the same time period. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company, the effects of competitive pressure and normal underwriting considerations. While commercial loans were down, management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

The well-documented housing market crisis and other disruptions within the economy have negatively impacted consumer spending, which has continued to limit the lending opportunities within the Company's market locations. Declines in the housing market since 2007, with falling home prices and increasing foreclosures and unemployment, have continued to result in significant write-downs of asset values by financial institutions. To combat this ongoing potential for loan loss, the Company will remain consistent in its approach to sound underwriting practices and a focus on asset quality. The Company anticipates continued challenges to its attempt to grow its loan portfolio in 2013.

Allowance for Loan Losses

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

30

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

During the first half of 2013, the Company's allowance for loan losses decreased $437, or 6.3%, to finish at $6,468 as compared to $6,905 at year-end 2012. This decrease in reserves was largely due to a reduction in general allocations related to economic risk trends, lower net charge-offs and lower loan balances. Management has focused on improving asset quality and lowering credit risk while working to maintain its relationships with its borrowers. As part of the Company's quarterly analysis of the allowance for loan losses, an improving trend has been identified within its economic risk allocation, which, among other things, accounts for unemployment rates and classified/criticized asset levels. Since year-end 2012, unemployment rates within the Company's lending markets have decreased 29 and 37 basis points within both the 12-month and 36-month rolling average, respectively. Furthermore, classified and criticized asset balances have also decreased from $53,259 at year-end 2012 to $39,580 at June 30, 2013. The Company has also continued to experience improving trends in lower loan losses associated with net charge-offs during the past 36 months, which have contributed to less required general allocations of the allowance for loan losses. At June 30, 2013, the Company's annualized ratio of net charge-offs to average loans decreased to 0.10%, as compared to 0.57% at June 30, 2012 and 2.07% at June 30, 2011, primarily within the commercial real estate loan portfolio. In addition, the Company's total loan portfolio balance decreased $6,843 from year-end 2012, having a direct impact on lower general allocations of the allowance. As a result of these improving trends in various credit quality statistics related to the loan portfolio, the Company's total general allocations decreased $807, or 16.8%, from year-end 2012.

The Company's impaired loan levels continue to improve, decreasing $1,999 from year-end 2012. The change in impaired loans was impacted by one commercial real estate loan that was removed from TDR status. During the second quarter of 2013, the Company re-evaluated the terms and conditions of one commercial real estate relationship that had previously been classified as a TDR, which totaled $4,222 at December 31, 2012. The loan matured in April, 2013 and was re-underwritten. The re-modified terms were considered at market. In addition, the cash flows from the borrower and recent performance supported the loan no longer being deemed impaired and removal from TDR status at June 30, 2013. Partially offsetting this TDR removal was the recognition of additional collateral value impairment on one commercial and industrial loan relationship. During the second quarter of 2013, the Company obtained more current information regarding the ongoing cash flows of this impaired commercial loan relationship, which totaled $4,160 at June 30, 2013. An impairment analysis was performed which identified loan impairment of $878. This resulted in a specific allocation increase of $878 to the allowance for loan losses and a corresponding increase to provision for loan losses expense. The portions of impaired loans for which there are specific allocations reflect losses that the Company expects to incur, as they will not likely be able to collect all amounts due according to the contractual terms of the loan. At June 30, 2013, there was $2,477 in specific allocations reserved for expected losses of impaired loans as compared to $2,107 in reserves at year-end 2012. The impairment on the commercial and industrial loan relationship mentioned above was the largest contributing factor to this increase in specific allocations. Although impaired loans have been identified as potential problem loans, they may never become delinquent or classified as nonperforming.



---

The Company experienced a $239 increase in its nonperforming loans from year-end 2012, mostly from within the residential real estate loan portfolio. Nonperforming loans consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans finished at $4,224 at June 30, 2013, compared to $3,985 at year-end 2012. As a result, the Company's ratio of nonperforming loans to total loans increased from 0.71% at December 31, 2012 to 0.77% at June 30, 2013. Conversely, the Company experienced a lower nonperforming asset to total asset ratio from year-end 2012, decreasing from 0.99% at December 31, 2012 to 0.95% at June 30, 2013. This was largely due to increased sales of various commercial and residential real estate properties classified as other real estate owned. The Company's foreclosed real estate properties are being actively marketed with the primary objective of liquidating the collateral at a level that most accurately represents fair value, and allowing for the recovery of as much of the unpaid principal balance as possible. Approximately 36% of nonperforming assets is related to two commercial properties totaling $2,544 classified as other real estate owned. Both nonperforming loans and nonperforming assets at June 30, 2013 continue to be in various stages of resolution for which management believes such loans are adequately collateralized or otherwise appropriately considered in its determination of the adequacy of the allowance for loan losses.

As a result of lower general allocations of the allowance benefited by improving economic trends, the ratio of the allowance for loan losses to total loans decreased to 1.17% at June 30, 2013, compared to 1.24% at December 31, 2012. Management believes that the allowance for loan losses at June 30, 2013 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits are used as part of the Company's liquidity management strategy to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Deposits, both interest- and noninterest-bearing, continue to be the most significant source of funds used by the Company to support earning assets. Deposits are attractive sources of funding because of their stability and generally low cost as compared with other funding sources. The Company seeks to maintain a proper balance of core deposit relationships on hand while also utilizing various wholesale deposit sources, such as brokered and internet CD balances, as an alternative funding source to manage efficiently the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. Total deposits decreased $20,507, or 3.1%, to finish at $634,557 at June 30, 2013, primarily due to higher priced time deposit accounts not being retained at maturity. This change in time deposits from year-end 2012 fits within management's strategy of focusing on more "core" deposit balances that include interest-bearing demand, savings, money market and noninterest-bearing deposit balances. The Bank focuses on core deposit relationships with consumers from local markets who can maintain multiple accounts and services at the Bank. The Company believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors. As a result, the Bank's core customer relationship strategy has resulted in a higher portion of its deposits being held in NOW and savings accounts at June 30, 2013 than at December 31, 2012 and a lesser portion of deposits being held in brokered and retail time deposits at June 30, 2013 than at December 31, 2012. Furthermore, the Company's core noninterest-bearing demand accounts increased from year-end 2012.

Deposit decreases from year-end 2012 came mostly from the Company's time deposits. Historically, time deposits, particularly CD's, had been the most significant source of funding for the Company's earning assets, making up 32.3% of total deposits December 31, 2012. However, these funding sources continue to be less emphasized due to lower market rates and the Company's focus on growing its core deposit balances. As a result, time deposits represented 29.1% of total deposits at June 30, 2013. During the first six months of 2013, time deposits

32

decreased $27,346, or 12.9%, from year-end 2012. With loan balances down 1.2% from year-end 2012, the Company has not needed to employ aggressive measures, such as offering higher rates, to attract customer investments in CD's. Furthermore, as market rates remain at low levels, the Company has seen the cost of its retail CD balances continue to reprice downward to reflect current deposit rates. As the Company's CD rate offerings have fallen considerably from a year ago, the Bank's CD customers have been more likely to consider re-investing their matured CD balances into other short-term deposit products or with other institutions offering the most attractive rates. This has led to an increased maturity runoff within its "customer relation" retail CD portfolio. Furthermore, with the significant downturn in economic conditions, the Bank's CD customers in general have experienced reduced funds available to deposit with structured terms, choosing to remain more liquid. As a result, the Company has experienced a decrease within its retail CD balances, which were down $17,092 from year-end 2012. The Company's preference of core deposit funding sources has created a lesser reliance on wholesale funding deposits (i.e., brokered and internet CD issuances), which were also down $10,254 from year-end 2012. The Company will continue to evaluate its use of brokered CD's to manage interest rate risk associated with longer-term, fixed-rate asset loan demand.

Further decreases in the Company's deposit balances came from money market accounts, which were down $5,670, or 3.9%, from year-end 2012. The decrease came largely from the Company's Market Watch product. The Market Watch product is a limited transaction investment account with tiered rates that competes with current market rate offerings and serves as an alternative to certificates of deposit for some customers. With an added emphasis on further building and maintaining core deposit relationships, the Company has marketed several attractive incentive offerings in the past several years to draw customers to this particular product. As the terms of these special incentive offerings have ended, the interest rates have adjusted down to current market rates, which has resulted in the decrease in Market Watch balances.

Partially offsetting the decreases in time deposits and money market account balances was growth in the Company's interest-free funding source, noninterest-bearing demand deposits, which increased $4,950, or 3.5%, from year-end 2012. This increase was largely from growth in the Company's business checking accounts, particularly those that serve to facilitate the significant volume of ERC/ERD tax refund items during the first quarter of 2013. The Company is one of a few institutions that provide ERC/ERD processing for a tax software provider. During 2013, this software provider was successful in increasing the volume of its ERC/ERD transactions from the same period in 2012. These seasonal business checking account balances should continue to normalize during the remainder of 2013.

Deposit growth also came from interest-bearing NOW account balances, which increased $3,492, or 3.3%, during the first half of 2013 as compared to year-end 2012. This increase was largely driven by public fund balances related to local city and county school accounts within Gallia County, Ohio. While the Company feels confident in the relationships it has with its public fund customers, these balances will continue to experience "larger" fluctuations than other deposit account relationships due to the nature of the account activity. Larger public fund balance fluctuations are, at times, seasonal and can be predicted while most other large fluctuations are outside of management's control. The Company values these public fund relationships it has secured and will continue to market and service these accounts to maintain its long-term relationships.

Further enhancing deposit growth were the Company's savings account balances, which increased $4,067, or 7.8%, from year-end 2012, coming primarily from the statement savings product. The increase in savings account balances reflects the customer's preference to remain liquid while the opportunity for market rates to rise in the near future still exists. As CD market rates continue to adjust downward, the spread between a short-term CD rate and a statement savings rate has become small enough for the customer to invest balances into a more liquid product, perhaps hoping for rising rates in the near future.

The Company will continue to experience increased competition for deposits in its market areas, which should challenge its net growth. The Company will continue to emphasize growth and retention within in its core deposit relationships during the remainder of 2013, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

33

---

Other Borrowed Funds

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of Federal Home Loan Bank (“FHLB”) advances and promissory notes. During the first half of 2013, other borrowed funds increased $5,479, or 38.4%, from year-end 2012. The increase was related to management electing to fund a long-term fixed-rate loan with a FHLB advance with similar repayment terms to mitigate the interest rate risk associated with the loan. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

Subordinated Debentures

The Company received proceeds from the issuance of two trust preferred securities from September 7, 2000 totaling $5,000 at a fixed-rate of 10.6% and March 22, 2007 totaling $8,500 at a fixed-rate of 6.58%. The $8,500 trust preferred security is now at an adjustable rate equal to the 3-month LIBOR plus 1.68%. The Company does not report the securities issued by the trust as liabilities, but instead, reports as liabilities the subordinated debentures issued by the Company and held by the trust. Given the current capital levels and interest cost savings, the Company redeemed the full amount of the $5,000 subordinated debenture on March 7, 2013, at a redemption price of 104.24%, which resulted in a premium of $212. The redemption was funded by a capital distribution from the Bank. The redemption supports the Company’s continued emphasis on lowering funding costs to strengthen the net interest margin as average earning assets continue to decline. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

Shareholders’ Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At June 30, 2013, the Bank’s capital exceeded the minimum requirements to be deemed “well capitalized” under applicable prompt corrective action regulations. Total shareholders' equity at June 30, 2013 of $78,141 increased $2,321, or 3.1%, as compared to the balance of $75,820 at December 31, 2012. Contributing most to this increase was year-to-date net income of $5,165, partially offset by cash dividends paid of $1,259, or $.31 per share. In addition, accumulated other comprehensive income decreased $1,585 from year-end 2012, as increasing interest rates at the end of the second quarter caused a reduction in the fair value of the Company’s investment portfolio. The fair value of an investment security moves inversely to interest rates, so as rates increased, the unrealized gain in the portfolio was negatively affected. These changes in rates are typical and do not impact earnings of the Company as long as the securities are held to full maturity.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

34

The final rule becomes effective for the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The final rule also implements consolidated capital requirements for savings and loan holding companies, such as the Company, effective January 1, 2015. Management is in the process of evaluating the expected impact of these new capital requirements on the Bank's regulatory capital position.

Comparison of Results of Operations
for the Three and Six Months Ended
June 30, 2013 and 2012

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three months and six months ended June 30, 2013 compared to the same period in 2012. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. The Company earns interest and dividend income from loans, investment securities and short-term investments while incurring interest expense on interest-bearing deposits, and short- and long-term borrowings. Net interest income is affected by changes in both the average volume and mix of assets and liabilities and the level of interest rates for financial instruments. During the second quarter of 2013, net interest income decreased $212, or 2.6%, as compared to the second quarter of 2012. During the six months ended June 30, 2013, net interest income decreased $703, or 4.1%, as compared to the six months ended June 30, 2012. The quarterly and year-to-date decreases were largely due to a decline in lower average earning asset balances, primarily loans, which yielded less interest income.

Total interest and fee income earned on the Company's earning assets decreased $893, or 9.2%, during the second quarter of 2013, and decreased $2,078, or 10.2%, during the first half of 2013, as compared to the same periods in 2012. This drop in earnings came largely from the commercial loan portfolio. The Company experienced lower average balances within the commercial loan portfolio during the first half of 2013 versus the same period in 2012. This change primarily came from significant charge-offs of underperforming commercial loans, as well as large payoffs of various commercial loans during those periods. These lower loan balances have contributed to a $304, or 9.4%, decrease in commercial interest and fee revenue during the second quarter of 2013, and a $791, or 11.7%, decrease during the first half of 2013 versus the same periods in 2012. The Company's average residential real estate loan portfolio decreased during the first and second quarters of 2013 versus the same periods in 2012. The decreases in residential real estate loans has been largely the result of management's strategy to sell the majority of its long-term, fixed-rate real estate loans to the secondary market, while retaining the servicing rights to these loans. This action continues to generate loan sale and servicing fee revenue within noninterest income, but has resulted in a $306, or 8.9%, decrease in real estate interest and fee income during the three months ended June 30, 2013, and a decrease of $643, or 9.3%, during the first half of 2013, as compared to the same periods in 2012. Lower earnings were also impacted by a decrease in consumer loan interest and fees of $154, or 6.8%, during the three months ended June 30, 2013, and a decrease of $376, or 7.2%, during the first half of 2103, as compared to the same periods in 2012. Contributing to this was lower consumer loan average balances during 2013, primarily from auto loan balances, where competition for loan demand continues to be challenged by other financial institutions and captive finance companies.

Further contributing to lower interest and fee income was a decrease in yields earned on average earning assets during the quarterly and year-to-date periods ended June 30, 2013, as compared to the same periods in 2012. The average yield on earning assets decreased 25 basis points during the second quarter of 2013 to finish at 4.83%, and decreased

29 basis points during the first half of 2013 to finish at 4.89%, as compared to the same periods in 2012. The decline in asset yields was impacted mostly by lower market rates.

35

Total interest expense incurred on the Company's interest-bearing liabilities decreased $681, or 42.5%, during the second quarter of 2013, and decreased $1,375, or 41.0%, during the six months ended June 30, 2013, as compared to the same periods in 2012. This was primarily due to lower rates paid on interest-bearing liabilities resulting from the 525 basis point reduction in interest rates by the Federal Reserve throughout 2007 and 2008, with a continuation of this low rate environment into 2013. The sustained low short-term rates have continued to impact the repricings of various Bank deposit products, especially time deposit balances, which continued to reprice at lower rates during 2013 (as a continued lagging effect to the Federal Reserve action to drop short-term interest rates). As a result, the Company's weighted average costs for time deposits decreased from 1.53% at June 30, 2012 to 1.22% at June 30, 2013, while weighted average costs for core interest-bearing deposits decreased from 0.35% at June 30, 2012 to 0.21% at June 30, 2013. The Company also continues to experience a deposit composition shift away from higher costing average time deposits to an increasing level of lower costing average interest- and non-interest bearing deposit balances. As a result, the Company's average time deposit balances decreased $40,870, or 17.3%, while average interest- and non-interest bearing deposits experienced a net increase of $5,943, or 1.2%, during the first half of 2013 when compared to same period in 2012. As a result of decreases in the average market interest rates and the continued deposit composition shift to lower costing deposit balances, the Company's total weighted average costs on interest-bearing deposits have lowered 34 basis points from 0.99% at June 30, 2012 to 0.65% at June 30, 2013.

Further impacting lower funding costs was a decrease in interest expense incurred on the Company's subordinated debentures that impacted both the quarterly and year-to-date periods ending June 30, 2013. Prior to 2013, the Company had received proceeds from the issuance of two trust preferred securities classified as subordinated debentures totaling $13,500. During the first quarter of 2013, the Company redeemed one of the subordinated debentures totaling $5,000 that had a fixed-rate of 10.6%. The redemption supports the Company's continued emphasis on lowering funding costs to strengthen the net interest margin as average earning assets continue to decline. As a result, interest expense on subordinated debentures decreased $137, or 76.5%, during the three months ended June 30, 2013, and decreased $252, or 58.2%, during the six months ended June 30, 2013, as compared to the same periods in 2012. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

During 2013, the decline in asset yields was completely offset by a larger decline in funding costs. As a result, the Company's net interest margin improved 8 basis points to 4.33% during the second quarter of 2013, and improved 4 basis points to 4.37% during the first half of 2013, as compared to the same periods in 2012. The Company will continue to focus on re-deploying the Federal Reserve balances earning 0.25% into higher yielding instruments as opportunities arise. Earlier in 2012, the Federal Reserve announced it would maintain the current state of low interest rates through 2014 or longer to help boost the economy as its recovery has been short of expectations. However, further decreases in interest rates by the Federal Reserve would have a negative effect on the Company's net interest income, as most of its deposit balances are perceived to be at or near their interest rate floors. The Company will also continue to face pressure on its net interest income and margin improvement unless loan balances begin to expand and become a larger component of overall earning assets. For additional discussion on the Company's rate sensitive assets and liabilities, please see Item 3, Quantitative and Qualitative Disclosure About Market Risk, of this Form 10-Q.

Provision for Loan Losses

Credit risk is inherent in the business of originating loans. The Company sets aside an allowance for loan losses through charges to income, which are reflected in the consolidated statement of income as the provision for loan losses. This provision charge is recorded to achieve an allowance for loan losses that is adequate to absorb losses in the Company's loan portfolio. Management performs, on a quarterly basis, a detailed analysis of the allowance for loan losses that encompasses loan portfolio composition, loan quality, loan loss experience and other relevant economic factors.

36

During the three and six months ended June 30, 2013, the Company recorded negative provision expense causing decreases of $713 and $1,998, respectively, when compared to the same periods in 2012. Provision expense was largely impacted by lower net charge-offs during the first half of 2013, which totaled $279, as compared to $1,657 in net charge-offs during the first half of 2012. This was largely the result of commercial and real estate loan adjustments that occurred during the previous year's first quarter. In March 2012, the Company partially charged off $1,118 on various residential real estate and commercial real estate loans. Management believed these charge-offs were necessary given the status of the economy and the customers' continued financial weakness. Of these partially charged-off amounts, specific allocations of $356 had already been reserved in the allowance for loan losses from prior impairment analysis. As a result, the partial charge-offs required corresponding impairment charges of $762 to provision expense due to the continued deterioration of collateral values.

In addition to lower net charge-offs, provision expense was also impacted by a reduction in specific allocations which decreased provision expense by $850 and $948 during the three and six months ended June 30, 2013, respectively, when compared to the same periods in 2012. This was largely from additional reserves required during the previous year's second quarter of 2012 from loan impairments that caused an increase in specific allocations. These additional specific allocations included the impairments in collateral values and ongoing cash flows of two commercial real estate loan relationships identified during the second quarter of 2012. Both impairments required specific allocations within the allowance for loan losses and corresponding increases to provision for loan losses expense totaling $1,347.

In addition to lower net charge-offs, provision expense was also impacted by a reduction in general allocations during the period related primarily to economic risk trends, loan losses and improving credit quality standards. The improving trends of lower unemployment rates, decreasing loan losses and lower classified and criticized asset balances have continued to place less pressure on the general allocations of the allowance for loans losses through June 30, 2013.

Management believes that the allowance for loan losses was adequate at June 30, 2013 to absorb probable losses in the portfolio. The allowance for loan losses was 1.17% of total loans at June 30, 2013, as compared to 1.24% at December 31, 2012. Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

Noninterest Income

Noninterest income for the three months ended June 30, 2013 was $1,965, relatively unchanged from the $1,974 recorded during the same quarterly period in 2012. Noninterest income for the six months ended June 30, 2013 was $5,905, an increase of $452, or 8.3%, over the six months ended June 30, 2012. The increase in noninterest revenue was largely due to the Company's earnings from tax-free bank owned life insurance ("BOLI") investments. BOLI investments are maintained by the Company in association with various benefit plans, including deferred compensation plans, director retirement plans and supplemental retirement plans. During the first quarter of 2013, the Company received $1,249 in cash proceeds from the settlement of two BOLI policies, which yielded net BOLI proceeds of $452 that was recorded to income. This contributed to a year-to-date increase of $409, or 103.8%, in BOLI income through June 30, 2013, as compared to the same period in 2012. As a result of net BOLI proceeds being exempt from tax, the Company's effective tax rate decreased from 28.6% at June 30, 2012 to 26.8% at June 30, 2013.

The successful growth in noninterest revenue was also impacted by increased seasonal tax refund processing fees classified as ERC/ERD fees. During the three months ended June 30, 2013, the Company's ERC/ERD fees increased by $180, or 79.6%, as compared to the same quarterly period in 2012. This has contributed to a year-to-date increase of $247, or 10.9%, in ERC/ERD fees through June 30, 2013 when compared to the same period in 2012. The increase was due to a volume increase in the number of ERC/ERD transactions that were processed during the first half of

2013. Management continues to be pleased with the significant contribution this revenue source made, accounting for 42.5% of total noninterest income during the first half of 2013.As a result of ERC/ERD fee activity being mostly seasonal, the majority of income was recorded during the first half of 2013, with only minimal income expected during the second half of 2013.

Further improvements to noninterest revenue came from growth in debit and credit interchange income, which increased $72, or 17.1%, during the second quarter of 2013, and increased $129, or 15.8%, during the first half of 2013, as compared to the same periods in 2012. The volume of transactions utilizing the Company's credit card and Jeanie® Plus debit card continue to increase from a year ago. Beginning in the second half of 2010, the Company began offering incentive based credit cards that would permit its users to redeem accumulated points for merchandise, as well as cash incentives paid, particularly to business users based on transaction criteria. In addition, similar incentives were introduced to the Company's Jeanie® Plus debit cards during the first quarter of 2011 to promote customer spending. While incenting debit/credit card customers has increased customer use of electronic payments, which has contributed to higher interchange revenue, the strategy also fits well with the Company's emphasis on growing and enhancing its customer relationships.

The increases in noninterest income mentioned above were partially offset by a decrease in the net gains of other real estate owned ("OREO") properties, which was down $118, or 82.5%, during the second quarter of 2013, and down $191, or 126.5%, during the first half of 2013, as compared to the same periods in 2012. Lower net gains on OREO were impacted mostly by last year's sale of one commercial real estate property that realized a net gain of $100 during the second quarter of 2012. In addition, during the second quarter of 2013, the Company experienced further impairment of $73 on one commercial real estate property classified as OREO, which was recorded as a write-down to the carrying value of the property.

The Company's remaining noninterest income categories were collectively down $115, or 11.7%, during the second quarter of 2013, and down $142, or 7.8%, during the first half of 2013, when compared to the same periods in 2012. These changes were primarily due to decreases in mortgage banking income, service charges on deposits, interest rate swap income and gains recorded on the sale of land in Jackson, Ohio during the first quarter of 2012.

Noninterest Expense

Noninterest expense during the second quarter of 2013 increased $155, or 2.2%, as compared to the second quarter in 2012. Noninterest expense during the first half of 2013 increased $771, or 5.3%, as compared to the first half of 2012. Contributing to the growth in net overhead expense were higher salaries and employee benefits, foreclosed asset costs and a one-time trust preferred security redemption fee.

The Company's largest noninterest expense item, salaries and employee benefits, increased $182, or 4.3%, during the three months ended June 30, 2013, and increased $353, or 4.2%, during the six months ended June 30, 2013, when compared to the same periods in 2012. The increase was largely due to annual merit increases and higher retirement benefit costs.

Further impacting noninterest expense was a $212 fee to redeem one of the Company's trust preferred securities during the first quarter of 2013. On September 7, 2000, the Company received proceeds from the issuance of a $5,000 trust preferred security at a 10.6% fixed-rate. The Company issued a subordinated debenture to the trust in exchange for the proceeds of the offering. Given the current capital levels and potential for interest expense savings, the Company redeemed the full amount of the $5,000 subordinated debenture on March 7, 2013. The Company anticipates an annual interest expense savings of $530, most of which will be recognized in 2013.

Also contributing to additional noninterest expense during 2013 were foreclosed asset costs, which decreased $21, or 32.3%, during the second quarter of 2013, but increased $164, or 93.7%, during the first half of 2013, as compared to the same periods in 2012. The increase was related to costs on various commercial real estate properties during the first quarter of 2013. Foreclosure asset expenses include legal fee, taxes, utility and general maintenance costs related to the properties.

Partially offsetting the impact of overhead expense increases during the quarterly and year-to-date periods of 2013 was a decrease in FDIC premium expense of $158, or 57.5%, and $305, or 53.9%, during the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. Beginning April 1, 2011, the assessment base for deposit insurance

38

premiums changed from total domestic deposits to average total assets minus average tangible equity, and the assessment rate schedules changed. The new assessment method has afforded the Company lower net premium assessments. While the Company has benefited from these changes in calculation methods, continued declines in the Deposit Insurance Fund could result in the FDIC imposing assessments in the future, which could adversely affect the Company's capital levels and earnings.

The net change in the remaining noninterest expense categories increased $152, or 5.8%, and $347, or 6.5%, during the three and six months ended June 30, 2013, as compared to the same periods in 2012. This includes general increases in various overhead categories such as incentive costs on customer relationship accounts, supplies, postage, and consulting fees.

The Company’s efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. However, revenue levels were negatively affected by lower net interest income due to decreasing average earning assets combined with higher overhead expenses. As a result, overhead expense for 2013 has outpaced revenue levels, causing the efficiency ratio levels to worsen from the prior period. As a result, the quarter-to-date efficiency ratio during the second quarter of 2013 increased from 70.7% to 73.7% when compared to the second quarter of 2102. The year-to-date efficiency ratio during the first half of 2013 increased from 64.0% to 68.1% when compared to the first half of 2012.

Capital Resources

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

| | Company Ratios | | Regulatory |
|---|---|---|---|
| | 6/30/13 | 12/31/12 | Minimum |
| Tier 1 risk-based capital | 15.9% | 16.0% | 4.00% |
| Total risk-based capital ratio | 17.1% | 17.2% | 8.00% |
| Leverage ratio | 10.9% | 10.9% | 4.00% |

Cash dividends paid of $1,259 during the first half of 2013 represents a 32.1% decrease compared to the cash dividends paid during the same period in 2012. The year-to-date dividend rate in 2013 was $0.31 per share, down from $0.46 per share paid in 2012. The Company declared and paid in December 2012 a $0.21 per share dividend that normally would have been paid during the first quarter of 2013, as a result of potential changes in tax rates affecting shareholders in 2013. The Company proceeded to pay a “special” $0.10 per share dividend during the first quarter of 2013 due to the Company’s stable capital position and financial performance.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities, totaling $129,923, represented 17.3% of total assets at June 30, 2013. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At June 30, 2013, the Bank could borrow an additional $172,519 from the FHLB, of which $95,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At June 30, 2013, this line had total availability of $40,359. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank. For further cash flow information, see the condensed consolidated statement of cash flows. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

39

---

## Off-Balance Sheet Arrangements

As discussed in Note 5 – Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

## Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the financial statements in the Company's 2012 Annual Report to Shareholders. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses to be a critical accounting policy.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of $200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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

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

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

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

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 5 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most significant portions of the Company's net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

41

Concentration of Credit Risk

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

| Change in Interest Rates in Basis Points | June 30, 2013 Percentage Change in Net Interest Income | December 31, 2012 Percentage Change in Net Interest Income |
|---|---|---|
| +300 | (3.02%) | (3.20%) |
| +200 | (1.76%) | (1.87%) |
| +100 | (.71%) | (.80%) |
| -100 | (2.56%) | (2.32%) |

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. With the historical low interest rate environment, management generally has been focused on limiting the duration of assets, while trying to extend the duration of our funding sources to the extent customer preferences will permit us to do so. At June 30, 2013, the interest rate risk profile reflects a liability sensitive position, which produces lower net interest income due to an increase in interest rates. The exposure to rising rates has remained comparable to that at year end. In a declining rate environment, net interest income is impacted by the interest rate on many deposit accounts not being able to adjust downward. With interest rates so low, deposit accounts are perceived to be at or near an interest rate floor. Overall, management is comfortable with the current interest rate risk profile which reflects minimal exposure to interest rate changes.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as

42

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

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on March 18, 2013 and available at www.sec.gov. These risk factors could materially affect the Company's business, financial condition or future results. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

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

Ohio Valley did not purchase any of its shares during the three months ended June 30, 2013.

Ohio Valley did not sell any unregistered equity securities during the three months ended June 30, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

43

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

SIGNATURES

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

OHIO VALLEY BANC CORP.

| | | |
|---|---|---|
| Date: August 9, 2013 | By: | /s/Thomas E. Wiseman<br>Thomas E. Wiseman<br>President and Chief Executive Officer |
| Date: August 9, 2013 | By: | /s/Scott W. Shockey<br>Scott W. Shockey<br>Vice President and Chief Financial Officer |

45

EXHIBIT INDEX

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

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

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

46