OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2015

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

Form 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from ____________ to ____________

Commission file number 0-20914

OHIO VALLEY BANC CORP.
(Exact name of registrant as specified in its charter)

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

420 Third Avenue Gallipolis, Ohio	45631
(Address of principal executive offices)	(ZIP Code)

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

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

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

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

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

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

The number of common shares of the registrant outstanding as of November 9, 2015 was 4,117,675.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2015 UNAUDITED	December 31, 2014
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 11,177	$ 9,315
Interest-bearing deposits with banks	52,983	21,662
Total cash and cash equivalents	64,160	30,977
Certificates of deposit in financial institutions	1,715	980
Securities available for sale	87,891	85,236
Securities held to maturity (estimated fair value: 2015 - $22,110; 2014 - $23,570)	21,433	22,820
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	6,576
Total loans	585,168	594,768
Less: Allowance for loan losses	(6,902)	(8,334)
Net loans	578,266	586,434
Premises and equipment, net	10,112	9,195
Other real estate owned	1,624	1,525
Accrued interest receivable	1,896	1,806
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	26,097	25,612
Other assets	7,429	6,240
Total assets	$ 808,466	$ 778,668
LIABILITIES		
Noninterest-bearing deposits	$ 166,133	$ 161,794
Interest-bearing deposits	505,331	485,036
Total deposits	671,464	646,830
Other borrowed funds	24,257	24,972
Subordinated debentures	8,500	8,500
Accrued liabilities	14,290	12,150
Total liabilities	718,511	692,452
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares	4,777	4,777

authorized; 4,777,414 shares issued)		
Additional paid-in capital	35,318	35,318
Retained earnings	64,748	60,873
Accumulated other comprehensive income	824	960
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders’ equity	89,955	86,216
Total liabilities and shareholders’ equity	$ 808,466	$778,668

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	$8,323	$8,252	$25,372	$25,289
Securities				
Taxable	463	429	1,365	1,280
Tax exempt	130	140	403	415
Dividends	73	73	219	239
Other Interest	27	10	150	114
	9,016	8,904	27,509	27,337
Interest expense:				
Deposits	569	535	1,659	1,686
Other borrowed funds	119	120	360	351
Subordinated debentures	43	41	126	123
	731	696	2,145	2,160
Net interest income	8,285	8,208	25,364	25,177
Provision for loan losses	(11)	(682)	710	1,198
Net interest income after provision for loan losses	8,296	8,890	24,654	23,979
Noninterest income:				
Service charges on deposit accounts	415	436	1,161	1,222
Trust fees	52	55	167	169
Income from bank owned life insurance and annuity assets	172	164	486	494
Mortgage banking income	77	66	191	181
Electronic refund check / deposit fees	12	11	2,362	3,073
Debit / credit card interchange income	604	555	1,769	1,607
Gain on other real estate owned	----	10	60	2
Gain on sale of securities	28	----	163	----
Gain on sale of ProAlliance Corporation	----	675	----	810
Other	224	134	631	578
	1,584	2,106	6,990	8,136
Noninterest expense:				
Salaries and employee benefits	4,556	4,213	13,382	12,825
Occupancy	404	390	1,194	1,179
Furniture and equipment	192	227	564	559
FDIC insurance	144	121	442	361
Data processing	323	310	1,053	924
Foreclosed assets	74	28	171	130
Other	2,034	1,955	5,902	5,558
	7,727	7,244	22,708	21,536
Income before income taxes	2,153	3,752	8,936	10,579

Provision for income taxes	511	1,010	2,260	2,929
NET INCOME	$1,642	$2,742	$6,676	$7,650
Earnings per share	$.40	$.67	$1.62	$1.87

See accompanying notes to consolidated financial statements

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

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net Income	$1,642	$2,742	$6,676	$7,650
Other comprehensive income (loss):				
Change in unrealized gain on available for sale securities	472	(440)	(44)	722
Reclassification adjustment for realized (gains)	(28)	----	(163)	----
	444	(440)	(207)	722
Related tax (expense) benefit	(151)	149	71	(245)
Total other comprehensive income (loss), net of tax	293	(291)	(136)	477
Total comprehensive income	$1,935	$2,451	$6,540	$8,127

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Balance at beginning of period	$88,885	$84,373	$86,216	$80,419
Net income	1,642	2,742	6,676	7,650
Other comprehensive income (loss), net of tax	293	(291)	(136)	477
Cash dividends	(865)	(861)	(2,801)	(2,583)
Balance at end of period	$89,955	$85,963	$89,955	$85,963
Cash dividends per share	$.21	$.21	$.68	$.63

See accompanying notes to consolidated financial statements

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

	Nine months ended September 30, 2015	2014
Net cash provided by operating activities:	$8,585	$10,419
Investing activities:		
Proceeds from maturities of securities available for sale	11,604	11,549
Purchases of securities available for sale	(25,150)	(8,041)
Proceeds from maturities of securities held to maturity	1,967	694
Purchases of securities held to maturity	(626)	(885)
Proceeds from sale of available for sale securities	10,550	----
Purchases of certificates of deposit in financial institutions	(735)	(980)
Redemptions of Federal Home Loan Bank stock	----	1,200
Net change in loans	6,933	(21,682)
Proceeds from sale of other real estate owned	487	348
Purchases of premises and equipment	(1,418)	(790)
Net cash provided by (used in) investing activities	3,612	(18,587)
Financing activities:		
Change in deposits	24,634	16,694
Cash dividends	(2,801)	(2,583)
Proceeds from Federal Home Loan Bank borrowings	400	6,633
Repayment of Federal Home Loan Bank borrowings	(1,343)	(1,294)
Change in other short-term borrowings	96	50
Net cash provided by financing activities	20,986	19,500
Change in cash and cash equivalents	33,183	11,332
Cash and cash equivalents at beginning of period	30,977	28,344
Cash and cash equivalents at end of period	$64,160	$39,676
Supplemental disclosure:		
Cash paid for interest	$2,047	$2,238
Cash paid for income taxes	2,450	3,192
Transfers from loans to other real estate owned	525	740
Other real estate owned sales financed by the Bank	----	140

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2015, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2015. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2014 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

As previously reported, the Internal Revenue Service proposed that Loan Central, as a tax return preparer, be assessed a penalty for allegedly negotiating or endorsing checks issued by the U.S. Treasury to taxpayers. The penalty would amount to approximately $1.2 million. Loan Central appealed this matter within the Internal Revenue Service. Loan Central was notified that the Appeals Office would not concede the penalty, and the penalty has been assessed. The Company will have to resolve the matter through the judicial system. Based on consultation with legal counsel, management remains confident that it is highly unlikely that the penalty recommendation will be sustained. Therefore, the Company did not recognize any interest and/or penalties related to this matter for the periods presented.

The consolidated financial statements for 2014 have been reclassified to conform to the presentation for 2015. These reclassifications had no effect on the net results of operations or shareholders’ equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

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

EARNINGS PER SHARE: Earnings per share are computed based on net income divided by the weighted average number of common shares outstanding during the period. The weighted average common shares outstanding were 4,117,675 for the three and nine months ended September 30, 2015 and 4,098,753 for the three and nine months ended September 30, 2014. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

NEW ACCOUNTING PRONOUNCEMENTS: In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)" (ASU 2014-04). The amendments in ASU 2014-04 clarify the circumstances under which an in substance repossession or foreclosure occurs and when a creditor is considered to have received physical possession of a residential real estate property collateralizing a residential real estate loan. The amendments in ASU 2014-04 also require interim and annual disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for reporting periods beginning after December 15, 2014. The effect of adopting ASU 2014-04 did not have a material effect on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-11 “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”. The amendments in ASU 2014-11 change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. 2014-11 is effective for reporting periods beginning after December 15, 2014. The effect of adopting ASU 2014-11 did not have a material effect on the Company’s financial statements.

In June 2014, the FASB issued ASU 2014-12 “Compensation – Stock Compensation (Topic 718)”. ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity’s satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under ASU 2014-12. The guidance is effective for reporting periods beginning after December 15, 2015. The effect of adopting ASU 2014-12 is not expected to have a material effect on the Company’s financial statements.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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

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

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

	Fair Value Measurements at September 30, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$8,998	----
Agency mortgage-backed securities, residential	----	78,893	----

	Fair Value Measurements at December 31, 2014, Using		
	Quoted Prices in	Significant Other	Significant Unobservable

	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$8,917	----
Agency mortgage-backed securities, residential	----	76,319	----

There were no transfers between Level 1 and Level 2 during 2015 or 2014.

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

	Fair Value Measurements at September 30, 2015, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Residential real estate	----	----	$ 829
Commercial real estate:			
Nonowner-occupied	----	----	2,548
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,147

	Fair Value Measurements at December 31, 2014, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial real estate:			
Owner-occupied	----	----	$ 1,679
Nonowner-occupied	----	----	5,270
Commercial and industrial	----	----	2,532
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,147

At September 30, 2015, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $3,443, with a corresponding valuation allowance of $66. This resulted in an increase of $107 in provision expense during the three months ended September 30, 2015, and an increase of $94 in provision expense during the nine months ended September 30, 2015, with $1,782 in additional charge-offs recognized. The increase in the provision is compared to a decrease of $533 in provision expense during the three months ended September 30, 2014, and a decrease of $680 in provision expense during the nine months ended September 30, 2014, with $157 in additional charge-offs recognized. At December 31, 2014, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $12,773, with a corresponding valuation allowance of $3,292.

Other real estate owned that was measured at fair value less costs to sell at September 30, 2015 and December 31, 2014 had a net carrying amount of $1,147, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,070 at December 31, 2014. There were no corresponding write- downs during the three and nine months ended September 30, 2015 and 2014.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014:

September 30, 2015	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Residential real estate	$ 829	Sales approach	Adjustment to comparables	7% to 40%	16%
Commercial real estate:					
Nonowner-occupied	2,548	Sales approach	Adjustment to comparables	0% to 12.5%	5.7%
Other real estate owned:					
Commercial real estate:					
Construction	1,147	Sales approach	Adjustment to comparables	5% to 35%	18%

December 31, 2014	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Owner-occupied	$ 1,679	Sales approach	Adjustment to comparables	0.3% to 62%	18%
		Income approach	Capitalization Rate	10%	10%
Nonowner-occupied	2,597	Income approach	Capitalization Rate	6.5%	6.5%
Nonowner-occupied	2,673	Sales approach	Adjustment to comparables	0% to 12.5%	5.7%
Commercial and industrial	2,532	Sales approach	Adjustment to comparables	10% to 30%	21.42%
Other real estate owned:					
Commercial real estate:					
Construction	1,147	Sales approach	Adjustment to comparables	5% to 35%	18%

The carrying amounts and estimated fair values of financial instruments at September 30, 2015 and December 31, 2014 are as follows:

		Fair Value Measurements at September 30, 2015 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$64,160	$64,160	$----	$----	$64,160
Certificates of deposit in financial institutions	1,715	----	1,715	----	1,715
Securities available for sale	87,891	----	87,891	----	87,891

Securities held to maturity	21,433	----	11,172	10,938	22,110
Federal Home Loan Bank and					
Federal Reserve Bank stock	6,576	N/A	N/A	N/A	N/A
Loans, net	578,266	----	----	589,434	589,434
Accrued interest receivable	1,896	----	351	1,545	1,896
Financial liabilities:					
Deposits	671,464	165,689	505,754	----	671,443
Other borrowed funds	24,257	----	23,751	----	23,751
Subordinated debentures	8,500	----	5,157	----	5,157
Accrued interest payable	491	3	488	----	491

		Fair Value Measurements at December 31, 2014 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$30,977	$30,977	$----	$----	$30,977
Certificates of deposit in financial institutions	980	----	980	----	980
Securities available for sale	85,236	----	85,236	----	85,236
Securities held to maturity	22,820	----	12,144	11,426	23,570
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	N/A	N/A	N/A	N/A
Loans, net	586,434	----	----	591,594	591,594
Accrued interest receivable	1,806	----	230	1,576	1,806
Financial liabilities:					
Deposits	646,830	161,784	485,503	----	647,287
Other borrowed funds	24,972	----	24,555	----	24,555
Subordinated debentures	8,500	----	4,979	----	4,979
Accrued interest payable	394	4	390	----	394

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

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

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

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

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

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

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

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

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

Accrued Interest Receivable and Payable: The carrying amount of accrued interest approximates fair value, resulting in a classification that is consistent with the earning assets and interest-bearing liabilities with which it is associated.

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

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

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and estimated fair value of the available for sale and held to maturity securities portfolios at September 30, 2015 and December 31, 2014 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income for available for sale securities and gross unrecognized gains and losses for held to maturity securities:

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015				
U.S. Government sponsored entity securities	$9,013	$2	$(17)	$8,998
Agency mortgage-backed securities, residential	77,629	1,463	(199)	78,893
Total securities	$86,642	$1,465	$(216)	$87,891
December 31, 2014				
U.S. Government sponsored entity securities	$9,019	$2	$(104)	$8,917
Agency mortgage-backed securities, residential	74,762	1,693	(136)	76,319
Total securities	$83,781	$1,695	$(240)	$85,236

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
September 30, 2015				
Obligations of states and political subdivisions	$21,426	$ 909	$ (232)	$22,103
Agency mortgage-backed securities, residential	7	----	----	7
Total securities	$21,433	$ 909	$ (232)	$22,110
December 31, 2014				
Obligations of states and political subdivisions	$22,811	$ 939	$ (189)	$23,561
Agency mortgage-backed securities, residential	9	----	----	9
Total securities	$22,820	$ 939	$ (189)	$23,570

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The amortized cost and estimated fair value of the securities portfolio at September 30, 2015, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay the debt obligations prior to their contractual maturities. Securities not due at a single maturity are shown separately.

	Available for Sale		Held to Maturity	
Debt Securities:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,001	$1,003	$620	$631
Due in over one to five years	8,012	7,995	6,214	6,563
Due in over five to ten years	----	----	11,239	11,654
Due after ten years	----	----	3,353	3,255
Agency mortgage-backed securities, residential	77,629	78,893	7	7
Total debt securities	$86,642	$87,891	$21,433	$22,110

The following table summarizes the investment securities with unrealized losses at September 30, 2015 and December 31, 2014 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
September 30, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$ 3,996	$ (9)	$ 3,999	$ (8)	$ 7,995	$ (17)
Agency mortgage-backed securities, residential	16,252	(158)	3,786	(41)	20,038	(199)
Total available for sale	$ 20,248	$ (167)	$ 7,785	$ (49)	$ 28,033	$ (216)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and political subdivisions	$1,011	$ (87)	$1,511	$ (145)	$2,522	$ (232)
Total held to maturity	$1,011	$ (87)	$1,511	$ (145)	$2,522	$ (232)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored						

entity securities	$----	$----	$7,911	$(104)	$7,911	$(104)
Agency mortgage-backed						
securities, residential	11,232	(20)	8,397	(116)	19,629	(136)
Total available for sale	$11,232	$(20)	$16,308	$(220)	$27,540	$(240)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and						
political subdivisions	$1,171	$ (9)	$2,916	$ (180)	$4,087	$ (189)
Total held to maturity	$1,171	$ (9)	$2,919	$ (180)	$4,087	$ (189)

During the nine months ended September 30, 2015, the Company had proceeds of $10,550 pertaining to securities sales on available for sale securities with gross gains recognized of $28 and $163 during the three and nine months ended September 30, 2015, respectively. There were no sales during the three and nine months ended September 30, 2014.

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality at September 30, 2015, and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at September 30, 2015 and December 31, 2014 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	September 30, 2015	December 31, 2014
Residential real estate	$224,492	$223,628
Commercial real estate:		
Owner-occupied	73,961	78,848
Nonowner-occupied	67,909	71,229
Construction	24,670	27,535
Commercial and industrial	84,402	83,998
Consumer:		
Automobile	44,473	42,849
Home equity	20,501	18,291
Other	44,760	48,390
	585,168	594,768
Less: Allowance for loan losses	6,902	8,334
Loans, net	$578,266	$586,434

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2015 and 2014:

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

September 30, 2014	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,878	$3,276	$1,625	$1,149	$7,928
Provision for loan losses	(240)	(551)	(90)	199	(682)
Loans charged off	(157)	(78)	(37)	(363)	(635)
Recoveries	99	3	114	137	353
Total ending allowance balance	$1,580	$2,650	$1,612	$1,122	$6,964

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2015 and 2014:

September 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	Total

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

September 30, 2014	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,169	$2,914	$1,279	$793	$6,155
Provision for loan losses	513	(111)	92	704	1,198
Loans charged off	(350)	(235)	(41)	(815)	(1,441)
Recoveries	248	82	282	440	1,052
Total ending allowance balance	$1,580	$2,650	$1,612	$1,122	$6,964

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of September 30, 2015 and December 31, 2014:

September 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$66	$ 313	$ 1,711	$3	$2,093
Collectively evaluated for impairment	1,177	1,687	792	1,153	4,809
Total ending allowance balance	$1,243	$ 2,000	$ 2,503	$1,156	$6,902
Loans:					
Loans individually evaluated for impairment	$1,898	$ 7,496	$ 7,267	$218	$16,879
Loans collectively evaluated for impairment	222,594	159,044	77,135	109,516	568,289
Total ending loans balance	$224,492	$ 166,540	$ 84,402	$109,734	$585,168

December 31, 2014	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	$----	$ 2,506	$ 900	$6	$3,412
Collectively evaluated for impairment	1,426	1,689	702	1,105	4,922
Total ending allowance balance	$1,426	$ 4,195	$ 1,602	$1,111	$8,334
Loans:					
Loans individually evaluated for impairment	$1,415	$ 11,711	$ 6,824	$219	$20,169
Loans collectively evaluated for impairment	222,213	165,901	77,174	109,311	574,599
Total ending loans balance	$223,628	$ 177,612	$ 83,998	$109,530	$594,768

The following tables present information related to loans individually evaluated for impairment by class of loans as of September 30, 2015 and December 31, 2014:

September 30, 2015	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Residential real estate	$ 895	$ 895	$ 66
Commercial real estate:			
Owner-occupied	204	204	204
Nonowner-occupied	399	399	109
Commercial and industrial	3,460	3,460	1,711

Consumer:						
Home equity		218		218		3
With no related allowance recorded:						
Residential real estate		1,003		1,003		----
Commercial real estate:						
Owner-occupied		3,911		3,364		----
Nonowner-occupied		5,258		2,849		----
Construction		680		680		----
Commercial and industrial		3,807		3,807		----
Total	$	19,835	$	16,879	$	2,093

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December 31, 2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial real estate:			
Owner-occupied	$1,177	$1,177	$414
Nonowner-occupied	7,656	7,656	2,092
Commercial and industrial	2,356	2,356	900
Consumer:			
Home equity	219	219	6
With no related allowance recorded:			
Residential real estate	1,415	1,415	----
Commercial real estate:			
Owner-occupied	3,125	2,578	----
Nonowner-occupied	1,298	300	----
Commercial and industrial	4,703	4,468	----
Total	$21,949	$20,169	$3,412

The following tables present information related to loans individually evaluated for impairment by class of loans for the three and nine months ended September 30, 2015 and 2014:

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

	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized	Average Impaired Loans	Interest Income Recognized	Cah Basis Interest Recognized
With an allowance recorded:						
Residential real estate	$ 552	$ 17	$ 17	$ 487	$ 25	$ 25
Commercial real estate:						
Owner-occupied	145	----	----	73	----	----
Nonowner-occupied	3,422	41	41	3,439	94	94
Commercial and industrial	3,259	39	39	1,629	107	107
Consumer:						
Home equity	109	8	8	54	8	8
With no related allowance recorded:						
Residential real estate	611	12	12	544	25	25
Commercial real estate:						
Owner-occupied	1,479	9	9	6,513	31	31
Nonowner-occupied	5,974	81	81	6,513	267	267
Consumer:						
Home equity	----	----	----	----	3	3
Total	$ 15,551	$ 207	$ 207	$ 14,130	$ 560	$ 560

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

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

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of September 30, 2015 and December 31, 2014:

September 30, 2015	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$169	$3,298
Commercial real estate:		
Owner-occupied	----	233
Nonowner-occupied	----	2,549
Construction	----	769
Commercial and industrial	----	1,050
Consumer:		
Automobile	117	7
Home equity	----	111
Other	34	2

Total	$320	$8,019

December 31, 2014	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$----	$3,768
Commercial real estate:		
Owner-occupied	----	1,484
Nonowner-occupied	----	4,013
Commercial and industrial	----	95
Consumer:		
Automobile	15	18
Home equity	----	103
Other	58	68
Total	$73	$9,549

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of September 30, 2015 and December 31, 2014, other real estate owned secured by residential real estate totaled $383 and $368, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $1,920 and $1,692 as of September 30, 2015 and December 31, 2014, respectively.

The following table presents the aging of the recorded investment of past due loans by class of loans as of September 30, 2015 and December 31, 2014:

September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$2,648	$483	$3,184	$6,315	$218,177	$224,492
Commercial real estate:						
Owner-occupied	283	145	233	661	73,300	73,961
Nonowner-occupied	378	232	2,549	3,159	64,750	67,909
Construction	58					