OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2012
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, 2012

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, 2012 was 4,029,439.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS:

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition, but the additional disclosures are included in Note 2 – Fair Value of Financial Instruments.

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

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

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2011 Carrying Value	Fair Value
Financial Assets:		
Cash and cash equivalents	$51,630	$51,630
Securities available for sale	85,670	85,670
Securities held to maturity	22,848	22,847
Federal Home Loan Bank stock	6,281	N/A
Loans	590,964	599,782
Accrued interest receivable	2,872	2,872

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SECURITIES

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

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2012				
U.S. Treasury securities	----	----	----	----
U.S. Government sponsored entity securities	$1,010	$6	$----	$1,016
Agency mortgage-backed securities, residential	99,519	2,954	----	102,473
Total securities	$100,529	$2,960	$----	$103,489
December 31, 2011				
U.S. Treasury securities	$5,510	$3	$----	$5,513
U.S. Government sponsored entity securities	2,501	58	----	2,559
Agency mortgage-backed securities, residential	76,203	1,407	(12)	77,598
Total securities	$84,214	$1,468	$(12)	$85,670

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
September 30, 2012				
Obligations of states and political subdivisions	$23,660	$ 664	$ (31)	$24,293
Agency mortgage-backed securities, residential	18	----	----	18
Total securities	$23,678	$ 664	$ (31)	$24,311
December 31, 2011				
Obligations of states and political subdivisions	$22,825	$ 558	$ (559)	$22,824
Agency mortgage-backed securities, residential	23	----	----	23
Total securities	$22,848	$ 558	$ (559)	$22,847

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

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

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

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

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

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

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

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

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

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

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

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

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

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

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

December 31, 2011	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$130	$525	$----	$----	$655
Collectively evaluated for impairment	1,730	2,968	636	1,355	6,689
Total ending allowance balance	$1,860	$3,493	$636	$1,355	$7,344
Loans:					
Loans individually evaluated for impairment	$1,505	$9,733	$334	$----	$11,572
Loans collectively evaluated for impairment	236,985	197,722	44,866	107,163	586,736
Total ending loans balance	$238,490	$207,455	$45,200	$107,163	$598,308

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

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

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

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

With an allowance recorded:					
Residential real estate	420	420	130	84	27