

A Message from Management

Dear Shareholders & Friends of our Valued Communities,



Pictured Top to Bottom:

Buy Day Friday shopping excursion at Jividen's Customs; Wiseman pictured with store owner Kim Jividen.

Donation to bring Columbus Zoo exhibit to Gallia Emancipation Celebration; Smith presenting check to Celebration volunteers Andy Gilmore and Jessie Payne.

Buy Day Friday shopping excursion at Coach's Corner. OVB's Jennifer Osborne and Wiseman congratulate Jan Bergdoll.

Wahama High School fans cheered as OVB presented this donation for their bleacher project. OVB's Wiseman, Katrinka Hart, and Linda Brewer presented the check with Mario Liberatore and Frieda Greathouse.

Looking at things a different way.

That's the phrase that immediately comes to mind when describing 2013. Changing primary federal regulators, advancing technology, and the beginnings of a company-wide culture shift were key contributors to another successful year for OVBC.

For the year, net income totaled \$8,112,000, a 15.0 percent increase from net income of \$7,052,000 for the year ended December 31, 2012. Earnings per share were \$2.00 for 2013 versus \$1.75 for 2012, an increase of 14.3 percent. Return on average assets and return on average equity were 1.04 percent and 10.40 percent, respectively, for the year ended 2013, compared to .86 percent and 9.53 percent, respectively, for the same period in the prior year.

In May, Ohio Valley Bank joined the Federal Reserve System. This membership opens up the opportunity for Ohio Valley Bank to have a more active role in our nation's banking system through the election of the Cleveland Fed directors, stock held in the regional Federal Reserve Bank, and a transition to the Federal Reserve as OVB's primary federal regulator.

We thank you for your support in creating this success, and thank all those that came before. As you are aware, in early 2013, the Ohio Valley Bank family was saddened by the sudden loss of Director Roger Williams. Mr. Williams served your company well by offering whole-heartedly his wealth of marketing and product line experience gained from his many years with Bob Evans Farms. He challenged us to look at things in a different way, and we will forever be grateful. We believe Mr. Williams would be proud of what our employees achieved in 2013 in the areas of technology and community.

While Loan Central launched the finance company's very first website, www.myloancentral.com, and social media presences, Ohio Valley Bank gave its website and mobile banking site a head-to-toe makeover. The Bank thrilled customers with the unveiling of its very first iPad app and the new real-time ability to block lost or stolen debit cards via convenient OVB Line telephone banking.

Perhaps the most creative technology introduced this year related to financial literacy. When a child makes a deposit to his or her savings account at OVB, the young saver now receives a secret code that can be used to open the virtual online "vault" for special superhero-themed financial literacy content like online comic books, unaired cartoon episodes, games, and more. Conceived by Ohio Valley Bank and developed by Norm Hill Entertainment, the secret vault puts an exciting twist on traditional saving for our next generation of bank customers.

Beyond technology, our employees embraced Ohio Valley Bank's Community First mission in 2013 with the pilot launch of Gallia First. OVB plans to spearhead similar grassroots programs in its other communities in the next year. The movement's most successful endeavor, Buy Day Friday, brought groups of OVB employees into small businesses to flood them with shoppers every second Friday of the month.

You may have also noticed a change in the overall feeling at your local office. Our employees are ready for a new day at OVB. Our newest project, Utopia, was implemented in 2013 as a way to empower employees to make real change in our company. Most likely, you have seen some of the early results such as an increase in volunteerism in our communities through our Impact Days. In 2013, our employees volunteered over 932 hours in their communities through the program. We expect that number to double in 2014.

For all this, we must never forget to thank you, our shareholders, for your loyal support. We invite you to review this report of our work from 2013 and to join us for the Annual Meeting of Shareholders on May 14, 2014. Thank you for your commitment to the success of OVBC.

Sincerely,

Juffry E. Smith

Jeffrey E. Smith Chairman of the Board Ohio Valley Banc Corp. Aromors & Wiscom

Thomas E. Wiseman President and CEO Ohio Valley Banc Corp.





IMPACT Report

932.5 hours

equivalent to **113.4** Work Days spent in Community Service in 2013

Over \$200,000

donated in 2013 to local charities by Ohio Valley Bank and Loan Central

\$13,288

personally donated to local charities by our employees through the OVBC Employee Community Fund

Nearly 900

youth reached through OVB's engaging financial literacy programs during the 2012-2013 academic year and 2013 summer programming.

Over \$1,000

spent at local restaurants through OVB's Buy Day Friday program (2013 was the pilot year)









*** OHIO VALLEY BANK.**

Gallipolis, Ohio

Main Office - 420 Third Ave. Mini Bank - 437 Fourth Ave. Inside Foodland - 236 Second Ave. Inside Walmart - 2145 Eastern Ave. Jackson Pike - 3035 State Route 160 Inside Holzer - 100 Jackson Pike Loan Office - Walmart Plaza, 2145 Eastern Ave.

Jackson, Ohio

740 East Main St.

Pomeroy, Ohio

Inside Sav-a-Lot - 700 W. Main St.

Rio Grande, Ohio

27 North College Ave.

South Point, Ohio

Inside Walmart - 354 Private Drive

Waverly, Ohio

507 West Emmitt Ave.

Huntington, West Virginia

3331 U.S. Route 60 East

Milton, West Virginia

280 East Main St.

Point Pleasant, West Virginia

328 Viand St.

Web Branch

www.ovbc.com or www.ohiovalleybank.com

Coming Soon

State Route 60

Barboursville, West Virginia

ELOAN CENTRAL

Chillicothe, Ohio

1080 N. Bridge Street, Unit 43

Gallipolis, Ohio

2145 Eastern Avenue

Jackson, Ohio

345 Main Street

Ironton, Ohio

710 Park Avenue

South Point, Ohio

348 County Road 410

Waverly, Ohio

505 West Emmitt Avenue

Wheelersburg, Ohio

326 Center Street

Ohio Valley Bank ATMs can be found at each office and also at these convenient locations.

Red's Truck Center, Kerr Road, Bidwell, Ohio

Sav-a-Lot, State Rt. 160, Bidwell, Ohio

Gallia Academy, 2855 Centenary Road, Gallipolis, Ohio

Gallipolis Justice Center, 518 Second Ave., Gallipolis, Ohio

Gallia Co. Courthouse, 18 Locust St., Gallipolis, Ohio

Holzer Medical Center Cafeteria, 100 Jackson Pike, Gallipolis, Ohio

Holzer Clinic, 280 Pattonsville Road, Jackson, Ohio

Foodland, 409 N. Front Street, Oak Hill, Ohio

JC's Marathon, 77 State Rte. 325, Rio Grande, Ohio

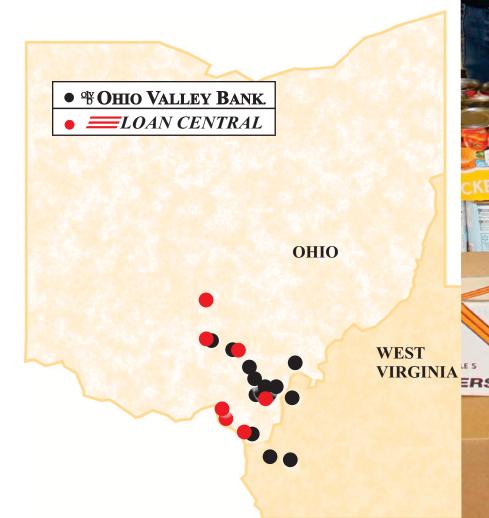
Clark's Pump N Shop Marathon, SR 817 & Hurricane Creek Rd., Fraziers Bottom, WV

Sunoco Foodmart, 3175 Route 60 E., Huntington, WV

Pleasant Valley Hospital, 2520 Valley Drive, Point Pleasant, WV

Mason Co. Courthouse, 200 6th Street, Point Pleasant, WV

See our Intelli-Deposit ATM inside the Gallipolis Walmart where you can make a deposit without a deposit slip!





Directors & Officers

OVBC OFFICERS

Jeffrev E. Smith. Chairman of the Board

Thomas E. Wiseman, President and Chief Executive Officer E. Richard Mahan, Senior Vice President, Special Assets Larry E. Miller, II, Senior Vice President & Secretary

Katrinka V. Hart, Senior Vice President & Chief Lending Officer

Mario P. Liberatore, Vice President Cherie A. Elliott, Vice President Jennifer L. Osborne, Vice President Tom R. Shepherd, Vice President

Scott W. Shockey, Vice President & Chief Financial Officer

Bryan F. Stepp, Vice President Frank W. Davison, Vice President Bryan W. Martin, Vice President David K. Nadler, Vice President Paula W. Clay, Assistant Secretary Cindy H. Johnston, Assistant Secretary

OVBC DIRECTORS

Jeffrey E. Smith

Chairman, Ohio Valley Banc Corp. and Ohio Valley Bank

Thomas E. Wiseman

President & CEO, Ohio Valley Banc Corp. and Ohio Valley Bank

David W. Thomas, Lead Director

Former Chief Examiner, Ohio Division of Financial Institutions bank supervision and regulation

Lannes C. Williamson

Retired President, L. Williamson Pallets, Inc. sawmill, pallet manufacturing, and wood processing

Steven B. Chapman

Certified Public Accountant, Steven B. Chapman CPA

Anna P. Barnitz

Treasurer & CFO, Bob's Market & Greenhouses, Inc. wholesale horticultural products and retail landscaping stores

Brent A. Saunders

Attorney, Halliday, Sheets & Saunders

President & CEO, Holzer Consolidated Health Systems healthcare

Self-employed, Real Estate Investment and Rental Property

OHIO VALLEY BANK DIRECTORS

Jeffrey E. Smith Harold A Howe Thomas E. Wiseman Steven B. Chapman David W. Thomas Anna P. Barnitz Lannes C. Williamson Brent A. Saunders

DIRECTORS EMERITUS

W. Lowell Call Charles C. Lanham James L. Dailey Barnev A. Molnar C. Leon Saunders Robert E. Daniel Art E. Hartley, Sr. Wendell B. Thomas

WEST VIRGINIA ADVISORY BOARD

Mario P. Liberatore Lannes C. Williamson Stephen L. Johnson Anna P. Barnitz Richard L. Handley E. Allen Bell Gregory K. Hartley John A. Myers Trenton M. Stover

GenNEXT ADVISORY BOARD

Anthony W. Staley Taryn D. Strawser W. Graham Woodyard Heidi J. Wood Bryan L. Minear Mark A. Crawford Rheadon L. Remy Jodie L. McCalla Benjamin M. Sandy

OHIO VALLEY BANK OFFICERS

Jeffrey E. Smith Chairman of the Board Thomas E. Wiseman President and Chief Executive Officer E. Richard Mahan Executive Vice President, Special Assets Larry E. Miller, II Executive Vice President & Secretary

Katrinka V. Hart Executive Vice President & Chief Lending Officer Mario P. Liberatore President, Ohio Valley Bank West Virginia

SENIOR VICE PRESIDENTS

Retail Lending Group Jennifer L. Osborne Tom R. Shepherd Chief Deposit Officer Scott W. Shockey Chief Financial Officer Bryan F. Stepp Chief Credit Officer Frank W. Davison Bryan W. Martin Financial Bank Group

Administrative Services/Human Resources

David K. Nadler Chief Risk Officer

VICE PRESIDENTS

Richard D. Scott Trust

Patrick H. Tackett Marilyn E. Kearns Corporate Banking Director of Human Resources Fred K. Mavis Rick A. Swain

Business Development Officer Western Division Branch Manager Market & E-Strategies Officer Bryna S. Butler Branch Administration/CRM Tamela D. LeMaster

Branch Administration/Business Development Christopher L. Preston

Gregory A. Phillips Retail Lending

ASSISTANT VICE PRESIDENTS

Melissa P. Mason Diana L. Parks Trust Officer Internal Auditor Christopher S. Petro Linda L. Plymale Comptroller Transit Officer Kimberly R. Williams Systems Officer Deborah A. Carhart Shareholder Relations Pamela D. Edwards Special Assets Paula W. Clay Assistant Secretary Cindy H. Johnston Assistant Secretary Kyla R. Carpenter Toby M. Mannering Director of Marketing Collection Manager

Joe J. Wyant Region Manager Jackson County

Allen W. Elliott Bank Card Manager Brenda G. Henson Manager Deposit Services Gabriel U. Stewart Chief Information Security Officer Security Officer/Loss Prevention Randall L. Hammond

Barbara A. Patrick BSA Officer/Loss Prevention Richard P. Speirs Facilities/Technical Manager and Director of Administrative Services E. Kate Cox Regional Branch Administrator John A. Anderson Lori A. Edwards Corporate Banking Operations Manager Secondary Market Manager

Raymond G. Polcyn Manager of Loan Production Office Stephanie L. Stover Retail Lending Operations Manager Shawn R. Siders Senior Credit Analyst

AS400 Administrator Brandon O. Huff Jay D. Miller Business Development Officer

ASSISTANT CASHIERS

Lois J. Scherer Angela S. Kinnaird Linda K. Roe Anita M. Good Glen P. Arrowood II Shelly N. Boothe Michelle L. Hammond Patricia G. Hapney Anthony W. Stalev

Gregory G. Kauffman

Assistant Transit Officer

Sales and Support Manager for Deposit Services

Employee Development Manager Regional Branch Manager Manager of Indirect Lending

Manager, Chillicothe Office

Holzer Business Development & Sr. Personal Banker

Retail Lending Operations Supervisor Retail Lending & Personal Banker Director of Product Development

LOAN CENTRAL OFFICERS

Larry E. Miller II Chairman of the Board Cherie A. Elliott President Vice President & Secretary Timothy R. Brumfield

Manager, Gallipolis Office T. Joe Wilson Manager, South Point Office Joseph I. Jones Manager, Waverly Office John J. Holtzapfel Manager, Wheelersburg Office Deborah G. Moore Manager, Jackson Office

SELECTED FINANCIAL DATA

Years Ended December 31

Total interest income			2013		2012		2011		2010		2009
Total interest income	(dollars in thousands, except share and per share data	ı)									
Total interest expense 3,573 6,346 10,169 13,547 16,932 Net interest income 32,385 32,655 33,871 32,967 30,691 Provision for loan losses 477 1,583 4,896 5,871 3,212 Total other income 8,518 8,483 7,222 6,154 7,598 Total other expenses 29,375 29,741 28,299 26,643 26,160 Income before income taxes 11,051 9,814 7,898 6,607 8,917 Income taxes 2,939 2,762 2,063 1,511 2,272 Net income 8,112 7,052 5,835 5,096 6,645 PER SHARE DATA: Earnings per share \$ 2.00 \$ 1,75 \$ 1,46 \$ 1.28 \$ 1.67 Cash dividends declared per share \$ 9,073 \$ 1.09 \$ 84 \$ 8.4 \$ 8.0 Book value per share \$ 19,62 \$ 18,66 \$ 17.84 \$ 17.03 \$ 16.70 Weighted average number	SUMMARY OF OPERATIONS:										
Net interest income	Total interest income	\$	35,958	\$	39,001	\$	44,040	\$	46,514	\$	47,623
Provision for loan losses	Total interest expense		3,573		6,346		10,169		13,547		16,932
Total other income 8,518 8,483 7,222 6,154 7,598 Total other expenses 29,375 29,741 28,299 26,643 26,160 Income before income taxes 11,051 9,814 7,898 6,607 8,917 Income taxes 2,939 2,762 2,063 1,511 2,272 Net income 8,112 7,052 5,835 5,096 6,645 PER SHARE DATA: Earnings per share \$ 2,00 \$ 1,75 \$ 1,46 \$ 1,28 \$ 1,67 Cash dividends declared per share \$ 0,73 \$ 1,09 8,44 \$ 4,8 8.8 Book value per share \$ 19,62 \$ 18,66 \$ 17,88 \$ 16,70 Weighted average number of common shares outstanding \$ 4,064,083 \$ 4,030,322 \$ 4,001,435 3,984,229 3,983,034 AVERAGE BALANCE SUMMARY: Total loans \$ 555,314 \$ 570,166 \$ 625,603 \$ 653,557 \$ 641,878 Securities ¹⁰ 175,809 202,413 185,684 148,974 134,117 <tr< td=""><td>Net interest income</td><td></td><td>32,385</td><td></td><td>32,655</td><td></td><td>33,871</td><td></td><td>32,967</td><td></td><td>30,691</td></tr<>	Net interest income		32,385		32,655		33,871		32,967		30,691
Total other expenses	Provision for loan losses		477		1,583		4,896		5,871		3,212
Income before income taxes	Total other income		8,518		8,483		7,222		6,154		7,598
Income taxes	Total other expenses		29,375		29,741		28,299		26,643		26,160
Net income 8,112 7,052 5,835 5,096 6,645 PER SHARE DATA: Earnings per share \$ 2.00 \$ 1.75 \$ 1.46 \$ 1.28 \$ 1.67 Cash dividends declared per share \$ 0.73 \$ 1.09 \$ 84 \$ 84 \$ 80 Book value per share \$ 19.62 \$ 18.66 \$ 17.84 \$ 17.03 \$ 16.70 Weighted average number of common shares outstanding 4,064,083 4,030,322 4,001,435 3,984,229 3,983,034 AVERAGE BALANCE SUMMARY: Total loans \$ 555,314 \$ 570,166 \$ 625,603 \$ 653,557 \$ 641,878 Securities ⁽ⁱ⁾ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽ⁱⁱ⁾ 26,572 33,538 56,975 77,131 89,945 Sharcholders' equity 77,989 74,031 69,866 67,606 64,941 Total loans \$ 566,319 \$ 558,288 \$ 598	Income before income taxes		11,051		9,814		7,898		6,607		8,917
PER SHARE DATA:	Income taxes		2,939		2,762		2,063		1,511		2,272
Earnings per share	Net income		8,112		7,052		5,835		5,096		6,645
Cash dividends declared per share \$ 0.73 \$ 1.09 \$.84 \$.84 \$.80 Book value per share \$ 19.62 \$ 18.66 \$ 17.84 \$ 17.03 \$ 16.70 Weighted average number of common shares outstanding 4,064,083 4,030,322 4,001,435 3,984,229 3,983,034 AVERAGE BALANCE SUMMARY: Total loans \$ 555,314 \$ 570,166 \$ 625,603 \$ 653,557 \$ 641,878 Securities ⁶⁰ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ²⁰ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁶⁰ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644	PER SHARE DATA:										
Book value per share	Earnings per share	\$	2.00	\$	1.75	\$	1.46	\$	1.28	\$	1.67
Weighted average number of common shares outstanding 4,064,083 4,030,322 4,001,435 3,984,229 3,983,034 AVERAGE BALANCE SUMMARY: Total loans \$ 555,314 \$ 570,166 \$ 625,603 \$ 635,557 \$ 641,878 Securities ⁽¹⁾ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽²⁾ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75	Cash dividends declared per share	\$	0.73	\$	1.09	\$.84	\$.84	\$.80
shares outstanding 4,064,083 4,030,322 4,001,435 3,984,229 3,983,034 AVERAGE BALANCE SUMMARY: Total loans \$ 555,314 \$ 570,166 \$ 625,603 \$ 653,557 \$ 641,878 Securities ⁽¹⁾ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽²⁾ 26,572 33,538 569,75 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total sasets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 </td <td>Book value per share</td> <td>\$</td> <td>19.62</td> <td>\$</td> <td>18.66</td> <td>\$</td> <td>17.84</td> <td>\$</td> <td>17.03</td> <td>\$</td> <td>16.70</td>	Book value per share	\$	19.62	\$	18.66	\$	17.84	\$	17.03	\$	16.70
AVERAGE BALANCE SUMMARY: Total loans \$555,314 \$570,166 \$625,603 \$653,557 \$641,878 Securities \$175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds \$26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$566,319 \$558,288 \$598,308 \$641,322 \$651,356 Securities \$100,000 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% 86% .68% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	Weighted average number of common										
Total loans \$555,314 \$570,166 \$625,603 \$653,557 \$641,878 Securities \$175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds 20,26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$566,319 \$558,288 \$598,308 \$641,322 \$651,356 Securities 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% 86% 68% 6.8% 6.0% 81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	shares outstanding	2	1,064,083	4,	030,322	4	,001,435	3	3,984,229	3	3,983,034
Securities ⁽¹⁾ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽²⁾ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60%	AVERAGE BALANCE SUMMARY:										
Securities ⁽¹⁾ 175,809 202,413 185,684 148,974 134,117 Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽²⁾ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60%	Total loans	\$	555,314	\$	570,166	\$	625,603	\$	653,557	\$	641,878
Deposits 664,061 705,111 720,936 693,845 652,453 Other borrowed funds ⁽²⁾ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23%	Securities ⁽¹⁾						,				
Other borrowed funds ⁽²⁾ 26,572 33,538 56,975 77,131 89,945 Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%<					,						*
Shareholders' equity 77,989 74,031 69,866 67,606 64,941 Total assets 779,113 822,573 858,017 848,702 818,952 PERIOD END BALANCES: Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%					*		,				
Total assets					,		,				
PERIOD END BALANCES: Total loans											
Total loans \$ 566,319 \$ 558,288 \$ 598,308 \$ 641,322 \$ 651,356 Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%			,		,		,				,
Securities ⁽¹⁾ 133,173 159,791 157,515 165,070 113,307 Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	FERIOD END BALANCES.										
Deposits 628,877 655,064 687,886 694,781 647,644 Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	Total loans	\$	566,319	\$	558,288	\$	598,308	\$	641,322	\$	651,356
Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	Securities ⁽¹⁾		133,173		159,791		157,515		165,070		113,307
Shareholders' equity 80,419 75,820 71,843 68,128 66,521 Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	Deposits		628,877		655,064		687,886		694,781		647,644
Total assets 747,368 769,223 804,177 851,514 811,988 KEY RATIOS: Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	*										
Return on average assets 1.04% .86% .68% .60% .81% Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%									,		
Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	KEY RATIOS:										
Return on average equity 10.40% 9.53% 8.35% 7.54% 10.23% Dividend payout ratio 36.56% 62.29% 57.59% 65.67% 47.95%	Return on average assets		1.04%		.86%		.68%		.60%		.81%
Dividend payout ratio											

⁽¹⁾ Securities include interest-bearing deposits with banks and FHLB and FRB stock. (2) Other borrowed funds include subordinated debentures.

CONSOLIDATED STATEMENTS OF CONDITION

As of December 31

	2013	2012
(dollars in thousands, except share and per share data)		
Assets		
Cash and noninterest-bearing deposits with banks	\$ 9,841	\$ 10,617
Interest-bearing deposits with banks	18,503	35,034
Total cash and cash equivalents	28,344	45,651
Securities available for sale	84,068	94,965
Securities held to maturity	22.026	22.511
(estimated fair value: 2013 - \$22,984; 2012 - \$24,624)	22,826	23,511
Federal Home Loan Bank and Federal Reserve Bank stock	7,776	6,281
Total loans	566,319	558,288
Less: Allowance for loan losses	(6,155)	(6,905)
Net loans	560,164	551,383
Premises and equipment, net	9,005	8,680
Other real estate owned	1,354	3,667
Accrued interest receivable	1,901	2,057
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	24,940	25,056
Other assets	5,723	6,705
Total assets	\$ 747,368	\$ 769,223
Liabilities		
Noninterest-bearing deposits	\$ 149,823	\$ 139,526
Interest-bearing deposits	479,054	515,538
Total deposits	628,877	655,064
Total deposits	020,077	055,004
Other borrowed funds	18,748	14,285
Subordinated debentures	8,500	13,500
Accrued liabilities	10,824	10,554
		
Total liabilities	666,949	693,403
Commitments and Contingent Liabilities (See Note J)	_	_
Shareholders' Equity		
Common stock		
(\$1.00 stated value per share, 10,000,000 shares authorized;		
2013 - 4,758,492 shares issued; 2012 - 4,721,943 shares issued)	4,758	4,722
		· ·
Additional paid-in capital	34,883 56.241	34,109 51,004
Retained earnings	56,241	51,094
Accumulated other comprehensive income	249	1,607
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	80,419	75,820
Total liabilities and shareholders' equity	\$ 747,368	\$ 769,223
		

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31	2013	2012	2011
(dollars in thousands, except per share data)			
Interest and dividend income:			
Loans, including fees	\$ 33,592	\$ 36,329	\$ 41,263
Securities:	,	,	,
Taxable	1,339	1,608	1,776
Tax exempt	570	590	571
Dividends	322	279	267
Other interest	135	195	163
	35,958	39,001	44,040
Interest expense:			
Deposits	2,917	5,064	8,436
Other borrowed funds	391	493	644
Subordinated debentures	265	789	1,089
	3,573	6,346	10,169
Net interest income	32,385	32,655	33,871
Provision for loan losses	477	1,583	4,896
Net interest income after provision for loan losses	31,908	31,072	28,975
Noninterest income:			
Service charges on deposit accounts	1,802	1,831	2,218
Trust fees	210	199	215
Income from bank owned life insurance and annuity assets	1,176	782	725
Mortgage banking income	506	626	386
Electronic refund check / deposit fees	2,556	2,289	2,559
Debit/credit card interchange income	1,963	1,700	1,387
Loss on other real estate owned	(692)	(150)	(1,224)
Other	997	1,206	956
Other	8,518	8,483	7,222
Noninterest expense:	-,	-,	,,
Salaries and employee benefits	17,570	17,418	16,650
Occupancy	1,573	1,565	1,585
Furniture and equipment	902	954	1,143
Corporation franchise tax	794	780	744
FDIC insurance	490	755	1,029
Data processing	1,052	1,021	891
Foreclosed assets	482	446	650
Other	6,512	6,802	5,607
	29,375	29,741	28,299
Income before income taxes	11,051	9,814	7,898
	ŕ		,
Provision for income taxes	2,939	2,762	2,063
NET INCOME	\$ 8,112	\$ 7,052	\$ 5,835
Earnings per share	\$ 2.00	\$ 1.75	\$ 1.46

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31	2013	2012	2011
(dollars in thousands)			
NET INCOME	\$ 8,112	\$ 7,052	\$ 5,835
Other comprehensive income (loss): Change in unrealized gain (loss) on available for sale securities	(2,057)	979	1,127
Related tax (expense) benefit	<u>699</u> <u>(1,358)</u>	(333) 646	(383) 744
Total comprehensive income	\$ 6,754	\$ 7,698	\$ 6,579

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2013, 2012, and 2011

(dollars in thousands, except share and per share data)			Accumulated Other Total			
	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Treasury Stock	Shareholders' Equity
Balances at January 1, 2011	\$ 4,660	\$ 33,003	\$ 45,960	\$ 217	\$ (15,712)	\$ 68,128
Net income			5,835			5,835
Other comprehensive income (loss), net Common stock issued to ESOP,				744		744
26,500 shares	26	470				496
Cash dividends, \$.84 per share			(3,360)			(3,360)
Balances at December 31, 2011	4,686	33,473	48,435	961	(15,712)	71,843
Net income			7,052			7,052
Other comprehensive income (loss), net Common stock issued to ESOP,				646		646
32,765 shares	33	584	_		_	617
Common stock issued through						
dividend reinvestment, 2,883 shares	3	52				55
Cash dividends, \$1.09 per share			(4,393)			(4,393)
Balances at December 31, 2012	4,722	34,109	51,094	1,607	(15,712)	75,820
Net income			8,112			8,112
Other comprehensive income (loss), net Common stock issued to ESOP,				(1,358)		(1,358)
28,634 shares Common stock issued through	28	612				640
dividend reinvestment, 7,915 shares	8	162				170
Cash dividends, \$.73 per share			(2,965)			(2,965)
Balances at December 31, 2013	\$ 4,758	\$ 34,883	\$ 56,241	\$ 249	\$ (15,712)	\$ 80,419

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31	2013	2012	2011
(dollars in thousands)			
Cash flows from operating activities:	0.110	* * 0.50	A 5005
Net income	\$ 8,112	\$ 7,052	\$ 5,835
Adjustments to reconcile net income to net cash provided			
by operating activities:			
Depreciation		973	971
Net amortization of securities		1,483	1,059
Proceeds from sale of loans in secondary market		29,573	13,637
Loans disbursed for sale in secondary market		(28,947)	(13,251)
Amortization of mortgage servicing rights		179	121
(Recovery) impairment of mortgage servicing rights	(121)	(21)	(33)
Gain on sale of loans		(784)	(474)
Deferred tax (benefit) expense		(206)	340
Provision for loan losses		1,583	4,896
Common stock issued to ESOP		617	496
Earnings on bank owned life insurance and annuity assets		(782)	(725)
(Gain) loss on other real estate owned		(181)	(42)
Write-down of other real estate owned		331	1,266
Change in accrued interest receivable		815	(168)
Change in accrued liabilities		(98)	1,397
Change in other assets	1,128	(756)	857
Net cash provided by operating activities		10,831	16,182
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale	24,577	33,696	43,193
Purchases of securities available for sale		(43,436)	(43,007)
Proceeds from maturities of securities held to maturity		2,213	1,449
Purchases of securities held to maturity		(2,935)	(2,068)
Purchases of Federal Reserve Bank stock		(=,, = +) 	(- ,)
Net change in loans		36,731	34,243
Proceeds from sale of other real estate owned		1,706	756
Purchases of premises and equipment		(437)	(449)
Proceeds from bank owned life insurance	1,249	(.e./)	(···)
Purchases of bank owned life insurance and annuity assets	1,2 1,2	(1,177)	(2,611)
Net cash provided by (used in) investing activities	(946)	26,361	31,506
Cash flows from financing activities:			
Change in deposits	(26,187)	(32,822)	(6,895)
Proceeds from common stock through dividend reinvestment		55	(0,055)
Cash dividends		(4,393)	(3,360)
Change in securities sold under agreements to repurchase		(1,373)	(38,107)
Repayment of subordinated debentures			(36,107)
Proceeds from Federal Home Loan Bank borrowings		2,000	703
Repayment of Federal Home Loan Bank borrowings	(1,393)	(7,789)	(7,562)
Change in other short-term borrowings	(1,393)	(7,789) (222)	(588)
Net cash used in financing activities		$\frac{(222)}{(43,171)}$	(55,809)
Tet cash used in initialening activities	(23,317)	(¬3,1/1)	(33,007)
Cash and cash equivalents:	(17.207)	(5.070)	(0.131)
Change in cash and cash equivalents		(5,979)	(8,121)
Cash and cash equivalents at beginning of year		51,630	59,751
Cash and cash equivalents at end of year	\$ 28,344	<u>\$ 45,651</u>	\$ 51,630
Supplemental disclosure:	4.50	.	.
Cash paid for interest		\$ 6,863	\$ 10,875
Cash paid for income taxes		4,033	445
Transfers from loans to other real estate owned		1,267	1,833
Other real estate owned sales financed by the Bank	466	1,133	344

Amounts are in thousands, except share and per share data.

Note A - Summary of Significant Accounting Policies

<u>Description of Business</u>: Ohio Valley Banc Corp. ("Ohio Valley") is a financial holding company registered under the Bank Holding Company Act of 1956. Ohio Valley has one banking subsidiary, The Ohio Valley Bank Company (the "Bank"), as well as a subsidiary that engages in consumer lending to individuals with higher credit risk history, Loan Central, Inc., and a subsidiary insurance agency that facilitates the receipts of insurance commissions, Ohio Valley Financial Services Agency, LLC. Ohio Valley and its subsidiaries are collectively referred to as the "Company."

The Company provides a full range of commercial and retail banking services from 22 offices located in southeastern Ohio and western West Virginia. It accepts deposits in checking, savings, time and money market accounts and makes personal, commercial, floor plan, student, construction and real estate loans. Substantially all loans are secured by specific items of collateral, including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from business operations. The Company also offers safe deposit boxes, wire transfers and other standard banking products and services. The Bank's deposits are insured by the Federal Deposit Insurance Corporation. In addition to accepting deposits and making loans, the Bank invests in U. S. Government and agency obligations, interest-bearing deposits in other financial institutions and investments permitted by applicable law.

The Bank's trust department provides a wide variety of fiduciary services for trusts, estates and benefit plans and also provides investment and security services as an agent for its customers.

<u>Principles of Consolidation:</u> The consolidated financial statements include the accounts of Ohio Valley and its wholly-owned subsidiaries, the Bank, Loan Central, Inc., a consumer finance company, and Ohio Valley Financial Services Agency, LLC, an insurance agency. All material intercompany accounts and transactions have been eliminated.

<u>Industry Segment Information:</u> Internal financial information is primarily reported and aggregated in two lines of business, banking and consumer finance.

<u>Use of Estimates in the Preparation of Financial Statements:</u> The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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.

<u>Cash and Cash Equivalents:</u> Cash and cash equivalents include cash on hand, interest and noninterest-bearing deposits with banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. The Company reports net cash flows for customer loan transactions, deposit transactions, short-term borrowings and interest-bearing deposits with other financial institutions.

Securities: The Company classifies securities into held to maturity and available for sale categories. Held to maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Securities classified as available for sale include securities that could be sold for liquidity, investment management or similar reasons even if there is not a present intention of such a sale. Available for sale securities are reported at fair value, with unrealized gains or losses included in other comprehensive income, net of tax.

Premium amortization is deducted from, and discount accretion is added to, interest income on securities using the level yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses are recognized upon the sale of specific identified securities on the completed trade date.

Other-Than-Temporary-Impairments of Securities: In determining an other-than-temporary-impairment ("OTTI"), management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Note A - Summary of Significant Accounting Policies (continued)

When an OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") Stock: The Bank is a member of the FHLB system. Additionally, the Bank is a member of the FRB system. Members are required to own a certain amount of stock based on their level of borrowings and other factors and may invest in additional amounts. FHLB stock and FRB stock are carried at cost, classified as restricted securities, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

<u>Loans</u>: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on an accrual basis using the interest method and includes amortization of net deferred loan fees and costs over the loan term using the level yield method without anticipating prepayments. The amount of the Company's recorded investment is not materially different than the amount of unpaid principal balance for loans.

Interest income is discontinued and the loan moved to non-accrual status when full loan repayment is in doubt, typically when the loan is impaired or payments are past due 90 days or over unless the loan is well-secured or in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days or over and still accruing include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: 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.

Note A - Summary of Significant Accounting Policies (continued)

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 and Industrial, Commercial Real Estate, 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 1-4 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 1-4 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. 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.

Note A - Summary of Significant Accounting Policies (continued)

At December 31, 2013, there were no changes to the accounting policies or methodologies within any of the Company's loan portfolio segments from the prior period.

<u>Concentrations of Credit Risk:</u> The Company grants residential, consumer and commercial loans to customers located primarily in the southeastern Ohio and western West Virginia areas.

The following represents the composition of the Company's loan portfolio as of December 31:

	% of Tot	al Loans
	<u>2013</u>	<u>2012</u>
Residential real estate loans	37.79%	40.49%
Commercial real estate loans	32.79%	31.35%
Consumer loans	18.05%	17.91%
Commercial and industrial loans	11.37%	10.25%
	100.00%	100.00%

Approximately 5.13% of total loans were unsecured at December 31, 2013, up from 4.87% at December 31, 2012.

The Bank, in the normal course of its operations, conducts business with correspondent financial institutions. Balances in correspondent accounts, investments in federal funds, certificates of deposit and other short-term securities are closely monitored to ensure that prudent levels of credit and liquidity risks are maintained. At December 31, 2013, the Bank's primary correspondent balance was \$17,877 on deposit at the Federal Reserve Bank, Cleveland, Ohio.

<u>Premises and Equipment:</u> Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation, which is computed using the straight-line or declining balance methods over the estimated useful life of the owned asset and, for leasehold improvement, over the remaining term of the leased facility, whichever is shorter. The useful lives range from 3 to 8 years for equipment, furniture and fixtures and 7 to 39 years for buildings and improvements.

<u>Foreclosed assets</u>: 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. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. Foreclosed assets totaled \$1,354 and \$3,667 at December 31, 2013 and 2012.

Goodwill: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31, 2013 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

<u>Long-term Assets</u>: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Mortgage Servicing Rights: A mortgage servicing right ("MSR") is a contractual agreement where the right to service a mortgage loan is sold by the original lender to another party. When the Company sells mortgage loans to the secondary market, it retains the servicing rights to these loans. The Company's MSR is recognized separately when acquired through sales of loans and is initially recorded at fair value with the income statement effect recorded in mortgage banking income. Subsequently, the MSR is then amortized in proportion to and over the period of estimated future servicing income of the underlying loan. The MSR is then evaluated for impairment periodically based upon the fair value of the rights as compared to the carrying amount, with any impairment being recognized through a valuation allowance. Fair value of the MSR is based on market prices for comparable mortgage servicing contracts. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. At December 31, 2013 and 2012, the Company's MSR asset portfolio was \$534 and \$450, respectively.

Note A - Summary of Significant Accounting Policies (continued)

<u>Earnings Per Share</u>: Earnings per share is based on net income divided by the following weighted average number of common shares outstanding during the periods: 4,064,083 for 2013; 4,030,322 for 2012; 4,001,435 for 2011. Ohio Valley had no dilutive securities outstanding for any period presented.

<u>Income Taxes:</u> Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

<u>Comprehensive Income</u>: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity, net of tax.

<u>Loss Contingencies</u>: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Bank Owned Life Insurance and Annuity Assets: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The Company also purchased an annuity investment for a certain key executive that earns interest.

<u>Employee Stock Ownership Plan:</u> Compensation expense is based on the market price of shares as they are committed to be allocated to participant accounts.

<u>Loan Commitments and Related Financial Instruments</u>: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. These financial instruments are recorded when they are funded. See Note J for more specific disclosure related to loan commitments.

<u>Dividend Restrictions:</u> Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to Ohio Valley or by Ohio Valley to its shareholders. See Note N for more specific disclosure related to dividend restrictions.

<u>Restrictions on Cash:</u> Cash on hand or on deposit with a third-party correspondent and the Federal Reserve Bank of \$19,268 and \$37,964 was required to meet regulatory reserve and clearing requirements at year-end 2013 and 2012. The balances on deposit with a third-party correspondent do not earn interest.

<u>Derivatives</u>: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("standalone derivative").

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

At December 31, 2013 and 2012, the Company's only derivatives on hand were interest rate swaps, which are classified as stand-alone derivatives. See Note F for more specific disclosures related to interest rate swaps.

<u>Fair Value of Financial Instruments:</u> Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note M. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

<u>Reclassifications</u>: The consolidated financial statements for 2012 and 2011 have been reclassified to conform with the presentation for 2013. These reclassifications had no effect on the net results of operations or shareholders' equity.

Note B - Securities

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2013 and 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013				
U.S. Government sponsored entity securities Agency mortgage-backed securities, residential Total securities	\$ 9,028 74,661 \$ 83,689	\$ 4 1,257 \$ 1,261	\$ (180) (702) <u>\$ (882)</u>	\$ 8,852 75,216 \$ 84,068
December 31, 2012 U.S. Government sponsored entity securities Agency mortgage-backed securities, residential Total securities	\$ 1,009 91,521 \$ 92,530	$\begin{array}{r} \$ & 3 \\ \underline{2,432} \\ \$ & 2,435 \end{array}$	\$ <u> </u>	\$ 1,012 93,953 \$ 94,965
Securities Held to Maturity December 31, 2013	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Estimated Fair Value
Obligations of states and political subdivisions	\$ 22,814 12 \$ 22,826	\$ 579 \$ 579	\$ (421) <u>\$ (421)</u>	\$ 22,972 12 \$ 22,984
December 31, 2012 Obligations of states and political subdivisions Agency mortgage-backed securities, residential Total securities	\$ 23,494 17 \$ 23,511	\$ 1,178 ————————————————————————————————————	\$ (65) <u>\$ (65)</u>	\$ 24,607 17 \$ 24,624

At year-end 2013 and 2012, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

There were no sales of debt securities during 2013, 2012 and 2011.

Securities with a carrying value of approximately \$62,324 at December 31, 2013 and \$72,471 at December 31, 2012 were pledged to secure public deposits and repurchase agreements and for other purposes as required or permitted by law.

Note B - Securities (continued)

The amortized cost and estimated fair value of debt securities at December 31, 2013, 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.

	<u>Available</u>	for Sale	Held to M	<u>laturity</u>
			Estimated	
	Amortized	Amortized	Fair	
Debt Securities:	Cost	<u>Value</u>	Cost	<u>Value</u>
Due in one year or less	\$ —	\$ —	\$	\$ —
Due in one to five years	9,028	8,852	7,020	7,375
Due in five to ten years		_	9,719	9,616
Due after ten years			6,075	5,981
Agency mortgage-backed securities, residential	74,661	75,216	12	12
Total debt securities	\$ 83,689	\$ 84,068	\$ 22,826	\$ 22,984

The following table summarizes securities with unrealized losses at December 31, 2013 and December 31, 2012, aggregated by major security type and length of time in a continuous unrealized loss position:

December 31, 2013		12 Months	12 Months or More	<u>Total</u>
Securities Available for Sale	Fair <u>Value</u>	Unrealized Loss	Fair Unrealized Value Loss	Fair Unrealized Value Loss
U.S. Government sponsored entity securities	\$ 7,841 25,775 \$ 33,616	\$ (180) (702) \$ (882)	\$ <u> </u>	\$ 7,841 \$ (180) 25,775 (702) \$ 33,616 \$ (882)
Securities Held to Maturity				
Obligations of states and political subdivisions Total held to maturity	\$ 6,743 \$ 6,743	\$ (307) \$ (307)	\$\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	\$ 7,885 \$ 7,885 \$ (421)
December 31, 2012	Less than 1 Fair <u>Value</u>	2 Months Unrecognized Loss	12 Months or More Fair Unrecognized Value Loss	<u>Total</u> Fair Unrecognized <u>Value</u> <u>Loss</u>
Securities Held to Maturity				
Obligations of states and political subdivisions Total held to maturity	\$ 2,018 \$ 2,018	\$ (63) \$ (63)	\$ 260 \$ (2) \$ 260 \$ (2)	\$ 2,278 \$ 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 December 31, 2013 and 2012 represents an other-than-temporary impairment.

Note C - Loans and Allowance for Loan Losses

Loans are comprised of the following at December 31:

	<u>2013</u>	<u>2012</u>
Residential real estate	\$ 214,008	\$ 226,022
Commercial real estate:		
Owner-occupied	94,586	104,842
Nonowner-occupied	62,108	52,792
Construction	28,972	17,376
Commercial and industrial	64,365	57,239
Consumer:		
Automobile	38,811	41,168
Home equity	17,748	18,332
Other	45,721	40,517
	566,319	558,288
Less: Allowance for loan losses	6,155	6,905
Loans, net	\$ 560,164	\$ 551,383

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2013, 2012 and 2011:

	Residential	Commercial	Commercial		
December 31, 2013	Real Estate	Real Estate	& Industrial	Consumer	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 1,329	\$ 3,946	\$ 783	\$ 847	\$ 6,905
Provision for loan losses	458	(1,472)	1,047	444	477
Loans charged off	(819)	(2)	(600)	(1,279)	(2,700)
Recoveries		335	75	781	1,473
Total ending allowance balance	\$ 1,250	\$ 2,807	\$ 1,305	\$ 793	\$ 6,155
					
	Residential	Commercial	Commercial		
<u>December 31, 2012</u>	Real Estate	Real Estate	& Industrial	Consumer	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 1,860	\$ 3,493	\$ 636	\$ 1,355	\$ 7,344
Provision for loan losses	395	2,367	(1,381)	202	1,583
Loans charged off	(1,066)	(1,949)	(499)	(1,622)	(5,136)
Recoveries	140	35	2,027	912	3,114
Total ending allowance balance	\$ 1,329	\$ 3,946	\$ 783	\$ 847	\$ 6,905
D 1 21 2011	Residential	Commercial	Commercial	C	TF 4 1
<u>December 31, 2011</u>	Real Estate	Real Estate	<u>& Industrial</u>	Consumer	<u>Total</u>
Allowance for loan losses:	.	Φ 2.002	A A B A B A B B B B B B B B B B	A 1.455	* • • • • • • • • • • • • • • • • • • •
Beginning balance	,	\$ 3,083	\$ 3,795	\$ 1,457	\$ 9,386
Provision for loan losses	, -	932	439	883	4,896
Loans charged off		(1,913)	(4,725)	(1,750)	(10,422)
Recoveries		1,391	1,127	765	3,484
Total ending allowance balance	<u>\$ 1,860</u>	\$ 3,493	\$ 636	\$ 1,355	\$ 7,344

Note C - Loans and Allowance for Loan Losses (continued)

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 December 31, 2013 and 2012:

<u>December 31, 2013</u>	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	<u>Total</u>
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 213	\$ 1,541	\$ 864	\$ 7	\$ 2,625
Collectively evaluated for impairment	1,037	1,266	441	786	3,530
Total ending allowance balance	\$ 1,250	\$ 2,807	\$ 1,305	\$ 793	\$ 6,155
Loans:					
Loans individually evaluated for impairment	\$ 1,438	\$ 10,382	\$ 2,658	\$ 218	\$ 14,696
Loans collectively evaluated for impairment	212,570	175,284_	61,707	102,062	551,623
Total ending loans balance	\$ 214,008	\$ 185,666	\$ 64,365	\$ 102,280	\$ 566,319
	Residential	Commercial	Commercial		
December 31, 2012	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	<u>Total</u>
December 31, 2012 Allowance for loan losses:				<u>Consumer</u>	<u>Total</u>
				Consumer	<u>Total</u>
Allowance for loan losses:				Consumer \$ —	Total \$ 2,107
Allowance for loan losses: Ending allowance balance attributable to loans:	Real Estate	Real Estate	<u>& Industrial</u>		
Allowance for loan losses: Ending allowance balance attributable to loans: Individually evaluated for impairment	Real Estate \$ 128	Real Estate \$ 1,979	& Industrial	s —	\$ 2,107
Allowance for loan losses: Ending allowance balance attributable to loans: Individually evaluated for impairment Collectively evaluated for impairment	Real Estate \$ 128	\$ 1,979 1,967	<u>& Industrial</u> \$ —	\$ — 847	\$ 2,107 4,798
Allowance for loan losses: Ending allowance balance attributable to loans: Individually evaluated for impairment Collectively evaluated for impairment Total ending allowance balance	Real Estate \$ 128	\$ 1,979 1,967	<u>& Industrial</u> \$ —	\$ — 847	\$ 2,107 4,798
Allowance for loan losses: Ending allowance balance attributable to loans: Individually evaluated for impairment Collectively evaluated for impairment Total ending allowance balance	\$ 128 1,201 \$ 1,329	\$ 1,979 1,967 \$ 3,946	\$ —	\$ — 847 \$ 847	\$ 2,107 4,798 \$ 6,905

Note C - Loans and Allowance for Loan Losses (continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of the years ended December 31, 2013, 2012 and 2011:

December 31, 2013	Unpaid Principal <u>Balance</u>	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired <u>Loans</u>	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	\$ 766	\$ 766	\$ —	\$ 539	\$ 41	\$ 41
Owner-occupied	1,539	992		809	39	39
Nonowner-occupied	6,343	5,743		6,359	345	345
Commercial and industrial	2,223	1,811		1,234	96	96
With an allowance recorded:						
Residential real estate	672	672	213	524	35	35
Commercial real estate:						
Owner-occupied	290	290	157	116		
Nonowner-occupied	3,357	3,357	1,384	3,423	164	164
Commercial and industrial Consumer:	847	847	864	602	46	46
Home equity	218	218	7	87	9	9
Total	\$ 16,255	<u>\$ 14,696</u>	\$ 2,625	\$ 13,693	\$ 775	\$ 775
					_	
	Unpaid		Allowance for		Interest	Cash Basis
	Principal	Recorded	Loan Losses	Impaired	Income	Interest
<u>December 31, 2012</u>	<u>Balance</u>	<u>Investment</u>	Allocated	<u>Loans</u>	Recognized	Recognized
With no related allowance recorded:						
Residential real estate	\$ 619	\$ 407	\$ —	\$ 493	\$ —	\$ —
Owner-occupied	5,528	5,528		4,729	338	338
Nonowner-occupied	10,085	8,847		4,767	456	456
Commercial and industrial	426	<i></i>		, —		
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
Nonowner-occupied	1,7/7	1,9/9	1,7/7	1,132		
Total	\$ 19,277	<u>\$ 17,401</u>	\$ 2,107	<u>\$ 11,717</u>	\$ 864	\$ 864

Note C - Loans and Allowance for Loan Losses (continued)

December 31, 2011	Average Impaired <u>Loans</u>	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Residential real estate	. \$ 748	\$ 36	\$ 31
Commercial real estate:			
Owner-occupied	. 2,418	207	309
Nonowner-occupied	. 4,339	174	57
Commercial and industrial		40	40
With an allowance recorded:			
Residential real estate	. 84	27	22
Commercial real estate:			
Nonowner-occupied	. 2,414	128	118
Construction	. 677	35	31
Total	. \$ 11,163	\$ 647	\$ 608
- *	·,		- 000

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 December 31, 2013 and 2012:

December 31, 2013	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	\$ 72	\$ 2,662
Commercial real estate:	Ψ 12	Ψ 2,002
Owner-occupied		799
Nonowner-occupied		52
Commercial and industrial		21
Consumer:		
Automobile	5	8
Home equity		38
Other	1	
Total	\$ 78	\$ 3,580
December 31, 2012	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	\$ 341	\$ 2,533
Commercial real estate:		ŕ
Owner-occupied	_	675
Nonowner-occupied		352
Consumer:		
Automobile	11	4
Home equity	7	62
Other	/	
Total	\$ 359	\$ 3,626

Note C - Loans and Allowance for Loan Losses (continued)

The following table presents the aging of the recorded investment of past due loans by class of loans as of December 31, 2013 and 2012:

	30-59	60-89	90 Days			
	Days	Days	Or More	Total	Loans Not	
<u>December 31, 2013</u>	Past Due	Past Due	Past Due	Past Due	Past Due	<u>Total</u>
Residential real estate	\$ 3,922	\$ 1,324	\$ 2,620	\$ 7,866	\$ 206,142	\$ 214,008
Commercial real estate:						
Owner-occupied	206	34	683	923	93,663	94,586
Nonowner-occupied			52	52	62,056	62,108
Construction	60			60	28,912	28,972
Commercial and industrial	193	115	21	329	64,036	64,365
Consumer:						
Automobile	638	123	13	774	38,037	38,811
Home equity			38	38	17,710	17,748
Other	651	38	1	690	45,031	45,721
Total	\$ 5,670	\$ 1,634	\$ 3,428	\$ 10,732	\$ 555,587	\$ 566,319
	20.50	60.80	00 Davis			
	30-59	60-89	90 Days	Total	Loons Not	
December 21, 2012	Days	Days	Or More	Total	Loans Not	Total
December 31, 2012	Days <u>Past Due</u>	Days <u>Past Due</u>	Or More Past Due	Past Due	Past Due	<u>Total</u>
Residential real estate	Days	Days	Or More			Total \$ 226,022
Residential real estate	Days <u>Past Due</u> \$ 5,525	Days Past Due 1,033	Or More Past Due \$ 2,797	<u>Past Due</u> \$ 9,355	<u>Past Due</u> \$ 216,667	\$ 226,022
Residential real estate Commercial real estate: Owner-occupied	Days <u>Past Due</u>	Days <u>Past Due</u>	Or More <u>Past Due</u> \$ 2,797	Past Due \$ 9,355 1,539	Past Due \$ 216,667 103,303	\$ 226,022 104,842
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied	Days <u>Past Due</u> \$ 5,525	Days Past Due 1,033	Or More Past Due \$ 2,797	<u>Past Due</u> \$ 9,355	Past Due \$ 216,667 103,303 52,440	\$ 226,022 104,842 52,792
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction	Days Past Due \$ 5,525	Days Past Due 1,033	Or More <u>Past Due</u> \$ 2,797	Past Due \$ 9,355 1,539 352	Past Due \$ 216,667 103,303 52,440 17,376	\$ 226,022 104,842 52,792 17,376
Residential real estate	Days <u>Past Due</u> \$ 5,525	Days Past Due 1,033	Or More <u>Past Due</u> \$ 2,797	Past Due \$ 9,355 1,539	Past Due \$ 216,667 103,303 52,440	\$ 226,022 104,842 52,792
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction Commercial and industrial Consumer:	Days Past Due \$ 5,525 753 — 202	Days <u>Past Due</u> \$ 1,033	Or More <u>Past Due</u> \$ 2,797 675 352	Past Due \$ 9,355 1,539 352 — 202	Past Due \$ 216,667 103,303 52,440 17,376 57,037	\$ 226,022 104,842 52,792 17,376 57,239
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction Commercial and industrial Consumer: Automobile	Days Past Due \$ 5,525 753 — 202 905	Days <u>Past Due</u> \$ 1,033 111 138	Or More Past Due \$ 2,797 675 352 — — — — — — — — — ——————————————	Past Due \$ 9,355 1,539 352 — 202 1,056	Past Due \$ 216,667 103,303 52,440 17,376 57,037 40,112	\$ 226,022 104,842 52,792 17,376 57,239 41,168
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction Commercial and industrial Consumer: Automobile Home equity	Days Past Due \$ 5,525 753 —————————————————————————————————	Days Past Due \$ 1,033 111 138 37	Or More Past Due \$ 2,797 675 352 — 13 62	Past Due \$ 9,355 1,539 352 — 202 1,056 211	Past Due \$ 216,667 103,303 52,440 17,376 57,037 40,112 18,121	\$ 226,022 104,842 52,792 17,376 57,239 41,168 18,332
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction Commercial and industrial Consumer: Automobile	Days Past Due \$ 5,525 753 — 202 905	Days <u>Past Due</u> \$ 1,033 111 138	Or More Past Due \$ 2,797 675 352 — — — — — — — — — ——————————————	Past Due \$ 9,355 1,539 352 — 202 1,056	Past Due \$ 216,667 103,303 52,440 17,376 57,037 40,112	\$ 226,022 104,842 52,792 17,376 57,239 41,168
Residential real estate Commercial real estate: Owner-occupied Nonowner-occupied Construction Commercial and industrial Consumer: Automobile Home equity	Days Past Due \$ 5,525 753 —————————————————————————————————	Days Past Due \$ 1,033 111 138 37	Or More Past Due \$ 2,797 675 352 — 13 62	Past Due \$ 9,355 1,539 352 — 202 1,056 211	Past Due \$ 216,667 103,303 52,440 17,376 57,037 40,112 18,121	\$ 226,022 104,842 52,792 17,376 57,239 41,168 18,332

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.

Note C - Loans and Allowance for Loan Losses (continued)

The following table presents the types of TDR loan modifications by class of loans as of December 31, 2013 and December 31, 2012:

December 31, 2013	TDR's Performing to Modified Terms	TDR's Not Performing to <u>Modified Terms</u>	Total TDR's
Residential real estate			
Interest only payments	\$ 527	\$ —	\$ 527
Rate reduction	420	Ψ	420
Commercial real estate:	420		420
Owner-occupied			
Rate reduction		259	259
Maturity extension at lower stated		239	239
rate than market rate	271		271
Nonowner-occupied	2/1		2/1
Interest only payments	8,450		9 450
Reduction of principal and	6,430		8,450
	650		650
interest payments	030		030
	1 011		1 011
Interest only payments	1,811		1,811
Consumer:			
Home equity			
Maturity extension at lower stated	210		210
rate than market rate	218		218
Total TDR's	<u>\$ 12,347</u>	\$ 259	\$ 12,606
December 31, 2012	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total <u>TDR's</u>
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	<u>\$ 15,799</u>	\$ 1,155	\$ 16,954

Note C - Loans and Allowance for Loan Losses (continued)

During the year ended December 31, 2013, the TDR's described above decreased the allowance for loan losses by \$321 with no corresponding charge-offs. This resulted in a decrease to provision expense of \$871 during the year ended December 31, 2013. During the year ended December 31, 2012, the TDR's described above increased the allowance for loan losses and provision expense by \$2,169, resulting in charge-offs of \$536.

At December 31, 2013, the balance in TDR loans decreased \$4,348, or 25.6%, 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 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 years ended December 31, 2013 and 2012, no other loans were removed from TDR status as a result of a re-modification. At December 31, 2013 and December 31, 2012, a total of 98% and 93% of the Company's TDR's were performing according to their modified terms, respectively. The Company allocated \$1,511 and \$2,107 in reserves to customers whose loan terms have been modified in TDR's as of December 31, 2013 and December 31, 2012, respectively. At December 31, 2013, the Company had \$29 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 year ended December 31, 2013 and 2012:

	TDR's Performing to Modified Terms		TDR's Performing to N	s Not <u>Modified Terms</u>
December 31, 2013	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Residential real estate	\$ 527	\$ 527		
Interest only payments Commercial and industrial	\$ 321	\$ 321		
Interest only payments	1,811	1,811		
Consumer Home equity Maturity extension at lower stated				
rate than market rate	218	218		
Total TDR's	\$ 2,556	\$ 2,556		
December 31, 2012 Commercial real estate: Owner-occupied Reduction of principal				
and interest payments Nonowner-occupied	\$ 4,308	\$ 4,308		
Interest only payments Reduction of principal	5,984	5,984		
and interest payments	686	686		
Total TDR's	<u>\$ 10,978</u>	<u>\$ 10,978</u>		

Note C - Loans and Allowance for Loan Losses (continued)

All of the Company's loans that were restructured during the years ended December 31, 2013 and 2012 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at December 31, 2013 and 2012 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 year ended December 31, 2013 increased the provision expense and the allowance for loan losses by \$7, with no corresponding charge-offs during those twelve months. As a result, at December 31, 2013, the Company had an allocation of reserves totaling \$7 to customers whose loan terms have been modified during the year ended December 31, 2013 described above. The loans modified during the year ended December 31, 2012 had no impact on the provision expense and the allowance for loan losses.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. These risk categories are represented by a loan grading scale from 1 through 10. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called "criticized" and "classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 through 10. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed \$500.

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

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

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

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

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

Note C - Loans and Allowance for Loan Losses (continued)

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 re-evaluation date. As of December 31, 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:

December 31, 2013	<u>Pass</u>	Criticized	Classified	<u>Total</u>
Commercial real estate:				
Owner-occupied	\$ 86,497	\$ 5,310	\$ 2,779	\$ 94,586
Nonowner-occupied	51,119	7,107	3,882	62,108
Construction	27,998		974	28,972
Commercial and industrial	56,962	4,081	3,322_	64,365
Total	\$ 222,576	<u>\$ 16,498</u>	\$ 10,957	\$ 250,031
December 31, 2012 Commercial real estate:	Pass	Criticized	Classified	<u>Total</u>
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	<u>\$ 190,743</u>	\$ 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 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.

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on payment activity as of December 31, 2013 and December 31, 2012:

		Consumer		Residential	
<u>December 31, 2013</u>	<u>Automobile</u>	Home Equity	<u>Other</u>	Real Estate	<u>Total</u>
Performing Nonperforming	\$ 38,798 13	\$ 17,710 38	\$ 45,720 1	\$ 211,274 2,734	\$ 313,502 2,786
Nonperforming					
Total	\$ 38,811	<u>\$ 17,748</u>	\$ 45,721	<u>\$ 214,008</u>	\$ 316,288
		Consumer		Residential	
<u>December 31, 2012</u>	Automobile	Home Equity	Other	Real Estate	<u>Total</u>
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 area of Ohio as well as the western counties of West Virginia. Approximately 5.13% of total loans were unsecured at December 31, 2013, up from 4.87% at December 31, 2012.

Note D - Premises and Equipment

Following is a summary of premises and equipment at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,900	\$ 1,802
Buildings	10,342	10,235
Leasehold improvements	2,911	2,872
Furniture and equipment	<u>15,060</u>	14,281
	30,213	29,190
Less accumulated depreciation	21,208	20,510
Total premises and equipment	\$ 9,005	\$ 8,680

The following is a summary of the future minimum lease payments for facilities leased by the Company. Lease expense was \$529 in 2013, \$492 in 2012, and \$492 in 2011.

2014	\$ 449
2015	292
2016	265
2017	166
2018	43
	\$ 1,215

Note E - Deposits

Following is a summary of interest-bearing deposits at December 31:

	<u>2013</u>	<u>2012</u>
NOW accounts	\$ 106,342	\$ 106,581
Savings and Money Market	200,237	197,062
Time:		
In denominations under \$100,000	96,431	110,002
In denominations of \$100,000 or more	76,044	101,893
Total time deposits	172,475	211,895
Total interest-bearing deposits	<u>\$ 479,054</u>	\$ 515,538

Following is a summary of total time deposits by remaining maturity at December 31, 2013:

2014	\$ 111,324
2015	39,001
2016	12,524
2017	4,319
2018	4,646
Thereafter	 661
Total	\$ 172,475

Brokered deposits, included in time deposits, were \$15,435 and \$23,839 at December 31, 2013 and 2012, respectively.

Note F – Interest Rate Swaps

The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. The Company utilizes interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. As part of this strategy, the Company provides its customer with a fixed-rate loan while creating a variable-rate asset for the Company by the customer entering into an interest rate swap with the Company on terms that match the loan. The Company offsets its risk exposure by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a stand-alone derivative. At December 31, 2013, the Company had interest rate swaps associated with commercial loans with a notional value of \$12,598 and a fair value of \$150. This is compared to interest rate swaps with a notional value of \$13,276 and a fair value of \$223 at December 31, 2012. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreement. To further offset the risk exposure related to market value fluctuations of its interest rate swaps, the Company maintains collateral deposits on hand with a third-party correspondent, which totaled \$350 at December 31, 2013 and December 31, 2012.

Note G - Other Borrowed Funds

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

	FHLB Borrowings	<u>Promissory Notes</u>	<u>Totals</u>
2013	\$ 15,219	\$ 3,529	\$ 18,748
2012	\$ 10,759	\$ 3,526	\$ 14,285

Pursuant to collateral agreements with the FHLB, advances are secured by \$194,622 in qualifying mortgage loans, \$88,756 in commercial loans and \$6,281 in FHLB stock at December 31, 2013. Fixed-rate FHLB advances of \$15,219 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 December 31, 2013.

At December 31, 2013, the Company had a cash management line of credit enabling it to borrow up to \$75,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was \$75,000 available on this line of credit at December 31, 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 \$189,595 at December 31, 2013. Of this maximum borrowing capacity of \$189,595, the Company had \$149,377 available to use as additional borrowings, of which \$75,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.15% to 5.00% and are due at various dates through a final maturity date of December 3, 2015. At December 31, 2013, there were no promissory notes payable by Ohio Valley to related parties. See Note K for further discussion of related party transactions.

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 December 31, 2013 and \$14,200 at December 31, 2012.

Scheduled principal payments over the next five years:

	FHLB Borrowings	<u>Promissory Notes</u>	<u>Totals</u>	
2014	\$ 1,399	\$ 2,801	\$ 4,200	
2015	1,308	728	2,036	
2016	1,229	_	1,229	
2017	1,162		1,162	
2018	1,104	_	1,104	
Thereafter	9,017	_	9,017	
	\$ 15,219	\$ 3,529	\$ 18,748	

Note H - Subordinated Debentures and Trust Preferred Securities

On September 7, 2000, a trust formed by Ohio Valley issued \$5,000 of 10.6% fixed-rate trust preferred securities as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. Beginning September 7, 2010, the Company's subordinated debentures were callable upon demand at a premium of 105.30% with the call price declining .53% per year until reaching a call price of par at year twenty through maturity. The subordinated debentures were required to be redeemed no later than September 7, 2030. Given the current capital levels and interest cost savings, the Company redeemed the full amount of the subordinated debentures on March 7, 2013, at a redemption price of 104.24%. The redemption was funded by a capital distribution from the Bank.

On March 22, 2007, a trust formed by Ohio Valley issued \$8,500 of adjustable-rate trust preferred securities as part of a pooled offering of such securities. The rate on these trust preferred securities were fixed at 6.58% for five years, and then converted to a floating-rate term on March 15, 2012, based on a rate equal to the 3-month LIBOR plus 1.68%. There were no debt issuance costs incurred with these trust preferred securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering. The subordinated debentures must be redeemed no later than June 15, 2037.

Under the provisions of the related indenture agreements, the interest payable on the trust preferred securities is deferrable for up to five years and any such deferral is not considered a default. During any period of deferral, the Company would be precluded from declaring or paying dividends to shareholders or repurchasing any of the Company's common stock. Under generally accepted accounting principles, the trusts are not consolidated with the Company. Accordingly, the Company does not report the securities issued by the trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the trust. Since the Company's equity interest in the trusts cannot be received until the subordinated debentures are repaid, these amounts have been netted.

Note I - Income Taxes

The provision for income taxes consists of the following components:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current tax expense	\$ 2,795	\$ 2,968	\$ 1,723
Deferred tax (benefit) expense	144	(206)	340
Total income taxes	\$ 2,939	\$ 2,762	\$ 2,063

The source of deferred tax assets and deferred tax liabilities at December 31:

	<u>2013</u>	<u>2012</u>
Items giving rise to deferred tax assets:		
Allowance for loan losses	\$ 2,139	\$ 2,394
Deferred compensation	1,847	1,709
Deferred loan fees/costs	290	322
Depreciation	15	
Other real estate owned	403	554
Other	205	199
Items giving rise to deferred tax liabilities:		
Mortgage servicing rights	(185)	(156)
FHLB stock dividends	(1,081)	(1,081)
Unrealized gain on securities		
available for sale	(128)	(828)
Depreciation	_	(146)
Prepaid expenses	(5)	(73)
Intangibles	(412)	(363)
Other	(1)	
Net deferred tax asset	\$ 3,087	\$ 2,531

Note I - Income Taxes (continued)

The Company determined that it was not required to establish a valuation allowance for deferred tax assets since management believes that the deferred tax assets are likely to be realized through a carry back to taxable income in prior years or the future reversals of existing taxable temporary differences.

The difference between the financial statement tax provision and amounts computed by applying the statutory federal income tax rate of 34% to income before taxes is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutory tax	\$ 3,757	\$ 3,337	\$ 2,685
Effect of nontaxable interest	(330)	(314)	(299)
Nondeductible interest expense	8	12	16
Income from bank owned insurance, net	(195)	(100)	(169)
Effect of nontaxable life insurance death proceeds	(154)		
Effect of state income tax	76	53	56
Tax credits	(230)	(250)	(245)
Other items	7	24	19
Total income taxes	\$ 2,939	\$ 2,762	\$ 2,063

At December 31, 2013 and December 31, 2012, the Company had no unrecognized tax benefits. The Company does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. The Internal Revenue Service has 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, if formally assessed in the amount proposed, would amount to approximately \$1.2 million. Based on consultation with legal counsel, management feels that it is highly unlikely that the penalty recommendation will be sustained or an assessment issued. Therefore, the Company did not recognize any interest and/or penalties related to income tax matters for the periods presented.

The Company is subject to U.S. federal income tax as well as West Virginia state income tax. The Company is no longer subject to federal or state examination for years prior to 2010. The tax years 2010-2012 remain open to federal and state examinations.

Note J - Commitments and Contingent Liabilities

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 Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet.

Following is a summary of such commitments at December 31:

	<u>2013</u>	<u>2012</u>
Fixed rate	\$ 237	\$ 678
Variable rate	60,971	50,488
Standby letters of credit	6,257	5,959

The interest rate on fixed-rate commitments ranged from 3.50% to 5.63% at December 31, 2013.

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 issued by the Bank to guarantee the performance of a customer to a third party. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Note J - Commitments and Contingent Liabilities (continued)

The Company participates as a facilitator of tax refunds pursuant to a clearing agreement with a third-party tax software provider. The clearing agreement is effective through December 31, 2015 and is renewable in 5-year increments. The agreement requires the Bank to process electronic refund checks ("ERC's") and electronic refund deposits ("ERD's") presented for payment on behalf of taxpayers containing taxpayer refunds. The Bank receives a fee paid by the third-party tax software provider for each transaction that is processed. The agreement is subject to termination if the Bank fails to perform the required clearing services and/or the Bank's regulators would require the Bank to cease offering the product presented within the agreement.

There are various contingent liabilities that are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on financial condition or results of operations.

Note K - Related Party Transactions

Certain directors, executive officers and companies with which they are affiliated were loan customers during 2013. A summary of activity on these borrower relationships with aggregate debt greater than \$120 is as follows:

Total loans at January 1, 2013	\$ 5,718
New loans	1,416
Repayments	(1,455)
Other changes	
Total loans at December 31, 2013	\$ 5,679

Other changes include adjustments for loans applicable to one reporting period that are excludable from the other reporting period, such as changes in persons classified as directors, executive officers and companies' affiliates.

Deposits from principal officers, directors, and their affiliates at year-end 2013 and 2012 were \$16,219 and \$17,616.

Note L-Employee Benefits

The Bank has a profit-sharing plan for the benefit of its employees and their beneficiaries. Contributions to the plan are determined by the Board of Directors of Ohio Valley. Contributions charged to expense were \$227, \$222, and \$218 for 2013, 2012 and 2011.

Ohio Valley maintains an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company. Ohio Valley issues shares to the ESOP, purchased by the ESOP with subsidiary cash contributions, which are allocated to ESOP participants based on relative compensation. The total number of shares held by the ESOP, all of which have been allocated to participant accounts, were 310,964 and 280,028 at December 31, 2013 and 2012. In addition, the subsidiaries made contributions to its ESOP Trust as follows:

	<u>Years ended December</u> 2013 <u>2012</u>			<u>nber 31</u> <u>2011</u>		
Number of shares issued	2	28,634		32,765	=	26,500
Fair value of stock contributed	\$	640	\$	617	\$	497
Cash contributed		73		82	_	65
Total expense	\$	713	\$	699	\$	562

Note L - Employee Benefits (continued)

Life insurance contracts with a cash surrender value of \$23,018 and annuity assets of \$1,922 at December 31, 2013 have been purchased by the Company, the owner of the policies. The purpose of these contracts was to replace a current group life insurance program for executive officers, implement a deferred compensation plan for directors and executive officers, implement a director retirement plan and implement supplemental retirement plans for certain officers. Under the deferred compensation plan, Ohio Valley pays each participant the amount of fees deferred plus interest over the participant's desired term, upon termination of service. Under the director retirement plan, participants are eligible to receive ongoing compensation payments upon retirement subject to length of service. The supplemental retirement plans provide payments to select executive officers upon retirement based upon a compensation formula determined by Ohio Valley's Board of Directors. The present value of payments expected to be provided are accrued during the service period of the covered individuals and amounted to \$5,297 and \$4,919 at December 31, 2013 and 2012. Expenses related to the plans for each of the last three years amounted to \$787, \$536, and \$318. In association with the split-dollar life insurance plan, the present value of the postretirement benefit totaled \$2,152 at December 31, 2013 and \$2,041 at December 31, 2012.

Note M - 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.

Note M - Fair Value of Financial Instruments (continued)

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 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 December 31, 2013, Using Quoted Prices in				
	Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs		
Aggeta	(Level 1)	(Level 2)	(Level 3)		
Assets: U.S. Government sponsored entity securities Agency mortgage-backed securities, residential		\$ 8,852 75,216			
	Fair Value M Quoted Prices in	leasurements at December 3	1,2012,Using		
	Active Markets	Significant Other	Significant		
	for Identical	Observable	Unobservable		
	Assets	Inputs	Inputs		
Aggeta	(Level 1)	(Level 2)	(Level 3)		
Assets: U.S. Government sponsored entity securities		\$ 1,012			
Agency mortgage-backed securities, residential		93,953			

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

Note M - Fair Value of Financial Instruments (continued)

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 December 31, 2013, Using			
Acceptor	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Uno	gnificant observable Inputs Level 3)
Assets: Impaired loans:				
Residential real estate			\$	234
Commercial real estate: Owner-occupied				133
Nonowner-occupied				1,973
Commercial and industrial				2,863
Other real estate owned: Commercial real estate:				
Construction	_	_		1,058
		asurements at December 31, 2	2012, Usi	ng
	Quoted Prices in Active Markets	Significant Other	Sic	gnificant
	for Identical	Observable		bservable
	Assets	Inputs		Inputs
	(Level 1)	(Level 2)		Level 3)
Assets:				
Other real estate owned:				
Commercial real estate:				
Construction	_		\$	1,562
Commercial and industrial				1,055

Note M - Fair Value of Financial Instruments (continued)

At December 31, 2013, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled \$7,701, with a corresponding valuation allowance of \$2,498, resulting in an increase of \$519 in additional provision expense during the year ended December 31, 2013, with no additional charge-offs recognized. At December 31, 2012, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled \$1,979, with a corresponding valuation of \$1,979. A net increase of \$2,479 in fair value was recognized for partial charge-offs of loans and impairment reserves on loans during the year ended December 31, 2012.

Other real estate owned that was measured at fair value less costs to sell at December 31, 2013 had a net carrying amount of \$1,058, which is made up of the outstanding balance of \$2,217, net of a valuation allowance of \$1,159 at December 31, 2013. There was \$504 in corresponding write-downs during 2013. Other real estate owned that was measured at fair value less costs to sell at December 31, 2012 had a net carrying amount of \$2,617, which is made up of the outstanding balance of \$4,214, net of a valuation allowance of \$1,597 at December 31, 2012, which resulted in a corresponding write-down of \$331 for the year ended December 31, 2012.

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 December 31, 2013 and December 31, 2012:

December 31, 2013	Fair Value	Valuation Technique(s)	<u>Unobservable Input(s)</u>	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Nonowner-occupied	\$ 1,973	Sales approach	Adjustment to comparables	5% to 10%	8%
Commercial and industrial	2,863	Sales approach	Adjustment to comparables	0% to 20%	16%
Other real estate owned:					
Commercial real estate:					
Construction	1,058	Sales approach	Adjustment to comparables	5% to 35%	19%
		37.1			(W.:.11
Daggersham 21, 2012	Fair Value	Valuation	Linchagarahla Innut(a)	Damas	(Weighted
December 31, 2012	Fair Value	Technique(s)	<u>Unobservable Input(s)</u>	Range	Average)
Other real estate owned:					
Commercial real estate:					
Construction	\$ 1,562	Sales approach	Adjustment to comparables	15%	15%
Commercial and industrial	1,055	Sales approach	Adjustment to comparables	15%	15%

Note M - Fair Value of Financial Instruments (continued)

The carrying amounts and estimated fair values of financial instruments at December 31, 2013 and December 31, 2012 are as follows:

		Fair Value Measurements at December 31, 2013 Using:			
	Carrying				m . 1
F: 14 /	<u>Value</u>	Level 1	Level 2	Level 3	Total
Financial Assets:	Ф. 20.244	Ф. 20.244	Ф	Ф	Ф 20.244
Cash and cash equivalents	\$ 28,344	\$ 28,344	\$ —	\$ —	\$ 28,344
Securities available for sale	84,068		84,068	11 402	84,068
Securities held to maturity	22,826		11,502	11,482	22,984
Federal Home Loan Bank and Federal	7.776	DT/A	DT/A	NT/A	NT/A
Reserve Bank stock	7,776	N/A	N/A	N/A	N/A
Loans, net	560,164		241	564,589	564,589
Accrued interest receivable	1,901		241	1,660	1,901
Financial Liabilities:					
Deposits	628,877	148,847	479,962		628,809
Other borrowed funds	18,748	<u></u>	17,453		17,453
Subordinated debentures	8,500		4,896		4,896
Accrued interest payable	792	3	789		792
		Fair Value	e Measurements a	t December 31, 20)12 Using:
	Carrying				
	Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	\$ 45,651	\$ 45,651	\$	\$	\$ 45,651
Securities available for sale	94,965		94,965		94,965
Securities held to maturity	23,511		11,569	13,055	24,624
Federal Home Loan Bank stock	6,281	N/A	N/A	N/A	N/A
Loans, net	551,383			564,059	564,059
Accrued interest receivable	2,057		283	1,774	2,057
Financial Liabilities:					
Danogita					
Deposits	655,064	139,526	517,680		657,206
Other borrowed funds	14,285	139,526	14,536		14,536
1		139,526 —	,		

Note M - Fair Value of Financial Instruments (continued)

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.

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.

<u>Federal Home Loan Bank and Federal Reserve Bank stock</u>: 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.

<u>Loans</u>: 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.

<u>Deposit Liabilities</u>: 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.

<u>Subordinated Debentures</u>: 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 N - Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes that as of December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they were subject.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. At year-end 2013 and 2012, the Bank's capital met the requirements for the Bank to be deemed well capitalized under the regulatory framework for prompt corrective action.

At year-end, consolidated actual capital levels and minimum required levels for the Company and the Bank were:

	Act	ual	Minimum F For Caj Adequacy F	oital	Minimum F To Be Capitalized Prompt Co Action Reg	Well l Under rrective
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2013						
Total capital (to risk weighted assets)						
Consolidated	\$ 93,504	16.8%	\$ 44,565	8.0%	\$ 55,706	N/A
Bank	83,057	15.2	43,731	8.0	54,664	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	87,349	15.7	22,283	4.0	33,424	N/A
Bank	77,230	14.1	21,866	4.0	32,798	6.0
Tier 1 capital (to average assets)						
Consolidated	87,349	11.7	29,918	4.0	37,397	N/A
Bank	77,230	10.5	29,410	4.0	36,762	5.0
2012						
Total capital (to risk weighted assets)						
Consolidated	\$ 93,158	17.2%	\$ 43,234	8.0%	\$ 54,043	N/A
Bank	84,267	15.9	42,506	8.0	53,132	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	86,401	16.0	21,617	4.0	32,426	N/A
Bank	77,690	14.6	21,253	4.0	31,879	6.0
Tier 1 capital (to average assets)						
Consolidated	86,401	10.9	31,571	4.0	39,464	N/A
Bank	77,690	10.0	31,010	4.0	38,763	5.0

Dividends paid by the subsidiaries are the primary source of funds available to Ohio Valley for payment of dividends to shareholders and for other working capital needs. The payment of dividends by the subsidiaries to Ohio Valley is subject to restrictions by regulatory authorities. These restrictions generally limit dividends to the current and prior two years retained earnings. At January 1, 2014 approximately \$3,268 of the subsidiaries' retained earnings were available for dividends under these guidelines. In addition to these restrictions, dividend payments cannot reduce regulatory capital levels below minimum regulatory guidelines. The Board of Governors of the Federal Reserve System also has a policy requiring Ohio Valley to provide notice to the FRB in advance of the payment of a dividend to Ohio Valley's shareholders under certain circumstances, and the FRB may disapprove of such dividend payment if the FRB determines the payment would be an unsafe or unsound practice.

Note O - Parent Company Only Condensed Financial Information

Below is condensed financial information of Ohio Valley. In this information, Ohio Valley's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries since acquisition. This information should be read in conjunction with the consolidated financial statements of the Company.

CONDENSED STATEMENTS OF CONDITION

Assets Cash and cash equivalents	\$ <u>\$</u>	Years end 2013 2,436 86,644 3,520 370 92,970	s	per 31: 2012 1,700 87,950 3,423 310 93,383		
Liabilities Notes payable	\$	3,529 8,500 522 12,551	\$ <u>\$</u>	3,526 13,500 537 17,563		
Shareholders' Equity Total shareholders' equity Total liabilities and shareholders' equity	\$	80,419 92,970	\$	75,820 93,383		
CONDENSED STATEMENTS OF INCOME			X 7	1.15	1 21	
Income:		2012	Years en	nded Decen	nber 31:	2011
Interest on notes	\$	2013 85	\$	2012 114	\$	2011 134
Other operating income	Ψ	68	Ψ	84	Ψ	65
Dividends from subsidiaries		8,500		4,500		3,500
Expenses:						
Interest on notes		86		114		134
Interest on subordinated debentures		265		789		1,089
Operating expenses		456		364		287
Income before income taxes					_	
and equity in undistributed earnings						
of subsidiaries		7,846		3,431		2,189
Income tax benefit		214		355		439
Equity in undistributed earnings						
of subsidiaries		52		3,266		3,207
Net Income	\$	8,112	\$	7,052	<u>\$</u>	5,835

Note O - Parent Company Only Condensed Financial Information (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31:		
Cash flows from operating activities:	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 8,112	\$ 7,052	\$ 5,835
Adjustments to reconcile net income			
to net cash provided by operating			
activities:			
Equity in undistributed earnings			
of subsidiaries	(52)	(3,266)	(3,207)
Common stock issued to ESOP	640	617	496
Change in other assets	(60)	96	(92)
Change in other liabilities	(15)	(21)	105
Net cash provided by operating activities	8,625	4,478	3,137
Cash flows from investing activities:			
Change in notes receivable	(97)	320	85
Net cash provided by (used in)			
investing activities	(97)	320	85
Cash flows from financing activities:			
Change in notes payable	3	(222)	(87)
Proceeds from common stock through			
dividend reinvestment	170	55	
Cash dividends paid	(2,965)	(4,393)	(3,360)
Repayment of subordinated debentures	(5,000)		
Net cash used in financing activities	(7,792)	(4,560)	(3,447)
Cash and cash equivalents:			
Change in cash and cash equivalents	736	238	(225)
Cash and cash equivalents at beginning			
of year	1,700	1,462	1,687
Cash and cash equivalents at			
end of year	\$ 2,436	\$ 1,700	\$ 1,462

Note P - Segment Information

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

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 90.5%, 91.2% and 91.8% of total consolidated revenues for the years ended December 31, 2013, 2012 and 2011, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note A - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Segment information is as follows:

Year Ended December 31, 2013

	Banking	Consumer Finance	Total Company
Net interest income	\$ 29,141	\$ 3,244	\$ 32,385
Provision expense	364	113	477
Noninterest income	7,711	807	8,518
Noninterest expense	26,914	2,461	29,375
Tax expense	2,440	499	2,939
Net income	7,134	978	8,112
Assets	732,905	14,463	747,368

Year Ended December 31, 2012

	Banking	Consumer Finance	Total Company
Net interest income	\$ 29,445	\$ 3,210	\$ 32,655
Provision expense	1,527	56	1,583
Noninterest income	7,734	749	8,483
Noninterest expense	27,384	2,357	29,741
Tax expense	2,240	522	2,762
Net income	6,028	1,024	7,052
Assets	754,490	14,733	769,223

Year Ended December 31, 2011

	Banking	Consumer Finance	Total Company
Net interest income	\$ 30,792	\$ 3,079	\$ 33,871
Provision expense	4,809	87	4,896
Noninterest income	6,327	895	7,222
Noninterest expense	26,130	2,169	28,299
Tax expense	1,483	580	2,063
Net income	4,697	1,138	5,835
Assets	789,744	14,433	804,177

Note Q - Consolidated Quarterly Financial Information (unaudited)

Ouarters	End	ed
----------	-----	----

2013	<u>N</u>	<u>Mar. 31</u>	<u>Jun. 30</u>	<u>,</u>	Sept. 30]	Dec. 31
Total interest income Total interest expense Net interest income Provision for loan losses ⁽¹⁾ Noninterest income Noninterest expense Net income	\$	9,480 1,059 8,421 31 3,940 7,948 3,223	\$ 8,764 923 7,841 (189) 1,965 7,317 1,942	\$	8,748 818 7,930 833 1,574 7,320 1,061	\$	8,966 773 8,193 (198) 1,039 6,790 1,886
Earnings per share	\$.79	\$.48	\$.26	\$.47
2012							
Total interest income Total interest expense Net interest income Provision for loan losses ⁽³⁾ Noninterest income ⁽²⁾ Noninterest expense Net income Earnings per share	\$	10,665 1,753 8,912 1,316 3,479 7,332 2,622	\$ 9,657 1,604 8,053 524 1,974 7,162 1,719	\$	9,405 1,538 7,867 1,183 1,674 6,957 1,107	\$	9,274 1,451 7,823 (1,440) 1,356 8,290 1,604
2011	Þ	.03	\$.43	\$.21	Ф	.40
Total interest income	\$	12,025 2,822 9,203 2,944 3,659 7,098 2,033	\$ 10,817 2,663 8,154 759 1,687 6,981 1,555	\$	10,693 2,509 8,184 1,152 1,058 7,001 886	\$	10,505 2,175 8,330 41 818 7,219 1,361
Earnings per share	\$.51	\$.39	\$.22	\$.34

⁽¹⁾ During most of 2013, the Company experienced minimal to negative provision expense as a result of lower general allocations of the allowance for loan losses. General allocations were impacted by improved economic trends that include: decreasing historical loan loss factor, lower delinquencies and lower classified/criticized assets.

⁽²⁾ The Company's noninterest income was significantly impacted by seasonal tax refund processing fees. The Bank serves as a facilitator for the clearing of tax refunds for a single tax software provider. The Bank processes electronic refund checks/deposits associated with taxpayer refunds, and will, in turn, receive a fee paid by the third-party tax software provider for each transaction processed. Due to the seasonal nature of tax refund transactions, the majority of income was recorded during the first quarter.

⁽³⁾ During the fourth quarter of 2012, the Company experienced a large recovery of \$1,250 on a previously charged-off commercial loan which lowered net charge-offs. The large decrease in net charge-offs contributed to a lower historical loan loss factor that created a lower level of general allocations within the allowance for loan losses.

⁽⁴⁾ During the first quarter of 2011, the Company began taking partial charge-offs more quickly on collateral dependent impaired loans as a result of management's evaluation of the trends in the real estate market, the status of long-term, collateral dependent impaired loans and the current regulatory environment. The increases in partial charge-offs contributed to a higher historical loan loss factor, which required additional general allocations within the allowance for loan losses.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders Ohio Valley Banc Corp.

We have audited the accompanying consolidated statements of condition of Ohio Valley Banc Corp. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the three-year period ended December 31, 2013. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Valley Banc Corp. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Ohio Valley Banc Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky March 17, 2014

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders Ohio Valley Banc Corp.

The management of Ohio Valley Banc Corp. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the consolidated financial statements is evaluated for effectiveness by management. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed Ohio Valley Banc Corp.'s system of internal control over financial reporting as of December 31, 2013, in relation to criteria for effective internal control over financial reporting as described in the 1992 "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of December 31, 2013, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework."

Crowe Horwath LLP, independent registered public accounting firm, has issued an audit report dated March 17, 2014 on the Company's internal control over financial reporting. That report is contained in Ohio Valley's Annual Report to Shareholders under the heading "Report of Independent Registered Public Accounting Firm."

Ohio Valley Banc Corp.

Aronacis & Wistern

Scott W. Shockey

Thomas E. Wiseman President, CEO

Scott W. Shockey Vice President, CFO

March 17, 2014

SUMMARY OF COMMON STOCK DATA

OHIO VALLEY BANC CORP. Years ended December 31, 2013 and 2012

<u>INFORMATION AS TO STOCK PRICES AND DIVIDENDS:</u> Ohio Valley's common shares are traded on The NASDAQ Stock Market under the symbol "OVBC." The following table summarizes the high and low sales prices for Ohio Valley's common shares on the NASDAQ Global Market for each quarterly period since January 1, 2012.

<u>2013</u>	<u>High</u>	Low
First Quarter	\$20.41	\$17.56
Second Quarter	22.39	18.51
Third Quarter	23.10	19.50
Fourth Quarter	22.77	20.00
<u>2012</u>	<u>High</u>	Low
2012 First Quarter	<u>High</u> \$19.90	<u>Low</u> \$17.07
First Quarter	\$19.90	\$17.07
First Quarter Second Quarter	\$19.90 20.56	\$17.07 17.75

Shown below is a table which reflects the dividends declared per share on Ohio Valley's common shares. As of February 28, 2014, the number of holders of record of common shares was 2,185.

Dividends per share	<u>2013</u>	<u>2012</u>
First Quarter	\$.10	\$.21
Second Quarter	.21	.25
Third Quarter	.21	.21
Fourth Quarter	.21	.42

Dividends paid by the subsidiaries are the primary source of funds available to Ohio Valley for payment of dividends to shareholders and for other working capital needs. The payment of dividends by the subsidiaries to Ohio Valley is subject to restrictions by regulatory authorities. These restrictions generally limit dividends to the amount of retained earnings for the current and prior two years.

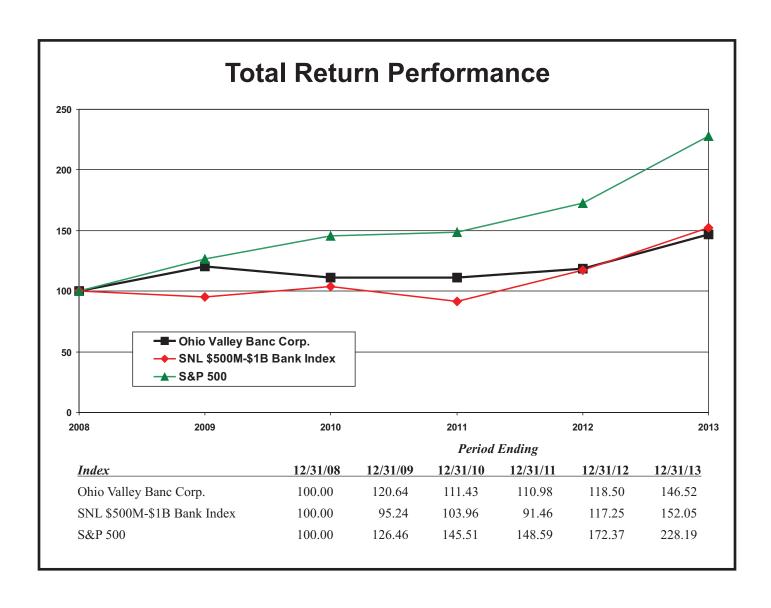
In addition, a policy of the Board of Governors of the Federal Reserve System requires Ohio Valley to provide notice to the FRB in advance of the payment of a dividend to Ohio Valley's shareholders under certain circumstances, and the FRB may disapprove of such dividend payment if the FRB determines the payment would be an unsafe or unsound practice.

Dividend restrictions are also listed within the provisions of Ohio Valley's trust preferred security arrangements. Under the provisions of these agreements, the interest payable on the trust preferred securities is deferrable for up to five years and any such deferral would not be considered a default. During any period of deferral, Ohio Valley would be precluded from declaring or paying dividends to its shareholders or repurchasing any of its common stock.

PERFORMANCE GRAPH

OHIO VALLEY BANC CORP. Year ended December 31, 2013

The following graph sets forth a comparison of five-year cumulative total returns among the Company's common shares (indicated "Ohio Valley Banc Corp." on the Performance Graph), the S & P 500 Index (indicated "S & P 500" on the Performance Graph), and SNL Securities SNL \$500 Million-\$1 Billion Bank Asset-Size Index (indicated "SNL" on the Performance Graph) for the fiscal years indicated. Information reflected on the graph assumes an investment of \$100 on December 31, 2008 in each of the common shares of the Company, the S & P 500 Index, and the SNL Index. Cumulative total return assumes reinvestment of dividends. The SNL Index represents stock performance of 69 of the nation's banks located throughout the United States with total assets between \$500 Million and \$1 Billion as selected by SNL Securities of Charlottesville, Virginia. The Company is included as one of the 69 banks in the SNL Index.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to provide an analysis of the financial condition and results of operations of Ohio Valley Banc Corp. ("Ohio Valley" or the "Company") that is not otherwise apparent from the audited consolidated financial statements included in this report. The accompanying consolidated financial information has been prepared by management in conformity with U.S. generally accepted accounting principles ("US GAAP") and is consistent with that reported in the consolidated financial statements. Reference should be made to those statements and the selected financial data presented elsewhere in this report for an understanding of the following tables and related discussion. All dollars are reported in thousands, except share and per share data.

RESULTS OF OPERATIONS:

SUMMARY

Ohio Valley generated net income of \$8,112 for 2013, an increase of 15.0% from 2012. Earnings per share were \$2.00 for 2013, an increase of 14.3% from 2012. The increase in net income and earnings per share for 2013 was primarily due to lower provision for loan loss expense, which was down \$1,106, or 69.9%, compared to 2012. The decrease in provision for loan loss expense was mostly due to lower net charge-offs and reduced general allocations of the allowance for loan losses when compared to 2012. The Company's net charge-offs during 2013 totaled \$1,227, a decrease of \$795, or 39.3%, compared to 2012, which helped to reduce the Company's net charge-offs to average loans from 0.35% at year-end 2012 to 0.22% at year-end 2013. Decreasing loan losses were largely related to less charge-offs of commercial and residential real estate loan balances during 2013 as compared to 2012. Lower provision expense during 2013 was also positively impacted by a 23.1% reduction in past due loans and a \$14,051 reduction in classified/criticized commercial loan balances as compared to 2012.

The Company's net income increase was also impacted by fewer costs associated with noninterest expenses, which decreased \$366, or 1.2%, during 2013 as compared to the previous year. The change can be attributed to lower FDIC insurance expense, as well as decreases in various other noninterest expense categories related to donations, advertising, legal fees, and a prepayment penalty associated with the extinguishment of above market Federal Home Loan Bank ("FHLB") advances recorded in 2012.

Further contributing to the Company's improved net income was noninterest income, which increased \$35, or 0.4%, during 2013 as compared to the previous year. Noninterest income was largely impacted by net life insurance proceeds, as well as increased transaction volume related to the Company's electronic refund check/deposit ("ERC/ERD") transaction 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 2013, ERC/ERD fees increased \$267, or 11.7%, 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 30 percent of the Company's noninterest income during 2013. Further contributing to revenue growth during 2013 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 \$263, or 15.5%, during 2013 as compared to 2012. Partially offsetting the increases within noninterest income was an increase in net losses associated with write-downs and sales of other real estate owned ("OREO"), which finished at \$692 during the year ended 2013, as compared to \$150 in net losses during the year ended 2012. Higher OREO losses in 2013 were the result of impairment charges recognized on one commercial real estate OREO property. This loss was the result of updated appraisal information received during the fourth quarter of 2013, which identified \$504 in additional asset impairment. Also impacting higher net losses in OREO was the liquidation of a commercial and industrial foreclosed property in the fourth quarter of 2013, which resulted in a loss on sale of \$156.

Partially offsetting the benefits from lower provision and noninterest expense and higher noninterest income was a reduction in net interest income, which decreased \$270, or 0.8%, as compared to 2012. Contributing to the overall decrease in net interest income were lower average earning assets, which decreased during 2013 by \$41,456, or 5.4%, as compared to 2012, largely from loans and interest-bearing balances with banks. The decline in average loan balances contributed most to lower net interest income and is reflective of the continued stagnant economic environment which has negatively impacted the amount of lending opportunities within the Company's market areas.

Ohio Valley generated net income of \$7,052 for 2012, an increase of 20.9% from 2011. Earnings per share were \$1.75 for 2012, an increase of 19.9% from 2011. The increase in net income and earnings per share for 2012 was primarily due to lower provision for loan loss expense, which was down \$3,313, or 67.7%, combined with higher noninterest income, which increased \$1,261, or 17.5%, compared to 2011. The decrease in provision for loan loss expense was due to lower net charge-offs, which were down \$4,916, or 70.9%, compared to 2011, due to increased charge-offs recognized during the first quarter of 2011 on select impaired loans. Furthermore, during the fourth quarter of 2012, the Company experienced a large recovery of \$1,250 on a commercial loan that had been previously charged off during the first quarter of 2011.

Further contributing to the Company's improved net income was noninterest income, which increased \$1,261, or 17.5%, during 2012 as compared to the previous year. Noninterest income was largely impacted by lower net losses associated with write-downs and sales of OREO, increased debit and credit card interchange income, and increased mortgage banking revenue. Net losses from sales and write-downs of OREO losses finished at \$150 during the year ended 2012, as compared to \$1,224 in losses during the year ended 2011. Higher OREO losses in 2011 were the result of impairment charges recognized on two commercial real estate OREO properties. These losses are the result of updated appraisal information received for both OREO properties, which identified \$1,266 in total asset impairment in 2011 and \$331 in 2012. The impairment charges were recorded as write-downs to the carrying values of both properties during 2011 and 2012.

Partially offsetting the benefits from lower provision expense and higher noninterest income was a reduction in net interest income, which decreased \$1,216, or 3.6%, as compared to 2011.

CONSOLIDATED AVERAGE BALANCE SHEET & ANALYSIS OF NET INTEREST INCOME

Table I (dollars in thousands)				D	ecember	: 31			
		2013		2012			2011		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets Interest-earning assets:									
Interest-bearing balances with banks	\$ 54,168 104,506 17,135 555,314	1,661 856	1.59 4.99	\$ 81,387 104,178 16,848 570,166	1,887 882	0.24% 1.81 5.24 6.40	\$ 67,947 102,740 14,997 625,603	\$ 163 2,043 849 41,414	0.24% 1.99 5.66 6.62
Total interest-earning assets	731,123	36,446	4.98%	772,579	39,458	5.11%	811,287	44,469	5.48%
Noninterest-earning assets: Cash and due from banks Other nonearning assets Allowance for loan losses Total noninterest- earning assets	9,460 45,580 (7,050) 47,990			10,777 47,249 (8,032) 49,994			9,855 44,957 (8,082) 46,730		
Total assets	<u>\$ 779,113</u>			\$ 822,573			\$ 858,017		
Liabilities and Shareholders' Equity Interest-bearing liabilities: NOW accounts	\$ 112,356 197,815 185,381 17,197 <u>9,375</u> 522,124	\$ 473 420 2,024 391 <u>265</u> 3,573	1.09 2.27 <u>2.83</u>	\$ 109,206 203,000 228,917 20,038 13,500 574,661	597 3,353 493	1.02% 0.29 1.46 2.46 <u>5.85</u> 1.11%	\$ 104,937 196,312 281,864 43,475 13,500 640,088	\$ 1,393 1,317 5,726 644 1,089 10,169	1.33% 0.67 2.03 1.48 <u>8.07</u> 1.59%
Noninterest-bearing liabilities: Demand deposit accounts Other liabilities Total noninterest-bearing liabilities	168,509 10,491 179,000			163,988 9,893 173,881			137,823 10,240 148,063		
Shareholders' equity	77,989			74,031			69,866		
Total liabilities and shareholders' equity	<u>\$ 779,113</u>			\$ 822,573			\$ 858,017		
Net interest earnings Net interest earnings as a percent of interest-earning assets Net interest rate spread Average interest-bearing		<u>\$ 32,873</u>	4.50% 4.30%		<u>\$ 33,112</u>	4.29% 4.00%		\$ 34,300	4.23% 3.89%
liabilities to average earning assets			<u>71.41%</u>			<u>74.38%</u>			<u>78.90%</u>

Fully taxable equivalent yields are calculated assuming a 34% tax rate, net of nondeductible interest expense. Average balances are computed on an average daily basis. The average balance for available for sale securities includes the market value adjustment. However, the calculated yield is based on the securities' amortized cost. Average loan balances include nonaccruing loans. Loan income includes cash received on nonaccruing loans.

Contributing to the overall decrease in net interest income were lower average earning assets, which decreased during 2012 by \$38,708, or 4.8%, as compared to 2011, largely from loans. Also contributing to lower net interest income was the elimination of the Bank's refund anticipation loan ("RAL") product. After the 2011 tax season, the Bank ceased offering RALs as recommended by the FDIC and, as a result, did not record any RAL fee income during 2012, as compared to \$561 in RAL fees during 2011. Loan Central continues to provide RALs to customers. RAL volumes at Loan Central remained at comparable levels in 2012 as compared to 2011. The sustained low-rate environment continues to have an impact in lowering funding costs, as well as causing management to emphasize growing lower-costing, core deposit relationship balances. However, the Company's deposit accounts are perceived to be at, or near, their interest rate floors, which have limited the pace at which funding cost savings can be fully recognized. Along with lower average earning assets, reduction of RAL fees, combined with the reduction in the Company's interest expense, the Company's net interest income reduced to \$32,655 for the year ended 2012 compared to \$33,871 for the year ended 2011.

Also partially offsetting net revenue growth in 2012 were increases in salaries and employee benefits, which increased \$768, or 4.6%, during 2012, as compared to 2011, in large part due to higher healthcare and retirement benefit costs, as well as annual merit increases. The Company also recognized during 2012 a combined year-to-date increase of \$917 in various other noninterest expense categories related to donations, advertising, customer incentives on debit and credit card usage, and a prepayment penalty associated with the extinguishment of above market FHLB advances.

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. Changes in net interest income are measured by net interest margin and net interest spread. Net interest margin is expressed as net interest income divided by average interest-earning assets. Net interest spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Both of these are reported on a fully tax-equivalent ("FTE") basis. Net interest margin is greater than net interest spread due to the interest earned on interest-earning assets funded from noninterestbearing funding sources, primarily demand deposits and shareholders' equity. Following is a discussion of changes in interest-earning assets, interest-bearing liabilities and the associated impact on interest income and interest expense for the three years ended December 31, 2013. Tables I and II have been prepared to summarize the significant changes outlined in this analysis.

Net interest income on an FTE basis decreased \$239 in 2013, or 0.7%, compared to the \$33,112 earned in 2012. The decrease in net interest income was mainly due to a decline in average earning

assets. For the year ended December 31, 2013, average earning assets decreased \$41,456, or 5.4%, from 2012, which occurred primarily in loans and interest-bearing balances with banks. A portion of the decline in average loan balances was due to a targeted reduction in certain underperforming loans and loans with less than desirable interest rate characteristics, such as fixed-rate mortgages. Yet, as average earning assets lagged behind the prior year, the Company was able to maintain a stronger net interest margin over 2012. At December 31, 2013, the Company's FTE net interest margin increased 21 basis points from 4.29% in 2012 to 4.50% in 2013. This result was mainly due to lower rates paid on interestbearing deposits and a continued change in deposit mix to lowercost core deposits from certificates of deposit ("CD") accounts and FHLB borrowings. The Federal Reserve continues to hold the prime interest rate at 3.25%, and the target federal funds rate remains at a range from 0.0% to 0.25%. The sustained low shortterm rates have continued to impact the repricings of various Bank deposit products, including public fund NOW, Gold Club and Market Watch accounts. Interest rates on CD balances continue to reprice to lower rates, which continues to lower funding costs. Management continues to emphasize its lower-cost core deposit relationship balances, which consist of noninterest-bearing demand accounts and interest-bearing NOW, savings and money market balances. As a result, the Company benefited from higher core deposit average balances in 2013 (increasing \$2,486) while experiencing a lower level of higher-cost time deposit, other borrowed money and subordinated debenture balances (decreasing \$50,502).

Net interest income on an FTE basis decreased \$1,188 in 2012, or 3.5%, compared to the \$34,300 earned in 2011. The decrease in net interest income was mainly due to a decline in average earning assets. For the year ended December 31, 2012, average earning assets decreased \$38,708, or 4.8%, from 2011, which occurred primarily in loans. As in 2013, the decline in average loan balances during 2012 was due to a targeted reduction in certain underperforming loans and loans with less than desirable interest rate characteristics, such as fixed-rate mortgages. Yet, as average earning assets lagged behind the prior year, the Company was able to maintain a stronger net interest margin over 2011. At December 31, 2012, the Company's FTE net interest margin increased 6 basis points from 4.23% in 2011 to 4.29% in 2012. This result was mainly due to lower rates paid on interest-bearing deposits and a continued change in deposit mix to lower-cost core deposits from CD accounts and FHLB borrowings. The Federal Reserve continued to hold the prime interest rate at 3.25%, and the target federal funds rate remained at a range from 0.0% to 0.25%. The sustained low short-term rates continued to impact the repricings of various Bank deposit products, including public fund NOW, Gold Club and Market Watch accounts. Interest rates on CD balances continued to reprice to lower rates, which continued to lower funding costs. Management continued to emphasize lowercost core deposit relationship balances which contributed to higher average demand, NOW, savings and money market balances in 2012 (increasing \$37,122) while experiencing a lower level of higher-cost time deposit, other borrowed money and subordinated debenture balances (decreasing \$76,384).

For 2013, average earning assets decreased \$41,456, or 5.4%, as compared to a decrease of \$38,708, or 4.8%, in 2012. Contributing most to the continued decreases were the Company's average loans, which decreased \$14,852, or 2.6%, during 2013 and

RATE VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME & EXPENSE

Table II				2013					2	012		
(dollars in thousands)	Increase (Decrease) From Previous Year Due to							Increase (Decrease) From Previous Year Due to				
		Volume		Yield/Rate		Total		Volume	Y	ield/Rate		Total
Interest income												
Interest-bearing balances												
with banks	\$	(67)	\$	7	\$	(60)	\$	32	\$		\$	32
Securities:												
Taxable		6		(232)		(226)		29		(185)		(156)
Tax exempt		15		(41)		(26)		100		(67)		33
Loans		(935)		(1,765)		(2,700)		(3,581)		(1,339)		(4,920)
Total interest income		(981)		(2,031)		(3,012)	_	(3,420)		(1,591)		(5,011)
Interest expense												
NOW accounts		31		(672)		(641)		55		(334)		(279)
Savings and money market		(15)		(162)		(177)		43		(763)		(720)
Time deposits		(568)		(761)		(1,329)		(955)		(1,418)		(2,373)
Other borrowed money		(66)		(36)		(102)		(450)		299		(151)
Subordinated debentures		(195)		(329)		(524)	_			(300)		(300)
Total interest expense		(813)	_	(1,960)		(2,773)	_	(1,307)		(2,516)		(3,823)
Net interest earnings	\$	(168)	\$	(71)	\$	(239)	\$	(2,113)	\$	925	\$	(1,188)

The change in interest due to volume and rate is determined as follows: Volume Variance - change in volume multiplied by the previous year's rate; Yield/Rate Variance - change in rate multiplied by the previous year's volume; Total Variance - change in volume multiplied by the change in rate. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. Fully taxable equivalent yield assumes a 34% tax rate, net of related nondeductible interest expense.

\$55,437, or 8.9%, during 2012. Average loans continue to be the Company's highest portion of earning assets. Yet, the Company's market area for lending continues to be limited due to economic pressures that have negatively impacted consumer and commercial spending. However, improvements were realized in 2013 within the Company's lending activity leading to higher loan volume, particularly within commercial loans, which also contributed to a higher composition of average loans to average earning assets at year-end 2013 as compared to 2012. The Company experienced a significant decrease in commercial loan losses and payoffs combined with increases in new originations during 2013, which allowed for more normalization within its average commercial loan portfolio when compared to 2012. This limited the degree of decrease within the Company's average loan balances to 2.6% in 2013, as compared to an average loan decrease of 8.9% in 2012. In addition, the Company's average loans as a percentage of average earnings assets increased to 76.0% at year-end 2013, as compared to 73.8% at year-end 2012. This was largely affected by 2013's commercial loan improvements, as well as an earning asset composition shift in less interest-bearing balances with banks, which decreased \$27,219, or 33.4%, during 2013. This was mostly from less average balances associated with the lower-yielding Federal Reserve Bank clearing account. During 2012, the \$55,437 decrease in average loans was mostly affected by the commercial loan portfolio, which had experienced significant charge-offs of

underperforming commercial loans, as well as large payoffs of various commercial loans. During 2012, the average installment loan portfolio decreased primarily from auto loan balances, where competition for loan growth continues to be challenged by other financial institutions and captive finance companies. Decreases in the average residential real estate loan portfolio during 2012 were largely the result of management's strategy to sell the majority of its long-term, fixed-rate real estate loans to the secondary market in order to manage the risk of rising interest rates in the future. As a result, average loans as a percentage of average earning assets decreased to 73.8% for 2012, as compared to 77.1% for 2011.

The Company's average assets during 2013 and 2012 were also affected by changes in its average interest-bearing balances with banks. As previously mentioned, the Company experienced a decrease in average interest-bearing balances with banks during 2013, which lowered by \$27,219, or 33.4%, from year-end 2012. Conversely, at year-end 2012, average interest-bearing balances with banks increased \$13,440, or 19.8%, from year-end 2011. These balances are driven primarily by the Company's use of its Federal Reserve Bank clearing account. In 2012, the trend of larger interest-bearing balances with banks was primarily due to seasonal excess funds that resulted from the clearing of tax refund checks and deposits. These ERC/ERD deposits occurred primarily during the first half of 2012 and 2011 and are the result of the Company's relationship with a third-party tax software provider.

SECURITIES	MATURING								
Table III		With		After Or		After Fi		A C . T	3.7
As of December 31, 2013		One Y		Within Fi		Within Te		After Ter	
(dollars in thousands)	Am	<u>ount</u>	<u>Yield</u>	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government sponsored									
entity securities	\$			\$ 8,852	0.79%	\$		\$ —	
Obligations of states and political									
subdivisions				7,375	6.08%	9,616	4.33%	5,981	6.22%
Agency mortgage-backed securities,									
residential		2	5.50%	_70,721	3.27%	4,505	2.00%		
Total securities	\$	2	5.50%	<u>\$ 86,948</u>	3.25%	<u>\$ 14,121</u>	3.59%	\$ 5,981	6.22%

Tax-equivalent adjustments have been made in calculating yields on obligations of states and political subdivisions using a 34% rate. Weighted average yields are calculated on the basis of the cost and effective yields weighted for the scheduled maturity of each security. Mortgage-backed securities, which have prepayment provisions, are assigned to a maturity category based on estimated average lives. Securities are shown at their fair values, which include the market value adjustments for available for sale securities.

The Company acts as the facilitator for these ERC/ERD transactions and earns a fee for each cleared item. For the short time the Company holds such refunds, constituting noninterestbearing deposits, the Company increases its deposits with the Federal Reserve. This causes the interest-bearing balances with banks to represent a large percentage of earning assets during the time the Company holds the refunds, although such balances decrease at year-end. For the year ended December 31, 2012, average interest-bearing balances with banks totaled 10.5% of average earning assets, as compared to 8.4% for 2011. However, during 2013, as loan volume began to improve and excess deposits continued to decline, the Company utilized more of its short-term Federal Reserve funds to satisfy loan demand and fund increased maturities of time deposits. As a result, average interest-bearing balances with banks totaled 7.4% of average earning assets in 2013, down from 10.5% of average earning assets in 2012.

The Company's average investment securities, both taxable and tax exempt, continued to increase during 2013, with its percentage of earning assets averaging 16.6% for the year, compared to 15.7% for 2012 and 14.5% for 2011.

Management continues to focus on generating loan growth as this portion of earning assets provides the greatest return to the Company. Although loans make up the largest percentage of earning assets, management is comfortable with the current level of loans based on collateral values, the balance of the allowance for loan losses, strict underwriting standards and the Company's well-capitalized status. Management maintains securities at a dollar level adequate enough to provide ample liquidity and cover pledging requirements.

Average interest-bearing liabilities decreased 9.1% between 2012 and 2013, and decreased 10.2% between 2011 and 2012, largely due to decreasing time deposits, other borrowings and subordinated debentures. The fluctuations of interest-bearing deposits since 2011 are in large part due to the Company's preference of core deposit relationship balances over higher-costing time deposits and other borrowing liabilities, which have changed the funding composition mix during this time. Interest-bearing liabilities continue to be comprised largely of time deposits, which represented 35.5% of total interest-bearing liabilities in 2013. This composition mix, however, has decreased

the most since 2011, which represented 39.8% and 44.0% of average interest-bearing liabilities in 2012 and 2011, respectively. As interest rates on time deposits have continued to readjust to current market rates in 2013, competitive pricing pressures have grown, contributing to a significant maturity runoff of CD's during 2013 and 2012. In addition, the Company's other borrowings and subordinated debentures lowered to 5.1% of average interest-bearing liabilities in 2013, as compared to 5.8% in 2012 and 8.9% in 2011, collectively.

The Company's core deposit segment of interest-bearing liabilities, which include NOW and savings and money market accounts, together represented 59.4% of average interest-bearing liabilities in 2013, as compared to 54.3% in 2012 and 47.1% in 2011. This composition increase has particularly occurred in the Company's statement savings and Market Watch products. 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, which has caused the average statement savings product to grow. 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. The Company has experienced general decreases in its Market Watch balances since last year as interest rates have adjusted down to current market rates.

The overall composition shift from 2011 to 2013 with higher demand, NOW, savings and money market balances and lower time deposits, other borrowed money and subordinated debentures has served as a cost effective contribution to the net interest margin. The average cost of the "growing" interest-bearing NOW, savings and money market account core segment was 0.29%, 0.55% and 0.90% during the years ended 2013, 2012 and 2011, respectively. The higher average cost of the time deposit, other borrowed money and subordinated debenture segments was 1.26%, 1.77% and 2.20% during the years ended 2013, 2012 and 2011, respectively.

The net interest margin increased to 4.50% in 2013 from 4.29% in 2012 and 4.23% in 2011. The 21 basis point and 6 basis point improvement in 2013 and 2012 was largely the result of an improved net interest rate spread. During 2013, the net interest rate spread increased 30 basis points to 4.30%, resulting from the decrease in average cost of interest-bearing liabilities of 43 basis points from 1.11% to 0.68%, which exceeded the decrease in average yield on interest-earning assets of 13 basis points from 5.11% to 4.98%. Partially offsetting the net interest rate spread increase in 2013 was a 9 basis point decrease in contributions from interest-free funds (i.e., demand deposits, shareholders' equity), which lowered from 0.29% in 2012 to 0.20% in 2013. During 2012, the net interest rate spread increased 11 basis points to 4.00%, resulting from the greater decrease in average cost of interest-bearing liabilities of 48 basis points from 1.59% to 1.11%, as compared to the decrease in average yield on interest-earning assets of 37 basis points from 5.48% to 5.11%. Partially offsetting the net interest rate spread increase in 2012 was a 5 basis point decrease in contributions from interest-free funds (i.e., demand deposits, shareholders' equity), which lowered from 0.34% in 2011 to 0.29% in 2012.

Lower asset yields and decreases in average earning loans caused interest income on an FTE basis to decrease \$3,012, or 7.6%, during 2013, and \$5,011, or 11.3%, during 2012. Lower asset yields were mostly impacted by yields on loans decreasing 31 basis points from 2012 to 2013 and 22 basis points from 2011 to 2012 caused by the extended low interest rate environment the Federal Reserve has been maintaining since it began reducing The Company's commercial, short-term rates in 2008. participation and real estate loan portfolios have been most sensitive to these decreases in short-term interest rates since that time, particularly the prime interest rate, which remained at 3.25% at year-end 2013. Asset yields during 2013, 2012 and 2011 were also impacted by the average balance changes in the Company's interest-bearing Federal Reserve Bank clearing account. The Company continues to invest the majority of its excess funds into its interest-bearing Federal Reserve Bank clearing account, which yields just 0.25%. The intention for these short-term Federal Reserve Bank balances that were not related to tax refund clearing items or other seasonal deposits was to re-invest them into future loan growth or longer-term securities with higher interest rate yields to improve the net interest margin. During 2013, the Company utilized more of its Federal Reserve Bank clearing deposits to fund higher-yielding assets and maturities of highercosting time deposits. This contributed most to the decrease in average interest-bearing balances with banks for 2013 but had a positive impact to asset yields and net interest margin due to the Federal Reserve Bank clearing balances yielding just 25 basis points. Conversely in 2012, the Federal Reserve Bank clearing balances increased from 2011 due to higher excess funds from continued loan payoffs and paydowns, as well as an increased volume of short-term tax refund deposits. These increases in Federal Reserve Bank balances contributed most to the Company's growth in average interest-bearing balances with banks during 2012, but also contributed to the decrease in earning asset yields, with the majority of this growth yielding just 0.25%.

The decrease in interest and fee income came largely from the residential real estate loan portfolio. Management continues to sell a portion of its long-term, fixed-rate real estate loans to the secondary market, while retaining the servicing rights to these

loans. As previously discussed, the Federal Reserve continues to maintain interest rates at their low levels, which has impacted the long-term interest rates that affect mortgage loan pricing. The lower rates have contributed to a consumer demand for mortgage loan refinancing to help lower their monthly costs. The interest rate risks associated with satisfying this demand for long-term fixed-rate mortgages has prompted management to sell a portion of these real estate loans to the secondary market, while retaining the servicing rights. This action continues to generate loan sale and servicing fee revenue within noninterest income, but has contributed to a \$1,173, or 8.6%, decrease in real estate interest and fee income during the year ended 2013, as compared to 2012, and a \$1,201, or 8.1%, decrease during the year ended 2012, as compared to 2011.

Further contributing to lower interest income during 2013 and 2012 were decreases in average balances within the commercial loan portfolio, primarily from significant charge-offs of underperforming commercial loans, as well as large payoffs of various commercial loans during the first half of 2012. These lower loan balances have contributed to a \$927, or 7.1%, decrease in commercial interest and fee revenue during the year ended 2013, as compared to 2012, and a \$2,202, or 14.3%, decrease during the year ended 2012, as compared to 2011.

The Company's consumer loan interest and fee income also decreased \$637, or 6.6%, during the year ended 2013 compared to 2012, and \$1,517, or 13.5%, during the year ended 2012 compared to 2011. Contributing to the decrease in both 2013 and 2012 were lower consumer loan average balances, primarily from auto loan balances, where competition for loan demand continues to be challenged by other financial institutions and captive finance companies. Further impacting the decrease of 2012 was the reduction of tax refund anticipation loan fees during the year ended 2012. The Company's participation with a third-party tax software provider had given the Bank the opportunity to make RALs during the tax refund loan season, typically from January through March. During the year ended 2011, the Company had recognized \$561 in RAL fees. In response to the FDIC's expressions of concern about RALs, the Bank decided to discontinue offering RALs after April 19, 2011. As a result, the Bank did not originate RAL loans during the year ended 2012. The FDIC's concern and recommendation does not affect the Bank's offering of other tax refund products, such as ERC's and ERD's. Furthermore, the FDIC's recommendation does not affect the offerings of RALs by Loan Central, which has remained comparable from 2011 to 2013.

In relation to lower earning asset yields, the Company's interest-bearing liability costs also decreased 43 basis points during 2013 and 48 basis points during 2012. The lower costs have caused interest expense to drop \$2,773, or 43.7%, from 2012 to 2013 and \$3,823, or 37.6%, from 2011 to 2012 as a result of lower rates paid on interest-bearing liabilities. The Federal Reserve continues to hold the prime interest rate at 3.25%, and the target federal funds rate remains at a range from 0.0% to 0.25%. sustained low short-term rates have continued to impact the repricings of various Bank deposit products, including public fund NOW, Gold Club and Market Watch accounts. However, contributing most to the decrease in funding costs were interest rates on time deposit balances, which continued to reprice at lower rates during 2013 and 2012 (as a continued lagging effect to the Federal Reserve action to drop short-term interest rates). The yearto-date weighted average costs of the Company's time deposits

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Table IV **Years Ended December 31** (dollars in thousands) 2013 2012 2011 2010 2009 Commercial loans⁽¹⁾ \$ 4,729 \$ 4,112 \$ 4,129 \$ 6,936 \$ 5,777 Percentage of loans to total loans 41.60% 42.22% 44.16% 43.96% 42.68% Residential real estate loans 1,329 1,860 993 822 1,250 Percentage of loans to total loans 37.79% 40.49% 39.86% 36.94% 37.30% Consumer loans⁽²⁾ 847 1,355 1,599 793 1,457 17.91% 17.92% 20.02% Percentage of loans to total loans 18.05% 19.10% \$ 6,155 \$ 6,905 \$ 7,344 \$ 9,386 \$ 8,198 Allowance for loan losses 100.00% 100.00% 100.00% 100.00% 100.00% Ratio of net charge-offs .35% 1.11% .44% to average loans22% .72%

The above allocation is based on estimates and subjective judgments and is not necessarily indicative of the specific amounts or loan categories in which losses may ultimately occur.

SUMMARY OF NONPERFORMING AND PAST DUE LOANS Table V

(dollars in thousands)	At December 31								
	2013	2012	2011	2010	2009				
Impaired loans\$	14,696	\$ 17,401	\$ 11,572	\$ 23,106	\$ 27,644				
Past due 90 days or more and still accruing	78	359	459	1,714	1,639				
Nonaccrual	3,580	3,626	2,678	3,295	3,619				
Accruing loans past due 90 days or more to									
total loans	.02%	.06%	.08%	.27%	.25%				
Nonaccrual loans as a % of total loans	.63%	.65%	.45%	.51%	.56%				
Impaired loans as a % of total loans	2.60%	3.12%	1.93%	3.60%	4.24%				
Allowance for loan losses as a %									
of total loans	1.09%	1.24%	1.23%	1.46%	1.26%				

The impaired loan disclosures are comparable to the nonperforming loan disclosures except that the impaired loan disclosures do not include single family residential or consumer loans which are analyzed in the aggregate for loan impairment purposes.

Management formally considers placing a loan on nonaccrual status when collection of principal or interest has become doubtful. Furthermore, a loan should not be returned to the accrual status unless either all delinquent principal or interest has been brought current or the loan becomes well secured and is in the process of collection.

⁽¹⁾ Includes commercial and industrial and commercial real estate loans.

⁽²⁾Includes automobile, home equity and other consumer loans.

MATURITY AND REPRICING DATA OF LOANS

As of December 31, 2013	MATURING / REPRICING								
Table VI (dollars in thousands)	Within One Year	After One but Within Five Years	After Five Years	<u>Total</u>					
Residential real estate loans Commercial loans ⁽¹⁾ Consumer loans ⁽²⁾ Total loans.	\$ 32,486 127,673 35,694 \$ 195,853	\$ 72,003 96,680 47,592 \$ 216,275	\$ 109,519 25,678 18,994 \$ 154,191	5 214,008 250,031 102,280 5 566,319					
Loans maturing or repricing after one year with: Variable interest rates Fixed interest rates Total									

⁽¹⁾ Includes commercial and industrial and commercial real estate loans.

have decreased from 2.03% at year-end 2011 to 1.46% at year-end 2012 and 1.09% at year-end 2013.

Further contributing to lower interest-bearing deposit expense has been the Company's continued emphasis on growing core deposits during 2013 and 2012. The Company continues to experience a deposit composition shift from a higher level of average time deposits to an increasing level of average core deposit balances in demand, NOW, savings and money market balances. During 2013, the Company's average time deposit balances, with a weighted average cost of 1.09%, decreased \$43,536, as compared to the average time deposit balances during 2012. compared to a much smaller average balance decrease of \$2,035 in the Company's lower costing, interest-bearing core deposit balances, with a weighted average cost of 0.29% during 2013, as compared to 2011. As a result of decreases in the average market interest rates mentioned above and the deposit composition shift to lower-costing, interest-bearing deposit balances, the Company's total weighted average funding costs have decreased to 0.68% at year-end 2013 as compared to 1.11% at year-end 2012 and 1.59% at year-end 2011.

Further impacting lower funding costs were decreases in interest expense incurred on the Company's subordinated debentures during the year ended 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 continued to decline. As a result, interest expense on subordinated debentures decreased \$524, or 66.4%, during the year ended 2013 compared to 2012.

The Company has experienced margin improvement during both 2013 and 2012 due to a lower deposit mix of higher-costing time deposit, borrowing and subordinated debenture balances while also benefiting from a sustained low interest rate environment. However, the pace of improvement increased in 2013, as the net interest margin increased 21 basis points as compared to a 6 basis point improvement in 2012. The larger pace of improvement in 2013 was primarily from the average balance

decreases in higher-costing time deposits, the \$5,000 redemption of 10.6% interest-bearing subordinated debentures and the lower average balances being carried at the Federal Reserve yielding just 0.25%. This, combined with improved average loan balances during the second half of 2013, helped to facilitate net interest margin growth during 2013.

The Company will continue to focus growing the average loan portfolio and re-deploying the Federal Reserve balances earning 0.25% into higher yielding instruments as opportunities arise. 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 face pressure on its net interest income and margin improvement if loan balances do not continue 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 "Interest Rate Sensitivity and Liquidity" and "Table VIII" within this Management's Discussion and Analysis.

PROVISION EXPENSE

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. Provision for loan loss 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.

The Company's provision expense decreased during 2013 by \$1,106, or 69.9%, as compared to 2012. The impact to provision expense during 2013 is largely related to the changes in net charge-offs, as well as changes in both specific and general allocations of the allowance for loan losses. During 2013, the Company's net charge-offs totaled \$1,227, a decrease of \$795, or 39.3%, from the \$2,022 in net charge-offs recognized during 2012. Net charge-offs

⁽²⁾ Includes automobile, home equity and other consumer loans.

within commercial and residential real estate loans decreased by \$2,636, or 92.8%, during the year ended 2013 compared to 2012. This decrease was largely due to the partial charge-offs of \$1,529 on various residential real estate and commercial real estate loans during the first quarter of 2012. 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 As a result, the partial charge-offs required corresponding impairment charges of \$1,173 to provision expense due to the continued deterioration of collateral values. Partially offsetting the decrease in commercial and residential real estate net charge-offs was a \$1,952 decrease in recoveries of commercial and industrial loans from 2012 to 2013. This was primarily due to the successful recovery of \$1,250 during the fourth quarter of 2012 of a previously charged-off commercial and industrial loan. The recovery had a direct effect in decreasing net charge-offs and lowering provision expense during 2012.

Further lowering provision expense was a decrease in the Company's general allocations of the allowance for loan losses during 2013, related primarily to lower loan losses. Company's general allocation evaluates, among other things, the average historical loan losses over the previous 36 months. In 2013, the historical loan loss factor decreased as compared to 2012 as net charge-offs have continued to decline. Furthermore, the general allocation also evaluates other factors, such as economic risk, asset quality, and changes in classified and criticized assets. The improving trends of lower unemployment rates, decreasing loan losses and lower classified and criticized asset balances from 2012 have also continued to place less pressure on the general allocations of the allowance for loans losses during 2013. In addition, the ratio of nonperforming loans to total loans decreased to 0.65% at December 31, 2013 compared to 0.71% at December 31, 2012, supporting the Company's efforts in improving asset quality and strengthening the balance sheet. As a result, the Company's general allocation of the allowance for loan losses decreased \$1,268 from \$4,798 at December 31, 2012 to \$3,530 at December 31, 2013, which contributed to lower provision expense during the year ended December 31, 2013.

Partially offsetting the benefits of lower net charge-offs and lower general allocations was an increase in the Company's specific allocations. The portion of allowance for loan losses that was specifically allocated to loans that were individually evaluated for impairment totaled \$2,625 at December 31, 2013, increasing from \$2,107 at December 31, 2012. The increase in specific allocations was largely related to an asset impairment of \$878 recorded in the second quarter of 2013 on a commercial and industrial loan relationship classified as impaired. This impairment charge was based on collateral values and required a corresponding increase to provision for loan losses expense.

During 2012, the Company's provision expense decreased by \$3,313, or 67.7%, as compared to 2011. The impact to provision expense during 2012 was largely related to the changes in net charge-offs, as well as changes in both specific and general allocations of the allowance for loan losses. During 2012, the Company's net charge-offs totaled \$2,022, a decrease of \$4,916, or 70.9%, from the \$6,938 in net charge-offs recognized during 2011. This was largely due to the partial charge-offs of various commercial and residential real estate loans classified as impaired

and loans classified as troubled debt restructurings ("TDR's") during the first two quarters of 2011. Management believed these charge-offs of collateral dependent loans were necessary given the status of the economy and the customers' continued financial weakness. The largest of these charge-offs occurred during the first quarter of 2011, when the Company partially charged off \$3,839 on two commercial loans classified as TDRs from one relationship due to a continued deterioration in collateral values. Of this partially charged-off amount, a specific allocation of approximately \$2,906 already had been reserved in the allowance for loan losses from prior impairment analysis. Additional analysis of the loans' collateral values revealed a \$933 impairment that required a corresponding increase to provision expense that was used to absorb part of the \$3,839 write-down during the first quarter of 2011. However, during the fourth quarter of 2012, the Company was successful in recovering approximately \$1,250 from these previously charged-off commercial loan balances. The recovery had a direct effect in decreasing net charge-offs and lowering provision expense during 2012 as compared to 2011.

As a result of the previously mentioned impaired and TDR loan charge-offs during the first and second quarters of 2011, the Company's historical loan loss factors decreased during 2012. This caused the Company's general allocations in the Company's allowance for loan losses to decrease by \$1,891, or 28.3%, from year-end 2011, which contributed to lower provision expense during the year ended December 31, 2012.

Partially offsetting the benefits of lower net charge-offs and lower general allocations during 2012 was an increase in the Company's specific allocations from \$655 at December 31, 2011 to \$2,107 at December 31, 2012. The increase in specific allocations in 2012 was largely related to an asset impairment of \$1,979 on one commercial real estate loan classified as a TDR. The Company continues to monitor and make loan modifications to certain TDR loans that will ease payment performance pressures off of the borrower. For TDR loans that have had existing loan terms modified, an impairment analysis would be measured by comparing the present value of expected future cash flows discounted at the loan's effective interest rate to the cash flows based on the original contractual terms of the loan or based upon an evaluation of collateral. The difference between the two measurements results in an impairment charge. Any impairment deficiency resulting from either analysis method would require a specific allocation of the allowance for loan losses and a corresponding increase to provision for loan losses expense. The impairment charge of \$1,979 on the previously mentioned commercial real estate TDR loan was based on collateral values and required a corresponding increase to provision for loan losses expense.

Management believes that the allowance for loan losses was adequate at December 31, 2013 to absorb probable losses in the portfolio. The allowance for loan losses was 1.09% of total loans at December 31, 2013, as compared to 1.24% at December 31, 2012 and 1.23% at December 31, 2011. 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

Total noninterest income increased \$35, or 0.4%, in 2013 as compared to 2012. Contributing most to the 2013 growth in noninterest income were increases in bank owned life insurance income, tax refund processing fees and debit/credit card interchange income, partially offset by higher losses related to the sale and write-downs of foreclosed OREO property.

The successful growth 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 an increase of \$394, or 50.4%, in BOLI income during the year ended 2013, as compared to 2012. As a result of net BOLI proceeds being exempt from tax, the Company's effective tax rate decreased from 28.1% at December 31, 2012 to 26.6% at December 31, 2013.

The successful growth in noninterest revenue was also impacted by increased seasonal tax refund processing fees classified as ERC/ERD fees. During the year ended 2013, the Company's ERC/ERD fees increased by \$267, or 11.7%, as 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 2013. Management continues to be pleased with the significant contribution this revenue source made, accounting for 30.0% of total noninterest income at year-end 2013. As a result of ERC/ERD fee activity being mostly seasonal, the majority of income was recorded during the first half of 2013.

The Company also experienced noninterest income growth from its debit and credit interchange income, which increased \$263, or 15.5%, during the year ended 2013 as compared to 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 an increase in net losses on OREO properties, which were up \$542, or 361.3%, during the year ended 2013, as compared to 2012. Higher net losses on OREO were impacted mostly by multiple impairment charges taken on one commercial real estate property in 2013 and 2012. These losses were derived from a re-evaluation of the carrying values of this OREO property during the fourth quarters of 2013 and 2012. The result was a \$504 impairment charge that was recorded in 2013, as compared to a \$252 impairment charge recorded in 2012. The impairment charges recognized during 2012 and 2013 were recorded as writedowns to the carrying value of the commercial real estate property. Losses on OREO were also impacted by the sale of one commercial

property during the fourth quarter of 2013, which resulted in a net loss of \$156.

Total noninterest revenue improvement was also partially offset by lower mortgage banking income affected by the declining volume of real estate loans being sold to the secondary market. To help manage consumer demand for longer-termed, fixed-rate real estate mortgages, the Company continues to sell a portion of the real estate loans it originates to the secondary market. Historic low interest rates on long-term fixed-rate mortgage loans continue to provide consumers with opportunities to refinance their existing mortgages. The decision to sell long-term fixed-rate mortgages at lower rates also helps to minimize the interest rate risk exposure to rising rates. During the year ended December 31, 2012, the Company experienced a higher level of refinancing demand as compared to the year ended 2013. As a result, the Company sold 108 loans to the secondary market during the year ended 2013, down from 230 loans sold during the year ended 2012. As a result, mortgage banking income during 2013 was down \$120, or 19.2%, as compared to 2012.

The Company's other noninterest income decreased \$209, or 17.3%, during the year ended 2013 as compared to 2012. Contributing most to the decrease were fewer revenues received from the Company's interest rate swap agreements, which decreased \$82, or 36.5%, during 2013 as compared to 2012. The Company utilizes interest rate swaps to satisfy the desire of large commercial customers to have a fixed-rate loan while permitting the Company to originate a variable-rate loan, which helps mitigate interest rate risk. In association with establishing an interest rate swap agreement, the Company earns a swap fee at the time of origination. The remaining decreases within other noninterest income were primarily from lower loan insurance sales and a decrease in gains recorded on the sale of land in Jackson, Ohio, during the first quarter of 2012.

In 2012, total noninterest income increased \$1,261, or 17.5%, in 2012 as compared to 2011. Contributing most to the 2012 growth in noninterest income were lower losses related to OREO, as well as increases in debit/credit card interchange and mortgage banking income.

The successful growth in noninterest revenue was largely due to lower net OREO losses of \$150 recorded in 2012, as compared to net losses of \$1,224 recorded in 2011. Lower OREO costs were primarily related to the impairment charges taken on two commercial real estate foreclosed properties classified as OREO in 2011. These losses were derived from a re-evaluation of the carrying values for both OREO properties during the third and fourth quarters of 2011. Based on weakened market conditions, management applied a discount to the appraised value of the properties and increased the estimated liquidation expenses associated with both properties. The result was a \$1,266 impairment charge that was recorded in 2011, as compared to a \$331 additional impairment charge identified during the fourth quarter of 2012. The impairment charges recognized during 2011 and 2012 were recorded as write-downs to the carrying values of both properties.

The Company also experienced noninterest income growth from its debit and credit interchange income, which increased \$313, or 22.6%, during the year ended 2012 as compared to 2011. This was related to the increase in transaction volume from the Company's credit card and Jeanie® Plus debit card products that offered customer incentives.

Noninterest revenue improvement was also driven by higher mortgage banking income affected by an increase in the volume of real estate loans sold to the secondary market. During 2012, the Company experienced an increase in the number of loans sold to the secondary market by 112 loans, as compared to 2011. This generated an increase in mortgage banking income of \$240 during the year ended 2012, as compared to the same period in 2011.

Contributing most to the \$250, or 26.2%, increase in other noninterest income during the year ended December 31, 2012 were revenues received from the Company's interest rate swap agreements. The increase in transactions involving an interest rate swap during 2012 led to an increase in swap fees of \$202 during the year ended December 31, 2012, as compared to the same period in 2011.

Partially offsetting the noninterest improvements mentioned above was a reduction in income from service charges on deposit accounts, which decreased \$387, or 17.4%, during the year ended December 31, 2012, as compared to the same period in 2011. This decrease was in large part due to lower overdraft fees related to a lower volume of non-sufficient fund transactions that were processed due to customer behavior.

The Company also experienced less income from lower seasonal tax refund processing fees classified as ERC/ERD fees. During the year ended December 31, 2012, the Company's ERC/ERD fees decreased by \$270, or 10.6%, as compared to the same period in 2011. During the first and second quarters of 2012, the volume of ERC/ERD items increased over the same periods in 2011. However, the fee per ERC/ERD transaction was reduced from the prior year, which contributed to lower fee revenue. While ERC/ERD fee income has generated less income during 2012, management is pleased with the significant contribution this revenue source has made, accounting for 27.0% of the overall noninterest income at year-end 2012. As a result of ERC/ERD fee activity being mostly seasonal, the majority of income was recorded during the first half of 2012.

NONINTEREST EXPENSE

Management continues to work diligently to minimize the growth in noninterest expense. For 2013, total noninterest expense decreased \$366, or 1.2%. Contributing most to the decrease in net overhead expense was a reduction in FDIC insurance expense and decreases in other noninterest expense related to donations, advertising, legal fees, and a prepayment penalty from 2012 associated with the extinguishment of above market FHLB advances. Decreases in total noninterest expense were partially offset by an increase in salaries and employee benefits and various increases in other noninterest expense related to customer incentive costs and a trust preferred security redemption fee in 2013.

The Company's largest noninterest expense item, salaries and employee benefits, increased \$152, or 0.9%, during 2013 as compared to 2012. The increase was largely due to annual merit increases. During 2013, the Company experienced a lower full-time equivalent employee base, decreasing from 277 employees at year-end 2012 to 273 employees at year-end 2013. During 2012, salary and employee benefits increased \$768, or 4.6%, during 2012 as compared to 2011. The increase was largely due to annual merit increases and higher healthcare and retirement benefit costs. During 2012, the Company experienced a lower full-time equivalent employee base, decreasing from 285 employees at year-

end 2011 to 277 employees at year-end 2012.

The Company's FDIC premium expense decreased \$265, or 35.1%, during the year ended December 31, 2013, and decreased \$274, or 26.6%, during the year ended December 31, 2012, as compared to the prior years of 2012 and 2011, respectively. The Company continues to benefit from lower FDIC assessment rates and a change in assessment method. Beginning April 1, 2011, the assessment base for deposit insurance 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.

In 2013, the Company's other noninterest expenses decreased \$290, or 4.3%, as compared to 2012. The decreases were led by donation, advertising, legal, and FHLB prepayment penalty costs. Donation costs decreased \$352, or 63.1%, during 2013 largely from significant contributions made in December 2012 to various communities within the Company's market areas. This action was part of the Company's new "Community First" initiative that emphasizes giving back to the communities in which it serves. The Company utilized less paper media in 2013, which contributed to a decrease in its advertising costs of \$110, or 20.4%, during 2013. The Company also benefited in less legal expenses incurred during 2013 due to the reduced volume of troubled assets and increased recoveries, which contributed to a decrease in legal costs of \$192, or 52.3%, during 2013. Also contributing to lower levels of other noninterest expense was a \$203 prepayment penalty paid in 2012 that was part of the Company's strategy to prepay three FHLB advances totaling \$5,689. The three FHLB advances were extinguished in December 2012 and had interest rate costs ranging from 2.2% to 3.4%. The prepayment penalty allowed management to, in effect, accelerate the interest expense on these higher-costing FHLB advances into 2012 to further reduce interest expense and promote net interest margin improvement in 2013. Partially offsetting these decreases were various increases within other noninterest expense related to customer incentives and a one-time trust preferred security redemption fee. Customer incentive costs increased \$215, or 49.2%, on debit and credit card usage. This increasing trend of higher customer card incentives has been part of management's added emphasis on further building and maintaining core deposit relationships while increasing interchange revenue. Further impacting other noninterest expense was a \$212 fee to redeem one of the Company's trust preferred securities during the first quarter of 2013. 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.

In 2012, total noninterest expense increased \$1,442, or 5.1%. Contributing most to the growth in net overhead expense were higher salaries and employee benefits, as well as increases in various other noninterest expense categories related to donations, advertising, customer incentives on debit and credit card usage, and a prepayment penalty associated with the extinguishment of above market FHLB advances.

The Company's largest noninterest expense item, salaries and employee benefits, increased \$768, or 4.6%, during 2012 as compared to 2011. The increase was largely due to higher healthcare and retirement benefit costs. Salary expense remained relatively stable, increasing \$188, or 1.5%, over 2011, in large part to annual merit increases. During 2012, the Company experienced

a lower full-time equivalent employee base, decreasing from 285 employees at year-end 2011 to 277 employees at year-end 2012.

In 2012, the Company's other noninterest expenses increased \$1,195, or 21.3%, as compared to 2011. The increases were led by donation, advertising, customer incentive and prepayment penalty costs. Donation costs increased \$340, or 156.8%, during 2012 largely from contributions to various communities within the Company's market areas. The Company also increased its marketing efforts by utilizing more paper media and billboard images, which contributed to additional advertising costs of \$184, or 34.3%, during 2012. Customer incentive costs also increased \$190, or 76.7%, on debit and credit card usage. Also contributing to higher other noninterest expense was a \$203 prepayment penalty that was realized as part of the Company's strategy to prepay three higher-costing FHLB advances totaling \$5,689 in December 2012.

Further impacting noninterest expense was the Company's data processing costs, which increased \$130, or 14.6%, during the year ended 2012, as compared to 2011. The Company continues to take great strides in utilizing the growing technology offered to financial institutions to enhance its loan and deposit products to better serve its customers. Data processing costs include processing services for the Company's debit and credit cards as well as online and mobile banking technology.

Various noninterest expense categories decreased during 2012, as compared to 2011, which partially offset the expense increases described above. The Company's FDIC premium expense decreased \$274, or 26.6%, during the year ended December 31, 2012, as compared to the same period in 2011, largely from lower FDIC assessment rates and a change in assessment method.

Also partially offsetting overhead expense increases during 2012 were decreases in the Company's occupancy and furniture/equipment costs, which decreased \$209, or 7.7%, during the year ended 2012, as compared to the same period in 2011. This decrease was largely due to lower depreciation expense on equipment due to a reduction in recent equipment purchases. Also contributing to lower facility and equipment costs was the closing of the Company's Columbus, Ohio branch during the fourth quarter of 2011

During 2012, the Company also recognized overhead expense savings within its foreclosed asset costs, which decreased \$204, or 31.4%, as compared to 2011. The changes in foreclosed asset costs during 2012 were mostly related to two commercial real estate properties. Foreclosure expenses include the costs in maintaining the properties, which consist of taxes and general maintenance.

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 to help expand the net interest margin as well as developing more innovative ways to generate noninterest revenue. During 2013, revenue levels have been negatively affected by lower net interest income due to lower average earning assets. However, the Company experienced a 1.2% reduction in total noninterest expense during 2013. As a result, revenue levels during 2013 outpaced overhead expense, causing the year-to-date efficiency ratio to decrease (improve) to 71.0% at December 31, 2013, as compared to 71.5% at December 31, 2012. Conversely during 2012, the Company's efficiency ratio increased to 71.5% from the 68.2% experienced during 2011. A lower net interest income due

to lower RAL fees and lower average earning assets combined with higher noninterest expense had a negative effect on efficiency during 2012. As a result, overhead expense for 2012 outpaced revenue levels, which caused the efficiency ratio to worsen from 2011.

FINANCIAL CONDITION:

CASHAND 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 December 31, 2013, cash and cash equivalents had decreased \$17,307, or 37.9%, to \$28,344 as compared to \$45,651 at December 31, 2012. The decrease in cash and cash equivalents was largely affected by the Company's decrease in interest-bearing Federal Reserve Bank clearing account balances. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain excess funds caused by retained tax refund deposits and proceeds from loan payoffs. During 2013, the Company used more of its Federal Reserve Bank clearing account deposits to help fund a net increase in loans of \$8,031 and a reduction in time deposits of \$39,420, primarily related to maturities of retail and wholesale 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 2014 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

Management's goal in structuring the portfolio is to maintain a prudent level of liquidity while providing an acceptable rate of return without sacrificing asset quality. Maturing securities have historically provided sufficient liquidity such that management has not sold a debt security in several years, other than renewals or replacements of maturing securities.

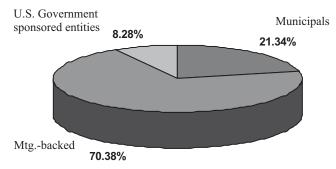
During 2013, the balance of total securities decreased \$11,582, or 9.8%, as compared to year-end 2012, with the ratio of securities to total assets also decreasing to 14.3% at December 31, 2013, compared to 15.4% at December 31, 2012. The Company's investment securities portfolio has consisted of U.S. Treasury securities, U.S. Government sponsored entity ("GSE") securities, agency mortgage-backed securities and obligations of states and political subdivisions. During 2013, the Company continued to experience increased cash flows from monthly principal

repayments of its agency mortgage-backed securities. 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 \$24,535 during 2013. As a result of increasing principal repayments, the Company's agency mortgage-backed securities decreased \$18,742, or 19.9%, from year-end 2012. The Company invested a portion of the excess funds from its agency mortgagebacked securities into new long-term GSE securities, which increased \$7,840 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 70.4% of total investment securities at December 31, 2013.

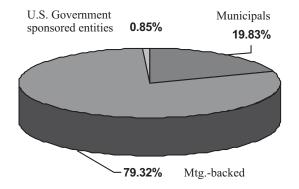
With the general decrease in interest rates evident since 2008, the reinvestment rates on debt securities continue to show lower returns during 2013. The weighted average FTE yield on debt securities at year-end 2013 was 1.92%, as compared to 2.17% at year-end 2012 and 2.36% at year-end 2011. As a result, the Company's focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets. Table III provides a summary of the portfolio by category and remaining contractual maturity. Issues classified as equity securities have no stated maturity date and are not included in Table III.

INVESTMENT PORTFOLIO COMPOSITION

at December 31, 2013



at December 31, 2012



LOANS

In 2013, the Company's primary category of earning assets and most significant source of interest income, total loans, increased \$8,031, or 1.4%, to finish at \$566,319. Higher loan balances were mostly influenced by the commercial loan portfolio, which includes both commercial real estate and commercial and industrial loans. Management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Commercial real estate, the Company's largest segment of commercial loans, increased \$10,656, or 6.1%, 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 up largely from its construction loan portfolio during 2013, which increased \$11,596, or 66.7%, from year-end 2012. Commercial construction loans 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 two large construction lines during the first quarter of 2013 and one large construction line during the fourth quarter of 2013 with balances totaling \$7,965 at December 31, The Company's nonowner-occupied loans increased \$9,316, or 17.6%, from year-end 2012 due to increases in originations during 2013. 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. The Company's owner-occupied loan portfolio decreased during 2013 by \$10,256, or 9.8%, from year-end 2012. This change was in large part due to the larger loan payoffs and paydowns of several owner-occupied loans during 2013. Owneroccupied 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 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.

At December 31, 2013, the Company's commercial and industrial loan portfolio was up from year-end 2012 by \$7,126, or 12.5%. The increase was largely from the origination of two larger loans during the second and third quarters of 2013 with balances totaling \$3,138 at December 31, 2013. 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.

At December 31, 2013, the primary market areas for the Company's commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson and Pike

counties of Ohio, which accounted for 33.4% of total originations. The West Virginia markets accounted for 25.6% 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.

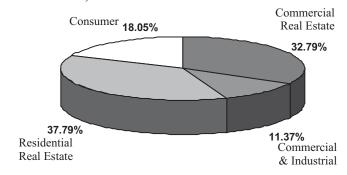
The Company's total loans were also impacted by consumer loans, which increased \$2,263, or 2.3%, from year-end 2012. The Company's consumer loans are primarily secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The consumer loan portfolio during 2013 benefited mostly from higher consumer real estate, all-terrain vehicle and consumer credit card loan balances. The limited growth in consumer loans has been mostly affected by the Company's automobile lending portfolio, which decreased \$2,357, or 5.7%, from year-end 2012. The automobile lending component comprises the largest portion of the Company's consumer loan portfolio, representing 38.0% of total consumer loans at December 31, 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 should continue during 2014, as the larger institutions and captive finance companies will continue to aggressively compete for a larger share of the market. Management will continue to place more emphasis on other loan portfolios (i.e. commercial and, to a smaller extent, residential real estate) that will promote increased profitable loan growth and higher returns. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return.

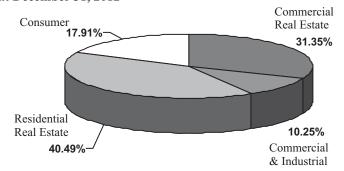
Generating residential real estate loans remains a significant focus of the Company's lending efforts. Residential real estate loan balances comprise the largest segment of the Company's loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During 2013, total residential real estate loan balances decreased \$12,014, or 5.3%, from yearend 2012. The decrease was mostly from the Company's 15-, 20and 30-year fixed-rate loans, which declined \$24,934, or 18.3%, 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

LOAN PORTFOLIO COMPOSITION

at December 31, 2013



at December 31, 2012



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 year ended 2013, refinancing volume that led to secondary market sales trended down, with 108 loans sold totaling \$13,187 as compared to 230 loans sold totaling \$29,573 during the year ended 2012.

The remaining real estate loan portfolio balances increased \$12,920, or 14.4%, 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 \$17,657, or 52.2%, 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.

The Company continues to monitor the pace of its loan volume and will remain consistent in its approach to sound underwriting practices and a focus on asset quality.

ALLOWANCE FOR LOAN LOSSES

Tables IV and V have been provided to enhance the understanding of the loan portfolio and the allowance for loan losses. 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 TDR's, are considered in the determination of the overall adequacy of the allowance for loan losses.

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 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 2013, the Company's allowance for loan losses decreased \$750, or 10.9%, to finish at \$6,155 as compared to \$6,905 at year-end 2012. This decrease in reserves was largely due to a reduction in general allocations related to the Company's improving asset quality metrics. 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 48 and 71 basis points within both the 12-month and 36month rolling average, respectively. The Company's total classified and criticized asset balances have decreased from \$53,259 at year-end 2012 to \$39,638 at year-end 2013, which have contributed to a lower general allocation need. 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 also contributed to less required general allocations of the allowance for loan losses. At December 31, 2013, the Company's annualized ratio of net charge-offs to average loans decreased to 0.22%, as compared to 0.35% at December 31, 2012 and 1.11% at December 31, 2011, primarily within the commercial loan portfolio. As a result of these improving trends within our various credit quality statistics related to the loan portfolio, the Company's total general allocations decreased \$1,268, or 26.4%, from year-end 2012.

The Company's impaired loan levels continue to improve, decreasing \$2,705 from year-end 2012. The change in impaired loans was largely 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. 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 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.

Partially offsetting the decreases in the allowance mentioned above were higher specific allocations related to various loan impairments which contributed to a \$518, or 24.6%, increase in specific allocations from year-end 2012. This increase in collateral value impairment was primarily related to one commercial and industrial loan relationship. During the third and fourth quarters of 2013, the Company obtained more current information regarding the ongoing cash flows of this impaired commercial loan relationship. The impairment analysis identified a total loan impairment of \$864, resulting in specific allocation increases to the allowance for loan losses of \$587 in the third quarter of 2013 and \$277 in the fourth quarter of 2013. These specific reserves resulted in corresponding increases to provision for loan losses expense during the third and fourth quarters of 2013. 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 December 31, 2013, there was \$2,625 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 \$327, or 8.2%, decrease in its nonperforming loans from year-end 2012, mostly from within the commercial real estate loan portfolio. Nonperforming loans consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans finished at \$3,658 at year-end 2013, compared to \$3,985 at year-end 2012. As a result, the Company's ratio of nonperforming loans to total loans decreased from 0.71% at December 31, 2012 to 0.65% at December 31, 2013. Furthermore, the Company experienced a \$2,640, or 34.5%, decrease in its nonperforming assets from year-end 2012. This

Table VII	As	of December 3	31
(dollars in thousands)	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest-bearing deposits:			
NOW accounts	\$ 106,342	\$ 106,581	\$ 101,907
Money market	142,691	144,831	153,280
Savings accounts	57,546	52,231	46,792
IRA accounts	45,490	47,401	49,024
Certificates of deposit	126,985	164,494	198,740
	479,054	515,538	549,743
Noninterest-bearing deposits:			
Demand deposits	149,823	139,526	138,143
Total deposits	\$ 628,877	\$ 655,064	\$ 687,886

change was primarily due to the sale of one foreclosed commercial property in the fourth quarter of 2013, which reduced the carrying values of OREO by \$982. 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. As a result of this fourth quarter commercial property liquidation, the Company's nonperforming asset to total asset ratio decreased to 0.67% at December 31, 2013, as compared to .99% at December 31, 2012. Approximately 21% of nonperforming assets is related to one commercial property totaling \$1,058 classified as other real estate Nonperforming loans and nonperforming assets at December 31, 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 benefiting from lower loan losses and improving economic trends, the ratio of the allowance for loan losses to total loans decreased to 1.09% at December 31, 2013, compared to 1.24% at December 31, 2012. Management believes that the allowance for loan losses is adequate at December 31, 2013 to absorb probable losses in the 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. Future provisions to the allowance for loan losses will continue to be based on management's quarterly indepth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

DEPOSITS

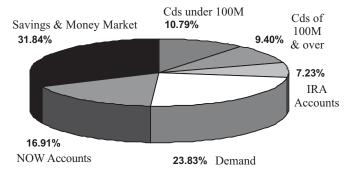
Deposits are used as part of the Company's liquidity management strategy to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Deposits, both interest- and noninterest-bearing, continue to be the most significant source of funds used by the Company to support earning assets. Deposits are attractive

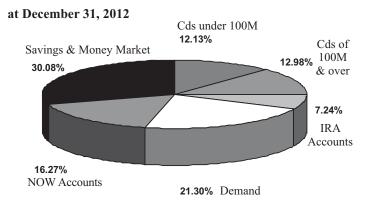
sources of funding because of their stability and generally low cost as compared with other funding sources. The Company seeks to maintain a proper balance of core deposit relationships on hand while also utilizing various wholesale deposit sources, such as brokered and internet CD balances, as an alternative funding source to manage efficiently the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. The accompanying table VII shows the composition of total deposits as of December 31, 2013, 2012 and 2011. Total deposits decreased \$26,187, or 4.0%, to finish at \$628,877 at December 31, 2013, mostly from lower time deposits. 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 collectively held in NOW, savings and money market accounts at December 31, 2013 than at December 31, 2012, and a lesser portion of deposits being held in brokered and retail time deposits at December 31, 2013 than at December 31, 2012. Furthermore, the Company's core noninterest-bearing demand account balances increased from year-end 2012.

Due to the increased emphasis on core relationship deposits, time deposits represented 27.4% of total deposits at December 31, 2013 compared to 32.3% of total deposits at December 31, 2012, a

COMPOSITION OF TOTAL DEPOSITS

at December 31, 2013





decrease of \$39,420, or 18.6%. Historically, time deposits, particularly CD's, had been the most significant source of funding for the Company's earning assets. 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 shortterm 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 \$23,007 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 \$16,413 from yearend 2012. The Company will continue to evaluate its use of brokered CD's to manage interest rate risk associated with longerterm, fixed-rate asset loan demand.

Further decreases in the Company's deposit balances came from money market accounts, which were down \$2,140, or 1.5%, 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.

The Company's interest-bearing NOW account balances remained relatively stable, decreasing \$239, or 0.2%, during 2013. Changes in NOW account balances are driven by public fund account balances. 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 account 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.

Partially offsetting the decreases in time deposits and money market account balances was deposit growth in the Company's savings account balances, which increased \$5,315, or 10.2%, 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's interest-free funding source, noninterest-

bearing demand deposits, also was up during 2013, increasing \$10,297, or 7.4%, from year-end 2012. Demand deposit growth came primarily from the Company's business checking accounts and other noninterest-bearing products, particularly those offering incentive rewards to customers.

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 its core deposit relationships during 2014, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

OTHER BORROWED FUNDS

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund potential asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of FHLB advances and promissory notes. During 2013, other borrowed funds were up \$4,463, or 31.2%, from year-end 2012. The increase was related to management's decision 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.

OFF-BALANCE SHEET ARRANGEMENTS

As discussed in Notes G and J, 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.

CAPITAL RESOURCES

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. As detailed in Note N to the financial statements at December 31, 2013, the Bank's capital exceeded the requirements to be deemed "well capitalized" under applicable prompt corrective action regulations. Total shareholders' equity at December 31, 2013 of \$80,419 was up \$4,599, or 6.1%, as compared to the balance of \$75,820 at December 31, 2012. Contributing most to this increase was year-to-date net income of \$8,112, partially offset by cash dividends paid of \$2,965, or \$0.73 per share. In addition, accumulated other comprehensive income decreased \$1,358 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 during that time. 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.

INTEREST RATE SENSITIVITY AND LIQUIDITY

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:

INTEREST RATE SENSITIVITY Table VIII

Change in Interest Rates Basis Points	December 31, 2013 % Change in Net Interest Income	December 31, 2012 % Change in Net Interest Income
+300	(3.04%)	(3.20%)
+200	(1.84%)	(1.87%)
+100	(.82%)	(.80%)
-100	(2.55%)	(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 December 31, 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 the prior 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. As a result, net interest income also decreases in a declining interest rate environment. Overall, management is comfortable with the current interest rate risk profile which reflects minimal exposure to interest rate changes.

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 \$112,412, represented 15.0% of total assets at December 31, 2013. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At December 31, 2013, the Bank could borrow an

CONTRACTUAL OBLIGATIONS

Table IX

The following table presents, as of December 31, 2013, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	Payments Due In							
	Note	One Year	One to	Three to	Over	_		
(dollars in thousands)	Reference	or Less	Three Years	Five Years	Five Years	Total		
Deposits without a stated maturity	E	\$ 456,402	\$ —	\$ —	\$ —	\$ 456,402		
Consumer and brokered time deposits	E	111,324	51,525	8,965	661	172,475		
Other borrowed funds	G	4,200	3,265	2,266	9,017	18,748		
Subordinated debentures	Н				8,500	8,500		
Lease obligations	D	449	557	209		1,215		

additional \$149,377 from the FHLB, of which \$75,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At December 31, 2013, this line had total availability of \$40,226. 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.

INFLATION

Consolidated financial data included herein has been prepared in accordance with US GAAP. Presently, US GAAP requires the Company to measure financial position and operating results in terms of historical dollars with the exception of securities available for sale, which are carried at fair value. Changes in the relative value of money due to inflation or deflation are generally not considered.

In management's opinion, changes in interest rates affect the financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not change at the same rate or in the same magnitude as the inflation rate. Rather, interest rate volatility is based on changes in the expected rate of inflation, as well as monetary and fiscal policies. A financial institution's ability to be relatively unaffected by changes in interest rates is a good indicator of its capability to perform in today's volatile economic environment. The Company seeks to insulate itself from interest rate volatility by ensuring that rate sensitive assets and rate sensitive liabilities respond to changes in interest rates in a similar time frame and to a similar degree.

CRITICAL ACCOUNTING POLICIES

The most significant accounting policies followed by the Company are presented in Note A to the consolidated financial statements. 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 that 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

KEY RATIOS					
Table X	2013	2012	2011	2010	2009
Return on average assets	1.04%	.86%	.68%	.60%	.81%
Return on average equity	10.40%	9.53%	8.35%	7.54%	10.23%
Dividend payout ratio	36.56%	62.29%	57.59%	65.67%	47.95%
Average equity to average assets	10.01%	9.00%	8.14%	7.97%	7.93%

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. Owneroccupied 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.

CONCENTRATIONS 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.

FORWARD-LOOKING STATEMENTS

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forwardlooking 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, 2013. Readers are cautioned not to place undue reliance on such forwardlooking 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.

OHIO VALLEY BANC CORP.