OHIO VALLEY BANC CORP
Form 10-Q
August 10, 2015

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

Form 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from ____________ to ____________

Commission file number 0-20914

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

Ohio (State of Incorporation)	31-1359191 (I.R.S. Employer Identification No.)
420 Third Avenue Gallipolis, Ohio (Address of principal executive offices)	45631 (ZIP Code)

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

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

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

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

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

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

The number of common shares of the registrant outstanding as of August 10, 2015 was 4,117,675.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2015 UNAUDITED	December 31, 2014
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 10,587	$ 9,315
Interest-bearing deposits with banks	41,493	21,662
Total cash and cash equivalents	52,080	30,977
Certificates of deposit in financial institutions	980	980
Securities available for sale	84,963	85,236
Securities held to maturity (estimated fair value: 2015 - $22,538; 2014 - $23,570)	21,914	22,820
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	6,576
Total loans	592,899	594,768
Less: Allowance for loan losses	(7,444)	(8,334)
Net loans	585,455	586,434
Premises and equipment, net	9,991	9,195
Other real estate owned	1,590	1,525
Accrued interest receivable	1,799	1,806
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	25,926	25,612
Other assets	7,832	6,240
Total assets	$ 800,373	$ 778,668
LIABILITIES		
Noninterest-bearing deposits	$ 172,419	$ 161,794
Interest-bearing deposits	493,869	485,036
Total deposits	666,288	646,830
Other borrowed funds	24,322	24,972
Subordinated debentures	8,500	8,500
Accrued liabilities	12,378	12,150
Total liabilities	711,488	692,452
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares	4,777	4,777

authorized; 4,777,414 shares issued)		
Additional paid-in capital	35,318	35,318
Retained earnings	63,971	60,873
Accumulated other comprehensive income	531	960
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders’ equity	88,885	86,216
Total liabilities and shareholders’ equity	$ 800,373	$778,668

See accompanying notes to consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	$8,150	$8,223	$17,049	$17,037
Securities				
Taxable	453	445	902	851
Tax exempt	134	139	273	275
Dividends	72	80	146	166
Other Interest	57	38	123	104
	8,866	8,925	18,493	18,433
Interest expense:				
Deposits	555	578	1,090	1,151
Other borrowed funds	120	119	241	231
Subordinated debentures	42	41	83	82
	717	738	1,414	1,464
Net interest income	8,149	8,187	17,079	16,969
Provision for loan losses	799	1,386	721	1,880
Net interest income after provision for loan losses	7,350	6,801	16,358	15,089
Noninterest income:				
Service charges on deposit accounts	393	395	746	786
Trust fees	57	59	115	114
Income from bank owned life insurance and annuity assets	138	171	314	330
Mortgage banking income	55	57	114	115
Electronic refund check / deposit fees	255	414	2,350	3,062
Debit / credit card interchange income	627	548	1,165	1,052
Gain (loss) on other real estate owned	45	4	60	(8)
Gain on sale of securities	135	----	135	----
Gain on sale of ProAlliance Corporation	----	----	----	135
Other	212	264	407	444
	1,917	1,912	5,406	6,030
Noninterest expense:				
Salaries and employee benefits	4,426	4,235	8,826	8,612
Occupancy	388	391	790	789
Furniture and equipment	194	152	372	332
FDIC insurance	132	113	298	240
Data processing	362	293	730	614
Foreclosed assets	62	41	97	102
Other	1,990	1,772	3,868	3,603
	7,554	6,997	14,981	14,292
Income before income taxes	1,713	1,716	6,783	6,827

Provision for income taxes	303	372	1,749	1,919
NET INCOME	$1,410	$1,344	$5,034	$4,908
Earnings per share	$.34	$.33	$1.22	$1.20

See accompanying notes to consolidated financial statements

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net Income	$1,410	$1,344	$5,034	$4,908
Other comprehensive income:				
Change in unrealized gain on available for sale securities	(971)	716	(516)	1,162
Reclassification adjustment for realized (gains)	(135)	----	(135)	----
	(1,106)	716	(651)	1,162
Related tax (expense) benefit	376	(243)	222	(394)
Total other comprehensive income, net of tax	(730)	473	(429)	768
Total comprehensive income	$680	$1,817	$4,605	$5,676

See accompanying notes to consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$89,276	$83,417	$86,216	$80,419
Net income	1,410	1,344	5,034	4,908
Other comprehensive income, net of tax	(730)	473	(429)	768
Cash dividends	(1,071)	(861)	(1,936)	(1,722)
Balance at end of period	$88,885	$84,373	$88,885	$84,373
Cash dividends per share	$.26	$.21	$.47	$.42

See accompanying notes to consolidated financial statements

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

	Six months ended June 30, 2015	Six months ended June 30, 2014
Net cash provided by operating activities:	$4,760	$6,606
Investing activities:		
Proceeds from maturities of securities available for sale	7,783	7,326
Purchases of securities available for sale	(17,035)	(8,041)
Proceeds from maturities of securities held to maturity	1,501	475
Purchases of securities held to maturity	(625)	(610)
Proceeds from sale of available for sale securities	8,792	----
Redemptions of Federal Home Loan Bank stock	----	1,200
Net change in loans	(234)	(22,191)
Proceeds from sale of other real estate owned	487	107
Purchases of premises and equipment	(1,198)	(783)
Net cash provided by (used in) investing activities	(529)	(22,517)
Financing activities:		
Change in deposits	19,458	8,780
Cash dividends	(1,936)	(1,722)
Proceeds from Federal Home Loan Bank borrowings	----	3,633
Repayment of Federal Home Loan Bank borrowings	(650)	(530)
Change in other short-term borrowings	----	50
Net cash provided by financing activities	16,872	10,211
Change in cash and cash equivalents	21,103	(5,700)
Cash and cash equivalents at beginning of period	30,977	28,344
Cash and cash equivalents at end of period	$52,080	$22,644
Supplemental disclosure:		
Cash paid for interest	$1,352	$1,439
Cash paid for income taxes	2,450	2,731
Transfers from loans to other real estate owned	492	484
Other real estate owned sales financed by the Bank	135	65

See accompanying notes to consolidated financial statements

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS: In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, "Receivables – Troubled Debt Restructurings by Creditors

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

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

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

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

	Fair Value Measurements at June 30, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$8,986	----
Agency mortgage-backed securities, residential	----	75,977	----

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

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

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

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 June 30, 2015, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial real estate:			
Owner-occupied	----	----	$ 936
Nonowner-occupied	----	----	2,672
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,147

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

At June 30, 2015, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $4,045, with a corresponding valuation allowance of $437. This resulted in a decrease of $19 in provision expense during the three months ended June 30, 2015, and a decrease of $13 in provision expense during the six months ended June 30, 2015, with $1,304 in additional charge-offs recognized. This is compared to an increase of $46 in provision expense during the three months ended June 30, 2014, and a decrease of $127 in provision expense during the six months ended June 30, 2014, with $157 in additional charge-offs recognized. At December 31, 2014, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $12,773, with a corresponding valuation allowance of $3,292.

Other real estate owned that was measured at fair value less costs to sell at June 30, 2015 and December 31, 2014 had a net carrying amount of $1,147, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,070 at December 31, 2014. There were no corresponding write downs during the three and six months ended June 30, 2015 and 2014. There was $88 in net appreciation during 2014.

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

June 30, 2015	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Owner-occupied	$936	Sales approach	Adjustment to comparables	9.0% to 62%	28%
Nonowner-occupied	2,672	Sales approach	Adjustment to comparables	0% to 12.5%	5.7%
Other real estate owned:					
Commercial real estate:					
Construction	1,147	Sales approach	Adjustment to comparables	5% to 35%	18%

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

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

		Fair Value Measurements at June 30, 2015 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$52,080	$52,080	$----	$----	$52,080
Certificates of deposit in financial institutions	980	----	980	----	980
Securities available for sale	84,963	----	84,963	----	84,963
Securities held to maturity	21,914	----	11,372	11,166	22,538

Federal Home Loan Bank and					
Federal Reserve Bank stock	6,576	N/A	N/A	N/A	N/A
Loans, net	585,455	----	----	590,457	590,457
Accrued interest receivable	1,799	----	215	1,584	1,799
Financial liabilities:					
Deposits	666,288	171,656	493,906	----	665,562
Other borrowed funds	24,322	----	23,810	----	23,810
Subordinated debentures	8,500	----	5,068	----	5,068
Accrued interest payable	456	3	453	----	456

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SECURITIES

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

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2015				
U.S. Government sponsored entity securities	$9,015	$3	$(32)	$8,986
Agency mortgage-backed securities, residential	75,144	1,342	(509)	75,977
Total securities	$84,159	$1,345	$(541)	$84,963
December 31, 2014				
U.S. Government sponsored entity securities	$9,019	$2	$(104)	$8,917
Agency mortgage-backed securities, residential	74,762	1,693	(136)	76,319
Total securities	$83,781	$1,695	$(240)	$85,236

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
June 30, 2015				
Obligations of states and political subdivisions	$21,906	$ 798	$ (174)	$22,530
Agency mortgage-backed securities, residential	8	----	----	8
Total securities	$21,914	$ 798	$ (174)	$22,538
December 31, 2014				
Obligations of states and political subdivisions	$22,811	$ 939	$ (189)	$23,561
Agency mortgage-backed securities, residential	9	----	----	9
Total securities	$22,820	$ 939	$ (189)	$23,570

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

	Available for Sale		Held to Maturity	
Debt Securities:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,002	$1,005	$410	$422
Due in over one to five years	8,013	7,981	6,417	6,754
Due in over five to ten years	----	----	11,724	12,108
Due after ten years	----	----	3,355	3,246
Agency mortgage-backed securities, residential	75,144	75,977	8	8
Total debt securities	$84,159	$84,963	$21,914	$22,538

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

	Less Than 12 Months		12 Months or More		Total	
June 30, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$3,991	$(13)	$3,989	$(19)	$7,980	$ (32)
Agency mortgage-backed securities, residential	27,837	(406)	3,869	(103)	31,706	(509)
Total available for sale	$31,828	$(419)	$7,858	$(122)	$39,686	$ (541)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and political subdivisions	$2,488	$ (29)	$1,510	$ (145)	$3,998	$ (174)
Total held to maturity	$2,488	$ (29)	$1,510	$ (145)	$3,998	$ (174)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$----	$----	$7,911	$(104)	$7,911	$ (104)
Agency mortgage-backed						

securities, residential	11,232	(20)	8,397	(116)	19,629	(136)
Total available for sale	$11,232	$(20)	$16,308	$(220)	$27,540	$ (240)

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

During the three and six months ended June 30, 2015 the Company had proceeds of $8,792 pertaining to securities sales on available for sale securities with gross gains recognized of $135 for both periods. There were no sales during the three and six months ended June 30, 2014. Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality at June 30, 2015, and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at June 30, 2015 and December 31, 2014 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	June 30, 2015	December 31, 2014
Residential real estate	$224,923	$223,628
Commercial real estate:		
Owner-occupied	76,081	78,848
Nonowner-occupied	73,296	71,229
Construction	24,645	27,535
Commercial and industrial	85,573	83,998
Consumer:		
Automobile	43,757	42,849
Home equity	20,138	18,291
Other	44,486	48,390
	592,899	594,768
Less: Allowance for loan losses	7,444	8,334
Loans, net	$585,455	$586,434

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

June 30, 2015	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,465	$4,210	$1,738	$907	$8,320
Provision for loan losses	(121)	(64)	478	506	799
Loans charged off	(126)	(1,366)	(22)	(446)	(1,960)
Recoveries	12	15	93	165	285
Total ending allowance balance	$1,230	$2,795	$2,287	$1,132	$7,444

June 30, 2014	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,437	$2,845	$1,331	$849	$6,462
Provision for loan losses	444	383	201	358	1,386
Loans charged off	(139)	----	(4)	(197)	(340)
Recoveries	136	48	97	139	420
Total ending allowance balance	$1,878	$3,276	$1,625	$1,149	$7,928

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

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

			and Industrial		
Allowance for loan losses:					
Beginning balance	$1,426	$4,195	$1,602	$1,111	$8,334
Provision for loan losses	(90)	(58)			