

OHIO VALLEY BANC CORP
Form 10-Q
November 13, 2017

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

Form 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number 0-20914

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

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

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

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

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

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 No

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

Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of common shares of the registrant outstanding as of November 9, 2017 was 4,692,266.

OHIO VALLEY BANC CORP.

Index

	<u>Page Number</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Changes in Shareholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	40
Item 4. Controls and Procedures	40
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	41
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3. Defaults Upon Senior Securities	41
Item 4. Mine Safety Disclosures	41
Item 5. Other Information	41
Item 6. Exhibits	42
Signatures	43

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2017	December 31, 2016
ASSETS		
Cash and noninterest-bearing deposits with banks	\$11,610	\$12,512
Interest-bearing deposits with banks	38,792	27,654
Total cash and cash equivalents	50,402	40,166
Certificates of deposit in financial institutions	1,820	1,670
Securities available for sale	106,545	96,490
Securities held to maturity (estimated fair value: 2017 - \$18,822; 2016 - \$19,171)	18,168	18,665
Restricted investments in bank stocks	7,506	7,506
Total loans	777,957	734,901
Less: Allowance for loan losses	(7,313)	(7,699)
Net loans	770,644	727,202
Premises and equipment, net	13,205	12,783
Other real estate owned	2,219	2,129
Accrued interest receivable	2,532	2,315
Goodwill	7,371	7,801
Other intangible assets, net	550	670
Bank owned life insurance and annuity assets	26,576	29,349
Other assets	12,076	7,894
Total assets	\$1,019,614	\$954,640
LIABILITIES		
Noninterest-bearing deposits	\$233,178	\$209,576
Interest-bearing deposits	616,003	580,876
Total deposits	849,181	790,452
Other borrowed funds	36,775	37,085
Subordinated debentures	8,500	8,500
Accrued liabilities	15,196	14,075
Total liabilities	909,652	850,112
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock (\$1.00 stated value per share, 10,000,000 shares authorized; 2017 - 5,352,005 shares issued; 2016 - 5,325,504 shares issued)	5,352	5,326

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Additional paid-in capital	47,552	46,788
Retained earnings	72,781	69,117
Accumulated other comprehensive loss	(11)	(991)
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	109,962	104,528
Total liabilities and shareholders' equity	\$1,019,614	\$954,640

See accompanying notes to consolidated financial statements

3

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share data)

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Interest and dividend income:				
Loans, including fees	\$10,489	\$9,085	\$31,410	\$26,147
Securities				
Taxable	535	486	1,559	1,465
Tax exempt	104	111	312	337
Dividends	101	75	287	222
Other Interest	88	67	476	336
	11,317	9,824	34,044	28,507
Interest expense:				
Deposits	757	597	1,985	1,605
Other borrowed funds	228	190	673	462
Subordinated debentures	64	52	182	149
	1,049	839	2,840	2,216
Net interest income	10,268	8,985	31,204	26,291
Provision for loan losses	1,601	1,708	1,921	2,328
Net interest income after provision for loan losses	8,667	7,277	29,283	23,963
Noninterest income:				
Service charges on deposit accounts	541	575	1,575	1,414
Trust fees	64	58	177	174
Income from bank owned life insurance and annuity assets	577	175	981	575
Mortgage banking income	59	44	164	162
Electronic refund check / deposit fees	----	13	1,667	2,037
Debit / credit card interchange income	863	653	2,506	1,864
Gain (loss) on other real estate owned	(23)	(8)	(94)	----
Other	201	183	531	563
	2,282	1,693	7,507	6,789
Noninterest expense:				
Salaries and employee benefits	5,019	5,032	15,528	14,130
Occupancy	449	466	1,331	1,300
Furniture and equipment	269	285	787	671
Professional fees	434	342	1,338	1,020
Marketing expense	273	249	785	744
FDIC insurance	99	81	366	378
Data processing	564	380	1,652	1,069
Software	365	368	1,102	962
Foreclosed assets	158	61	425	247
Amortization of intangibles	38	----	120	----
Merger related expenses	6	416	33	777
Other	1,548	1,148	5,006	3,272
	9,222	8,828	28,473	24,570

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Income before income taxes	1,727	142	8,317	6,182
Provision for income taxes	74	(216)	1,706	1,286
NET INCOME	\$1,653	\$358	\$6,611	\$4,896
Earnings per share	\$.35	\$.08	\$1.41	\$1.15

See accompanying notes to consolidated financial statements

4

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

	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Net Income	\$1,653	\$358	\$6,611	\$4,896
Other comprehensive income:				
Change in unrealized loss on available for sale securities	20	91	1,485	1,528
Related tax expense	(7)	(31)	(505)	(520)
Total other comprehensive income, net of tax	13	60	980	1,008
Total comprehensive income	\$1,666	\$418	\$7,591	\$5,904

See accompanying notes to consolidated financial statements

5

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$108,987	\$94,796	\$104,528	\$90,470
Net income	1,653	358	6,611	4,896
Other comprehensive income, net of tax	13	60	980	1,008
Acquisition – Milton Bancorp, Inc., 523,518 shares	----	11,444	----	11,444
Common stock issued through DRIP (2017 – 11,383 shares issued)	293	----	362	----
Common stock issued to ESOP (2017 - 15,118 shares issued; 2016 - 24,572 shares issued)	----	----	428	575
Cash dividends	(984)	(870)	(2,947)	(2,605)
Balance at end of period	\$109,962	\$105,788	\$109,962	\$105,788
Cash dividends per share	\$.21	\$.19	\$.63	\$.61

See accompanying notes to consolidated financial statements

6

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

	Nine months ended September 30,	
	2017	2016
Net cash provided by operating activities:	\$5,926	\$9,761
Investing activities:		
Net cash acquired from Milton Bancorp, Inc., acquisition	----	1,686
Proceeds from maturities of securities available for sale	16,358	13,818
Purchases of securities available for sale	(25,177)	(17,691)
Proceeds from maturities of securities held to maturity	846	1,218
Purchases of securities held to maturity	(389)	(3,193)
Proceeds from maturities of certificates of deposit in financial institutions	245	490
Purchases of certificates of deposit in financial institutions	(395)	(445)
Proceeds from restricted investments in bank stocks	----	1
Net change in loans	(46,281)	(24,186)
Proceeds from sale of other real estate owned	987	593
Purchases of premises and equipment	(1,247)	(633)
Proceeds from bank owned life insurance	3,754	----
Net cash used in investing activities	(51,299)	(28,342)
Financing activities:		
Change in deposits	58,867	25,822
Cash dividends	(2,947)	(2,605)
Proceeds from Federal Home Loan Bank borrowings	4,785	8,202
Repayment of Federal Home Loan Bank borrowings	(4,720)	(1,450)
Change in other long-term borrowings	(343)	5,000
Change in other short-term borrowings	(33)	(33)
Net cash provided by financing activities	55,609	34,936
Change in cash and cash equivalents	10,236	16,355
Cash and cash equivalents at beginning of period	40,166	45,530
Cash and cash equivalents at end of period	\$50,402	\$61,885
Supplemental disclosure:		
Cash paid for interest	\$2,665	\$2,112
Cash paid for income taxes	2,236	1,675
Transfers from loans to other real estate owned	1,337	851
Other real estate owned sales financed by The Ohio Valley Bank Company	167	316
Issuance of common stock for Milton Bancorp, Inc., acquisition	----	11,444

See accompanying notes to consolidated financial statements

7

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. The Bank has one wholly-owned subsidiary, Ohio Valley REO, LLC ("Ohio Valley REO"), an Ohio limited liability company, to which the Bank transfers certain real estate acquired by the Bank through foreclosure for sale by Ohio Valley REO. Ohio Valley and its subsidiaries are collectively referred to as the "Company". All material intercompany accounts and transactions have been eliminated in consolidation. These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2017, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2017 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2017. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by U.S. generally accepted accounting principles ("US GAAP") that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2016 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements. The consolidated financial statements for 2016 have been reclassified to conform to the presentation for 2017. These reclassifications had no effect on the net income or shareholders' equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The accounting and reporting policies followed by the Company conform to US GAAP established by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that 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 4,688,284 and 4,466,601 for the three months ended September 30, 2017 and 2016, respectively. The weighted average common shares outstanding were 4,680,846 and 4,246,311 for the nine months ended September 30, 2017 and 2016, respectively. 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those

annual periods, beginning after December 15, 2017, with early adoption permitted on January 1, 2017. Management is currently evaluating the impact of this update on its consolidated financial statements and related disclosures, however, adoption by the Company is not expected to have a material impact. The Company's primary sources of revenues are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU 2014-09.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The update provides updated accounting and reporting requirements for both public and non-public entities. The most significant provisions that will impact the Company are: 1) equity securities available for sale will be measured at fair value, with the changes in fair value recognized in the income statement; 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments at amortized cost on the balance sheet; 3) utilization of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) require separate presentation of both financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The update will be effective for interim and annual periods beginning after December 15, 2017, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. Early adoption is not permitted. Management is currently evaluating the impact of this update on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which will require lessees to record most leases on their balance sheets and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of this update on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses". ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted, for annual periods and interim periods within those annual periods, beginning after December 15, 2018. Management is currently in the developmental stages, collecting available historical information, in order to assess the expected credit losses. However, the impact to the financial statements are still yet to be determined.

In August 2016, FASB issued an update (ASU 2016-15, "Statement of Cash Flows") (Topic 230), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update apply to all entities, including business entities and not-for-profit entities that are required to present a statement of cash flows, and are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued an update (ASU 2017-04, Intangibles – Goodwill and Other) which is intended to simplify the measurement of goodwill in periods following the date on which the goodwill is initially recorded. Under the amendments in this update, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the

amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. A public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

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%.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at September 30, 2017 Using Quoted Prices in Active Markets for Significant Identifiable Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>					
U.S. Government sponsored entity securities	----	\$ 13,579	----		
Agency mortgage-backed securities, residential	----	92,966	----		

	Fair Value Measurements at December 31, 2016 Using Quoted Prices in Active Markets for Significant Identifiable Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>					
U.S. Government sponsored entity securities	----	\$ 10,544	----		
Agency mortgage-backed securities, residential	----	85,946	----		

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

Assets and Liabilities Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurements at September 30, 2017, Using Quoted Prices in Active Markets for Significant Identifiable Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
--	--	--	--	--	--

Markets
for Identical
Assets
(Level
1) Inputs
(Level 2) (Level 3)

Assets:

Impaired loans:

Residential real estate	----	----	\$ 94
Commercial real estate:			
Nonowner-occupied	----	----	2,602

Other real estate owned:

Commercial real estate:			
Construction	----	----	754

Fair Value Measurements at
December 31, 2016, Using
Quoted
Prices
in
Active
Markets
for Significant
Identical
Assets
(Level
1) Other
Observable
Inputs
(Level 2) Significant
Unobservable
Inputs
(Level 3)

Assets:

Impaired loans:

Commercial real estate:			
Owner-occupied	----	----	\$ 3,536
Nonowner-occupied	----	----	1,985
Commercial and industrial	----	----	298

Other real estate owned:

Commercial real estate:			
Construction	----	----	754

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments at September 30, 2017 and December 31, 2016 are as follows:

	Carrying Value	Fair Value Measurements at September 30, 2017 Using:			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	\$50,402	\$50,402	\$----	\$----	\$50,402
Certificates of deposit in financial institutions	1,820	----	1,820	----	1,820
Securities available for sale	106,545	----	106,545	----	106,545
Securities held to maturity	18,168	----	9,586	9,236	18,822
Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	770,644	----	----	772,063	772,063
Accrued interest receivable	2,532	----	394	2,138	2,532
Financial liabilities:					
Deposits	849,181	233,178	616,081	----	849,259
Other borrowed funds	36,775	----	36,070	----	36,070
Subordinated debentures	8,500	----	6,377	----	6,377
Accrued interest payable	690	3	687	----	690

	Carrying Value	Fair Value Measurements at December 31, 2016 Using:			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	\$40,166	\$40,166	\$----	\$----	\$40,166
Certificates of deposit in financial institutions	1,670	----	1,670	----	1,670
Securities available for sale	96,490	----	96,490	----	96,490
Securities held to maturity	18,665	----	9,541	9,630	19,171
Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	727,202	----	----	727,079	727,079
Accrued interest receivable	2,315	----	224	2,091	2,315
Financial liabilities:					
Deposits	790,452	209,576	581,340	----	790,916
Other borrowed funds	37,085	----	35,948	----	35,948
Subordinated debentures	8,500	----	5,821	----	5,821
Accrued interest payable	513	4	509	----	513

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.

Restricted Investments in Bank Stocks: It is not practical to determine the fair value of Federal Home Loan Bank, Federal Reserve Bank and United Bankers Bank stock due to restrictions placed on their 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.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Deposits: 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 fair value of securities available for sale and securities held to maturity at September 30, 2017 and December 31, 2016 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale				
<u>September 30, 2017</u>				
U.S. Government sponsored entity securities	\$ 13,627	\$ ----	\$ (48)	\$ 13,579
Agency mortgage-backed securities, residential	92,935	653	(622)	92,966
Total securities	\$ 106,562	\$ 653	\$ (670)	\$ 106,545

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December 31, 2016

U.S. Government sponsored entity securities	\$ 10,624	\$ ----	\$ (80)	\$ 10,544
Agency mortgage-backed securities, residential	87,367	495	(1,916)	85,946
Total securities	\$ 97,991	\$ 495	\$ (1,996)	\$ 96,490

NOTE 3 – SECURITIES (Continued)

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Securities Held to Maturity				
<u>September 30, 2017</u>				
Obligations of states and political subdivisions	\$ 18,164	\$ 694	\$ (40	) \$ 18,818
Agency mortgage-backed securities, residential	4	----	----	4
Total securities	\$ 18,168	\$ 694	\$ (40	) \$ 18,822
<u>December 31, 2016</u>				
Obligations of states and political subdivisions	\$ 18,661	\$ 654	\$ (148	) \$ 19,167
Agency mortgage-backed securities, residential	4	----	----	4
Total securities	\$ 18,665	\$ 654	\$ (148	) \$ 19,171

The amortized cost and estimated fair value of debt securities at September 30, 2017, 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.

Debt Securities:	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$4,602	\$4,593	\$89	\$89
Due in over one to five years	6,025	5,996	6,764	7,000
Due in over five to ten years	3,000	2,990	8,055	8,482
Due after ten years	----	----	3,256	3,247
Agency mortgage-backed securities, residential	92,935	92,966	4	4
Total debt securities	\$106,562	\$106,545	\$18,168	\$18,822

The following table summarizes securities with unrealized losses at September 30, 2017 and December 31, 2016, aggregated by major security type and length of time in a continuous unrealized loss position:

<u>September 30, 2017</u>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Securities Available for Sale</u>						
U.S. Government sponsored entity securities	\$10,987	\$ (24	) \$2,592	\$ (24	) \$13,579	\$ (48
Agency mortgage-backed securities, residential	42,408	(355	) 10,231	(267	) 52,639	(622
Total available for sale	\$53,395	\$ (379	) \$12,823	\$ (291	) \$66,218	\$ (670
	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	\$325	\$ (2)	\$1,173	\$ (38)	\$1,498	\$ (40)
Total held to maturity	\$325	\$ (2)	\$1,173	\$ (38)	\$1,498	\$ (40)

<u>December 31, 2016</u>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

Securities Available for Sale

U.S. Government sponsored entity securities	\$10,544	\$ (80)	\$----	\$ ----	\$10,544	\$ (80)
Agency mortgage-backed securities, residential	64,043	(1,916)	----	----	64,043	(1,916)
Total available for sale	\$74,587	\$ (1,996)	\$----	\$ ----	\$74,587	\$ (1,996)

NOTE 3 – SECURITIES (Continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
<u>Securities Held to Maturity</u>						
Obligations of states and political subdivisions	\$3,813	\$ (148)	\$----	\$ ----	\$3,813	\$ (148)
Total held to maturity	\$3,813	\$ (148)	\$----	\$ ----	\$3,813	\$ (148)

There were no sales of investment securities during the three and nine months ended September 30, 2017 and 2016. Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality as of September 30, 2017, and management does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at September 30, 2017 and December 31, 2016 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

	September 2017	December 2016
Loans are comprised of the following:	30,	31,
	2017	2016
Residential real estate	\$ 318,244	\$ 286,022
Commercial real estate:		
Owner-occupied	72,525	77,605
Nonowner-occupied	99,966	90,532
Construction	42,352	45,870
Commercial and industrial	103,550	100,589
Consumer:		
Automobile	67,999	59,772
Home equity	21,287	20,861
Other	52,034	53,650
	777,957	734,901
Less: Allowance for loan losses	(7,313)	(7,699)
Loans, net	\$ 770,644	\$ 727,202

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2017 and 2016:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>September 30, 2017</u>					
Allowance for loan losses:					
Beginning balance	\$ 1,300	\$ 2,813	\$ 932	\$ 1,907	\$ 6,952
Provision for loan losses	493	540	238	330	1,601
Loans charged off	(445)	(434)	(202)	(420)	(1,501)
Recoveries	83	41	4	133	261

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Total ending allowance balance \$ 1,431 \$ 2,960 \$ 972 \$ 1,950 \$7,313

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>September 30, 2016</u>					
Allowance for loan losses:					
Beginning balance	\$ 906	\$ 3,464	\$ 1,416	\$ 1,148	\$6,934
Provision for loan losses	228	802	149	529	1,708
Loans charged-off	(151)	(11)	(587)	(704)	(1,453)
Recoveries	30	19	1	298	348
Total ending allowance balance	\$ 1,013	\$ 4,274	\$ 979	\$ 1,271	\$7,537

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2017 and 2016:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>September 30, 2017</u>					
Allowance for loan losses:					
Beginning balance	\$ 939	\$ 4,315	\$ 907	\$ 1,538	\$7,699
Provision for loan losses	870	(636)	588	1,099	1,921
Loans charged off	(591)	(1,046)	(605)	(1,125)	(3,367)
Recoveries	213	327	82	438	1,060
Total ending allowance balance	\$ 1,431	\$ 2,960	\$ 972	\$ 1,950	\$7,313

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>September 30, 2016</u>					
Allowance for loan losses:					
Beginning balance	\$ 1,087	\$ 1,959	\$ 2,589	\$ 1,013	\$6,648
Provision for loan losses	10	2,264	(1,035)	1,089	2,328
Loans charged-off	(322)	(63)	(587)	(1,540)	(2,512)
Recoveries	238	114	12	709	1,073
Total ending allowance balance	\$ 1,013	\$ 4,274	\$ 979	\$ 1,271	\$7,537

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of September 30, 2017 and December 31, 2016:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>September 30, 2017</u>					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 127	\$ 111	\$ ----	\$ 2	\$240
Collectively evaluated for impairment	1,304	2,849	972	1,948	7,073
Total ending allowance balance	\$ 1,431	\$ 2,960	\$ 972	\$ 1,950	\$7,313
Loans:					
Loans individually evaluated for impairment	\$ 1,153	\$ 6,798	\$ 9,522	\$ 208	\$17,681
Loans collectively evaluated for impairment	317,091	208,045	94,028	141,112	760,276
Total ending loans balance	\$ 318,244	\$ 214,843	\$ 103,550	\$ 141,320	\$777,957

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
<u>December 31, 2016</u>					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ ----	\$ 2,535	\$ 241	\$ 205	\$2,981

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Collectively evaluated for impairment	939	1,780	666	1,333	4,718
Total ending allowance balance	\$ 939	\$ 4,315	\$ 907	\$ 1,538	\$ 7,699
Loans:					
Loans individually evaluated for impairment	\$ 717	\$ 13,111	\$ 8,465	\$ 416	\$ 22,709
Loans collectively evaluated for impairment	285,305	200,896	92,124	133,867	712,192
Total ending loans balance	\$ 286,022	\$ 214,007	\$ 100,589	\$ 134,283	\$ 734,901

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present information related to loans individually evaluated for impairment by class of loans as of September 30, 2017 and December 31, 2016:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
<u>September 30, 2017</u>			
With an allowance recorded:			
Residential real estate	\$ 224	\$ 221	\$ 127
Commercial real estate:			
Nonowner-occupied	604	530	111
Consumer:			
Home equity	208	208	2
With no related allowance recorded:			
Residential real estate	932	932	----
Commercial real estate:			
Owner-occupied	2,563	2,563	----
Nonowner-occupied	4,995	3,548	----
Construction	635	157	----
Commercial and industrial	9,522	9,522	----
Total	\$ 19,683	\$ 17,681	\$ 240

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
<u>December 31, 2016</u>			
With an allowance recorded:			
Commercial real estate:			
Owner-occupied	\$ 5,477	\$ 5,477	\$ 2,435
Nonowner-occupied	384	384	100
Commercial and industrial	392	392	241
Consumer:			
Home equity	416	416	205
With no related allowance recorded:			
Residential real estate	717	717	----
Commercial real estate:			
Owner-occupied	3,638	3,091	----
Nonowner-occupied	5,078	3,632	----
Construction	1,001	527	----
Commercial and industrial	8,073	8,073	----
Total	\$ 25,176	\$ 22,709	\$ 2,981

The following tables present information related to loans individually evaluated for impairment by class of loans for the three and nine months ended September 30, 2017 and 2016:

Three months ended September 30, 2017	Nine months ended September 30, 2017
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	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Residential real estate	\$221	\$ 7	\$ 7	\$55	\$ 7	\$ 7
Commercial real estate:						
Nonowner-occupied	563	3	3	584	12	12
Consumer:						
Home equity	208	1	1	210	5	5
With no related allowance recorded:						
Residential real estate	935	10	10	824	37	37
Commercial real estate:						
Owner-occupied	2,409	37	37	2,407	112	112
Nonowner-occupied	3,552	19	19	3,518	57	57
Construction	157	5	5	170	14	14
Commercial and industrial	9,260	135	135	8,776	358	358
Total	\$17,305	\$ 217	\$ 217	\$16,544	\$ 602	\$ 602

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial real estate:						
Owner-occupied	\$5,427	\$ 94	\$ 94	\$2,815	\$ 241	\$ 241
Nonowner-occupied	389	5	5	392	15	15
Commercial and industrial	391	----	----	391	----	----
Consumer:						
Home equity	217	1	1	218	5	5
With no related allowance recorded:						
Residential real estate	725	4	4	728	20	20
Commercial real estate:						
Owner-occupied	2,797	37	37	2,879	120	120
Nonowner-occupied	3,680	33	33	3,557	75	75
Construction	363	11	11	521	108	108
Commercial and industrial	8,575	103	103	8,234	290	290
Total	\$22,564	\$ 288	\$ 288	\$19,735	\$ 874	\$ 874

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 Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of September 30, 2017 and December 31, 2016, other real estate owned secured by residential real estate totaled \$384 and \$938, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of \$1,979 and \$1,492 as of September 30, 2017 and December 31, 2016, respectively.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of September 30, 2017 and December 31, 2016:

	Loans Past Due 90 Days And Still Accruing		Nonaccrual
	September 30, 2017		
Residential real estate	\$ 316	\$ 4,452	
Commercial real estate:			
Owner-occupied	----	308	
Nonowner-occupied	21	2,624	

Construction	----	402
Commercial and industrial	15	345
Consumer:		
Automobile	90	75
Home equity	390	35
Other	136	110
Total	\$ 968	\$ 8,351

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Loans Past Due 90 Days And Still Accruing		Nonaccrual
<u>December 31, 2016</u>			
Residential real estate	\$ 132		\$ 3,445
Commercial real estate:			
Owner-occupied	28		1,571
Nonowner-occupied	----		2,506
Construction	----		527
Commercial and industrial	----		867
Consumer:			
Automobile	121		5
Home equity	----		34
Other	46		6
Total	\$ 327		\$ 8,961

The following table presents the aging of the recorded investment of past due loans by class of loans as of September 30, 2017 and December 31, 2016:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
<u>September 30, 2017</u>						
Residential real estate	\$5,498	\$1,697	\$1,172	\$8,367	\$309,877	\$318,244
Commercial real estate:						
Owner-occupied	198	282	142	622	71,903	72,525
Nonowner-occupied	358	----	2,645	3,003	96,963	99,966
Construction	----	----	231	231	42,121	42,352
Commercial and industrial	440	42	250	732	102,818	103,550
Consumer:						
Automobile	982	206	112	1,300	66,699	67,999
Home equity	25	70	390	485	20,802	21,287
Other	609	243	137	989	51,045	52,034
Total	\$8,110	\$2,540	\$5,079	\$15,729	\$762,228	\$777,957
<u>December 31, 2016</u>	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More	Total Past Due	Loans Not Past Due	Total

			Past Due			
Residential real estate	\$3,728	\$953	\$2,201	\$6,882	\$279,140	\$286,022
Commercial real estate:						
Owner-occupied	134	366	1,325	1,825	75,780	77,605
Nonowner-occupied	261	18	2,506	2,785	87,747	90,532
Construction	66	52	182	300	45,570	45,870
Commercial and industrial	1,283	483	800	2,566	98,023	100,589
Consumer:						
Automobile	1,091	221	126	1,438	58,334	59,772
Home equity	349	45	----	394	20,467	20,861
Other	685	155	46	886	52,764	53,650
Total	\$7,597	\$2,293	\$7,186	\$17,076	\$717,825	\$734,901

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 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the types of TDR loan modifications by class of loans as of September 30, 2017 and December 31, 2016:

	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
<u>September 30, 2017</u>			
Residential real estate:			
Interest only payments	\$ 702	\$ ----	\$702
Maturity extension at lower stated rate than market rate	230		230
Commercial real estate:			
Owner-occupied			
Interest only payments	94	----	94
Reduction of principal and interest payments	560	----	560
Maturity extension at lower stated rate than market rate	1,497	----	1,497
Credit extension at lower stated rate than market rate	412	----	412
Nonowner-occupied			
Interest only payments	560	2,115	2,675
Rate reduction	375	----	375
Credit extension at lower stated rate than market rate	570	----	570
Commercial and industrial:			
Interest only payments	8,752	----	8,752
Maturity extension at lower stated rate than market rate	770	----	770
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	----	208	208
Total TDR's	\$ 14,522	\$ 2,323	\$16,845
	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
<u>December 31, 2016</u>			
Residential real estate:			
Interest only payments	\$ 717	\$ ----	\$717
Commercial real estate:			
Owner-occupied			
Interest only payments	284	----	284
Rate reduction	----	232	232
Reduction of principal and interest payments	579	----	579
Maturity extension at lower stated rate than market rate	1,582	----	1,582
Nonowner-occupied			
Interest only payments	600	2,210	2,810
Rate reduction	384	----	384
Credit extension at lower stated rate than market rate	574	----	574

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Commercial and industrial:			
Interest only payments	8,074	----	8,074
Credit extension at lower stated rate than market rate	----	391	391
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	213	----	213
Credit extension at lower stated rate than market rate	203	----	203
 Total TDR's	 \$ 13,210	 \$ 2,833	 \$ 16,043

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

During the three months ended September 30, 2017, the TDR's described above increased the provision expense and the allowance for loan losses by \$93, with corresponding charge-offs of \$78. During the nine months ended September 30, 2017, the TDR's described above decreased the provision expense and the allowance for loan losses by \$42, with corresponding charge-offs of \$391. There was an increase of \$14 in the provision expense and the allowance for loan losses during the three months ended September 30, 2016, with corresponding charge-offs of \$11, and a decrease of \$1,105 in the provision expense and the allowance for loan losses during the nine months ended September 30, 2016, with corresponding charge-offs of \$11. During the year ended December 31, 2016, the TDR's described above decreased the allowance for loan losses and provision expense by \$1,112 with corresponding charge-offs of \$11.

At September 30, 2017, the balance in TDR loans increased \$802, or 5.0%, from year-end 2016. The Company had 86% of its TDR's performing according to their modified terms at September 30, 2017, compared to 82% at December 31, 2016. The Company's specific allocations in reserves to customers whose loan terms have been modified in TDR's totaled \$113 at September 30, 2017, compared to \$546 in reserves at December 31, 2016. At September 30, 2017, the Company had \$1,747 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, compared to \$2,427 at December 31, 2016.

There were no TDR loan modifications or defaults during the three months ended September 30, 2016. The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended September 30, 2017:

	Number of Loans	TDR's Performing to Modified Terms		TDR's Not Performing to Modified Terms	
		Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Three months ended September 30, 2017					
Commercial real estate:					
Owner-occupied					
Credit extension at lower stated rate than market rate	1	\$ 412	\$ 412	\$ ----	\$ ----
Total TDR's	1	\$ 412	\$ 412	\$ ----	\$ ----

The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the nine months ended September 30, 2017 and 2016:

	Number of Loans	TDR's Performing to Modified Terms		TDR's Not Performing to Modified Terms	
		Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Nine months ended September 30, 2017					
Residential real estate	1	\$ 231	\$ 231	\$ ----	\$ ----

Maturity extension at lower stated rate
than market rate

Commercial real estate:

Owner-occupied

Credit extension at lower stated rate than market
rate

Commercial and industrial

Total TDR's

1	412	412	----	----
2	770	770	----	----
4	\$ 1,413	\$ 1,413	\$ ----	\$ ----

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Number of Loans	TDR's Performing to Modified Terms		TDR's Not Performing to Modified Terms	
		Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Nine months ended September 30, 2016					
Commercial real estate:					
Nonowner-occupied					
Interest only payments	1	\$ ----	\$ ----	\$ 226	\$ 226
Credit extension at lower stated rate than market rate	1	574	574	----	----
Total TDR's	2	\$ 574	\$ 574	\$ 226	\$ 226

All of the Company's loans that were restructured during the nine months ended September 30, 2017 were performing in accordance with their modified terms and have not experienced any payment defaults within twelve months following their loan modification. The Company's loans that were restructured during the nine months ended September 30, 2016 included a loan for \$226 that experienced a payment default within twelve months following the loan modification and is not performing in accordance with the modified loan terms as of September 30, 2017. 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured. The loans modified during the nine months ended September 30, 2017 had no impact on the provision expense or the allowance for loan losses. As of September 30, 2017, the Company had no allocation of reserves to customers whose loan terms were modified during the first nine months of 2017. The loans modified during the nine months ended September 30, 2016 increased the provision expense and the allowance for loan losses by \$11. As of September 30, 2016, the Company had no allocation of reserves to customers whose loan terms were modified during the first nine months of 2016.

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 11. 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. 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.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

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

Doubtful. Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This classification should be temporary 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.

Loss. Loans classified as loss are considered uncollectible and are of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the credit has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset yielding such a minimum value even though partial recovery may be affected in the future. Amounts classified as loss should be promptly charged off.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of September 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of commercial loans by class of loans was as follows:

<u>September 30, 2017</u>	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	\$63,913	\$ 955	\$ 7,657	\$72,525
Nonowner-occupied	93,831	2,223	3,912	99,966
Construction	41,936	----	416	42,352
Commercial and industrial	96,614	1,350	5,586	103,550
Total	\$296,294	\$ 4,528	\$ 17,571	\$318,393

<u>December 31, 2016</u>	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	\$66,495	\$ 428	\$ 10,682	\$77,605
Nonowner-occupied	83,103	2,364	5,065	90,532
Construction	45,325	----	545	45,870
Commercial and industrial	94,091	188	6,310	100,589
Total	\$289,014	\$ 2,980	\$ 22,602	\$314,596

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

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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 repayment activity as of September 30, 2017 and December 31, 2016:

	<u>September 30, 2017</u> Consumer				
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	\$67,834	\$20,862	\$51,788	\$313,476	\$453,960
Nonperforming	165	425	246	4,768	5,604
Total	\$67,999	\$21,287	\$52,034	\$318,244	\$459,564

	<u>December 31, 2016</u> Consumer				
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	\$59,646	\$20,827	\$53,598	\$282,445	\$416,516
Nonperforming	126	34	52	3,577	3,789
Total	\$59,772	\$20,861	\$53,650	\$286,022	\$420,305

The Company, through its subsidiaries, originates residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 4.92% of total loans were unsecured at September 30, 2017, down from 5.61% at December 31, 2016.

NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At September 30, 2017, the contract amounts of these instruments totaled approximately \$73,460, compared to \$67,191 at December 31, 2016. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. Since many of these instruments are expected to expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTE 6 - OTHER BORROWED FUNDS

Other borrowed funds at September 30, 2017 and December 31, 2016 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes. At September 30, 2017 and December 31, 2016, FHLB Borrowings included \$48 and \$73 in capitalized lease obligations, respectively.

FHLB	Promissory	
Borrowings	Notes	Totals

September 30, 2017	\$ 29,235	\$ 7,540	\$36,775
December 31, 2016	\$ 29,203	\$ 7,882	\$37,085

Pursuant to collateral agreements with the FHLB, advances were secured by \$305,490 in qualifying mortgage loans, \$75,032 in commercial loans and \$5,365 in FHLB stock at September 30, 2017. Fixed-rate FHLB advances of \$29,195 mature through 2042 and have interest rates ranging from 1.53% to 3.31% and a year-to-date weighted average cost of 2.14%. There were no variable-rate FHLB borrowings at September 30, 2017.

At September 30, 2017, the Company had a cash management line of credit enabling it to borrow up to \$80,000 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 \$80,000 available on this line of credit at September 30, 2017.

NOTE 6 - OTHER BORROWED FUNDS (Continued)

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 \$221,723 at September 30, 2017. Of this maximum borrowing capacity, the Company had \$146,529 available to use as additional borrowings, of which \$80,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, are due at various dates through a final maturity date of August 1, 2026, and have fixed rates ranging from 1.25% to 4.09% through August 1, 2021 and a year-to-date weighted average cost of 2.77% at September 30, 2017, as compared to 2.34% at December 31, 2016. Promissory notes payable by Ohio Valley to related parties totaled \$360 at September 30, 2017 and December 31, 2016. Promissory notes payable to other banks totaled \$3,556 at September 30, 2017, as compared to \$3,899 at December 31, 2016.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$46,000 at September 30, 2017 and \$45,000 at December 31, 2016.

Scheduled principal payments as of September 30, 2017:

	FHLB Borrowings	Promissory Notes	Totals
2017	\$ 973	\$ 964	\$ 1,937
2018	2,891	2,261	5,152
2019	2,724	1,852	4,576
2020	2,541	519	3,060
2021	2,240	541	2,781
Thereafter	17,866	1,403	19,269
	\$ 29,235	\$ 7,540	\$ 36,775

NOTE 7 – SEGMENT INFORMATION

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

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 92.2% and 90.9% of total consolidated revenues for the quarters ended September 30, 2017 and 2016, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note 1 - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Information for the Company's reportable segments is as follows:

Three Months Ended September 30, 2017	
Banking	Consumer Finance

			Total Company
Net interest income	\$9,681	\$ 587	\$10,268
Provision expense	1,615	(14)	1,601
Noninterest income	2,224	58	2,282
Noninterest expense	8,579	643	9,222
Tax expense	69	5	74
Net income	1,642	11	1,653
Assets	1,008,078	11,536	1,019,614

NOTE 7 – SEGMENT INFORMATION (Continued)

Three Months Ended September
30, 2016

	Banking	Consumer Finance	Total Company
Net interest income	\$8,396	\$ 589	\$8,985
Provision expense	1,675	33	1,708
Noninterest income	1,655	38	1,693
Noninterest expense	8,167	661	8,828
Tax expense	(193)	(23)	(216)
Net income	402	(44)	358
Assets	957,889	12,341	970,230

Nine Months Ended September 30,
2017

	Banking	Consumer Finance	Total Company
Net interest income	\$28,558	\$ 2,646	\$31,204
Provision expense	1,815	106	1,921
Noninterest income	6,965	542	7,507
Noninterest expense	26,477	1,996	28,473
Tax expense	1,338	368	1,706
Net income	5,893	718	6,611
Assets	1,008,078	11,536	1,019,614

Nine Months Ended September
30, 2016

	Banking	Consumer Finance	Total Company
Net interest income	\$23,684	\$ 2,607	\$26,291
Provision expense	2,180	148	2,328
Noninterest income	6,220	569	6,789
Noninterest expense	22,460	2,110	24,570
Tax expense	975	311	1,286
Net income	4,289	607	4,896
Assets	957,889	12,341	970,230

NOTE 8 – SUBSEQUENT EVENTS

On October 6, 2017, the Company received \$730 in insurance proceeds for the reimbursement of fraudulent wire transactions. The losses were first recorded on May 9, 2017, when the Company was made aware that four wire transfers it had processed in May 2017 totaling \$933 were fraudulently initiated. During the second quarter of 2017, the Company had recovered \$103 of the losses. The insurance proceeds will be recorded as a recovery in the fourth

quarter of 2017 and will generate a \$730 increase to pre-tax earnings on a consolidated basis.

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

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

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control and which 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 legislation 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, 2016. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements, whether as a result of new information, unanticipated future events or otherwise.

Financial Overview

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

On August 5, 2016, the Company completed the merger of Milton Bancorp, Inc. ("Milton Bancorp") into Ohio Valley. Immediately following the merger, Milton Bancorp's wholly-owned subsidiary, The Milton Banking Company ("Milton Bank"), was merged with and into the Bank. Milton Bank's results of operations were included in the Company's results beginning August 6, 2016. This transaction resulted in the addition of \$132 million in assets and 5 branch locations in Jackson, Madison and Pickaway counties in Ohio.

Net income totaled \$1,653 during the third quarter of 2017, compared to \$358 during the third quarter of 2016. Earnings per share for the third quarter of 2017 finished at \$.35 per share, compared to \$.08 per share during the third

quarter of 2016. The Company's net income during the nine months ended September 30, 2017 totaled \$6,611, compared to \$4,896 during the nine months ended September 30, 2016. Earnings per share during the first nine months of 2017 finished at \$1.41 per share, compared to \$1.15 per share during the first nine months of 2016. Higher earnings during both the quarterly and year-to-date periods were impacted primarily by the benefits of higher net interest and noninterest income, as well as lower provision expense. These benefits were partially offset by general increases in various overhead expenses during both the quarterly and year-to-date periods.

The annualized net income to average asset ratio, or return on assets ("ROA"), increased to 0.87% at September 30, 2017, compared to 0.74% at September 30, 2016. The Company's net income to average equity ratio, or return on equity ("ROE"), also increased to 8.24% at September 30, 2017, compared to 6.85% at September 30, 2016.

Net interest income for the three and nine months ended September 30, 2017 showed positive growth over the same periods in 2016, increasing 14.3% and 18.9%, respectively. The increase came primarily from interest revenues associated with year-to-date average earning asset growth of \$119,910. The growth in year-to-date average earning assets came primarily from average loans, which contributed \$129,968 to the increase in average earning assets. While the Company continues to experience growth from its existing markets, the large growth in loans came primarily from the Milton Bank merger, which resulted in the acquisition of \$112 million in loans. Also contributing to net interest income growth was higher interest recorded from the Company's interest-bearing Federal Reserve clearing account. While the average interest-bearing balances maintained at the Federal Reserve have decreased 19.4% during the first nine months of 2017, it has been the Federal Reserve's action of increasing short-term interest rates that has contributed to higher interest income.

During the three and nine months ended September 30, 2017, the Company's provision expense decreased \$107 and \$407 from the same periods in 2016, respectively. Lower provision expense during 2017 was largely impacted by a \$2,741 decrease in specific allocations from December 31, 2016 related to the financial performance improvement of one commercial real estate loan relationship during the first quarter of 2017. The decrease in specific allocations was partially offset by a \$2,355 increase in general allocations from December 31, 2016 related to specific loan portfolio risks that management determined were necessary. Provision expense during 2017 has also benefited from lower net charge-offs on loans without specific reserves. Impacted by a lower level of specific reserves, the allowance for loan losses decreased by \$386 from year-end 2016 to finish at \$7,313, or .94% of total loans at September 30, 2017, compared to 1.05% at December 31, 2016 and 1.04% at September 30, 2016.

Total noninterest income during the three months ended September 30, 2017 increased \$589, or 34.8%, over the third quarter of 2016, and increased \$718, or 10.6%, during the first nine months of 2017, as compared to the same period in 2016. Noninterest income improvement was impacted primarily by bank owned life insurance and annuity assets, which grew over \$400 during both the quarterly and year-to-date periods. This was largely the result of net bank owned life insurance proceeds collected in the third quarter of 2017. Further impacting noninterest income growth were increases in fee income related to a higher deposit base from the Milton Bank acquisition. The higher deposit base contributed to year-to-date increases of over 30% in debit and credit card interchange income and over 11% in service charges on deposit accounts. Partially offsetting growth in noninterest income were lower tax processing fees through ERC/ERD transactions during the nine months ended September 30, 2017. In addition to a reduced number of tax refunds being processed during the first nine months of 2017, the per item fees received by the Company were lower under the new contract with the third-party tax refund product provider. Comparing 2017 to 2016, the change in the remaining noninterest income categories was minimal during the third quarter, increasing \$24, while the year-to-date change resulted in a decrease of \$121 during the nine months ending September 30, primarily from higher losses on the sale of other real estate owned ("OREO").

Total noninterest expense increased \$394 for the third quarter of 2017, and increased \$3,903 during the first nine months of 2017, as compared to the same periods in 2016. The increase was impacted by the acquisition of Milton Bank, which contributed to general increases in most noninterest expense categories related to having a larger organization after the merger. Overhead expense has been impacted mostly by salaries and employee benefit costs, which decreased by \$13, or 0.3%, during the third quarter of 2017, but increased \$1,398, or 9.9%, during the first nine months of 2017, as compared to the same periods in 2016. Contributing to the decrease for the third quarter was a \$316 reduction in non-qualified defined benefit expenses associated with the restructuring of and accounting for post-retirement benefits of a former employee. The year-to-date increase was largely the result of adding Milton Bank employees, as well as annual merit increases and higher health insurance costs. Further contributing to higher overhead costs was fraud expense. During the second quarter of 2017, management discovered four fraudulent wire

transfers with a single account relationship totaling \$933. After recovering a portion of the money, the Company's net fraud expense totaled \$842 as of September 30, 2017, which impacted other noninterest expense during the nine months ended September 30, 2017. These increases were partially offset by a decrease in merger related expenses, which were down \$410 and \$744 during the three and nine months ended September 30, 2017, as compared to the same periods in 2016, respectively. The remaining noninterest categories increased \$805, or 23.8%, during the three months ended September 30, 2017, and increased \$2,407, or 24.9%, during the nine months ended September 30, 2017, as compared to 2016. This additional overhead expense came primarily from data processing, consulting costs, professional fees, and expenses associated with facilities.

At September 30, 2017, total assets were \$1,019,614, compared to \$954,640 at year-end 2016. Asset growth was impacted mostly by gross loan balances, which were up by \$43,056 from year-end 2016, driven by higher residential real estate and consumer auto loan originations, as well as commercial loan balance increases from the West Virginia market area. Total investment securities also increased 8.3% from year-end 2016, due mostly to new purchases of mortgage-backed securities. The growth experienced in loans and securities was partially funded by deposits, which increased 7.4% from year-end 2016.

Total liabilities were \$909,652 at September 30, 2017, up \$59,540 from December 31, 2016. Total deposit balances experienced continued growth during 2017, increasing \$58,729 compared to year-end 2016. Noninterest-bearing deposits accounted for \$23,602 of the increase, coming mostly from business checking and incentive-based checking account transactions. Interest-bearing deposits increased by \$35,127, coming mostly from public fund accounts and wholesale deposits.

At September 30, 2017, total shareholders' equity was \$109,962, up \$5,434 since December 31, 2016. Regulatory capital ratios of the Company remained higher than the "well capitalized" minimums.

Comparison of Financial Condition at September 30, 2017 and December 31, 2016

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at September 30, 2017 compared to December 31, 2016. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10 Q.

Cash and Cash Equivalents

At September 30, 2017, cash and cash equivalents were \$50,402, an increase of \$10,236 from \$40,166 at December 31, 2016. The increase in cash and cash equivalents came mostly from the Company's interest-bearing Federal Reserve Bank clearing account, impacted by excess funds associated with deposit liability growth from year-end 2016. The Company utilizes its interest-bearing Federal Reserve Bank clearing account to maintain seasonal tax refund deposits, as well as to fund earning asset growth and maturities of retail certificates of deposit ("CD's"). The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee. Short-term rate increases of 25 basis points during each of December 2016, March 2017 and June 2017 caused the federal funds rate to finish at 1.25% at September 30, 2017. The interest rate increases had a corresponding effect on the interest revenue growth experienced during the first nine months of 2017 on Federal Reserve Bank clearing account balances. The 1.25% interest rate is higher than the rate the Company would have received from its investments in federal funds sold. 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. The Company's focus will be to invest excess funds in longer-term, higher-yielding assets, primarily loans, when the opportunities arise.

Certificates of deposit

At September 30, 2017, the Company had \$1,820 in certificates of deposit owned by the Captive, up slightly from year-end 2016. The deposits on hand at September 30, 2017 consist of eight certificates with remaining maturity terms ranging from less than 12 months up to 35 months.

Securities

The balance of total securities increased \$9,558, or 8.3%, compared to year-end 2016. The Company's investment securities portfolio is made up mostly of U.S. Government agency ("Agency") mortgage-backed securities, which increased \$7,020, or 8.2%, from year-end 2016 and represented 74.6% of total investments at September 30, 2017. During the first nine months of 2017, the Company invested \$18,105 in new Agency mortgage-backed securities, while receiving principal repayments of \$12,302. 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. The Company also experienced a \$3,035, or 28.8%, increase in U.S. Government sponsored entity securities, primarily from new purchases during the second quarter of 2017.

Loans

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. Gross loan balances totaled \$777,957 at September 30, 2017, representing an increase of \$43,056, or 5.9%, as compared to \$734,901 at December 31, 2016. Loans were positively impacted by growth in residential real estate, consumer automobile and commercial and industrial loan balances.

The residential real estate loan segment comprises the largest portion of the Company's overall loan portfolio at 40.9% and consists primarily of one- to four-family residential mortgages and carries many of the same customer and industry risks as the commercial loan portfolio. Residential real estate loan balances during the first nine months of 2017 increased \$32,222 or 11.3%, from year-end 2016. This increase was largely from the Bank's warehouse lending volume. Warehouse lending consists of a line of credit provided by the Bank to another mortgage lender that makes loans for the purchase of one- to four-family residential real estate properties. The mortgage lender eventually sells the loans and repays the Bank. From year-end 2016, warehouse lending balances increased \$9,630 to finish at \$15,155 at September 30, 2017. The Company's growth in residential real estate loans was further impacted by higher balances in its Athens, Ohio and West Virginia markets, which were up \$9,341 and \$6,095, respectively. The real estate loan portfolio is also impacted by loan construction projects. During the period when a borrower's one- to four-family residential home is being built, it is first classified as a construction loan. At the completion of this construction phase, the loan is re-classified to a residential real estate loan. At September 30, 2017, construction loans were down 7.7%, indicating a higher transition of loan balances from commercial real estate to residential real estate. Total loan production within the real estate portfolio consists of increasing short-term adjustable-rate mortgages partially offset by decreasing long-term fixed-rate mortgages. As part of management's interest rate risk strategy, the Company continues to sell most of its long-term fixed-rate residential mortgages to the Federal Home Loan Mortgage Corporation, while maintaining the servicing rights for those mortgages. 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, which contributed to higher balances of adjustable-rate mortgages from year-end 2016.

The commercial lending segment increased \$3,797, or 1.2%, from year-end 2016, which came mostly from the commercial and industrial loan portfolio, which increased \$2,961, or 2.9%, from year-end 2016. The increase was impacted by loan originations from the West Virginia market area during the first quarter of 2017. 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.

The commercial real estate loan segment comprises the largest portion of the Company's total commercial loan portfolio at September 30, 2017, representing 67.5%. At September 30, 2017, commercial real estate loans totaled \$214,843, which were comparable to the \$214,007 in commercial real estate loans at year-end 2016. Larger payoffs caused owner-occupied loans to decrease \$5,080, or 6.5%, from year-end 2016, while a higher number of one- to four-family residential homes completed their building phase, causing construction loans to decrease \$3,518, or 7.7%, from year-end 2016. Partially offsetting these decreases was an increase in loan originations causing nonowner-occupied loan balances to grow by \$9,434, or 10.4%, from year-end 2016. 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. Management will continue to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Consumer loan balances at September 30, 2017 represented an increase of \$7,037, or 5.2%, from year-end 2016. The increase was largely due to the Company's automobile loan segment, which grew by \$8,227, or 13.8%, from year-end 2016. Automobile loans represent the Company's largest consumer loan segment at 48.1% of total consumer loans. The Company continues to target more auto dealers within its market areas and offer interest rates that are more competitive with local banks. Growth in automobile loans was partially offset by decreases in other consumer loans, which were down 3.0%. The Company will continue to monitor its auto lending segment while maintaining strict loan underwriting processes to limit future loss exposure.

Allowance for Loan Losses

The Company established a \$7,313 allowance for loan losses at September 30, 2017, which was a decrease from the \$7,699 allowance at year-end 2016. The allowance was impacted by a decrease of \$2,741 in specific allocations from year-end 2016. Specific allocations of the allowance for loan losses identify loan impairment by measuring fair value of the underlying collateral and the present value of estimated future cash flows. When re-evaluating the impaired loan balances to their corresponding collateral values at September 30, 2017, it was determined that a commercial real estate loan relationship was no longer impaired and no longer collateral dependent due to the borrower's financial performance improvement. This resulted in the removal of that borrower's specific allocation of \$1,681 that had previously been identified as impairment. Further contributing to lower specific reserves during the first nine months of 2017 were the charge-offs of several collateral dependent specific allocations. Total charge-offs of \$612 in commercial real estate loans and \$399 in commercial and industrial loans were recorded as a result of asset impairment. However, these specific reserves had already been allocated for prior to 2017, which resulted in no corresponding provision expense impact in 2017.

Partially offsetting the decrease in specific allocations was an increase in the Company's general allocations of the allowance for loan losses from year-end 2016. As part of the Company's quarterly analysis of the allowance for loan losses, management reviewed various factors that directly impact the general allocation need of the allowance, which include: historical loan losses, loan delinquency levels, local economic conditions and unemployment rates, criticized/classified asset coverage levels and loan loss recoveries. The Company maintained troubled loans at comparable levels to year-end 2016, which, when combined with a 5.9% growth in total loans, caused the ratio of nonperforming loans to total loans to decrease from 1.26% at December 31, 2016 to 1.20% at September 30, 2017. Comparable levels of nonperforming assets combined with a 6.8% growth in total assets contributed to a decrease in the ratio of nonperforming assets to total assets, finishing at 1.13% at September 30, 2017, compared to 1.20% at December 31, 2016. General risks in the portfolio were also positively impacted by lower impaired loans at September 30, 2017, which decreased \$5,028, or 22.1%, from year-end 2016. However, it was the addition of new risk factors during the first quarter of 2017 that caused the general allocation component of the allowance for loan losses to increase \$2,355, or 49.9%, from year-end 2016. During the first quarter of 2017, the Company continued to experience lower historical loan loss factors, which prompted management to evaluate the exposure to losses incurred during an economic downturn. Based on historical losses incurred outside the Company's lookback period, management determined it would be necessary to include an economic risk factor to add general reserves for losses based upon the difference in the Company's current historical loss factors and risks in the portfolio. Furthermore, management evaluated recent changes in loan underwriting standards, which may expose the loan portfolio to additional credit risk. As a result, an economic risk factor was added, which contributed to additional general reserves.

The Company's allowance for loan losses to total loans ratio finished at 0.94% at September 30, 2017 and 1.05% at year-end 2016. Management believes that the allowance for loan losses at September 30, 2017 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy, are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits continue to be the most significant source of funds used by the Company to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Total deposits at September 30, 2017 increased \$58,729, or 7.4%, from year-end 2016. This deposit growth came primarily from interest-bearing deposit balances, which increased \$35,127, or 6.1%, from year-end 2016. While the Company's

preference is to fund earning asset demand with retail core deposits, the use of wholesale deposits has been utilized to help satisfy earning asset growth. With market rates remaining at historically low levels, the Company considers wholesale deposits to be a cost-effective funding source to help manage the growing demand for loans. As a result, wholesale deposits contributed \$21,688 to the growth in interest-bearing deposits from year-end 2016. Interest-bearing deposit growth was impacted by interest-bearing NOW account balances, which increased \$16,061, or 10.4%, during the first nine months of 2017 as compared to year-end 2016. This increase was largely driven by growth in municipal NOW products. Interest-bearing deposit growth also came from money market account balances, which increased \$2,645, or 2.0%, from year-end 2016, largely from brokered money market deposits partially offset by declines in the Company's Market Watch account balances. Growth in interest-bearing deposits was further impacted by a \$2,699, or 2.8%, increase in statement savings account balances from year-end 2016.

During the first nine months of 2017, time deposits increased \$12,853, or 6.8%, from year-end 2016. This was largely driven by the Company's use of wholesale funding, which saw its brokered CD's increase by \$11,648, or 48.4%, from year-end 2016. Retail time deposits have increased just 0.7% from year-end 2016. Based on the minimal spread between a short-term CD rate and a statement savings rate, many customers choose to invest balances into a more liquid product, perhaps hoping for rising rates in the near future. This change in retail time deposits from year-end 2016 fits within management's strategy of focusing on more "core" deposit balances, while utilizing wholesale deposit sources as needed.

Also contributing to growth in deposits was the Company's noninterest-bearing deposits, which increased \$23,602, or 11.3%, from year-end 2016. This growth was largely impacted by the Company's business checking account balances, which grew \$17,125, or 15.3%, from year-end 2016. Business checking activity continues to be impacted by the seasonal ERC/ERD tax refund processing that occurs primarily during the first four months of the year. The Company facilitates a significant volume of tax items within several business checking accounts during this seasonal period, which resulted in over \$4 million of retained funds. Growth in the Company's business checking accounts also came from the Mason County, West Virginia market area, increasing over \$9 million from year-end 2016.

Noninterest deposits were also impacted by growth in incentive based checking account balances from year-end 2016. While facing increased competition for deposits in its market areas, the Company will continue to emphasize growth and retention in its core deposit relationships during the remainder of 2017, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

Other Borrowed Funds

Other borrowed funds were \$36,775 at September 30, 2017, a decrease of \$310, or 0.8%, from year-end 2016. The decrease was due to the maturity repayment of a \$3,000 advance during the third quarter of 2017. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize Federal Home Loan Bank advances and promissory notes to help manage interest rate sensitivity and liquidity.

Shareholders' Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At September 30, 2017, the Bank's capital exceeded the minimum requirements to be deemed "well capitalized" under applicable prompt corrective action regulations. Total shareholders' equity at September 30, 2017 of \$109,962 increased \$5,434, or 5.2%, as compared to \$104,528 at December 31, 2016. Capital growth during 2017 came primarily from year-to-date net income of \$6,611.

Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2017 and 2016

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three and nine months ended September 30, 2017 compared to the same period in 2016. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10 Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. During the third quarter of 2017, net interest income increased \$1,283, or 14.3%, as compared to the third quarter of 2016. During the nine months ended September 30, 2017, net interest income also increased \$4,913, or 18.7%, as compared to the nine months ended September 30, 2016. The improvement came primarily from the acquisition of Milton Bank during the third quarter of 2016, which contributed to higher interest income on acquired earning assets partially offset by interest expense on acquired interest-bearing deposits. In total, the Company benefited from \$3,495 in net interest income generated by the Milton Bank acquisition. Further contributions to net interest income came from higher interest income on interest-bearing deposits with banks as a result of short-term rate increases.

Total interest and fee income recognized on the Company's earning assets increased \$1,493, or 15.2%, during the third quarter of 2017, which contributed to a year-to-date increase of \$5,537, or 19.4%, as compared to the same periods in 2016. While the Company generated loan growth primarily through the Milton Bank merger, there were already trends of loan origination improvement making a positive impact to loan earnings. Warehouse lending balances are up \$15,155 from a year ago at September 30, 2016. The West Virginia market areas have been successful in generating over \$18 million in loans from a year ago at September 30, 2016. The Athens, Ohio loan production office has generated over \$14 million in commercial and residential real estate loans from a year ago at September 30, 2016. Loan growth has also been improving within the automobile segment, as well as the commercial and industrial loan segment, impacted by loan participations and loans to states and political subdivisions from a year ago. With the merger and improved loan production, the Company's loan income increased \$1,404, or 15.5%, during the third quarter of 2017, which contributed to a year-to-date increase of \$5,263, or 20.1%, as compared to the same periods in 2016.

During the three and nine months ended September 30, 2017, total other interest income increased \$21, or 31.3%, and \$140, or 41.7%, as compared to the same periods in 2016, respectively. The increases were primarily due to higher interest revenue recorded from the Company's interest-bearing Federal Reserve clearing account. The Company continues to utilize its Federal Reserve clearing account to manage seasonal tax refund deposits and fund earning asset growth. This interest-bearing account carried an interest rate of 0.50% during most of 2016. In December 2016, the Federal Reserve increased short-term rates by 25 basis points, and then again in both March and June 2017 by another 25 basis points each. These short-term rate adjustments have increased the Federal Reserve clearing account's interest rate from 0.50% of a year ago to 1.25%. The timing of the December 2016 and March 2017 rate adjustments benefited the Company, as it entered into the first quarter of 2017 experiencing significant levels of excess funds impacted by the large volume of ERC/ERD transactions that was maintained within the Federal Reserve clearing account. Since the first quarter of 2017, these excess funds have been decreasing as a result of exiting the tax season, as well as funding earning asset growth. Even though this year's Federal Reserve clearing average balance has decreased 19.4%, the interest income remains up over the prior year due to the short-term rate increases.

Total interest expense incurred on the Company's interest-bearing liabilities during the third quarter of 2017 increased \$210, or 25.0%, and increased \$624, or 28.2%, during the nine months ended September 30, 2017, as compared to the same periods in 2016. The increases were primarily from the Milton Bank acquired deposits that generated more interest expense. However, the Company's interest expense continues to be minimized by a sustained low-rate environment that has impacted the repricings of various Bank deposit products, including certain interest-bearing demand accounts. The low-rate environment has also limited the impact of the Company's use of wholesale deposits during 2017. As a result, there has been minimal change to the weighted average cost of the Company's core deposits, which finished at 0.26% at September 30, 2017, as compared to 0.23% at September 30, 2016. The Company continues to utilize more of its lower cost, core deposit funding sources to further reduce interest expense. In addition, over 60% of the acquired Milton Bank deposits consisted of core deposit funding sources. As a result, the Company's average interest- and non-interest bearing core deposits increased \$79,665, or 13.7%, while the average balances of higher costing time deposits increased \$23,005, or 14.3%, during the first nine months of 2017, as compared to the same period in 2016. The minimal change in average market interest rates and the continued emphasis on utilizing lower costing deposit balances have caused the Company's total weighted average costs on interest-bearing deposits to increase by only 4 basis points from 0.42% at September 30, 2016 to 0.46% at September 30, 2017.

During 2017, the Company's net interest margin results improved over the prior year, finishing at 4.52% during the third quarter of 2017, as compared to 4.29% during the third quarter of 2016. The net interest margin also improved to 4.50% during the first nine months of 2017, as compared to 4.34% during the first nine months of 2016. This improvement was due to a 14.5% increase in average earning assets combined with a higher deposit mix of lower-costing core deposits and a sustained low rate environment that has helped to minimize interest expense. The Company's primary focus is to invest its funds into higher yielding assets, particularly loans, as opportunities arise. However, if loan balances do not continue to expand and remain a larger component of overall earning assets, the

Company will face pressure within its net interest income and margin improvement.

Provision for Loan Losses

During the third quarter of 2017, the Company experienced a decrease in provision expense of \$107, or 6.3%, as compared to the third quarter of 2016. During the first nine months of 2017, the Company experienced a decrease in provision expense of \$407, or 17.5%, as compared to the first nine months of 2016. The decreases in provision expense during both periods were primarily due to a \$2,741 decrease in specific allocations, which was mostly due to one commercial real estate loan relationship. As previously mentioned, the financial improvement of this commercial borrower contributed to the removal of \$1,681 in specific allocations, which lowered provision expense during the first nine months of 2017. The benefit of lower specific reserves was partially offset by a \$2,355 increase in general allocations from year-end 2016. As previously mentioned, management further evaluated the risks associated with loan loss history and loan underwriting that resulted in additional risk factors being added to the allowance for loan loss determination during the first quarter of 2017.

Net charge-offs increased \$135 during the third quarter of 2017, and increased \$868 during the first nine months of 2017, as compared to the same periods in 2016. The year-to-date increase was largely related to charge-offs of specific reserves for which allocations had been made prior to 2017, which resulted in specific reserve charge-offs of \$1,011 during the first nine months of 2017. Due to these allocations being made prior to 2017, there was no corresponding provision expense associated with these charge-offs that impacted the current year. As a result, net charge-offs for loans without specific reserves decreased \$143 during the first nine months of 2017, as compared to the same period in 2016.

Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

Noninterest Income

Noninterest income for the three months ended September 30, 2017 increased \$589, or 34.8%, when compared to the three months ended September 30, 2016. Noninterest income for the nine months ended September 30, 2017 increased \$718, or 10.6%, when compared to the nine months ended September 30, 2016. The increase in quarterly 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 third quarter of 2017, the Company recorded \$3,530 in anticipated cash proceeds related to four BOLI policies, which yielded net BOLI proceeds of \$399 that was recorded to income. This amount contributed to the quarterly and year-to-date increase in BOLI and annuity asset income of \$402 and \$406, respectively, as compared to the same periods in 2016.

Further impacting growth in noninterest income were the effects from the Milton Bank merger in the third quarter of 2016. When compared to 2016, the Company benefited from \$422 in additional noninterest income during the nine months ended September 30, 2017, impacted by the inclusion of Milton Bank's customer deposit base. The third quarter benefit from Milton Bank was much more comparable, providing \$66 in additional noninterest income when compared to 2016. The larger deposit base contributed to year-to-date improvements in debit and credit card interchange income and service charges on deposit accounts, which increased collectively by \$803, or 24.5%, during the first nine months of 2017, as compared to the same period in 2016. The volume of transactions utilizing the Company's credit card and Jeanie Plus debit card continue to increase from a year ago, which are being impacted by cash and merchandise incentives that promote customer use of electronic payments.

During the three months ended September 30, 2017, the Company did not record any seasonal ERC/ERD fees, as compared to \$13 in fees during the same period in 2016. This contributed to a decrease of \$370, or 18.2%, in ERC/ERD fees during the nine months ended September 30, 2017, as compared to the same periods in 2016. In the fourth quarter of 2014, the Bank entered into a new agreement with a third-party tax refund product provider, which lowered the per-item fee associated with each refund facilitated. As a result, the lower fee structure has caused tax processing revenues to be lower than the year before. Furthermore, the Company experienced a decrease in the number of ERC/ERD transactions that were facilitated. As a result of ERC/ERD fee activity being mostly seasonal, a minimal amount of income is expected during the remainder of 2017.

The Company's remaining noninterest income categories were collectively up by \$24, or 8.7%, during the third quarter of 2017, and down by \$121, or 13.5%, during the first nine months of 2017, when compared to the same periods in 2016. The year-to-date decreases were primarily due to higher losses on OREO.

Noninterest Expense

Noninterest expense during the third quarter of 2017 increased \$394, or 4.5%, and increased \$3,903, or 15.9%, during the nine months ended September 30, 2017, as compared to the same periods in 2016. The acquisition of Milton Bank contributed to an increase in most of the noninterest expense categories related to having a larger organization after the merger. A significant contributor to noninterest expense was salaries and employee benefits, which increased by \$1,398, or 9.9%, during the nine months ended September 30, 2017, as compared to the same period in 2016. Higher employee costs continue to be impacted by the addition of Milton Bank employees, as well as annual merit increases and higher health insurance costs. However, during the three months ended September 30, 2017, salaries and employee benefits decreased \$34, or 5.9%, as compared to the same period in 2016. This was due to a \$316 reduction in non-qualified defined benefit expenses associated with the restructuring of and accounting for post-retirement benefits of a former employee.

The Company also experienced increases in data processing expense, which increased \$184, or 48.4%, during the third quarter of 2017, and increased \$583, or 54.5%, during the first nine months of 2017, as compared to the same periods in 2016. Data processing charges grew as a result of higher transaction volume associated with debit and credit cards, as well as higher processing charges from the Company's Big Rewards customer incentive platform.

Other noninterest expense increased \$400, or 34.8%, during the third quarter of 2017, and increased \$1,734, or 53.0%, during the first nine months of 2017, as compared to the same periods in 2016. The quarterly increase was driven by consulting expenses associated with revenue enhancement and efficiency improvement strategies. The year-to-date increase was primarily related to fraud expense that was recorded in the second quarter of 2017. At that time, the Company was made aware that the processing of four wire transfers associated with a single account relationship in May 2017 totaling \$933 were fraudulently initiated. After recovering a portion of the fraudulent wire costs and incurring some additional legal expense, the Company's net loss exposure at September 30, 2017 was \$842. Since the fraud event, the Company had been in contact with several insurance providers to determine whether or not existing insurance policies would cover all or part of the remaining losses. Subsequent to the report date, the Company learned that its commercial insurance policy would cover \$730 of the fraudulent wire expense. This resulted in the collection of \$730 in net insurance proceeds in October 2017, which will be recorded as a recovery during the fourth quarter of 2017.

Overhead expense was further impacted by increases in professional fees, which were up \$92, or 26.9%, during the third quarter of 2017, and up \$318, or 31.2%, during the first nine months of 2017, as compared to the same periods in 2016. Both period increases were impacted by legal expense associated with the recovery efforts on loan deficiency balances.

Partially offsetting overhead expenses were lower merger related expenses, which decreased \$410 during the three months ended September 30, 2017, and decreased \$744 during the first nine months of 2017, as compared to the same periods in 2016. During the first quarter of 2016, the Company executed the merger agreement with Milton Bancorp. The merger was eventually finalized on August 5, 2016. The Company anticipates the remaining merger related expenses in 2017 to be minimal.

The remaining noninterest expense categories increased \$141, or 9.3%, during the third quarter of 2017, and increased \$614, or 14.3%, during the first nine months of 2017, as compared to the same periods in 2016. The addition of Milton Bank contributed to the increases of various noninterest expense areas that include software, building and equipment, customer incentives, and intangible asset amortization.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. The effects from provision expense are excluded from the efficiency ratio.

Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. During the quarterly and year-to-date periods ending September 30, 2017, the Company was successful in generating more net interest income primarily due to higher average earning assets while minimizing funding costs. The Company also realized additional earnings in the third quarter from \$399 in BOLI proceeds combined with a \$316 reduction in benefit expenses for a former employee. These factors have completely offset the negative effects from lower tax processing fees, large fraudulent wire expense and higher personnel costs. This has caused the level of net revenues to outpace overhead expenses during 2017. As a result, the Company's efficiency numbers have improved, finishing at 72.3% and 72.5% during both the quarterly and year-to-date periods ended September 30, 2017, compared to the 81.5% and 73.2% efficiency levels during the same periods in 2016.

Capital Resources

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. In addition, in order for a financial holding company to continue to engage in activities permitted only for financial holding companies, it must be "well capitalized". Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company and the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity tier 1 capital to risk-weighted assets ratio of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets. The capital conservation buffer began to phase in on January 1, 2016 at 0.625%, and will be phased in over a four-year period, increasing by the same amount on each subsequent January 1, until fully phased-in on January 1, 2019. Further, Basel III rules increased the minimum ratio of tier 1 capital to risk-weighted assets increased from 4.0% to 6.0% and all banks are now subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio was unchanged. Failure to maintain the required common equity tier 1 capital conservation buffer will result in potential restrictions on a bank's ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

Prompt corrective action regulations provide five classifications: 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 capital restoration plans are required. At September 30, 2017 and year-end 2016, the Bank met the capital requirements to be deemed well capitalized under the regulatory framework for prompt corrective action. The Company's capital also met the requirements for the Company to be deemed well capitalized

The following table summarizes the capital ratios of the Company and Bank:

	9/30/17	12/31/16	Regulatory Minimum
Common equity tier 1 risk-based capital ratio			
Company	14.1%	14.0%	4.5%
Bank	14.1%	14.2%	4.5%
Tier 1 risk-based capital ratio			
Company	15.3%	15.3%	6.0%
Bank	14.1%	14.2%	6.0%
Total risk-based capital ratio			
Company	16.3%	16.4%	8.0%
Bank	15.1%	15.3%	8.0%
Leverage ratio			
Company	11.3%	11.2%	4.0%
Bank	10.5%	10.4%	4.0%

Cash dividends paid by the Company were \$2,947 during the first nine months of 2017. The year-to-date dividends paid totaled \$0.63 per share for 2017.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the marketplace. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities, totaling \$157,036, represented 15.4% of total assets at September 30, 2017. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At September 30, 2017, the Bank could borrow an additional \$146,529 from the FHLB, of which \$80,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At September 30, 2017, this line had total availability of \$52,433. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank.

Off-Balance Sheet Arrangements

As discussed in Note 5 – Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of

a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the financial statements in the Company's 2016 Annual Report to Shareholders. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses and business combinations to be critical accounting policies.

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.

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 for the consumer and real estate portfolio segment and 5 years for the commercial portfolio segment. The total loan portfolio's actual loss experience is supplemented with other economic factors based on the risks

present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

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

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

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

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 6 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 and inherent risk associated with such portfolios.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred and the amount of any noncontrolling interest in the acquiree. Acquisition related transaction costs are expensed and included in other operational result. When a business is acquired, the Company assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. We are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 Goodwill and Other Intangible Assets),

goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

Concentration of Credit Risk

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

Change in Interest Rates in Basis Points	September 30, 2017	December 31, 2016
	Percentage Change in Net Interest Income	Percentage Change in Net Interest Income
+300	.93%	(.39%)
+200	.81%	(.05%)
+100	.50%	.09%
-100	(1.54%)	(1.72%)

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 the Company to do so. At September 30, 2017, the interest rate risk profile reflects a modest asset sensitive position, which produces higher net interest income due to an increase in interest rates. 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 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10 Q. Based on that evaluation, Ohio Valley's Chief Executive Officer and Vice President and Chief Financial Officer have concluded that Ohio Valley's disclosure controls and procedures are effective as of the end of the quarterly period covered by this Quarterly Report on Form 10 Q to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors disclosed in Part I, Item 1.A. "Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission. These risk factors could materially affect the Company's business, financial condition or future results. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

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

Ohio Valley did not purchase any of its shares during the three months ended September 30, 2017.

Ohio Valley did not sell any unregistered equity securities during the three months ended September 30, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit Number	Exhibit Description
2(a)	<u>Agreement and Plan of Merger between Ohio Valley Banc Corp. and Milton Bancorp, Inc. dated January 7, 2016: Incorporated herein by reference to Exhibit 2.1 to Ohio Valley's Current Report on Form 8-K filed on January 7, 2016 (SEC File No. 0-20914).</u>
2(b)	<u>Amendment to Agreement and Plan of Merger by and between Ohio Valley Banc Corp. and Milton Bancorp, Inc., dated April 20, 2016: Incorporated herein by reference to Exhibit 2.1 to Ohio Valley's Current Report on Form 8-K filed on April 21, 2016 (SEC File No. 0-20914).</u>
3(a)	<u>Amended Articles of Incorporation of Ohio Valley (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914).</u>
3(b)	<u>Code of Regulations of Ohio Valley (as amended by the shareholders on May 12, 2010): Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (SEC File No. 0-20914).</u>
4	<u>Agreement to furnish instruments and agreements defining rights of holders of long-term debt: Filed herewith.</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer): Filed herewith.</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer): Filed herewith.</u>
32	<u>Section 1350 Certifications (Principal Executive Officer and Principal Accounting Officer): Filed herewith.</u>
101.INS #	XBRL Instance Document: Filed herewith. #
101.SCH #	XBRL Taxonomy Extension Schema: Filed herewith. #
101.CAL #	XBRL Taxonomy Extension Calculation Linkbase: Filed herewith. #
101.DEF #	XBRL Taxonomy Extension Definition Linkbase: Filed herewith. #
101.LAB #	XBRL Taxonomy Extension Label Linkbase: Filed herewith. #
101.PRE #	XBRL Taxonomy Extension Presentation Linkbase: Filed herewith. #

Attached as Exhibit 101 are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Unaudited Consolidated Balance Sheets; (ii) Unaudited Condensed Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Comprehensive Income; (iv) Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity; (v) Unaudited Condensed Consolidated Statements of Cash Flows; and (vi) Notes to the Consolidated Financial Statements.

SIGNATURES

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

OHIO VALLEY BANC CORP.

Date: November 9, 2017 By: /s/Thomas E. Wiseman
Thomas E. Wiseman
President and Chief Executive Officer

Date: November 9, 2017 By: /s/Scott W. Shockey
Scott W. Shockey
Senior Vice President and Chief Financial Officer