



**2008 Annual Report to Shareholders
December 31, 2008**

SELECTED FINANCIAL DATA

Years Ended December 31

	2008	2007	2006	2005	2004
(dollars in thousands, except share and per share data)					
SUMMARY OF OPERATIONS:					
Total interest income	\$ 51,533	\$ 54,947	\$ 52,421	\$ 46,071	\$ 43,490
Total interest expense	20,828	26,420	23,931	18,137	16,146
Net interest income	30,705	28,527	28,490	27,934	27,344
Provision for loan losses	3,716	2,252	5,662	1,797	2,353
Total other income	6,211	5,236	5,830	5,522	7,992
Total other expenses	23,343	22,583	21,199	21,359	20,926
Income before income taxes	9,857	8,928	7,459	10,300	12,057
Income taxes	2,729	2,631	2,061	3,283	3,676
Net income	7,128	6,297	5,398	7,017	8,381
PER SHARE DATA ⁽¹⁾ :					
Earnings per share	\$ 1.77	\$ 1.52	\$ 1.27	\$ 1.64	\$ 1.93
Cash dividends declared per share ...	\$.76	\$.71	\$.67	\$.63	\$.75
Book value per share	\$ 15.83	\$ 15.10	\$ 14.38	\$ 13.90	\$ 13.19
Weighted average number of common shares outstanding	4,018,367	4,131,621	4,230,551	4,278,562	4,338,598
AVERAGE BALANCE SUMMARY:					
Total loans	\$ 629,225	\$ 628,891	\$ 626,418	\$ 599,345	\$ 590,006
Securities ⁽²⁾	101,100	91,724	86,179	84,089	86,598
Deposits	606,126	595,610	585,301	542,730	537,162
Other borrowed funds ⁽³⁾	74,178	74,196	81,975	92,520	96,361
Shareholders' equity	61,346	60,549	59,970	57,620	55,788
Total assets	782,312	769,554	760,932	726,489	722,281
PERIOD END BALANCES:					
Total loans	\$ 630,391	\$ 637,103	\$ 625,164	\$ 617,532	\$ 600,574
Securities ⁽²⁾	99,218	100,713	90,161	84,623	86,674
Deposits	592,361	589,026	593,786	562,866	535,153
Shareholders' equity	63,056	61,511	60,282	59,271	56,579
Total assets	781,108	783,418	764,361	749,719	729,120
KEY RATIOS:					
Return on average assets .....	.91%	.82%	.71%	.97%	1.16%
Return on average equity	11.62%	10.40%	9.00%	12.18%	15.02%
Dividend payout ratio	42.94%	46.66%	52.56%	38.55%	38.89%
Average equity to average assets	7.84%	7.87%	7.88%	7.93%	7.72%

⁽¹⁾ Restated for stock splits as appropriate.

⁽²⁾ Securities include interest-bearing balances with banks and FHLB stock.

⁽³⁾ Other borrowed funds include subordinated debentures.

CONSOLIDATED STATEMENTS OF CONDITION

As of December 31

	2008	2007
(dollars in thousands, except share and per share data)		
Assets		
Cash and noninterest-bearing deposits with banks	\$ 16,650	\$ 15,584
Federal funds sold	<u>1,031</u>	<u>1,310</u>
Total cash and cash equivalents	17,681	16,894
Interest-bearing deposits in other financial institutions	611	633
Securities available-for-sale	75,340	78,063
Securities held-to-maturity (estimated fair value: 2008 - \$17,241; 2007 - \$15,764)	16,986	15,981
Federal Home Loan Bank stock	6,281	6,036
Total loans	630,391	637,103
Less: Allowance for loan losses	<u>(7,799)</u>	<u>(6,737)</u>
Net loans	622,592	630,366
Premises and equipment, net	10,232	9,871
Accrued income receivable	3,172	3,254
Goodwill	1,267	1,267
Bank owned life insurance	18,153	16,339
Other assets	<u>8,793</u>	<u>4,714</u>
Total assets	<u>\$ 781,108</u>	<u>\$ 783,418</u>
Liabilities		
Noninterest-bearing deposits	\$ 85,506	\$ 78,589
Interest-bearing deposits	<u>506,855</u>	<u>510,437</u>
Total deposits	592,361	589,026
Securities sold under agreements to repurchase	24,070	40,390
Other borrowed funds	76,774	67,002
Subordinated debentures	13,500	13,500
Accrued liabilities	<u>11,347</u>	<u>11,989</u>
Total liabilities	<u>718,052</u>	<u>721,907</u>
Commitments and Contingent Liabilities (See Note K)		
Shareholders' Equity		
Common stock (\$1.00 par value per share: 10,000,000 shares authorized; 2008 - 4,642,748 shares issued; 2007 - 4,641,747 shares issued)	4,643	4,642
Additional paid-in capital	32,683	32,664
Retained earnings	40,752	37,763
Accumulated other comprehensive gain (loss)	690	(115)
Treasury stock, at cost (2008 - 659,739 shares; 2007 - 567,403 shares)	<u>(15,712)</u>	<u>(13,443)</u>
Total shareholders' equity	<u>63,056</u>	<u>61,511</u>
Total liabilities and shareholders' equity	<u>\$ 781,108</u>	<u>\$ 783,418</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31	2008	2007	2006
(dollars in thousands, except per share data)			
Interest and dividend income:			
Loans, including fees	\$ 47,272	\$ 50,671	\$ 48,514
Securities:			
Taxable	3,109	3,079	2,851
Tax exempt	535	555	474
Dividends	323	398	339
Other interest	294	244	243
	51,533	54,947	52,421
 Interest expense:			
Deposits	16,636	21,315	18,594
Securities sold under agreements to repurchase	421	1,051	895
Other borrowed funds	2,682	2,911	3,163
Subordinated debentures	1,089	1,143	1,279
	20,828	26,420	23,931
Net interest income	30,705	28,527	28,490
Provision for loan losses	3,716	2,252	5,662
Net interest income after provision for loan losses	26,989	26,275	22,828
 Noninterest income:			
Service charges on deposit accounts	3,073	2,982	2,987
Trust fees	240	230	221
Income from bank owned life insurance	775	757	907
Gain on sale of loans	127	102	104
Loss on sale of other real estate owned	(31)	(777)	(55)
Other	2,027	1,942	1,666
	6,211	5,236	5,830
 Noninterest expense:			
Salaries and employee benefits	14,075	13,045	12,497
Occupancy	1,562	1,467	1,338
Furniture and equipment	1,048	1,086	1,120
Corporation franchise tax	606	671	669
Data processing	773	844	687
Other	5,279	5,470	4,888
	23,343	22,583	21,199
 Income before income taxes	9,857	8,928	7,459
Provision for income taxes	2,729	2,631	2,061
 NET INCOME	\$ 7,128	\$ 6,297	\$ 5,398
 Earnings per share	\$ 1.77	\$ 1.52	\$ 1.27

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2008, 2007 and 2006

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balances at January 1, 2006	\$ 4,626	\$ 32,282	\$ 31,843	\$ (1,231)	\$ (8,249)	\$ 59,271
Comprehensive income:						
Net income	—	—	5,398	—	—	5,398
Change in unrealized loss on available-for-sale securities	—	—	—	379	—	379
Income tax effect	—	—	—	(129)	—	(129)
Total comprehensive income	—	—	—	—	—	5,648
Common stock issued through dividend reinvestment, 4 shares	—	—	—	—	—	—
Cash dividends, \$.67 per share	—	—	(2,837)	—	—	(2,837)
Shares acquired for treasury, 71,487 shares	—	—	—	—	(1,800)	(1,800)
Balances at December 31, 2006	4,626	32,282	34,404	(981)	(10,049)	60,282
Comprehensive income:						
Net income	—	—	6,297	—	—	6,297
Change in unrealized loss on available-for-sale securities	—	—	—	1,313	—	1,313
Income tax effect	—	—	—	(447)	—	(447)
Total comprehensive income	—	—	—	—	—	7,163
Common stock issued to ESOP, 9,500 shares	10	238	—	—	—	248
Common stock issued through dividend reinvestment, 5,907 shares	6	144	—	—	—	150
Cash dividends, \$.71 per share	—	—	(2,938)	—	—	(2,938)
Shares acquired for treasury, 134,551 shares	—	—	—	—	(3,394)	(3,394)
Balances at December 31, 2007	4,642	32,664	37,763	(115)	(13,443)	61,511
Comprehensive income:						
Net income	—	—	7,128	—	—	7,128
Change in unrealized loss on available-for-sale securities	—	—	—	1,220	—	1,220
Income tax effect	—	—	—	(415)	—	(415)
Total comprehensive income	—	—	—	—	—	7,933
Common stock issued to ESOP, 1,000 shares	1	19	—	—	—	20
Common stock issued through dividend reinvestment, 1 share	—	—	—	—	—	—
Cash dividends, \$.76 per share	—	—	(3,061)	—	—	(3,061)
Shares acquired for treasury, 92,336 shares	—	—	—	—	(2,269)	(2,269)
Cumulative-effect adjustment in adopting EITF No. 06-04	—	—	(1,078)	—	—	(1,078)
Balances at December 31, 2008	\$ 4,643	\$ 32,683	\$ 40,752	\$ 690	\$ (15,712)	\$ 63,056

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31	2008	2007	2006
(dollars in thousands)			
Cash flows from operating activities:			
Net income	\$ 7,128	\$ 6,297	\$ 5,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	939	987	1,021
Net amortization and accretion of securities	101	66	94
Proceeds from sale of loans in secondary market	11,703	4,300	4,038
Loans disbursed for sale in secondary market	(11,576)	(4,198)	(3,933)
Gain on sale of loans	(127)	(102)	(104)
Deferred tax (benefit) expense	(102)	908	(903)
Provision for loan losses	3,716	2,252	5,662
Common stock issued to ESOP	20	248	—
Federal Home Loan Bank stock dividend	(245)	—	(338)
Loss on sale of other real estate owned	31	777	55
Change in accrued income receivable	82	(20)	(415)
Change in accrued liabilities	(1,720)	1,298	1,852
Change in other assets	(601)	(1,528)	(290)
Net cash provided by operating activities	<u>9,349</u>	<u>11,285</u>	<u>12,137</u>
Cash flows from investing activities:			
Proceeds from maturities of securities available-for-sale	24,643	8,969	12,261
Purchases of securities available-for-sale	(20,792)	(15,509)	(15,907)
Proceeds from maturities of securities held-to-maturity	2,046	1,009	354
Purchases of securities held-to-maturity	(3,060)	(3,649)	(1,625)
Change in interest-bearing deposits in other banks	22	(125)	2
Net change in loans	(991)	(19,498)	(11,589)
Proceeds from sale of other real estate owned	617	4,274	734
Purchases of premises and equipment	(1,300)	(1,046)	(2,534)
Proceeds from bank owned life insurance	—	71	174
Purchases of bank owned life insurance	(1,204)	—	—
Net cash used in investing activities	<u>(19)</u>	<u>(25,504)</u>	<u>(18,130)</u>
Cash flows from financing activities:			
Change in deposits	3,335	(4,760)	30,920
Cash dividends	(3,061)	(2,938)	(2,837)
Proceeds from issuance of common stock	—	150	—
Purchases of treasury stock	(2,269)	(3,394)	(1,800)
Change in securities sold under agreements to repurchase	(16,320)	17,834	(6,514)
Proceeds from Federal Home Loan Bank borrowings	13,000	20,000	5,000
Repayment of Federal Home Loan Bank borrowings	(16,014)	(14,061)	(22,146)
Change in other short-term borrowings	12,786	(2,483)	4,519
Proceeds from subordinated debentures	—	8,500	—
Repayment of subordinated debentures	—	(8,500)	—
Net cash provided by (used in) financing activities	<u>(8,543)</u>	<u>10,348</u>	<u>7,142</u>
Cash and cash equivalents:			
Change in cash and cash equivalents	787	(3,871)	1,149
Cash and cash equivalents at beginning of year	16,894	20,765	19,616
Cash and cash equivalents at end of year	<u>\$ 17,681</u>	<u>\$ 16,894</u>	<u>\$ 20,765</u>
Supplemental disclosure:			
Cash paid for interest	\$ 22,637	\$ 25,854	\$ 22,014
Cash paid for income taxes	2,827	878	3,623
Non-cash transfers from loans to other real estate owned	5,049	2,632	573

See accompanying notes to consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies

Description of Business: Ohio Valley Banc Corp. ("Ohio Valley") is a financial holding company registered under the Bank Holding Company Act of 1956. Ohio Valley has one banking subsidiary, The Ohio Valley Bank Company (the "Bank"), as well as a subsidiary that engages in consumer lending to individuals with higher credit risk history and a subsidiary insurance agency which sells life insurance.

The Company provides a full range of commercial and retail banking services from 21 offices located in central and southeastern Ohio and western West Virginia. It accepts deposits in checking, savings, time and money market accounts and makes personal, commercial, floor plan, student, construction and real estate loans. Substantially all loans are secured by specific items of collateral, including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from business operations. The Company also offers safe deposit boxes, wire transfers and other standard banking products and services. The Bank's deposits are insured by the Federal Deposit Insurance Corporation. In addition to accepting deposits and making loans, the Bank invests in U. S. Government and agency obligations, interest-bearing deposits in other financial institutions and investments permitted by applicable law.

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

Principles of Consolidation: The consolidated financial statements include the accounts of Ohio Valley and its wholly-owned subsidiaries, the Bank, Loan Central, a consumer finance company, and Ohio Valley Financial Services Agency, LLC, an insurance agency. Ohio Valley and its subsidiaries are collectively referred to as the "Company". All material intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas involving the use of management's estimates and assumptions that are more susceptible to change in the near term involve the allowance for loan losses, the fair value of certain securities, the fair value of financial instruments and the determination and carrying value of impaired loans.

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

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

Premium amortization is deducted from, and discount accretion is added to, interest income on securities using the level yield method. Gains and losses are recognized upon the sale of specific identified securities on the completed transaction basis. Securities are written down to fair value when a decline in fair value is other than temporary.

Loans: Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on an accrual basis using the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Payments received on such loans are reported as principal reductions.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. 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,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

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 or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. Impaired loans are carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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

The following represents the composition of the Company's loan portfolio at December 31, 2008:

	<u>% of Total Loans</u>
Residential real estate loans	40.09%
Commercial real estate loans	31.50%
Consumer loans	20.13%
Commercial and industrial loans....	7.11%
All other loans	1.17%
	<u>100.00%</u>

Approximately 3.79% of total loans are unsecured.

The Bank, in the normal course of its operations, conducts business with correspondent financial institutions. Balances in correspondent accounts, investments in federal funds, certificates of deposit and other short-term securities are closely monitored to ensure that prudent levels of credit and liquidity risks are maintained. At December 31, 2008, the Bank's primary correspondent balance was \$8,659 on deposit at Fifth Third Bank, Cincinnati, Ohio.

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

Other Real Estate: Real estate acquired through foreclosure or deed-in-lieu of foreclosure is included in other assets. Such real estate is carried at the lower of investment in the loan or estimated fair value of the property less estimated selling costs. Any reduction to fair value at the time of acquisition is accounted for as a loan charge-off. Any subsequent reduction in fair value is recorded as a loss on other assets. Costs incurred to carry other real estate are charged to expense. Other real estate owned totaled \$4,693 at December 31, 2008 and \$261 at December 31, 2007.

Goodwill: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Per Share Amounts: Earnings per share is based on net income divided by the following weighted average number of common shares outstanding during the periods: 4,018,367 for 2008; 4,131,621 for 2007; 4,230,551 for 2006. Ohio Valley had no dilutive securities outstanding for any period presented.

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

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption of FIN 48 had no impact on the Company's financial statements.

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

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

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain officers. These policies are recorded at their cash surrender value, or the amount that could be currently realized.

ESOP: Compensation expense is based on the market price of shares as they are committed to be allocated to participant accounts.

Adoption of New Accounting Standards: In September 2006, the FASB issued Statement of Financial Accounting Standards ("FAS") No. 157, "*Fair Value Measurements*". FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position ("FSP") 157-2, "*Effective Date of FASB Statement No. 157*". This FSP delays the effective date of FAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material. In October 2008, the FASB issued FSP 157-3, "*Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active*". This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company has not elected the fair value option for any financial assets or financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

In September 2006, the FASB Emerging Issues Task Force (“EITF”) finalized Issue No. 06-04, “*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*”. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement.

This issue was effective for fiscal years beginning after December 15, 2007. As a result of the adoption of EITF No. 06-04, the Company recognized a cumulative effect adjustment (decrease) to retained earnings of \$1,078, which also represented additional liability required to be provided under EITF No. 06-04 on January 1, 2008 related to the agreements.

On November 5, 2007, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (“SAB 109”). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 was effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption was not material.

Effect of Newly Issued But Not Yet Effective Accounting Standards: In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations (“FAS 141(R)”), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued FAS No. 160, “*Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*” (“FAS No. 160”), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company does not expect the adoption of FAS No. 160 to have a significant impact on its results of operations or financial position.

In March 2008, the FASB issued FAS No. 161, “*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133*”. FAS No. 161 amends and expands the disclosure requirements of FAS No. 133 for derivative instruments and hedging activities. FAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to Ohio Valley or by Ohio Valley to its shareholders. These restrictions pose no practical limit on the ability of the Bank or Ohio Valley to pay dividends at historical levels. See Note P for more specific disclosure related to dividend restrictions.

Restrictions on Cash: Cash on hand or on deposit with Fifth Third Bank and the Federal Reserve Bank of \$8,066 and \$8,312 was required to meet regulatory reserve and clearing requirements at year-end 2008 and 2007. The balances at Fifth Third Bank do not earn interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

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

Industry Segment Information: While management monitors the revenue streams of the various products and services, the identifiable segments are not material, and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable segment.

Reclassifications: The consolidated financial statements for 2007 and 2006 have been reclassified to conform with the presentation for 2008. These reclassifications had no effect on the net results of operations.

Note B - Securities

Securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
<u>December 31, 2008</u>				
U.S. Government sponsored entity securities	\$ 30,623	\$ 1,243	—	\$ 31,866
Mortgage-backed securities	43,671	82	\$ (279)	43,474
Total securities	<u>\$ 74,294</u>	<u>\$ 1,325</u>	<u>\$ (279)</u>	<u>\$ 75,340</u>
<u>December 31, 2007</u>				
U.S. Government sponsored entity securities	\$ 39,002	\$ 462	\$ (17)	\$ 39,447
Mortgage-backed securities	39,235	37	(656)	38,616
Total securities	<u>\$ 78,237</u>	<u>\$ 499</u>	<u>\$ (673)</u>	<u>\$ 78,063</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Held-to-Maturity				
<u>December 31, 2008</u>				
Obligations of states and political subdivisions	\$ 16,946	\$ 327	\$ (70)	\$ 17,203
Mortgage-backed securities	40	—	(2)	38
Total securities	<u>\$ 16,986</u>	<u>\$ 327</u>	<u>\$ (72)</u>	<u>\$ 17,241</u>
<u>December 31, 2007</u>				
Obligations of states and political subdivisions	\$ 15,933	\$ 236	\$ (451)	\$ 15,718
Mortgage-backed securities	48	—	(2)	46
Total securities	<u>\$ 15,981</u>	<u>\$ 236</u>	<u>\$ (453)</u>	<u>\$ 15,764</u>

At year-end 2008 and 2007, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with a carrying value of approximately \$73,539 at December 31, 2008 and \$78,843 at December 31, 2007 were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note B - Securities (continued)

The amortized cost and estimated fair value of debt securities at December 31, 2008, 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.

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Debt Securities:				
Due in one year or less	\$ 7,499	\$ 7,682	\$ 1,085	\$ 1,087
Due in one to five years	20,622	21,551	3,992	4,140
Due in five to ten years	2,502	2,633	2,865	2,999
Due after ten years	—	—	9,004	8,977
Mortgage-backed securities	43,671	43,474	40	38
Total debt securities	<u>\$ 74,294</u>	<u>\$ 75,340</u>	<u>\$ 16,986</u>	<u>\$ 17,241</u>

There were no sales of debt or equity securities during 2008, 2007 and 2006.

Securities with unrealized losses not recognized in income are as follows:

December 31, 2008	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>Description of Securities</u>						
U.S. Government sponsored entity securities	—	—	—	—	—	—
Mortgage-backed securities	\$ 12,759	\$ (178)	\$ 18,951	\$ (103)	\$ 31,710	\$ (281)
Obligations of states and political subdivisions	—	—	2,879	(70)	2,879	(70)
	<u>\$ 12,759</u>	<u>\$ (178)</u>	<u>\$ 21,830</u>	<u>\$ (173)</u>	<u>\$ 34,589</u>	<u>\$ (351)</u>

December 31, 2007	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>Description of Securities</u>						
U.S. Government sponsored entity securities	\$ 1,983	\$ (17)	—	—	\$ 1,983	\$ (17)
Mortgage-backed securities	663	(4)	\$ 32,938	\$ (654)	33,601	(658)
Obligations of states and political subdivisions	—	—	5,443	(451)	5,443	(451)
	<u>\$ 2,646</u>	<u>\$ (21)</u>	<u>\$ 38,381</u>	<u>\$ (1,105)</u>	<u>\$ 41,027</u>	<u>\$ (1,126)</u>

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality, management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the bonds approach their maturity date or reset date. Management does not believe any individual unrealized loss at December 31, 2008 represents an other-than-temporary impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note C - Loans

Loans are comprised of the following at December 31:

	<u>2008</u>	<u>2007</u>
Residential real estate	\$ 252,693	\$ 250,483
Commercial real estate	198,559	196,523
Commercial and industrial	44,824	55,090
Consumer	126,911	127,832
All other	7,404	7,175
Total loans	<u>\$ 630,391</u>	<u>\$ 637,103</u>

Note D - Allowance for Loan Losses

Following is an analysis of changes in the allowance for loan losses for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 6,737	\$ 9,412	\$ 7,133
Loans charged off:			
Commercial ⁽¹⁾	1,164	4,002	3,079
Residential real estate	225	422	432
Consumer	2,140	1,617	2,120
Total loans charged off	<u>3,529</u>	<u>6,041</u>	<u>5,631</u>
Recoveries of loans:			
Commercial ⁽¹⁾	95	248	946
Residential real estate	61	166	204
Consumer	719	700	1,097
Total recoveries of loans	<u>875</u>	<u>1,114</u>	<u>2,247</u>
Net loan charge-offs	(2,654)	(4,927)	(3,384)
Provision charged to operations	3,716	2,252	5,663
Balance, end of year	<u>\$ 7,799</u>	<u>\$ 6,737</u>	<u>\$ 9,412</u>

Information regarding impaired loans is as follows:

	<u>2008</u>	<u>2007</u>
Balance of impaired loans	\$ 8,099	\$ 6,871
Less portion for which no specific allowance is allocated	<u>5,513</u>	<u>2,568</u>
Portion of impaired loan balance for which an allowance for credit losses is allocated	<u>\$ 2,586</u>	<u>\$ 4,303</u>
Portion of allowance for loan losses allocated to the impaired loan balance	<u>\$ 1,404</u>	<u>\$ 1,312</u>
Average investment in impaired loans for the year	<u>\$ 9,027</u>	<u>\$ 6,918</u>
Past due 90 days or more and still accruing	<u>\$ 1,878</u>	<u>\$ 927</u>
Nonaccrual	<u>\$ 3,396</u>	<u>\$ 2,734</u>

Interest recognized on impaired loans was \$490, \$401 and \$939 for years ending 2008, 2007 and 2006, respectively. Accrual basis income was not materially different from cash basis income for the periods presented.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note E - Premises and Equipment

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

	<u>2008</u>	<u>2007</u>
Land	\$ 1,570	\$ 1,565
Buildings	10,220	9,953
Leasehold improvements	2,822	2,771
Furniture and equipment	12,489	11,511
	<u>27,101</u>	<u>25,800</u>
Less accumulated depreciation.....	16,869	15,929
Total premises and equipment	<u>\$ 10,232</u>	<u>\$ 9,871</u>

The following is a summary of the future minimum lease payments for facilities leased by the Company. Lease payments were \$448 in 2008 and \$405 in 2007.

2009	\$ 453
2010	351
2011	316
2012	277
2013	225
Thereafter	133
	<u>\$ 1,755</u>

Note F - Deposits

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

	<u>2008</u>	<u>2007</u>
NOW accounts	\$ 80,855	\$ 65,618
Savings and Money Market	118,289	103,712
Time:		
IRA accounts	46,574	44,050
Certificates of Deposit:		
In denominations under \$100,000 ...	151,438	170,565
In denominations of \$100,000 or more	<u>109,699</u>	<u>126,492</u>
Total time deposits	<u>307,711</u>	<u>341,107</u>
Total interest-bearing deposits	<u>\$ 506,855</u>	<u>\$ 510,437</u>

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

	<u>2008</u>
Within one year	\$ 219,240
From one to two years	49,403
From two to three years	32,956
From three to four years	2,648
From four to five years	2,435
Thereafter	1,029
Total	<u>\$ 307,711</u>

Brokered deposits, included in time deposits, were \$17,906 and \$21,820 at December 31, 2008 and 2007, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note G - Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are financing arrangements that have overnight maturity terms. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase is summarized as follows at December 31:

	<u>2008</u>	<u>2007</u>
Balance outstanding at period-end	\$ 24,070	\$ 40,390
Weighted average interest rate at period-end .....	.70%	2.91%
Average amount outstanding during year	\$ 28,040	\$ 27,433
Approximate weighted average interest rate during the year	1.50%	3.83%
Maximum amount outstanding as of any month-end	\$ 35,309	\$ 40,390
Securities underlying these agreements at year-end were as follows:		
Carrying value of securities	\$ 51,690	\$ 49,290
Fair value	\$ 52,083	\$ 48,829

The Company sold securities under agreements to repurchase with overnight maturity terms totaling \$2,514 at December 31, 2008 and \$12,379 at December 31, 2007 with one large commercial account.

Note H - Other Borrowed Funds

Other borrowed funds at December 31, 2008 and 2007 are comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati, promissory notes and Federal Reserve Bank ("FRB") Notes.

	<u>FHLB Borrowings</u>	<u>Promissory Notes</u>	<u>FRB Notes</u>	<u>Totals</u>
2008	\$ 68,715	\$ 5,479	\$ 2,580	\$ 76,774
2007	\$ 55,779	\$ 5,723	\$ 5,500	\$ 67,002

Pursuant to collateral agreements with the FHLB, advances are secured by \$226,127 in qualifying mortgage loans and \$6,280 in FHLB stock at December 31, 2008. Fixed rate FHLB advances of \$48,165 mature through 2033 and have interest rates ranging from 2.13% to 6.62%. In addition, variable rate FHLB borrowings of \$20,550 matured in 2009 and carried an interest rate of .54%.

At December 31, 2008, the Company had a cash management line of credit enabling it to borrow up to \$60,000 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 \$39,450 available on this line of credit at December 31, 2008.

Based on the Company's current FHLB stock ownership, total assets and pledgeable residential first mortgage loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of \$167,501 at December 31, 2008.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 2.40% to 5.00% and are due at various dates through a final maturity date of November 12, 2010. A total of \$3,521 represented promissory notes payable by Ohio Valley to related parties. See Note L for further discussion of related party transactions.

FRB notes consist of the collection of tax payments from Bank customers under the Treasury Tax and Loan program. These funds have a variable interest rate and are callable on demand by the U.S. Treasury. The interest rate for the Company's FRB notes was zero percent at December 31, 2008 and 4.00% at December 31, 2007. Various investment securities from the Bank used to collateralize FRB notes totaled \$5,880 at December 31, 2008 and \$5,945 at December 31, 2007.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$45,850 at December 31, 2008 and \$34,950 at December 31, 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note H - Other Borrowed Funds (continued)

Scheduled principal payments over the next five years:

	<u>FHLB Borrowings</u>	<u>Promissory Notes</u>	<u>FRB Notes</u>	<u>Totals</u>
Year Ended 2009	\$ 36,556	\$ 4,479	\$ 2,580	\$ 43,615
Year Ended 2010	26,005	1,000	—	27,005
Year Ended 2011	6,006	—	—	6,006
Year Ended 2012	6	—	—	6
Year Ended 2013	6	—	—	6
Thereafter	136	—	—	136
	<u>\$ 68,715</u>	<u>\$ 5,479</u>	<u>\$ 2,580</u>	<u>\$ 76,774</u>

Note I - Subordinated Debentures and Trust Preferred Securities

On September 7, 2000, a trust formed by Ohio Valley issued \$5,000 of 10.6% fixed rate trust preferred securities as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Company may redeem all or a portion of these subordinated debentures beginning September 7, 2010 at a premium of 105.30% with the call price declining .53% per year until reaching a call price of par at year twenty through maturity. The subordinated debentures must be redeemed no later than September 7, 2030. Debt issuance costs of \$166 were incurred and capitalized and will amortize as a yield adjustment through expected maturity.

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

On March 26, 2007, the proceeds from these new trust preferred securities were used to pay off \$8,500 in higher cost trust preferred security debt that was issued on March 26, 2002. This repayment of \$8,500 in trust preferred securities was the result of an early call feature that allowed the Company to redeem the entire amount of these subordinated debentures at par value. These higher cost subordinated debentures, which were floating based on a rate equal to the 3-month LIBOR plus 3.60%, not to exceed 11.00%, were redeemed at a floating rate of 8.97%. The replacement of this higher cost debt was a strategy by management to lower interest expense and improve the net interest margin.

Under the provisions of the related indenture agreements, the interest payable on the trust preferred securities is deferrable for up to five years and any such deferral is not considered a default. During any period of deferral, the Company would be precluded from declaring or paying dividends to shareholders or repurchasing any of the Company's common stock. Under FASB Interpretation No. 46, as revised, the trusts are not consolidated with the Company. Accordingly, the Company does not report the securities issued by the trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the trust. Since the Company's equity interest in the trusts cannot be received until the subordinated debentures are repaid, these amounts have been netted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note J - Income Taxes

The provision for income taxes consists of the following components:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current tax expense	\$ 2,831	\$ 1,723	\$ 2,964
Deferred tax (benefit) expense	<u>(102)</u>	<u>908</u>	<u>(903)</u>
Total income taxes	<u>\$ 2,729</u>	<u>\$ 2,631</u>	<u>\$ 2,061</u>

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

	<u>2008</u>	<u>2007</u>
Items giving rise to deferred tax assets:		
Allowance for loan losses	\$ 2,712	\$ 2,343
Deferred compensation	1,362	1,278
Unrealized loss on securities		
available-for-sale	—	59
Deferred loan fees/costs	294	293
Depreciation	21	150
Other	189	252
Items giving rise to deferred tax liabilities:		
Investment accretion	(2)	(3)
FHLB stock dividends	(1,081)	(995)
Unrealized gain on securities		
available-for-sale	(356)	—
Prepaid expenses	(168)	(130)
Intangibles	(232)	(196)
Other	<u>(66)</u>	<u>(65)</u>
Net deferred tax asset	<u>\$ 2,673</u>	<u>\$ 2,986</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutory tax	\$ 3,351	\$ 3,036	\$ 2,536
Effect of nontaxable interest	(282)	(282)	(211)
Nondeductible interest expense	34	47	33
Income from bank owned insurance.....	(192)	(210)	(264)
Effect of state income tax	1	114	119
Tax credits	(193)	(78)	(68)
Other items	<u>10</u>	<u>4</u>	<u>(84)</u>
Total income taxes	<u>\$ 2,729</u>	<u>\$ 2,631</u>	<u>\$ 2,061</u>

The adoption of FIN 48 at January 1, 2007 had no impact on the Company's financial statements. At December 31, 2007 and December 31, 2008, the Company had no unrecognized tax benefits recorded. The Company does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months.

The Company is subject to U.S. federal income tax as well as West Virginia state income tax. The Company is no longer subject to federal examination for years prior to 2005. The Company's 2003-2005 West Virginia state income tax returns were examined by taxing authority and no additional liability was assessed. The tax years 2005-2007 remain open to federal examination, and the 2006-2007 tax years remain open to state examination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note K - Commitments and Contingent Liabilities

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet.

Following is a summary of such commitments at December 31:

	<u>2008</u>	<u>2007</u>
Fixed rate	\$ 577	\$ 2,127
Variable rate	63,839	65,391
 Standby letters of credit	 13,524	 14,607

The interest rate on fixed rate commitments ranged from 6.00% to 8.99% at December 31, 2008.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

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

The Bank is required to maintain average reserve balances with the Federal Reserve Bank or cash in the vault. The amount of those reserve balances was \$7,999 and \$7,066 for the years ended December 31, 2008 and 2007, respectively.

Note L - Related Party Transactions

Certain directors, executive officers and companies with which they are affiliated were loan customers during 2008. A summary of activity on these borrower relationships with aggregate debt greater than \$120 is as follows:

Total loans at January 1, 2008	\$ 11,809
New loans	1,284
Repayments	(4,508)
Other changes	(174)
Total loans at December 31, 2008	<u>\$ 8,411</u>

Other changes include adjustments for loans applicable to one reporting period that are excludable from the other reporting period, such as changes in persons included. In addition, certain directors, executive officers and companies with which they are affiliated were recipients of interest-bearing promissory notes issued by Ohio Valley in the amount of \$3,521 at December 31, 2008 and \$3,768 at December 31, 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note M - Employee Benefits

The Bank has a profit-sharing plan for the benefit of its employees and their beneficiaries. Contributions to the plan are determined by the Board of Directors of Ohio Valley. Contributions charged to expense were \$187, \$172 and \$171, for 2008, 2007 and 2006.

Ohio Valley maintains an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company. Ohio Valley makes discretionary contributions to the ESOP which are allocated to ESOP participants based on relative compensation. The total number of shares held by the ESOP, all of which have been allocated to participant accounts, were 227,177 and 225,148 at December 31, 2008 and 2007. In addition, the Bank made contributions to its ESOP Trust as follows:

	Years ended December 31		
	2008	2007	2006
Number of shares issued	<u>1,000</u>	<u>1,000</u>	<u>8,500</u>
Value of stock contributed	\$ 20	\$ 26	\$ 222
Cash contributed	<u>340</u>	<u>318</u>	<u>121</u>
Total charged to expense.....	<u>\$ 360</u>	<u>\$ 344</u>	<u>\$ 343</u>

Life insurance contracts with a cash surrender value of \$18,153 at December 31, 2008 have been purchased by the Company, the owner of the policies. The purpose of these contracts was to replace a current group life insurance program for executive officers, implement a deferred compensation plan for directors and executive officers, implement a director retirement plan and implement a supplemental retirement plan for certain officers. Under the deferred compensation plan, Ohio Valley pays each participant the amount of fees deferred plus interest over the participant's desired term, upon termination of service. Under the director retirement plan, participants are eligible to receive ongoing compensation payments upon retirement subject to length of service. The supplemental retirement plan provides payments to select executive officers upon retirement based upon a compensation formula determined by Ohio Valley's Board of Directors. The present value of payments expected to be provided are accrued during the service period of the covered individuals and amounted to \$3,914 and \$3,669 at December 31, 2008 and 2007. Expenses related to the plans for each of the last three years amounted to \$328, \$294, and \$262.

Note N - Other Comprehensive Income

Other comprehensive income components and related taxes for the years ended December 31, are as follows:

	2008	2007	2006
Net unrealized holding gains on available-for-sale securities	\$ 1,220	\$ 1,313	\$ 379
Tax effect	<u>(415)</u>	<u>(447)</u>	<u>(129)</u>
Other comprehensive income	<u>\$ 805</u>	<u>\$ 866</u>	<u>\$ 250</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note O - Fair Value of Financial Instruments

As discussed in Note A, FAS 157 was implemented by the Company effective January 1, 2008. FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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, and 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 Available-For-Sale: Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements using pricing models that vary based on asset class and include available trade, bid and other market information. Fair value of securities available-for-sale may also be determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Impaired Loans: Some impaired loans are reported at the fair value of the underlying collateral adjusted for selling costs. Collateral values are estimated using Level 3 inputs based on third party appraisals.

Assets and Liabilities Measured on a Recurring Basis

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

Fair Value Measurements at December 31, 2008, Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Securities Available-For-Sale	-----	\$ 75,340	-----

Assets and Liabilities Measured on a Nonrecurring Basis

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

Fair Value Measurements at December 31, 2008, Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired Loans	-----	-----	\$ 1,182

The portion of the impaired loan balance for which a specific allowance for credit losses was allocated totaled \$2,586. The valuation allowance for these loans was \$1,404, resulting in additional provision for loan loss expense of \$775 at December 31, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note O - Fair Value of Financial Instruments (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Interest-bearing Deposits in Other Banks: For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities: Securities classified as available-for-sale are reported at fair value. For these securities, the Company obtains fair value measurements using pricing models that vary based on asset class and include available trade, bid and other market information. Fair value of securities available-for-sale may also be determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

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

Loans: The fair value of fixed rate loans is estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair market value of loan commitments and standby letters of credits was not material at December 31, 2008 or 2007. The fair value for variable rate loans is estimated to be equal to carrying value. This fair value represents an entry price in accordance with FAS No. 107. While FAS No. 157 amended FAS No. 107 in several respects, this approach to fair value remains an acceptable approach under Generally Accepted Accounting Principles.

Deposit Liabilities: The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings: For other borrowed funds and subordinated debentures, rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value. For securities sold under agreements to repurchase, carrying value is a reasonable estimate of fair value.

Accrued Interest Receivable and Payable: For accrued interest receivable and payable, the carrying amount is a reasonable estimate of fair value.

In addition, other assets and liabilities that are not defined as financial instruments were not included in the disclosures below, such as premises and equipment and life insurance contracts.

The estimated fair values of the Company's financial instruments at December 31, are as follows:

	<u>2008</u>		<u>2007</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 17,681	\$ 17,681	\$ 16,894	\$ 16,894
Interest-bearing deposits in other banks	611	611	633	633
Securities	92,326	92,581	94,044	93,827
Federal Home Loan Bank stock	6,281	N/A	6,036	N/A
Loans	622,592	637,422	630,366	639,273
Accrued interest receivable	3,172	3,172	3,254	3,254
Financial liabilities:				
Deposits	(592,361)	(591,742)	(589,026)	(588,045)
Securities sold under agreements to repurchase	(24,070)	(24,070)	(40,390)	(40,390)
Other borrowed funds	(76,774)	(78,777)	(67,002)	(68,124)
Subordinated debentures	(13,500)	(13,718)	(13,500)	(14,121)
Accrued interest payable	(4,933)	(4,933)	(6,742)	(6,742)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note P - Regulatory Matters

The Company and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

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

	<u>Actual</u>		<u>Minimum Required For Capital Adequacy Purposes</u>		<u>Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
2008						
Total capital (to risk weighted assets)						
Consolidated	\$ 82,205	13.5%	\$ 48,783	8.0%	\$ 60,979	N/A
Bank	76,642	12.7	48,155	8.0	60,194	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	74,581	12.2	24,391	4.0	36,587	N/A
Bank	69,158	11.5	24,078	4.0	36,116	6.0
Tier 1 capital (to average assets)						
Consolidated	74,581	9.7	30,788	4.0	38,485	N/A
Bank	69,158	9.1	30,355	4.0	37,944	5.0
2007						
Total capital (to risk weighted assets)						
Consolidated	\$ 80,578	13.1%	\$ 49,037	8.0%	\$ 61,296	N/A
Bank	75,119	12.4	48,364	8.0	60,455	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	73,841	12.0	24,518	4.0	36,777	N/A
Bank	68,682	11.4	24,182	4.0	36,273	6.0
Tier 1 capital (to average assets)						
Consolidated	73,841	9.5	31,081	4.0	38,851	N/A
Bank	68,682	9.0	30,656	4.0	38,320	5.0

At year-end 2008 and 2007, the most recent regulatory notifications categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. No conditions or events have occurred since that notification that management believes have changed the status of the Company or the Bank as well capitalized.

Dividends paid by the subsidiaries are the primary source of funds available to Ohio Valley for payment of dividends to shareholders and for other working capital needs. The payment of dividends by the subsidiaries to Ohio Valley is subject to restrictions by regulatory authorities. These restrictions generally limit dividends to the current and prior two years retained earnings. At January 1, 2009, approximately \$2,861 of the subsidiaries' retained earnings were available for dividends under these guidelines. In addition to these restrictions, as a practical matter, dividend payments cannot reduce regulatory capital levels below minimum regulatory guidelines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note Q - Parent Company Only Condensed Financial Information

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

CONDENSED STATEMENTS OF CONDITION

	Years ended December 31:	
	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 1,169	\$ 1,055
Investment in subsidiaries	75,440	73,926
Notes receivable - subsidiaries	5,461	5,658
Other assets	295	428
Total assets	<u>\$ 82,365</u>	<u>\$ 81,067</u>
Liabilities		
Notes payable	\$ 5,479	\$ 5,723
Subordinated debentures	13,500	13,500
Other liabilities	330	333
Total liabilities	<u>19,309</u>	<u>19,556</u>
Shareholders' Equity		
Total shareholders' equity	63,056	61,511
Total liabilities and shareholders' equity	<u>\$ 82,365</u>	<u>\$ 81,067</u>

CONDENSED STATEMENTS OF INCOME

	Years ended December 31:		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income:			
Interest on notes	\$ 259	\$ 311	\$ 261
Other operating income	33	35	68
Dividends from subsidiaries	6,250	5,000	5,000
Expenses:			
Interest on notes	261	314	264
Interest on subordinated debentures	1,089	1,143	1,279
Operating expenses	<u>309</u>	<u>227</u>	<u>279</u>
Income before income taxes and equity in undistributed earnings of subsidiaries	4,883	3,662	3,507
Income tax benefit	458	450	590
Equity in undistributed earnings of subsidiaries	1,787	2,185	1,301
Net Income	<u>\$ 7,128</u>	<u>\$ 6,297</u>	<u>\$ 5,398</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31:		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:			
Net Income	\$ 7,128	\$ 6,297	\$ 5,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(1,787)	(2,185)	(1,301)
Change in other assets	133	(39)	4
Change in other liabilities	(3)	(73)	(13)
Net cash provided by operating activities	<u>5,471</u>	<u>4,000</u>	<u>4,088</u>
Cash flows from investing activities:			
Change in other short-term investments	<u>197</u>	<u>(320)</u>	<u>(420)</u>
Net cash provided by (used in) investing activities	<u>197</u>	<u>(320)</u>	<u>(420)</u>
Cash flows from financing activities:			
Change in other short-term borrowings	(244)	329	280
Proceeds from subordinated debentures	—	8,500	—
Repayment of subordinated debentures	—	(8,500)	—
Cash dividends paid	(3,061)	(2,938)	(2,837)
Proceeds from issuance of common shares.....	20	398	—
Purchases of treasury shares	(2,269)	(3,394)	(1,800)
Net cash used in financing activities	<u>(5,554)</u>	<u>(5,605)</u>	<u>(4,357)</u>
Cash and cash equivalents:			
Change in cash and cash equivalents	114	(1,925)	(689)
Cash and cash equivalents at beginning of year	<u>1,055</u>	<u>2,980</u>	<u>3,669</u>
Cash and cash equivalents at end of year	<u>\$ 1,169</u>	<u>\$ 1,055</u>	<u>\$ 2,980</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note R - Consolidated Quarterly Financial Information (unaudited)

	Quarters Ended				
	2008	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Total interest income		\$ 13,734	\$ 12,853	\$ 12,657	\$ 12,289
Total interest expense		6,059	5,298	4,933	4,538
Net interest income		7,675	7,555	7,724	7,751
Provision for loan losses		701	916	693	1,406
Net income		1,965	1,731	1,885	1,547
Earnings per share .....	\$	.48	.43	.47	.39
2007					
Total interest income	\$	13,502	13,720	13,784	13,941
Total interest expense		6,431	6,554	6,779	6,656
Net interest income		7,071	7,166	7,005	7,285
Provision for loan losses		386	616	332	918
Net income		1,775	1,686	1,833	1,003
Earnings per share .....	\$	.42	.41	.45	.24
2006					
Total interest income	\$	12,640	13,034	13,407	13,340
Total interest expense		5,287	5,810	6,299	6,535
Net interest income		7,353	7,224	7,108	6,805
Provision for loan losses ⁽¹⁾		666	791	474	3,731
Net income		1,739	1,826	1,817	16
Earnings per share .....	\$	.41	.43	.43	—

⁽¹⁾ During the fourth quarter of 2006, the Bank increased the allowance for loan losses to account for increases in its nonaccrual loan balances and historical loan loss factors resulting in a provision expense charge of \$3,731.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

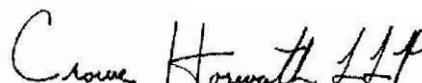
We have audited the accompanying consolidated statements of condition of Ohio Valley Banc Corp. (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Valley Banc Corp. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Ohio Valley Banc Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.



Crowe Horwath LLP

Columbus, Ohio
March 12, 2009

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders
Ohio Valley Banc Corp.

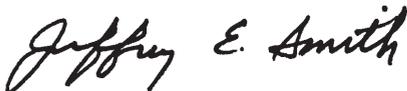
The management of Ohio Valley Banc Corp. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed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

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

Management assessed Ohio Valley Banc Corp.'s system of internal control over financial reporting as of December 31, 2008, in relation to criteria for effective internal control over financial reporting as described in "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2008, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework".

Crowe Horwath LLP, independent registered public accounting firm, has issued an audit report dated March 12, 2009 on the Company's internal control over financial reporting. That report is contained in Ohio Valley's Annual Report to Shareholders under the heading "Report of Independent Registered Public Accounting Firm".

Ohio Valley Banc Corp.



Jeffery E. Smith
President, CEO



Scott W. Shockey
Vice President, CFO

SUMMARY OF COMMON STOCK DATA

OHIO VALLEY BANC CORP.

Years ended December 31, 2008 and 2007

INFORMATION AS TO STOCK PRICES AND DIVIDENDS: On February 9, 1996, Ohio Valley's common shares began to be quoted on The NASDAQ Stock Market under the symbol "OVBC". The following table summarizes the high and low sales prices for Ohio Valley's common shares on the NASDAQ Global Market for each quarterly period since January 1, 2007.

<u>2008</u>	<u>High</u>	<u>Low</u>
First Quarter	\$26.65	\$25.00
Second Quarter	26.25	25.00
Third Quarter	25.50	20.00
Fourth Quarter	21.80	17.65

<u>2007</u>	<u>High</u>	<u>Low</u>
First Quarter	\$26.50	\$24.86
Second Quarter	25.70	24.15
Third Quarter	25.73	25.00
Fourth Quarter	25.95	24.60

Shown below is a table which reflects the dividends declared per share on Ohio Valley's common shares. As of March 13, 2009, the number of holders of record of common shares was 2,124, a decrease from 2,136 shareholders at March 13, 2008.

<u>Dividends per share</u>	<u>2008</u>	<u>2007</u>
First Quarter	\$.19	\$.17
Second Quarter	.19	.18
Third Quarter	.19	.18
Fourth Quarter	.19	.18

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

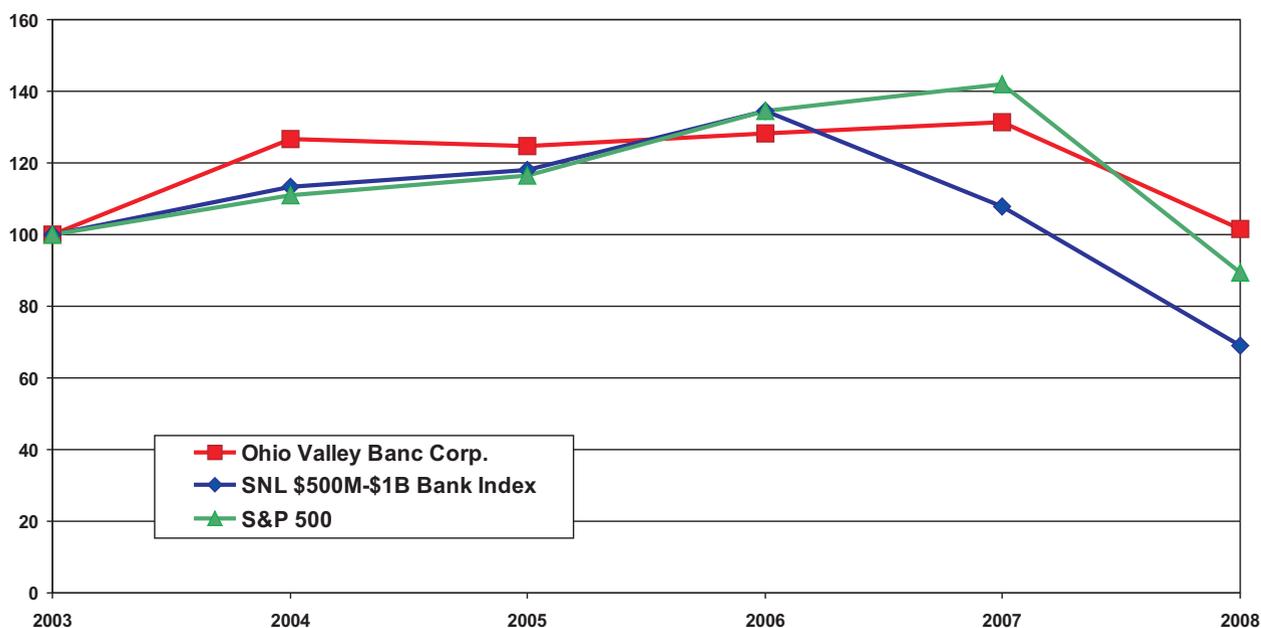
PERFORMANCE GRAPH

OHIO VALLEY BANC CORP.

Year ended December 31, 2008

The following graph sets forth a comparison of five-year cumulative total returns among the Company's common shares (indicated "Ohio Valley Banc Corp." on the Performance Graph), the S & P 500 Index (indicated "S & P 500" on the Performance Graph), and SNL Securities SNL \$500 Million-\$1 Billion Bank Asset-Size Index (indicated "SNL" on the Performance Graph) for the fiscal years indicated. Information reflected on the graph assumes an investment of \$100 on December 31, 2003 in each of the common shares of the Company, the S & P 500 Index, and the SNL Index. Cumulative total return assumes reinvestment of dividends. The SNL Index represents stock performance of ninety-four (94) of the nation's banks located throughout the United States with total assets between \$500 Million and \$1 Billion as selected by SNL Securities of Charlottesville, Virginia. The Company is included as one of the 94 banks in the SNL Index.

Total Return Performance



<i>Index</i>	<i>Period Ending</i>					
	<i>12/31/03</i>	<i>12/31/04</i>	<i>12/31/05</i>	<i>12/31/06</i>	<i>12/31/07</i>	<i>12/31/08</i>
Ohio Valley Banc Corp.	100.00	126.58	124.66	128.24	131.47	101.76
SNL \$500M-\$1B Bank Index	100.00	113.32	118.18	134.41	107.71	69.02
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53

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

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

RESULTS OF OPERATIONS:

SUMMARY

Ohio Valley Banc Corp. generated net income of \$7,128 for 2008, an increase of 13.2% from 2007. Net income was also up 16.7% in 2007. Earnings per share were \$1.77 for 2008, an increase of 16.4% from 2007. Earnings per share were up 19.7% in 2007. The increase in net income and earnings per share for 2008 was primarily due to a 6.0% net interest income expansion as a result of the lower short-term interest rate environment initiated by the Federal Reserve Bank. Growth in income also came from noninterest income improvement of 18.6% over 2007 due to lower losses on the sale of other real estate owned ("OREO"). The increase in net income and earnings per share for 2007 was largely related to a \$3,410 decrease in provision for loan loss expense as a result of lower nonperforming loans and charge-offs from year-end 2006. The lower provision expense for 2007 can be attributed mostly to the specific allocations made to the allowance for loan losses in the fourth quarter of 2006 that resulted in \$3,731 in provision expense, which contributed to the decrease in 2006's net income and earnings per share.

Total assets during 2008 decreased \$2,310, or 0.3%, resulting in total assets at year-end of \$781,108. The Company's return on assets (ROA) was .91% for 2008 compared to .82% in 2007 and .71% in 2006. Return on equity (ROE) was 11.62% for 2008 compared to 10.40% in 2007 and 9.00% in 2006. The increasing trend in both ROA and ROE for 2008 and 2007 were the result of improved earnings performance due to net interest and noninterest income activities in 2008 and a significant decrease in provision expense during 2007.

NET INTEREST INCOME

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. The Company earns interest and dividend income from loans, investment securities and short-term investments while incurring interest expense on

interest-bearing deposits, securities sold under agreements to repurchase ("repurchase agreements") and short- and long-term borrowings. Net interest income is affected by changes in both the average volume and mix of the balance sheet and the level of interest rates for financial instruments. Changes in net interest income are measured by net interest margin and net interest spread. Net interest margin is expressed as net interest income divided by average interest-earning assets. Net interest spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Both of these are reported on a fully tax-equivalent ("FTE") basis. Net interest margin is greater than net interest spread due to the interest earned on interest-earning assets funded from noninterest bearing funding sources, primarily demand deposits and shareholders' equity. Following is a discussion of changes in interest-earning assets, interest-bearing liabilities and the associated impact on interest income and interest expense for the three years ending December 31, 2008. Tables I and II have been prepared to summarize the significant changes outlined in this analysis.

Net interest income on an FTE basis increased \$2,177 in 2008, an increase of 7.5% compared to the \$28,891 earned in 2007. The increase was primarily attributable to an expanding net interest margin caused by lower funding costs combined with a higher level of interest-earning assets, mostly from growth in securities and interest-bearing balances with banks. Net interest income on an FTE basis increased \$121 in 2007, an increase of 0.4% compared to the \$28,770 earned in 2006. The small increase was primarily attributable to a higher level of interest-earning assets, mostly from growth in securities and loans, partially offset by a lower net interest margin caused by a higher average balance of loans on nonaccrual status and an increased pressure in funding costs due to the lagging effect of short-term rate increases experienced during the first half of 2006. For 2008, average earning assets grew \$10,834, or 1.5%, as compared to growth of \$8,253, or 1.2%, in 2007. Driving this continued growth in earning assets for 2008 was average interest-bearing balances with banks, increasing to \$5,710 at year-end 2008, up from \$549 at year-end 2007. The increase was due to the Company's excess liquidity position resulting from lower loan demand and excess deposit liabilities. Average interest-bearing balances with banks represented 0.8% of earning assets at year-end 2008 as compared to 0.1% at year-end 2007. Earning asset growth was also experienced from average securities balances, which expanded \$4,215, or 4.6%, for 2008 and represented 13.0% of earning assets at year-end 2008. This compares to average securities growth of \$5,575, or 6.5%, for 2007 representing 12.6% of earning assets at year-end 2007. The growth in average securities was largely comprised of U.S. government sponsored entity securities. Average loans, the Company's highest portion of earning assets, remained relatively stable during 2008 and 2007, increasing \$334, or 0.1%, and \$2,473, or 0.4%, respectively. Average loans for

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED AVERAGE BALANCE SHEET & ANALYSIS OF NET INTEREST INCOME

Table I
(dollars in thousands)

December 31

	2008			2007			2006		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Assets									
Interest-earning assets:									
Interest-bearing balances with banks	\$ 5,710	\$ 137	2.39%	\$ 549	\$ 23	4.22%	\$ 579	\$ 23	4.06%
Federal funds sold	5,552	157	2.83	4,428	221	5.00	4,193	220	5.24
Securities:									
Taxable	82,606	3,432	4.15	76,748	3,477	4.53	73,160	3,189	4.36
Tax exempt	12,784	768	6.01	14,427	797	5.52	12,440	688	5.53
Loans	<u>629,225</u>	<u>47,402</u>	<u>7.53</u>	<u>628,891</u>	<u>50,793</u>	<u>8.08</u>	<u>626,418</u>	<u>48,581</u>	<u>7.76</u>
Total interest-earning assets	735,877	51,896	7.05%	725,043	55,311	7.63%	716,790	52,701	7.35%
Noninterest-earning assets:									
Cash and due from banks	15,029			14,137			15,306		
Other nonearning assets	38,217			38,094			36,655		
Allowance for loan losses	<u>(6,811)</u>			<u>(7,720)</u>			<u>(7,819)</u>		
Total noninterest-earning assets	46,435			44,511			44,142		
Total assets	\$ 782,312			\$ 769,554			\$ 760,932		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
NOW accounts	\$ 88,110	\$ 1,599	1.81%	\$ 78,636	\$ 1,924	2.45%	\$ 93,137	\$ 2,343	2.52%
Savings and Money Market	121,392	2,061	1.70	97,240	2,705	2.78	78,241	1,895	2.42
Time deposits	311,188	12,976	4.17	341,686	16,686	4.88	338,593	14,356	4.24
Repurchase agreements	28,040	421	1.50	27,433	1,051	3.83	22,692	895	3.94
Other borrowed money	60,678	2,682	4.42	60,603	2,911	4.80	68,475	3,163	4.62
Subordinated debentures	<u>13,500</u>	<u>1,089</u>	<u>8.07</u>	<u>13,593</u>	<u>1,143</u>	<u>8.41</u>	<u>13,500</u>	<u>1,279</u>	<u>9.48</u>
Total int.-bearing liabilities	622,908	20,828	3.34%	619,191	26,420	4.27%	614,638	23,931	3.89%
Noninterest-bearing liabilities:									
Demand deposit accounts	85,436			78,048			75,330		
Other liabilities	<u>12,622</u>			<u>11,766</u>			<u>10,994</u>		
Total noninterest-bearing liabilities	98,058			89,814			86,324		
Shareholders' equity	<u>61,346</u>			<u>60,549</u>			<u>59,970</u>		
Total liabilities and shareholders' equity	\$ 782,312			\$ 769,554			\$ 760,932		
Net interest earnings		\$ 31,068			\$ 28,891			\$ 28,770	
Net interest earnings as a percent of interest-earning assets			4.23%			3.99%			4.02%
Net interest rate spread			3.71%			3.36%			3.46%
Average interest-bearing liabilities to average earning assets			84.65%			85.40%			85.75%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 represented 85.5% of earning assets as compared to 86.7% for 2007. The growth in average loans was largely comprised of commercial loan participations as well as residential real estate mortgages.

Further contributing to net interest income was additional fee income from increased originations of the Company's refund anticipation loans ("RAL"). Participating with a third party tax software provider has given the Company the opportunity to make RAL loans during the tax refund loan season, typically from January through March. RAL loans are short-term cash advances against a customer's anticipated income tax refund. During 2008, the Company had recognized \$265 in RAL fees as compared to \$94 during 2007.

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

Average interest-bearing liabilities increased 0.6% between 2007 and 2008 and increased 0.7% between 2006 and 2007. Interest-bearing liabilities in 2008 were comprised largely of time deposits and NOW accounts, which together represented 64.1% of total interest-bearing liabilities, down from 67.9% in 2007 and 70.2% in 2006. Other borrowed money represented 9.7% of total interest-bearing liabilities in 2008, down from 9.8% in 2007 and 11.1% in 2006. The reason for this composition decrease was from growth in the Company's savings and money market accounts, primarily its Market Watch product, which together represented a higher composition of total interest-bearing liabilities at 19.5% in 2008 as compared to 15.7% in 2007 and 12.7% in 2006. Introduced in 2005, the Market Watch product offers customers tiered rates that are competitive with other offerings in the Company's market areas. The increased demand for the Market Watch product was largely the result of promotional pricing during the second quarter of 2008. The consumer preference for this product generated a significant amount of funding dollars which have helped to support earning asset growth and maturity runoffs of time deposits. This continued shift in composition during 2008 with higher savings and money market balances and lower time deposits served as a cost effective contribution to the net interest margin. The average cost of savings and money market accounts was 1.70%, 2.78% and 2.42% during the years ending 2008, 2007 and 2006, respectively. This is compared to the much higher average cost of time deposits of 4.17%, 4.88% and 4.24% during the years ending 2008, 2007 and 2006, respectively.

The net interest margin increased 24 basis points to 4.23% in 2008 from 3.99% in 2007. This increase is compared to a 3 basis points decrease in the net interest margin in 2007. During 2008, there was a decrease of 11 basis points in interest free funds (i.e. demand deposits, shareholders' equity) from .63% in

2007 to .52% in 2008. However, this impact from interest free funds was completely offset by an increase in the net interest rate spread on interest sensitive assets and liabilities of 35 basis points, with lower asset yields of .58% being completely offset by lower funding costs of .93%.

Lower asset yields caused interest income on an FTE basis to decrease \$3,415, or 6.2%, from 2007. Lower asset yields were largely the result of loan yields decreasing 55 basis points from 2007 to 2008. The drop in loan yield can be attributed to the decreases in short-term interest rates initiated by the Federal Reserve since September of 2007. Since that time, the Federal Reserve has decreased short-term interest rates ten times for a total of 500 basis points. The Company's commercial, participation and real estate loan portfolios have been most sensitive to these decreases in short-term interest rates since 2007. Furthermore, long-term interest rates continue to decrease from a year ago causing increased opportunities for mortgage refinancings. As a result, the Company continues to experience a customer demand shift from its one-year adjustable-rate mortgages, with average balances down \$18,178 in 2008, to its thirty-year fixed-rate real estate mortgages, with average balances up \$21,781 in 2008. The volume of refinancings during 2008 continues to stabilize as compared to 2007 and 2006.

Conversely in 2007, the Company experienced an increase in loan yields which contributed most to a \$2,610, or 5.0%, increase in interest income on an FTE basis from 2006 to 2007. Loan yield expansion was attributed to the rise in short-term rates between June 2004 and June 2006 as set by the Federal Reserve. During this time, short-term market interest rates were increased by 425 basis points causing a positive impact to loan yields within the Company's commercial, participation and real estate loan portfolios. Long-term interest rates during this time continued to remain relatively stable which contributed to a loan shift from one-year adjustable-rate mortgages, which yielded 7.10% during 2007, to thirty-year fixed-rate real estate mortgages, which yielded 7.21% in 2007.

In relation to lower earning asset yields for 2008, the Company's interest-bearing liability costs decreased .93% causing interest expense to drop \$5,592, or 21.2%, from 2007 to 2008. As previously mentioned, the Federal Reserve has reduced rates a full 500 basis points since September 2007 that has caused a downward shift in short-term interest rates, while longer-term rates have not decreased to the same extent. In a changing interest rate environment, rates on loans reprice more rapidly than interest rates paid on deposits. However, the Bank had positioned its balance sheet so that there were more interest-bearing liabilities subject to repricing than interest rates on loans. As a result, interest paid on liabilities decreased more than interest earned on assets. The short-term rate decreases impacted the repricings of various Bank deposit products, including public fund NOW accounts, Gold Club and Market Watch accounts. Contributing most to the decrease in funding costs were interest rates on time deposit balances (CD's), which continued to reprice at lower rates during 2008 (as a lagging effect to the Federal Reserve action to drop short-

MANAGEMENT'S DISCUSSION AND ANALYSIS

RATE VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME & EXPENSE

Table II

(dollars in thousands)

	2008			2007		
	Increase (Decrease) From Previous Year Due to			Increase (Decrease) From Previous Year Due to		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Interest income						
Interest-bearing balances						
with banks	\$ 128	\$ (14)	\$ 114	\$ (1)	\$ 1	—
Federal funds sold	47	(111)	(64)	12	(11)	\$ 1
Securities:						
Taxable	255	(300)	(45)	160	128	288
Tax exempt	(96)	67	(29)	110	(1)	109
Loans	27	(3,418)	(3,391)	192	2,020	2,212
Total interest income	361	(3,776)	(3,415)	473	2,137	2,610
Interest expense						
NOW accounts	213	(538)	(325)	(356)	(63)	(419)
Savings and Money Market	570	(1,214)	(644)	503	307	810
Time deposits	(1,407)	(2,303)	(3,710)	132	2,198	2,330
Repurchase agreements	23	(653)	(630)	182	(26)	156
Other borrowed money	3	(232)	(229)	(425)	173	(252)
Subordinated debentures	(8)	(46)	(54)	—	(136)	(136)
Total interest expense	(606)	(4,986)	(5,592)	36	2,453	2,489
Net interest earnings	\$ 967	\$ 1,210	\$ 2,177	\$ 437	\$ (316)	\$ 121

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

term interest rates). The year-to-date weighted average cost of the Company's time deposits decreased 71 basis points from 4.88% at year-end 2007 to 4.17% at year-end 2008.

Conversely in 2007, the Company saw its interest-bearing liability costs increase .38% from 2006 as a result of the Federal Reserve's actions to increase short-term interest rates between June 2004 and June 2006, as previously mentioned. While this action was effective in allowing asset yields to grow, interest rate pressures were felt by an increase in the Company's total interest expense, which increased \$2,489, or 10.4%, from 2006, as a result of higher funding costs, competitive factors to retain deposits, and larger average earning asset balances which required additional funding. Increases in funding costs during 2007 came mostly from the Bank's time deposit accounts, which were most responsive to the lagging effect from previous market rate increases. The year-to-date weighted average cost of the Bank's time deposits grew 64 basis points from 4.24% at year-end 2006 to 4.88% at year-end 2007. The change in interest expense was further impacted by the Company's

growth in average money market accounts largely due to its Market Watch product with tiered market rates. As a result, the year-to-date weighted average cost of the Bank's savings and money market deposits grew 36 basis points from 2.42% at year-end 2006 to 2.78% at year-end 2007.

It is difficult to speculate on future changes in net interest margin and the frequency and size of changes in market interest rates. The past year has seen the banking industry under significant stress due to declining real estate values and asset impairments. The Federal Reserve's actions of decreasing short-term interest rates were necessary to take steps in repairing the recessionary problems and promote economic stability. However, there can be no assurance of additional future rate cuts in 2009 as changes in market interest rates are dependent upon a variety of factors that are beyond the Company's control. The Company anticipates the lagging effect of time deposit repricings will continue during 2009, but at a much smaller pace, and should continue to lower funding costs and improve net interest margin. For additional

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECURITIES

MATURING

	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government sponsored entity securities	\$ 7,682	4.14%	\$ 21,551	4.26%	\$ 2,633	4.95%	—	—
Obligations of states and political subdivisions.....	1,085	6.02%	3,992	7.04%	2,865	6.96%	\$ 9,004	3.21%
Mortgage-backed securities	<u>1,235</u>	<u>3.35%</u>	<u>42,279</u>	<u>3.88%</u>	—	—	—	—
Total debt securities	<u>\$ 10,002</u>	<u>4.25%</u>	<u>\$ 67,822</u>	<u>4.19%</u>	<u>\$ 5,498</u>	<u>6.00%</u>	<u>\$ 9,004</u>	<u>3.21%</u>

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

discussion on the Company's rate sensitive assets and liabilities, please see "Interest Rate Sensitivity and Liquidity" and "Table VIII" within this Management's Discussion and Analysis.

NONINTEREST INCOME

Total noninterest income increased \$975, or 18.6%, in 2008 as compared to 2007. Contributing most to the increase in noninterest income was the decrease in the loss on sale of OREO. During the fourth quarter of 2007, the Company's largest non-performing asset was liquidated, creating a pretax loss of \$686. The sale of this OREO property was directly attributable to management's strategy of being more aggressive in improving the Company's nonperforming levels. As a result, the loss on sale of OREO decreased \$746, or 96.0%, from year-end 2007.

Also contributing to noninterest revenue growth were activities from other noninterest income sources, which include improvements in the Company's tax refund processing fees and debit card interchange fees. As mentioned previously, the Company began its participation in a new tax refund loan service in 2006 where it serves as a facilitator for the clearing of tax refunds for a tax software provider. The Company is one of a limited number of financial institutions throughout the U.S. that facilitates tax refunds through its relationship with this tax software provider. As a result of tax refund processing fee activity being mostly seasonal, the majority of income was recorded during the first half of 2008, with only minimal income recorded thereafter. For 2008, the Company's tax refund processing fees increased by \$163, or 148.5%, over 2007. Further enhancing growth in other noninterest income was debit card interchange income, increasing \$106, or 19.4%,

during 2008 as compared to 2007. The volume of transactions utilizing the Company's Jeanie[®] Plus debit card continue to increase from a year ago. The Company's customers used their Jeanie[®] Plus debit cards to complete 1,319,191 transactions during 2008, up 13.1% from the 1,166,337 transactions during 2007, derived mostly from gasoline and restaurant purchases.

Also increasing noninterest income was the Bank's service charge fees on deposit accounts, which increased \$91, or 3.1%, from year-end 2007. A higher volume of overdraft balances contributed to an increase in non-sufficient fund fees during 2008.

To help manage consumer demand for longer-termed, fixed-rate real estate mortgages, the Company has taken additional opportunities to sell some real estate loans to the secondary market. During the year ended December 31, 2008, the Company sold 109 loans totaling \$11,704 to the secondary market as compared to 41 loans totaling \$4,299 during the year ended December 31, 2007. This volume increase in loan sales contributed to the growth in income on sale of loans, which was up \$25, or 24.5%, during 2008 as compared to 2007.

Income earned on the Company's bank owned life insurance ("BOLI") contracts was up \$18, or 2.4%, during 2008 as compared to 2007. BOLI activity was mostly impacted by additional investments in life insurance contracts purchased during the second and fourth quarters of 2008. The Company's average investment balance in BOLI through December 31, 2008 was \$16,934, an increase of \$669, or 4.1%, as compared to the same period in 2007.

Partially offsetting the growth in other noninterest income were decreases in the Company's rental income from OREO properties. Rental income from OREO properties totaled \$213 during 2007 as compared to no rental income recognized during

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008. Rental income recognized in 2007 from OREO properties was primarily from one large commercial facility located in Kanawha County, West Virginia and one hotel facility located in Portsmouth, Ohio. Both properties were eventually sold in December 2007.

In 2007, total noninterest income decreased \$594, or 10.2%, as compared to 2006. Contributing most to this decrease was the loss on sale of OREO experienced during the fourth quarter of 2007, creating a pretax loss of \$686. Further decreasing noninterest income was the Company's tax-free BOLI investment proceeds. BOLI income was down \$150, or 16.5%, during 2007, driven mostly by tax-free life insurance proceeds of \$174 that were recorded in 2006 as compared to \$71 in proceeds during 2007. Partially offsetting the 2007 decreases from the loss on sale of OREO and BOLI revenue were increases in rental income from the OREO properties previously mentioned that totaled \$213 during 2007 as compared to no income in 2006. The Company's tax processing fees were also up \$27, or 71.8%, as compared to the same period in 2006.

NONINTEREST EXPENSE

Total noninterest expense increased \$760, or 3.4%, in 2008 and increased \$1,384, or 6.5%, in 2007. The most significant expense in this category is salary and employee benefits, which increased \$1,030, or 7.9%, from 2007 to 2008. Contributing most to this increase were increased health insurance benefit expenses, annual cost of living salary increases and higher incentive costs due to higher corporate performance during 2008 as compared to 2007. During 2008, the Company also experienced a higher full-time equivalent employee base, increasing from 256 employees at year-end 2007 to 264 employees at year-end 2008, further increasing salaries and employee benefit expenses during 2008. During 2007, salary and employee benefits increased \$548, or 4.4%, from 2006. This increase was in large part due to annual cost of living salary increases as well as increases in employee incentive compensation due to higher corporate performance during 2007 as compared to 2006. During 2007, the Company also experienced a slightly higher full-time equivalent employee base, increasing from 254 employees at year-end 2006 to 256 employees at year-end 2007, further increasing salaries and employee benefit expenses during 2007.

In 2008, occupancy and furniture and equipment expenses increased \$57, or 2.2%, as compared to 2007. This increase was in large part due to the addition of a new banking facility located within a hospital in Gallia County. The full service banking center was built during 2007 at a cost of approximately \$371 and serves as an additional market presence to service the banking needs of the medical staff and patients along the hospital's campus area. The facility was placed in service and depreciation commenced during the fourth quarter of 2007. As a result, occupancy and furniture and equipment expenses for this new facility increased \$49 during 2008 as compared to 2007. In 2007, occupancy and furniture and equipment

expenses increased \$95, or 3.9%, as compared to 2006. The increase was in large part due to the Company's investment in its Jackson, Ohio facility. In late 2006, the Company invested over \$2,000 to replace its Jackson, Ohio facility and, during that time, ceased operations in its Jackson superbank facility. The facility was placed in service and depreciation commenced during the fourth quarter of 2006.

During 2008, corporation franchise tax decreased \$65, or 9.7%, as compared to 2007. This cost savings effect was the result of a tax credit the Company was able to apply for and receive based on the training programs that exist and are utilized within the Company for the benefit of its employees. Corporation franchise tax was relatively stable during 2007 as compared to 2006, increasing \$2, or .3%, based on capital levels at the Bank during this period.

The Company continues to incur monthly costs from the Bank's use of technology to better serve the convenience of its customers, which includes ATM, debit and credit cards, as well as various online banking products, including net teller and bill pay. During 2008, data processing expenses decreased \$71, or 8.4%, as compared to 2007. The decrease was due to the successful re-negotiation of the Bank's monthly data processing costs. The negotiations for lower monthly processing charges were finalized in the third quarter of 2008 and decreased the monthly data processing costs by more than \$15 per month beginning with the August 2008 bill. During 2007, data processing expenses increased \$157, or 22.9%, as compared to 2006, mostly due to the transactional volume increases in the Company's Jeanie[®] Plus debit cards during 2007.

Other noninterest expenses were down \$191, or 3.5%, during 2008. Contributing most to this expense savings was a decrease in the Company's foreclosure expenses, which were down \$487, or 90.5%, during 2008 as compared to 2007. This decrease was due to the larger than normal volume of foreclosure costs that were incurred during 2007 associated with higher average nonperforming loan balances during that time. Foreclosure costs that were incurred as part of resolving nonperforming credits during 2007 were deemed necessary to improve asset quality and lower portfolio risk.

Partially offsetting lower foreclosure expense during 2008 within other noninterest expense was growth in the Company's Federal Deposit Insurance Corporation ("FDIC") insurance expense, which was up \$198, or 283.7%, during 2008 as compared to 2007. This increase was in large part due to the Company's share of a one-time assessment credit being fully utilized by June 30, 2008. With the elimination of this credit, the Company entered the third quarter of 2008 with its deposits being assessed at a rate close to 7 basis points. In December 2008, the FDIC issued a rule increasing deposit insurance assessment rates uniformly for all financial institutions for the first quarter of 2009 by an additional 7 basis points on an annual basis. On February 27, 2009, the FDIC announced adoption of an interim final rule imposing a one-time special assessment of 20 basis points and a final rule adjusting the risk-based calculation used to determine the premiums to be paid by each

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	Years Ended December 31				
	2008	2007	2006	2005	2004
Commercial loans ⁽¹⁾	\$ 5,898	\$ 5,273	\$ 7,806	\$ 4,704	\$ 4,657
Percentage of loans to total loans	39.78%	40.63%	39.45%	38.33%	37.69%
Residential real estate loans	806	327	310	623	642
Percentage of loans to total loans	40.09%	39.31%	38.16%	38.06%	37.84%
Consumer loans	1,095	1,137	1,296	1,806	1,878
Percentage of loans to total loans	20.13%	20.06%	22.39%	23.61%	24.47%
Allowance for Loan Losses	<u>\$ 7,799</u>	<u>\$ 6,737</u>	<u>\$ 9,412</u>	<u>\$ 7,133</u>	<u>\$ 7,177</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Ratio of net charge-offs to average loans	1.24%	.78%	.54%	.31%	.47%

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

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

SUMMARY OF NONPERFORMING AND PAST DUE LOANS

	2008	2007	2006	2005	2004
Impaired loans	\$ 8,099	\$ 6,871	\$ 17,402	\$ 7,983	\$ 5,573
Past due 90 days or more and still accruing	1,878	927	1,375	1,317	1,402
Nonaccrual	3,396	2,734	12,017	1,240	1,618
Accruing loans past due 90 days or more to total loans .....	.30%	.14%	.22%	.21%	.23%
Nonaccrual loans as a % of total loans .....	.54%	.43%	1.92%	.20%	.27%
Impaired loans as a % of total loans	1.28%	1.08%	2.78%	1.29%	.93%
Allowance for loan losses as a % of total loans	1.24%	1.06%	1.51%	1.16%	1.20%

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

During 2008, the Company recognized \$490 of interest income on impaired loans. Individual loans not included above that management feels have loss potential total approximately \$1,404. The Company has no assets which are considered to be troubled debt restructurings that are not already included in the table above.

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

MATURITY AND REPRICING DATA OF LOANS

As of December 31, 2008

	MATURING / REPRICING			
	Within <u>One Year</u>	After One but <u>Within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Residential real estate loans	\$ 45,456	\$ 20,488	\$ 186,749	\$ 252,693
Commercial loans ⁽¹⁾	134,965	77,312	38,510	250,787
Consumer loans	29,785	65,648	31,478	126,911
Total loans	<u>\$ 210,206</u>	<u>\$ 163,448</u>	<u>\$ 256,737</u>	<u>\$ 630,391</u>
Loans maturing or repricing after one year with:				
Variable interest rates			\$ 76,096	
Fixed interest rates			344,089	
Total			<u>\$ 420,185</u>	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

insured institution. The amount of the special assessment may be decreased, but additional special assessments and premium increases are possible, which could have a material adverse effect on the Company's net income. As a result of this special assessment and the changes to the premium calculation, the Company anticipates its FDIC insurance expense to significantly increase in 2009 from its already increasing levels in 2008. All other noninterest expense categories were up \$98, or 2.0%, from 2007.

During 2007, other noninterest expenses were up \$582, or 11.9%, in large part due to increases in the various loan and collection expenses associated with higher nonperforming loan balances mentioned above.

The Company's efficiency ratio is defined as noninterest expense as a percentage of FTE net interest income plus noninterest income. The emphasis management has placed on managing its balance sheet mix and interest rate sensitivity to help expand the net interest margin as well as developing more innovative ways to generate noninterest revenue has contributed to an improved efficiency ratio, finishing at 62.5% for 2008 as compared to 66.1% for 2007. Conversely, in 2007, the efficiency ratio finished at 66.1%, up from 61.2% in 2006. This less-improved efficiency number is largely the result of higher loan costs that were incurred during 2007 to better the Company's nonperforming loan levels.

FINANCIAL CONDITION:

CASH AND CASH EQUIVALENTS

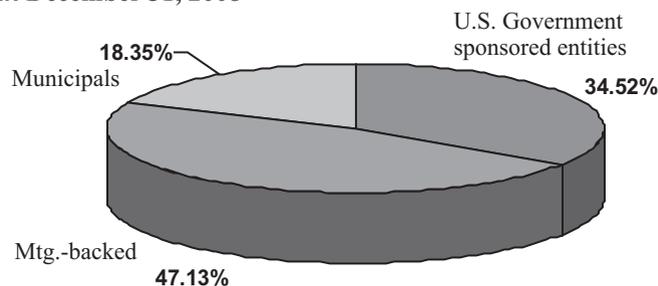
The Company's cash and cash equivalents consist of cash and balances due from banks and federal funds sold. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At December 31, 2008, cash and cash equivalents had increased \$787, or 4.7%, to \$17,681 as compared to \$16,894 at December 31, 2007. The increased liquidity position of the Company at December 31, 2008 was the result of lower loan demand and investment security maturities combined with an increase in total deposits. As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. Management believes that the current balance of cash and cash equivalents remains at a level that will meet cash obligations and provide adequate liquidity.

INTEREST-BEARING DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

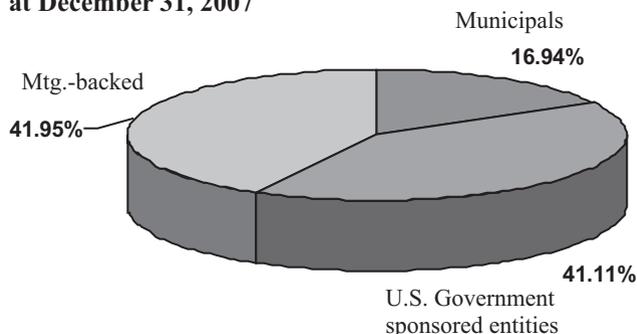
At December 31, 2008, the Company had a total of \$611 invested as interest-bearing deposits in other financial institutions, a slight decrease from \$633 at December 31, 2007. Historically, the Company has typically invested its excess funds with various correspondent banks in the form of federal funds sold, a common strategy performed by most banks. Beginning in the second quarter of 2008, the Company utilized a new relationship with a deposit placement service provider known as CDARS, or the Certificate of Deposit Account

INVESTMENT PORTFOLIO COMPOSITION

at December 31, 2008



at December 31, 2007



Registry Service, to invest its excess funds. CDARS provides financial institutions with the means to invest its own funds through One-Way Sell transactions for various maturity terms. The rates offered for the terms selected by the Company, between 1.8% and 2.8% at a weighted average maturity of 7 weeks, compared favorably to federal funds rate offerings at that time, which were 2.0% at September 30, 2008, and have since been lowered to .25% at December 31, 2008. At December 31, 2008, the Company's CDARS One-Way Sell investments had matured. The Company views this investment option as a margin-enhancing alternative when investing its excess funds and will continue to utilize this method when the need arises. Furthermore, CDARS balances are 100% secured by FDIC insurance as compared to federal funds sold balances which were considered unsecured as of September 30, 2008. Since then, as part of the FDIC's "Liquidity Guarantee Program" announced on October 14, 2008, federal funds sold balances (or inter-banking funding) will now be 100% guaranteed by the FDIC for participating institutions. The ability of the Company to issue these guaranteed federal funds sold balances will expire on June 30, 2009.

SECURITIES

Management's goal in structuring the portfolio is to maintain a prudent level of liquidity while providing an acceptable rate of return without sacrificing asset quality. Maturing securities have historically provided sufficient

MANAGEMENT'S DISCUSSION AND ANALYSIS

liquidity such that management has not sold a debt security in several years, other than renewals or replacements of maturing securities.

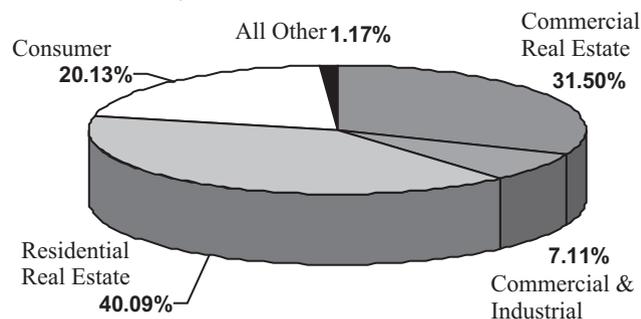
The balance of total securities decreased \$1,718, or 1.8%, as compared to 2007, with the ratio of securities to total assets also decreasing to 11.8% at December 31, 2008, compared to 12.0% at December 31, 2007. The Company's investment securities portfolio consists of mortgage-backed securities, U.S. Government sponsored entity ("GSE") securities and obligations of states and political subdivisions ("municipals"). GSE securities decreased \$7,581, or 19.2%, as a result of several large maturities during both the first and second quarters of 2008. In addition to attractive yield opportunities and a desire to increase diversification within the Company's securities portfolio, GSE securities have also been used to satisfy pledging requirements for repurchase agreements. At December 31, 2008, the Company's repurchase agreements had decreased 40.4%, reducing the need to secure these balances and impacting the runoff in GSE securities. This decrease was partially offset by increases in both mortgage-backed securities and obligations of states and political subdivisions, which were up \$4,850, or 12.5%, and \$1,013, or 6.4%, respectively, from year-end 2007. Mortgage-backed securities make up the largest portion of the Company's investment portfolio, totaling \$43,514, or 47.1% of total investments at December 31, 2008. The primary advantage of mortgage-backed securities has been the increased cash flows due to the more rapid (monthly) repayment of principal as compared to other types of investment securities, which deliver proceeds upon maturity or call date. Principal repayments from mortgage-backed securities during 2008 totaled \$7,985. With the general decrease in interest rates evident since 2007, the reinvestment rates on debt securities continue to show lower returns during 2008. The weighted average FTE yield on debt securities at year-end 2008 was 4.34%, as compared to 4.55% at year-end 2007. Table III provides a summary of the portfolio by category and remaining contractual maturity. Issues classified as equity securities have no stated maturity date and are not included in Table III. For 2009, the Company's focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets.

LOANS

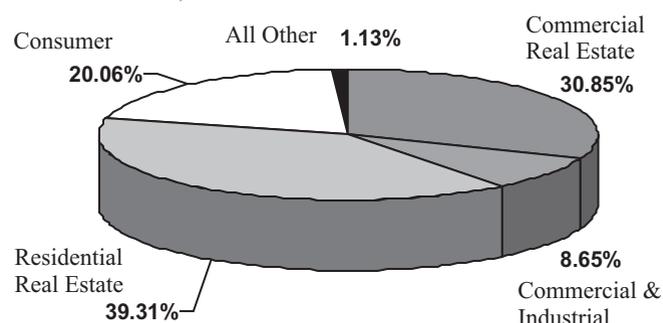
In 2008, the Company's primary category of earning assets, total loans, decreased \$6,712, or 1.1%, to finish at \$630,391. Lower loan balances were largely due to total commercial loans decreasing \$8,230, or 3.3%, from year-end 2007. The Company's commercial loans include both commercial real estate and commercial and industrial loans. While commercial loan balances are down, management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans. The Company's commercial and industrial loan portfolio, down \$10,266, or 18.6%, from year-end 2007, consists of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that

LOAN PORTFOLIO COMPOSITION

at December 31, 2008



at December 31, 2007



include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock. Commercial real estate, the Company's largest segment of commercial loans, increased \$2,036, or 1.0%. This segment of loans is mostly secured by commercial real estate and rental property. Commercial real estate consists of loan participations with other banks outside the Company's primary market area. Although the Company is not actively marketing participation loans outside its primary market area, it is taking advantage of the relationships it has with certain lenders in those areas where the Company believes it can profitably participate with an acceptable level of risk. The commercial loan portfolio, including participation loans, consists primarily of rental property loans (22.8% of portfolio), medical industry loans (12.0% of portfolio), land development loans (8.9% of portfolio), and hotel and motel loans (8.3% of portfolio). During 2008, the primary market areas for the Company's commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson and Franklin counties of Ohio, which accounted for 61.9% of total originations. The growing West Virginia markets also accounted for 30.2% of total originations for the same time period. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for

MANAGEMENT'S DISCUSSION AND ANALYSIS

loans in the Company's primary markets, interest rates offered by the Company and normal underwriting considerations. Additionally, the potential for larger than normal commercial loan payoffs may limit loan growth during 2009.

Also contributing to the loan portfolio decrease were consumer loans, which were down \$921, or 0.7%, from year-end 2007. The Company's consumer loans are secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The decrease in consumer volume was mostly attributable to the automobile lending segment, which decreased \$2,450, or 4.3%, from year-end 2007. While the automobile lending segment continues to represent the largest portion of the Company's consumer loan portfolio, management's emphasis on profitable loan growth with higher returns has contributed most to the reduction in loan volume within this area. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return. Furthermore, economic factors that have weakened the economy and consumer spending have caused a decline in automobile loan volume. As short-term rates have aggressively moved down since September 2007, continued competition with local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates, have continued to challenge automobile loan growth during 2008 and should continue to do so in 2009. Partially offsetting the decreases in auto loans was an increase to the Company's home equity capital line loan balances, which increased \$2,162, or 11.1%, from year-end 2007. The remaining consumer loan portfolio balances decreased \$633 from year-end 2007.

Generating residential real estate loans remains a key focus of the Company's lending efforts. Residential real estate loan balances comprise the largest portion of the Company's loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During 2008, total residential real estate loan balances increased \$2,210, or 0.9%, from year-end 2007 to total \$252,693. The increase was largely driven by growth in the Company's five-year adjustable rate (2-step) product, with balances being up \$7,374, or 112.9%, from year-end 2007. This product allows the consumer to secure a fixed initial interest rate for the first five years, with the loan adjusting to a variable interest rate for years 6 through 30. Real estate loan growth was also experienced in the Company's longer-termed, fixed-rate real estate loans, which were up \$6,287, or 3.4%, from year-end 2007. Terms of these fixed-rate loans include 15-, 20- and 30-year periods. To help further satisfy demand for longer-termed, fixed-rate real estate loans, the Company continues to originate and sell some fixed-rate mortgages to the secondary market, and has sold \$11,704 in loans during 2008, which were up \$7,405, or 172.2%, over the volume sold during 2007.

Partially offsetting the increases in five-year adjustable and long-term, fixed-rate real estate loan balances was a decrease to the Company's one-year adjustable-rate mortgage

balances of \$9,118, or 21.6%, from year-end 2007. During 2006 and 2007, consumer demand for fixed-rate real estate loans continued to increase due to the continuation of lower, more affordable, mortgage rates. As long-term interest rates remained low during 2008, consumers continued to pay off and refinance their variable rate mortgages, although the volume of refinancings continues to stabilize as compared to 2007 and 2006. This has resulted in lower one-year adjustable-rate mortgage balances at year-end 2008 as compared to year-end 2007.

The remaining real estate loan portfolio balances decreased \$2,333 primarily from the Company's residential construction loans.

Additionally, the Company recognized an increase of \$229, or 3.2%, in other loans from year-end 2007. Other loans consist primarily of state and municipal loans and overdrafts. This increase was largely due to an increase in state and municipal loan balances of \$248.

The Company continues to monitor the pace of its loan volume, as it has experienced a 1.1% drop-off within its total loan portfolio during 2008. The well-documented housing market crisis and rising energy costs have impacted consumer spending and have led to lower consumer demand for loans. Furthermore, the Company continues to view the consumer loan segment as a decreasing portfolio, due to higher loan costs, increased competition in automobile loans and a lower return on investment as compared to the other loan portfolios. As a result, the Company anticipates total loan growth to be challenging throughout 2009. The Company remains committed to sound underwriting practices without sacrificing asset quality and avoiding exposure to unnecessary risk that could weaken the credit quality of the portfolio.

ALLOWANCE FOR LOAN LOSSES AND PROVISION EXPENSE

Tables IV and V have been provided to enhance the understanding of the loan portfolio and the allowance for loan losses. Management evaluates the adequacy of the allowance for loan losses quarterly based on several factors including, but not limited to, general economic conditions, loan portfolio composition, prior loan loss experience, and management's estimate of probable losses. Management continually monitors the loan portfolio to identify potential portfolio risks and to detect potential credit deterioration in the early stages, and then establishes reserves based upon its evaluation of these inherent risks. Actual losses on loans are reflected as reductions in the reserve and are referred to as charge-offs. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in management's opinion, to maintain the allowance for loan losses at an adequate level that is reflective of probable and inherent loss. The allowance required is primarily a function of the relative quality of the loans in the loan portfolio, the mix of loans in the portfolio and the rate of growth of outstanding loans.

During 2008, the Company increased its provision for loan loss expense by \$1,464 as compared to 2007, which increased

MANAGEMENT'S DISCUSSION AND ANALYSIS

the allowance for loan losses by \$1,062, or 15.8%, to \$7,799. The increase in the allowance for loan losses was in large part due to an increase in the level of nonperforming loans, which consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans increased from \$3,661 at year-end 2007 to \$5,274 at year-end 2008 that required specific allocations to be made on behalf of the portfolio risks and credit deterioration of these nonperforming credits. During the first quarter of 2008, the Company experienced problems with one of its commercial borrowers that was unable to meet the debt requirements of its loans. During this time, the Company stopped recognizing interest income on the loans, reversed all interest that had been accrued and unpaid and classified the loans as nonperforming. At March 31, 2008, the ratio of nonperforming loans to total loans grew to 1.40% as a result of this classification. During the second quarter, continued analysis of these loans was performed, which included the reviews of updated appraisals that reflected a decline in market values due to deteriorating market conditions. This analysis, along with continued loan deterioration of this large commercial borrower, prompted management to charge down the loan by \$750, including estimated costs to sell, to the estimated fair value of the collateral. Subsequently, the

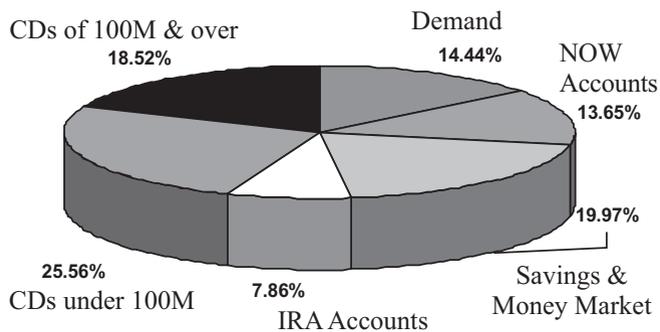
Company acquired these properties through foreclosure and transferred the loans to OREO. This shifted approximately \$4,214 from nonperforming loans to nonperforming assets, which contributed to the increase in its nonperforming assets from \$3,922 at year-end 2007 to \$9,968 at year-end 2008. As a result, the Company's ratio of nonperforming loans to total loans decreased to .84% at December 31, 2008, while the ratio of nonperforming assets, which includes OREO properties, to total assets increased from .50% at year-end 2007 to 1.28% at year-end 2008.

During 2008, net charge-offs totaled \$2,654, which were down \$2,273 from 2007, in large part due to commercial charge-offs of specific allocations that were reflected in the allowance for loan losses from 2007.

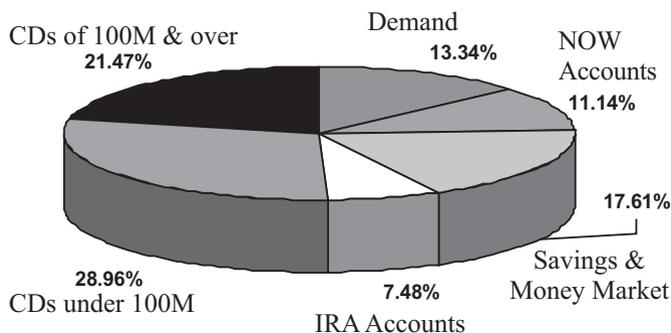
As a result of higher nonperforming loan balances, the ratio of allowance for loan losses to total loans increased to 1.24% at December 31, 2008 as compared to 1.06% at December 31, 2007. Management believes that the allowance for loan losses at December 31, 2008 was adequate and reflected probable incurred 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. The actions that took place in the first and second quarters of 2008 were deemed prudent and necessary by management to maintain the allowance at its adequate level. 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.

COMPOSITION OF TOTAL DEPOSITS

at December 31, 2008



at December 31, 2007



DEPOSITS

Interest-earning assets are funded generally by both interest-bearing and noninterest-bearing core deposits. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. The accompanying table VII shows the composition of total deposits as of December 31, 2008. Total deposits increased \$3,335, or 0.6%, to finish at \$592,361 at year-end 2008, resulting mostly from an increase in the Company's interest-bearing demand deposits and money market deposit balances.

Interest-bearing NOW account balances increased \$15,237, or 23.2%, during 2008 as compared to year-end 2007. This growth was largely driven by a \$16,386 increase in public fund balances related to the local city and county school construction projects currently in process within Gallia County, Ohio.

Further deposit growth came from the Company's money market deposit balances, which were up \$13,349, or 18.5%, during 2008 as compared to year-end 2007. This increase was from the Company's Market Watch money market account product, which generated \$13,485 in new deposit balances from year-end 2007, mostly during the second quarter of 2008. Introduced in August 2005, the Market Watch product is a limited transaction investment account with tiered rates that competes with current market rate offerings and serves as an

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table VII

as of December 31

(dollars in thousands)	2008	2007	2006
Interest-bearing deposits:			
NOW accounts	\$ 80,855	\$ 65,618	\$ 78,484
Money Market	85,625	72,276	58,941
Savings accounts	32,664	31,436	32,719
IRA accounts	46,574	44,050	38,731
Certificates of Deposit ..	<u>261,137</u>	<u>297,057</u>	<u>306,951</u>
	506,855	510,437	515,826
Noninterest-bearing deposits:			
Demand deposits	<u>85,506</u>	<u>78,589</u>	<u>77,960</u>
Total deposits	<u>\$ 592,361</u>	<u>\$ 589,026</u>	<u>\$ 593,786</u>

alternative to certificates of deposit for some customers. In the second quarter of 2008, the Company began marketing a special six-month introductory rate offer of 3.50% APY that would be for new Market Watch accounts. This special offer was well received by the Bank's customers and contributed to most of the year-to-date increase in 2008. As a result of this introductory rate offer, Market Watch deposit balances increased \$20,670 during the second quarter of 2008.

The Company's interest-free funding source, noninterest bearing demand deposits, also increased \$6,917, or 8.8%, from year-end 2007, largely due to growth in business checking account balances.

Time deposits, particularly CD's, remain the most significant source of funding for the Company's earning assets, making up 51.9% of total deposits. During 2008, time deposits decreased \$33,396, or 9.8%, from year-end 2007, partly because of the declining pace of the Company's loan portfolio. With loan balances down 1.1% from year-end 2007, there has not been an aggressive need to deploy CD's as a funding source. Furthermore, an increased demand for the Market Watch product generated a deposit composition shift during 2008 from CD balances to higher savings and money market balances. This deposit shift also served as a cost effective contribution to the net interest margin. The average cost of savings and money market accounts was 1.70% and 2.78% during the years ending 2008 and 2007, respectively. This is compared to the much higher average cost of time deposits of 4.17% and 4.88% during the years ending 2008 and 2007, respectively.

The Company will continue to experience increased competition for deposits in its market areas, which should challenge net growth in its deposit balances. The Company will continue to evaluate its deposit portfolio mix to properly utilize both retail and wholesale funds to support earning assets and minimize interest costs.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Repurchase agreements, which are financing arrangements that have overnight maturity terms, were down

\$16,320, or 40.4%, from year-end 2007. This decrease was mostly due to seasonal fluctuations of two commercial accounts during 2008.

FUNDS BORROWED

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of Federal Home Loan Bank (FHLB) advances and promissory notes. During 2008, other borrowed funds were up \$9,772, or 14.6%, from year-end 2007, primarily to support various deposit maturities. While retail deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

OFF-BALANCE SHEET ARRANGEMENTS

The disclosures required for off-balance sheet arrangements are discussed in Note I and Note K.

SUBORDINATED DEBENTURES

On March 22, 2007, a trust formed by Ohio Valley issued \$8,500 of adjustable-rate trust preferred securities as part of a pooled offering of such securities. The Company used the proceeds from these trust preferred securities to pay off \$8,500 in higher cost trust preferred security debt on March 26, 2007. The replacement of the higher cost trust preferred security debt was a strategy by management to lower interest rate pressures that were impacting interest expense and help improve the Company's net interest margin. The early extinguishment and replacement of this higher cost debt improved earnings by nearly \$54 pre-tax (\$35 after taxes) during 2008 as compared to 2007. For additional discussion on the terms and conditions of this new trust preferred security issuance, please refer to Note I "Subordinated Debentures and Trust Preferred Securities".

CAPITAL RESOURCES

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors and shareholders. All of the capital ratios exceeded the regulatory minimum guidelines as identified in Note P "Regulatory Matters". Shareholders' equity totaled \$63,056 at December 31, 2008, compared to \$61,511 at December 31, 2007, which represents growth of 2.5%. Contributing most to this increase was year-to-date net income of \$7,128 partially offset by cash dividends paid of \$3,061, or \$.76 per share, year-to-date, and increased share repurchases. The Company had treasury stock totaling \$15,712 at December 31, 2008, an increase of \$2,269 as compared to the total at year-end 2007. The Company may repurchase additional common shares from time to time as authorized by its stock repurchase program. Most recently, the Board of Directors extended the stock repurchase program from February 16, 2009 to February 15, 2010, and authorized Ohio Valley to repurchase up to 175,000 of its common shares through open market and privately

MANAGEMENT'S DISCUSSION AND ANALYSIS

negotiated purchases.

Furthermore, the Company benefits from a dividend reinvestment and stock purchase plan that is administered by an independent agent of the Company. The plan allows shareholders to purchase additional shares of company stock. A benefit of the plan is to permit the shareholders to reinvest cash dividends as well as make supplemental purchases without the usual payment of brokerage commissions. During 2008, shareholders invested more than \$1,167 through the dividend reinvestment and stock purchase plan. These proceeds resulted in the acquisition of 49,539 existing shares through open market purchases. At December 31, 2008, approximately 81% of the shareholders were enrolled in the dividend reinvestment plan.

INTEREST RATE SENSITIVITY AND LIQUIDITY

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

The Company evaluates IRR through the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The modeling process starts with a base case simulation, which assumes a flat interest rate scenario. 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 projected 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 at December 31, 2008, management did not test interest rates down 200 or 300 basis points.

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

INTEREST RATE SENSITIVITY

Table VIII

Change in Interest Rates Basis Points	December 31, 2008 % Change in Net Interest Income	December 31, 2007 % Change in Net Interest Income
+300	(5.47%)	(8.23%)
+200	(4.12%)	(5.09%)
+100	(2.30%)	(2.47%)
-100	2.54%	2.48%
-200	—	5.01%
-300	—	7.86%

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. At December 31, 2008, the Company's analysis of net interest income reflects a liability sensitive position. Based on current assumptions, an instantaneous decrease in interest rates would positively impact net interest income primarily due to the duration of earning assets exceeding the duration of interest-bearing liabilities. Conversely, an increase in interest rates would negatively impact net interest income. As compared to December 31, 2007, the Company's interest rate risk profile has become less exposed to rising interest rates primarily due to the extension of maturity terms offered on new time deposits. Since September 2007, the Federal Reserve has reduced short-term interest rates

CONTRACTUAL OBLIGATIONS

Table IX

The following table presents, as of December 31, 2008, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

(dollars in thousands)	Note Reference	Payments Due In				Total
		One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
Deposits without a stated maturity	F	\$ 284,650	—	—	—	\$ 284,650
Consumer and brokered time deposits	F	219,240	\$ 82,359	\$ 5,083	\$ 1,029	307,711
Repurchase agreements	G	24,070	—	—	—	24,070
Other borrowed funds	H	43,615	33,011	12	136	76,774
Subordinated debentures	I	—	—	—	13,500	13,500

MANAGEMENT'S DISCUSSION AND ANALYSIS

500 basis points and the Company's net interest margin has responded positively to the decline in market rates.

Liquidity management focuses on matching the cash inflows and outflows within the Company's natural market for loans and deposits. This goal is accomplished by maintaining sufficient asset liquidity along with stable core deposits. The primary sources of liquidity are interest-bearing balances with banks, federal funds sold and the maturity and repayment of investments and loans as well as cash flows provided from operations. The Company has classified \$75,340 in securities as available for sale at December 31, 2008. In addition, the Federal Home Loan Bank in Cincinnati offers advances to the Bank which further enhances the Bank's ability to meet liquidity demands. At December 31, 2008, the Bank could borrow an additional \$52,937 from the Federal Home Loan Bank. The Bank also has the ability to purchase federal funds from several of its correspondent banks. See the consolidated statement of cash flows for further cash flow information. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

INFLATION

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

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

CRITICAL ACCOUNTING POLICIES

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

statements. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those 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 to be a critical accounting policy.

Allowance for loan losses: To arrive at the total dollars necessary to maintain an allowance level sufficient to absorb probable losses incurred at a specific financial statement date, management has developed procedures to establish and then evaluate the allowance once determined. The allowance consists of the following components: specific allocation, general allocation and other estimated general allocation.

To arrive at the amount required for the specific allocation component, the Company evaluates loans for which a loss may be incurred either in part or in whole. To achieve this task, the Company has created a quarterly report ("Watchlist") which lists the loans from each loan portfolio that management deems to be potential credit risks. The loans placed on this report are: loans past due 60 or more days, nonaccrual loans and loans management has determined to be potential problem loans. These loans are reviewed and analyzed for potential loss by the Large Loan Review Committee, which consists of the President of the Company and members of senior management with lending authority. The function of the Committee is to review and analyze large borrowers for credit risk, scrutinize the Watchlist and evaluate the adequacy of the allowance for loan losses and other credit related issues. The Committee has established a grading system to evaluate the credit risk of each commercial borrower on a scale of 1 (least risk) to 10 (greatest risk). After the Committee evaluates each relationship listed in the report, a specific loss allocation may be assessed. The specific allocation is currently made up of amounts allocated to the commercial and real estate loan portfolios.

Included in the specific allocation analysis are impaired loans, which consist of loans with balances of \$200 or more on nonaccrual status or non-performing in nature. These loans are also individually analyzed and a specific allocation may be assessed based on expected credit loss. Collateral dependent loans will be evaluated to determine a fair value of the collateral securing the loan. Any changes in the impaired allocation will

KEY RATIOS

Table X	2008	2007	2006	2005	2004
Return on average assets .....	.91%	.82%	.71%	.97%	1.16%
Return on average equity	11.62%	10.40%	9.00%	12.18%	15.02%
Dividend payout ratio	42.94%	46.66%	52.56%	38.55%	38.89%
Average equity to average assets	7.84%	7.87%	7.88%	7.93%	7.72%

MANAGEMENT'S DISCUSSION AND ANALYSIS

be reflected in the total specific allocation.

The second component (general allowance) is based upon total loan portfolio balances minus loan balances already reviewed (specific allocation). The Large Loan Review Committee evaluates credit analysis reports that provide management with a "snapshot" of information on borrowers with larger-balance loans (aggregate balances of \$1,000 or greater), including loan grades, collateral values, and other factors. A list is prepared and updated quarterly that allows management to monitor this group of borrowers. Therefore, only small balance commercial loans and homogeneous loans (consumer and real estate loans) are not specifically reviewed to determine minor delinquencies, current collateral values and present credit risk. The Company utilizes actual historic loss experience as a factor to calculate the probable losses for this component of the allowance for loan losses. This risk factor reflects a 3 year performance evaluation of credit losses per loan portfolio. The risk factor is achieved by taking the average net charge-off per loan portfolio for the last 36 consecutive months and dividing it by the average loan balance for each loan portfolio over the same time period. The Company believes that by using the 36 month average loss risk factor, the estimated allowance will more accurately reflect current probable losses.

The final component used to evaluate the adequacy of the allowance includes five additional areas that management believes can have an impact on collecting all principal due. These areas are: 1) delinquency trends, 2) current local economic conditions, 3) non-performing loan trends, 4) recovery vs. charge-off, and 5) personnel changes. Each of these areas is given a percentage factor, from a low of 10% to a high of 30%, determined by the degree of impact it may have on the allowance. To calculate the impact of other economic conditions on the allowance, the total general allowance is multiplied by this factor. These dollars are then added to the other two components to provide for economic conditions in the Company's assessment area. The Company's assessment area takes in a total of ten counties in Ohio and West Virginia. Each assessment area has its individual economic conditions; however, the Company has chosen to average the risk factors for compiling the economic risk factor.

The adequacy of the allowance may be determined by certain specific and nonspecific allocations; however, the total allocation is available for any credit losses that may impact the loan portfolios.

CONCENTRATIONS OF CREDIT RISK

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

FORWARD LOOKING STATEMENTS

Except for the historical statements and discussions contained herein, statements contained in this report constitute "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, that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, and taxes; 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, 2008. 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.

