



**2009 Annual Report to Shareholders
December 31, 2009**

SELECTED FINANCIAL DATA

Years Ended December 31

	2009	2008	2007	2006	2005
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(dollars in thousands, except share and per share data)

SUMMARY OF OPERATIONS:

Total interest income	\$ 47,623	\$ 51,533	\$ 54,947	\$ 52,421	\$ 46,071
Total interest expense	16,932	20,828	26,420	23,931	18,137
Net interest income	30,691	30,705	28,527	28,490	27,934
Provision for loan losses	3,212	3,716	2,252	5,662	1,797
Total other income	7,747	6,193	5,236	5,830	5,522
Total other expenses	26,309	23,325	22,583	21,199	21,359
Income before income taxes	8,917	9,857	8,928	7,459	10,300
Income taxes	2,272	2,729	2,631	2,061	3,283
Net income	6,645	7,128	6,297	5,398	7,017

PER SHARE DATA:

Earnings per share	\$ 1.67	\$ 1.77	\$ 1.52	\$ 1.27	\$ 1.64
Cash dividends declared per share ...	\$.80	\$.76	\$.71	\$.67	\$.63
Book value per share	\$ 16.70	\$ 15.83	\$ 15.10	\$ 14.38	\$ 13.90
Weighted average number of common shares outstanding	3,983,034	4,018,367	4,131,621	4,230,551	4,278,562

AVERAGE BALANCE SUMMARY:

Total loans	\$ 641,878	\$ 629,225	\$ 628,891	\$ 626,418	\$ 599,345
Securities ⁽¹⁾	134,117	101,100	91,724	86,179	84,089
Deposits	652,453	606,126	595,610	585,301	542,730
Other borrowed funds ⁽²⁾	62,405	74,178	74,196	81,975	92,520
Shareholders' equity	64,941	61,346	60,549	59,970	57,620
Total assets	818,952	782,312	769,554	760,932	726,489

PERIOD END BALANCES:

Total loans	\$ 651,356	\$ 630,391	\$ 637,103	\$ 625,164	\$ 617,532
Securities ⁽¹⁾	113,307	99,218	100,713	90,161	84,623
Deposits	647,644	592,361	589,026	593,786	562,866
Shareholders' equity	66,521	63,056	61,511	60,282	59,271
Total assets	811,988	781,108	783,418	764,361	749,719

KEY RATIOS:

Return on average assets .....	.81%	.91%	.82%	.71%	.97%
Return on average equity	10.23%	11.62%	10.40%	9.00%	12.18%
Dividend payout ratio	47.95%	42.94%	46.66%	52.56%	38.55%
Average equity to average assets	7.93%	7.84%	7.87%	7.88%	7.93%

⁽¹⁾ Securities include interest-bearing balances with banks and FHLB stock.

⁽²⁾ Other borrowed funds include subordinated debentures.

CONSOLIDATED STATEMENTS OF CONDITION

As of December 31

	2009	2008
(dollars in thousands, except share and per share data)		
Assets		
Cash and noninterest-bearing deposits with banks	\$ 9,101	\$ 16,650
Interest-bearing deposits with banks	6,569	611
Federal funds sold	<u>—</u>	<u>1,031</u>
Total cash and cash equivalents	15,670	18,292
Securities available for sale	83,868	75,340
Securities held to maturity (estimated fair value: 2009 - \$16,834; 2008 - \$17,241)	16,589	16,986
Federal Home Loan Bank stock	6,281	6,281
Total loans	651,356	630,391
Less: Allowance for loan losses	<u>(8,198)</u>	<u>(7,799)</u>
Net loans	643,158	622,592
Premises and equipment, net	10,132	10,232
Accrued income receivable	2,896	3,172
Goodwill	1,267	1,267
Bank owned life insurance	18,734	18,153
Prepaid FDIC insurance	3,567	—
Other assets	<u>9,826</u>	<u>8,793</u>
Total assets	<u>\$ 811,988</u>	<u>\$ 781,108</u>
Liabilities		
Noninterest-bearing deposits	\$ 86,770	\$ 85,506
Interest-bearing deposits	<u>560,874</u>	<u>506,855</u>
Total deposits	647,644	592,361
Securities sold under agreements to repurchase	31,641	24,070
Other borrowed funds	42,709	76,774
Subordinated debentures	13,500	13,500
Accrued liabilities	<u>9,973</u>	<u>11,347</u>
Total liabilities	<u>745,467</u>	<u>718,052</u>
Commitments and Contingent Liabilities (See Note K)	—	—
Shareholders' Equity		
Common stock (\$1.00 stated value per share: 10,000,000 shares authorized; 2009 - 4,643,748 shares issued; 2008 - 4,642,748 shares issued)	4,644	4,643
Additional paid-in capital	32,704	32,683
Retained earnings	44,211	40,752
Accumulated other comprehensive income	674	690
Treasury stock, at cost (2009 and 2008 - 659,739 shares).....	<u>(15,712)</u>	<u>(15,712)</u>
Total shareholders' equity	<u>66,521</u>	<u>63,056</u>
Total liabilities and shareholders' equity	<u>\$ 811,988</u>	<u>\$ 781,108</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31	2009	2008	2007
(dollars in thousands, except per share data)			
Interest and dividend income:			
Loans, including fees	\$ 44,076	\$ 47,272	\$ 50,671
Securities:			
Taxable	2,748	3,109	3,079
Tax exempt	451	535	555
Dividends	290	323	398
Other interest	58	294	244
	<u>47,623</u>	<u>51,533</u>	<u>54,947</u>
Interest expense:			
Deposits	13,683	16,636	21,315
Securities sold under agreements to repurchase	75	421	1,051
Other borrowed funds	2,085	2,682	2,911
Subordinated debentures	1,089	1,089	1,143
	<u>16,932</u>	<u>20,828</u>	<u>26,420</u>
Net interest income	30,691	30,705	28,527
Provision for loan losses	3,212	3,716	2,252
Net interest income after provision for loan losses	<u>27,479</u>	<u>26,989</u>	<u>26,275</u>
Noninterest income:			
Service charges on deposit accounts	2,816	3,073	2,982
Trust fees	227	240	230
Income from bank owned life insurance	1,460	757	757
Mortgage banking income	758	100	74
Electronic refund check / deposit fees	528	272	110
Gain (loss) on sale of other real estate owned	38	(31)	(777)
Other	1,920	1,782	1,860
	<u>7,747</u>	<u>6,193</u>	<u>5,236</u>
Noninterest expense:			
Salaries and employee benefits	14,973	14,057	13,045
Occupancy	1,599	1,562	1,467
Furniture and equipment	1,204	1,048	1,086
Corporation franchise tax	713	606	671
FDIC insurance	1,625	268	70
Data processing	670	773	844
Other	5,525	5,011	5,400
	<u>26,309</u>	<u>23,325</u>	<u>22,583</u>
Income before income taxes	8,917	9,857	8,928
Provision for income taxes	<u>2,272</u>	<u>2,729</u>	<u>2,631</u>
NET INCOME	<u>\$ 6,645</u>	<u>\$ 7,128</u>	<u>\$ 6,297</u>
Earnings per share	<u>\$ 1.67</u>	<u>\$ 1.77</u>	<u>\$ 1.52</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2009, 2008 and 2007

(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, 2007	\$ 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
Cumulative-effect adjustment in adopting EITF No. 06-04	—	—	(1,078)	—	—	(1,078)
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)
Balances at December 31, 2008	4,643	32,683	40,752	690	(15,712)	63,056
Comprehensive income:						
Net income	—	—	6,645	—	—	6,645
Change in unrealized gain on available for sale securities	—	—	—	(24)	—	(24)
Income tax effect	—	—	—	8	—	8
Total comprehensive income	—	—	—	—	—	6,629
Common stock issued to ESOP, 1,000 shares	1	21	—	—	—	22
Cash dividends, \$.80 per share	—	—	(3,186)	—	—	(3,186)
Balances at December 31, 2009	\$ 4,644	\$ 32,704	\$ 44,211	\$ 674	\$ (15,712)	\$ 66,521

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

2009

2008

2007

(dollars in thousands)

Cash flows from operating activities:

Net income	\$ 6,645	\$ 7,128	\$ 6,297
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,071	939	987
Net amortization of securities	280	101	66
Proceeds from sale of loans in secondary market	57,815	11,703	4,300
Loans disbursed for sale in secondary market	(57,057)	(11,603)	(4,226)
Amortization of mortgage servicing rights	129	54	25
Impairment of mortgage servicing rights	91	27	28
Gain on sale of loans	(978)	(181)	(127)
Deferred tax (benefit) expense	(2)	(102)	908
Provision for loan losses	3,212	3,716	2,252
Common stock issued to ESOP	22	20	248
Earnings on bank owned life insurance	(1,460)	(757)	(687)
Federal Home Loan Bank stock dividend	—	(245)	—
(Gain) loss on sale of other real estate owned	(38)	31	777
Change in accrued income receivable	276	82	(20)
Change in accrued liabilities	(1,374)	(1,720)	1,298
Change in other assets	(3,704)	156	(841)
Net cash provided by operating activities	<u>4,928</u>	<u>9,349</u>	<u>11,285</u>

Cash flows from investing activities:

Proceeds from maturities of securities available for sale	41,099	24,643	8,969
Purchases of securities available for sale	(49,922)	(20,792)	(15,509)
Proceeds from maturities of securities held to maturity	1,858	2,046	1,009
Purchases of securities held to maturity	(1,470)	(3,060)	(3,649)
Net change in loans	(25,527)	(991)	(19,498)
Proceeds from sale of other real estate owned	1,050	617	4,274
Purchases of premises and equipment	(971)	(1,300)	(1,046)
Proceeds from bank owned life insurance	1,034	—	71
Purchases of bank owned life insurance	(304)	(1,204)	—
Net cash used in investing activities	<u>(33,153)</u>	<u>(41)</u>	<u>(25,379)</u>

Cash flows from financing activities:

Change in deposits	55,283	3,335	(4,760)
Cash dividends	(3,186)	(3,061)	(2,938)
Proceeds from issuance of common stock	—	—	150
Purchases of treasury stock	—	(2,269)	(3,394)
Change in securities sold under agreements to repurchase	7,571	(16,320)	17,834
Proceeds from Federal Home Loan Bank borrowings	6,050	13,000	20,000
Repayment of Federal Home Loan Bank borrowings	(16,005)	(16,014)	(14,061)
Change in other short-term borrowings	(24,110)	12,786	(2,483)
Proceeds from subordinated debentures	—	—	8,500
Repayment of subordinated debentures	—	—	(8,500)
Net cash provided by (used in) financing activities	<u>25,603</u>	<u>(8,543)</u>	<u>10,348</u>

Cash and cash equivalents:

Change in cash and cash equivalents	(2,622)	765	(3,746)
Cash and cash equivalents at beginning of year	18,292	17,527	21,273
Cash and cash equivalents at end of year	<u>\$ 15,670</u>	<u>\$ 18,292</u>	<u>\$ 17,527</u>

Supplemental disclosure:

Cash paid for interest	\$ 17,791	\$ 22,637	\$ 25,854
Cash paid for income taxes	2,730	2,827	878
Non-cash transfers from loans to other real estate owned	1,749	5,049	2,632

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 that facilitates the receipts of insurance commissions.

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.

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

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, mortgage servicing rights, deferred tax assets, the fair value of certain securities, the fair value of financial instruments and the determination and carrying value of impaired loans.

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

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

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

Other-Than-Temporary-Impairments of Securities: In determining an other-than-temporary-impairment ("OTTI"), management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

anticipated recovery. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

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

FHLB Stock: Federal Home Loan Bank stock is carried at cost because its fair value is difficult to determine due to restrictions placed on its transferability.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on an accrual basis using the interest method and includes amortization of net deferred loan fees and costs over the loan term using the level yield method without anticipating prepayments.

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

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, 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, 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. The general component covers non-classified loans and classified loans that are not reviewed for impairment, 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. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

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 as of December 31:

	<u>% of Total Loans</u>	
	<u>2009</u>	<u>2008</u>
Residential real estate loans	36.66%	40.09%
Commercial real estate loans	32.13%	31.50%
Consumer loans	20.91%	20.13%
Commercial and industrial loans....	9.03%	7.11%
All other loans	<u>1.27%</u>	<u>1.17%</u>
	<u>100.00%</u>	<u>100.00%</u>

Approximately 3.76% 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, 2009, the Bank's primary correspondent balance was \$6,186 on deposit at the Federal Reserve Bank, Cleveland, 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 \$5,392 and \$4,693 at December 31, 2009 and 2008.

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.

Mortgage Servicing Rights: A mortgage servicing right ("MSR") is a contractual agreement where the right to service a mortgage loan is sold by the original lender to another party. When the Company sells mortgage loans to the secondary market, it retains the servicing rights to these loans. The Company's MSR is recognized separately when acquired through sales of loans and is initially recorded at fair value with the income statement effect recorded in mortgage banking income. Subsequently, the MSR is then amortized in proportion to and over the period of estimated future servicing income of the underlying loan. The MSR is then evaluated for impairment periodically based upon the fair value of the rights as compared to the carrying amount, with any impairment being recognized through a valuation allowance. Fair value of the MSR is based on market prices for comparable mortgage servicing contracts. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. At December 31, 2009 and 2008, the Company's MSR asset portfolio was \$474 and \$191, respectively.

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: 3,983,034 for 2009; 4,018,367 for 2008; 4,131,621 for 2007. 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.

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

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, net of tax.

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 key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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 June 2009, the Financial Accounting Standards Board ("FASB") replaced Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, with Statement 162, *The Hierarchy of Generally Accepted Accounting Principles*, and to establish the *FASB Accounting Standards Codification (the "ASC")* as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The ASC was effective for financial statements issued for periods after September 15, 2009 and did not have a material impact on the Company's financial position and results of operations.

In April 2009, the FASB issued Staff Position ("FSP") No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320-10)*, which amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment ("OTTI") related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. ASC 320-10 was effective for interim and annual reporting periods ending June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the provisions of this pronouncement for the period ending June 15, 2009, as required. The adoption of this pronouncement did not have a material impact on the Company's financial position and results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (continued)

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10). This FSP emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices would be needed to determine the appropriate fair value. The FSP, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 with early adoption for periods ending after March 15, 2009. The Company adopted the provisions of this pronouncement for the period ending June 15, 2009, as required. The adoption of this pronouncement did not have a material impact on the Company's financial position and results of operations.

Effect of Newly Issued But Not Yet Effective Accounting Standards: In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (ASU 1009-16). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of this Statement were also amended and apply to transfers that occurred both before and after the effective date of this Statement. The effect of adopting this new guidance is not expected to have a material impact on the Company's financial position and results of operations.

In June 2009, FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASU 2009-17), which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This Statement also requires additional disclosures about an enterprise's involvement in variable interest entities. This Statement will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The effect of adopting this new guidance is not expected to have a material impact on the Company's financial position and results of operations.

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. See Note O 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 \$7,897 and \$8,066 was required to meet regulatory reserve and clearing requirements at year-end 2009 and 2008. The balances at Fifth Third Bank do not earn interest.

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 N. 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.

Reclassifications: The consolidated financial statements for 2008 and 2007 have been reclassified to conform with the presentation for 2009. These reclassifications had no effect on the net results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2009</u>				
U.S. Treasury securities.....	\$ 10,548	\$ 10	\$ (1)	\$ 10,557
U.S. Government sponsored entity securities	33,561	561	—	34,122
Agency mortgage-backed securities, residential	38,737	560	(108)	39,189
Total securities	<u>\$ 82,846</u>	<u>\$ 1,131</u>	<u>\$ (109)</u>	<u>\$ 83,868</u>
<u>December 31, 2008</u>				
U.S. Government sponsored entity securities	\$ 30,623	\$ 1,243	\$ —	\$ 31,866
Agency mortgage-backed securities, residential	43,671	82	(279)	43,474
Total securities	<u>\$ 74,294</u>	<u>\$ 1,325</u>	<u>\$ (279)</u>	<u>\$ 75,340</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Held to Maturity				
<u>December 31, 2009</u>				
Obligations of states and political subdivisions	\$ 16,553	\$ 287	\$ (41)	\$ 16,799
Agency mortgage-backed securities, residential	36	—	(1)	35
Total securities	<u>\$ 16,589</u>	<u>\$ 287</u>	<u>\$ (42)</u>	<u>\$ 16,834</u>
<u>December 31, 2008</u>				
Obligations of states and political subdivisions	\$ 16,946	\$ 327	\$ (70)	\$ 17,203
Agency mortgage-backed securities, residential	40	—	(2)	38
Total securities	<u>\$ 16,986</u>	<u>\$ 327</u>	<u>\$ (72)</u>	<u>\$ 17,241</u>

At year-end 2009 and 2008, 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 \$80,671 at December 31, 2009 and \$73,539 at December 31, 2008 were pledged to secure public deposits, repurchase agreements and for other purposes as required or permitted by law.

The amortized cost and estimated fair value of debt securities at December 31, 2009, 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debt Securities:				
Due in one year or less	\$ 33,083	\$ 33,193	\$ 2,097	\$ 2,151
Due in one to five years	11,026	11,486	1,775	1,847
Due in five to ten years	—	—	4,259	4,361
Due after ten years	—	—	8,422	8,440
Agency mortgage-backed securities, residential	38,737	39,189	36	35
Total debt securities	<u>\$ 82,846</u>	<u>\$ 83,868</u>	<u>\$ 16,589</u>	<u>\$ 16,834</u>

There were no sales of debt or equity securities during 2009, 2008 and 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note B - Securities (continued)

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

December 31, 2009	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Securities Available for Sale</u>						
U.S. Treasury securities	\$ 3,028	\$ (1)	\$ —	\$ —	\$ 3,028	\$ (1)
Agency mortgage-backed securities, residential	9,054	(108)	—	—	9,054	(108)
Total available for sale	<u>\$ 12,082</u>	<u>\$ (109)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,082</u>	<u>\$ (109)</u>

Securities Held to Maturity

Agency mortgage-backed securities, residential	\$ —	\$ —	\$ 25	\$ (1)	\$ 25	\$ (1)
Obligations of state and political subdivisions	767	(13)	1,389	(28)	2,156	(41)
Total held to maturity	<u>\$ 767</u>	<u>\$ (13)</u>	<u>\$ 1,414</u>	<u>\$ (29)</u>	<u>\$ 2,181</u>	<u>\$ (42)</u>

December 31, 2008

December 31, 2008	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Securities Available for Sale</u>						
Agency mortgage-backed securities, residential	\$ 12,759	\$ (178)	\$ 18,914	\$ (101)	\$ 31,673	\$ (279)
Total available for sale	<u>\$ 12,759</u>	<u>\$ (178)</u>	<u>\$ 18,914</u>	<u>\$ (101)</u>	<u>\$ 31,673</u>	<u>\$ (279)</u>

Securities Held to Maturity

Agency mortgage-backed securities, residential	\$ —	\$ —	\$ 37	\$ (2)	\$ 37	\$ (2)
Obligations of state and political subdivisions	—	—	2,879	(70)	2,879	(70)
Total held to maturity	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,916</u>	<u>\$ (72)</u>	<u>\$ 2,916</u>	<u>\$ (72)</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 and other market conditions. 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, 2009 and 2008 represents an other-than-temporary impairment.

Note C - Loans

Loans are comprised of the following at December 31:

	2009	2008
Residential real estate	\$ 238,761	\$ 252,693
Commercial real estate	209,300	198,559
Commercial and industrial	58,818	44,824
Consumer	136,229	126,911
All other	8,248	7,404
Total loans	<u>\$ 651,356</u>	<u>\$ 630,391</u>

The Bank originated refund anticipation loans that contributed fee income of \$397 in 2009, \$265 in 2008 and \$94 in 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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>2009</u>	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 7,799	\$ 6,737	\$ 9,412
Loans charged off:			
Commercial ⁽¹⁾	627	1,164	4,002
Residential real estate	1,172	225	422
Consumer	<u>2,532</u>	<u>2,140</u>	<u>1,617</u>
Total loans charged off	4,331	3,529	6,041
Recoveries of loans:			
Commercial ⁽¹⁾	730	95	248
Residential real estate	41	61	166
Consumer	<u>747</u>	<u>719</u>	<u>700</u>
Total recoveries of loans	1,518	875	1,114
Net loan charge-offs	(2,813)	(2,654)	(4,927)
Provision charged to operations	3,212	3,716	2,252
Balance, end of year	<u>\$ 8,198</u>	<u>\$ 7,799</u>	<u>\$ 6,737</u>

Information regarding impaired loans (restated for 2008) is as follows:

	<u>2009</u>	<u>2008</u>
Balance of impaired loans	\$ 27,644	\$ 21,153
Less portion for which no specific allowance is allocated	<u>11,575</u>	<u>5,513</u>
Portion of impaired loan balance for which an allowance for credit losses is allocated	<u>\$ 16,069</u>	<u>\$ 15,640</u>
Portion of allowance for loan losses allocated to the impaired loan balance	<u>\$ 3,928</u>	<u>\$ 3,854</u>
Average investment in impaired loans for the year	<u>\$ 27,927</u>	<u>\$ 20,860</u>
Past due 90 days or more and still accruing	<u>\$ 1,639</u>	<u>\$ 1,878</u>
Nonaccrual	<u>\$ 3,619</u>	<u>\$ 3,396</u>

Interest recognized on impaired loans was \$1,690, \$1,021, and \$674 for years ending 2009, 2008 and 2007, respectively. Accrual basis income was not materially different from cash basis income for the periods presented.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

In 2009, the Company changed its methodology for identifying impaired loans. Amounts as of December 31, 2008 have been reclassified to be consistent with the 2009 methodology. The change resulted in reclassifying current or performing loans as impaired loans for which full payment under the original terms is not probable. As of December 31, 2008, \$13,054 of loans were reclassified as impaired loans and the related general allowance for loan losses allocation of \$2,450 was reclassified as a specific allowance for loan losses. Prior to the change in methodology, the general allowance for loan losses allocation related to these loans was based on historical credit losses, and these allocations were materially consistent with amounts that would have been determined had the loans been classified as impaired. The reclassification had no impact on the allowance for loan losses, the provision for loan losses, net income or retained earnings.

⁽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>2009</u>	<u>2008</u>
Land	\$ 1,805	\$ 1,570
Buildings	10,144	10,220
Leasehold improvements	2,897	2,822
Furniture and equipment	<u>13,213</u>	<u>12,489</u>
	28,059	27,101
Less accumulated depreciation.....	17,927	16,869
Total premises and equipment	<u>\$ 10,132</u>	<u>\$ 10,232</u>

The following is a summary of the future minimum lease payments for facilities leased by the Company. Lease expense was \$462 in 2009, \$448 in 2008 and \$405 in 2007.

2010	\$ 417
2011	382
2012	344
2013	293
2014	186
Thereafter	<u>109</u>
	<u>\$ 1,731</u>

Note F - Deposits

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

	<u>2009</u>	<u>2008</u>
NOW accounts	\$ 91,998	\$ 80,855
Savings and Money Market	142,478	118,289
Time:		
In denominations under \$100,000 ...	186,228	183,397
In denominations of \$100,000 or more	<u>140,170</u>	<u>124,314</u>
Total time deposits	<u>326,398</u>	<u>307,711</u>
Total interest-bearing deposits	<u>\$ 560,874</u>	<u>\$ 506,855</u>

Following is a summary of total time deposits by remaining maturity at December 31, 2009:

2010	\$ 180,318
2011	90,211
2012	29,805
2013	15,639
2014	9,427
Thereafter	998
Total	<u>\$ 326,398</u>

Brokered deposits, included in time deposits, were \$34,741 and \$17,906 at December 31, 2009 and 2008, 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>2009</u>	<u>2008</u>
Balance outstanding at period-end	\$ 31,641	\$ 24,070
Weighted average interest rate at period-end .....	.25%	.70%
Average amount outstanding during year	\$ 27,540	\$ 28,040
Approximate weighted average interest rate during the year .....	.27%	1.50%
Maximum amount outstanding as of any month-end	\$ 32,718	\$ 35,309
Securities underlying these agreements at year-end were as follows:		
Carrying value of securities	\$ 37,837	\$ 51,690
Fair value	\$ 38,433	\$ 52,083

Note H - Other Borrowed Funds

Other borrowed funds at December 31, 2009 and 2008 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>
2009	\$ 38,209	\$ 4,247	\$ 253	\$ 42,709
2008	\$ 68,715	\$ 5,479	\$ 2,580	\$ 76,774

Pursuant to collateral agreements with the FHLB, advances are secured by \$213,975 in qualifying mortgage loans and \$6,280 in FHLB stock at December 31, 2009. Fixed rate FHLB advances of \$38,209 mature through 2033 and have interest rates ranging from 2.13% to 6.62%. There were no variable-rate FHLB borrowings at December 31, 2009.

At December 31, 2009, the Company had a cash management line of credit enabling it to borrow up to \$75,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was \$75,000 available on this line of credit at December 31, 2009.

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 \$158,500 at December 31, 2009. Of this maximum borrowing capacity of \$158,500, the Company had \$95,091 available to use as additional borrowings, of which, \$75,000 could be used for short-term, cash management advances as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 2.00% to 5.00% and are due at various dates through a final maturity date of December 8, 2014. A total of \$400 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, 2009 and December 31, 2008. Various investment securities from the Bank used to collateralize FRB notes totaled \$3,290 at December 31, 2009 and \$5,880 at December 31, 2008.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$25,200 at December 31, 2009 and \$45,850 at December 31, 2008.

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>
2010	\$ 26,065	\$ 2,456	\$ 253	\$ 28,774
2011	6,062	—	—	6,062
2012	64	646	—	710
2013	2,567	—	—	2,567
2014	2,569	1,145	—	3,714
Thereafter	882	—	—	882
	<u>\$ 38,209</u>	<u>\$ 4,247</u>	<u>\$ 253</u>	<u>\$ 42,709</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 generally accepted accounting principles, the trusts are not consolidated with the Company. Accordingly, the Company does not report the securities issued by the trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the trust. Since the Company's equity interest in the trusts cannot be received until the subordinated debentures are repaid, these amounts have been netted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note J - Income Taxes

The provision for income taxes consists of the following components:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current tax expense	\$ 2,274	\$ 2,831	\$ 1,723
Deferred tax (benefit) expense	(2)	(102)	908
Total income taxes	<u>\$ 2,272</u>	<u>\$ 2,729</u>	<u>\$ 2,631</u>

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

	<u>2009</u>	<u>2008</u>
Items giving rise to deferred tax assets:		
Allowance for loan losses	\$ 2,848	\$ 2,712
Deferred compensation	1,430	1,362
Deferred loan fees/costs	356	294
Depreciation	—	21
Other	155	189
Items giving rise to deferred tax liabilities:		
Mortgage servicing rights	(165)	(66)
FHLB stock dividends	(1,081)	(1,081)
Unrealized gain on securities available for sale	(348)	(356)
Depreciation	(93)	—
Prepaid expenses	(150)	(168)
Intangibles	(268)	(232)
Other	(1)	(2)
Net deferred tax asset	<u>\$ 2,683</u>	<u>\$ 2,673</u>

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory tax	\$ 3,032	\$ 3,351	\$ 3,036
Effect of nontaxable interest	(264)	(282)	(282)
Nondeductible interest expense	24	34	47
Income from bank owned insurance.....	(196)	(192)	(186)
Effect of nontaxable life insurance death proceeds	(189)	—	(24)
Effect of state income tax	74	1	114
Tax credits	(212)	(193)	(78)
Other items	3	10	4
Total income taxes	<u>\$ 2,272</u>	<u>\$ 2,729</u>	<u>\$ 2,631</u>

At December 31, 2008 and December 31, 2009, the Company had no unrecognized tax benefits. The Company does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months.

The Company is subject to U.S. federal income tax as well as West Virginia state income tax. The Company is no longer subject to federal or state examination for years prior to 2006. The tax years 2006-2008 remain open to federal and state examinations.

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>2009</u>	<u>2008</u>
Fixed rate	\$ 827	\$ 577
Variable rate	57,564	63,839
Standby letters of credit	12,012	13,524

The interest rate on fixed rate commitments ranged from 5.50% to 8.63% at December 31, 2009.

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.

Note L - Related Party Transactions

Certain directors, executive officers and companies with which they are affiliated were loan customers during 2009. A summary of activity on these borrower relationships with aggregate debt greater than \$120 is as follows:

Total loans at January 1, 2009	\$ 8,411
New loans	609
Repayments	(615)
Other changes	(1,071)
Total loans at December 31, 2009	<u>\$ 7,334</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 classified as directors, executive officers and companies' affiliates. 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 \$400 at December 31, 2009 and \$3,521 at December 31, 2008.

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 \$196, \$187 and \$172, for 2009, 2008 and 2007.

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 226,480 and 227,177 at December 31, 2009 and 2008. In addition, the Bank made contributions to its ESOP Trust as follows:

	<u>Years ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of shares issued	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Fair value of stock contributed	\$ 22	\$ 20	\$ 26
Cash contributed	<u>371</u>	<u>340</u>	<u>318</u>
Total expense	<u>\$ 393</u>	<u>\$ 360</u>	<u>\$ 344</u>

Life insurance contracts with a cash surrender value of \$18,734 at December 31, 2009 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 \$4,114 and \$3,914 at December 31, 2009 and 2008. Expenses related to the plans for each of the last three years amounted to \$321, \$328, and \$294. In association with the split-dollar life insurance plan, the present value of the postretirement benefit totaled \$1,303 at December 31, 2009 and \$1,125 at December 31, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note N - Fair Value of Financial Instruments

The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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.

Mortgage Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts.

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, 2009, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>			
U.S. Treasury securities	—	\$ 10,557	—
U.S. Government sponsored entity securities	—	34,122	—
Agency mortgage-backed securities, residential	—	39,189	—

	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)
<u>Assets:</u>			
U.S. Government sponsored entity securities	—	\$ 31,866	—
Agency mortgage-backed securities, residential	—	43,474	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note N - Fair Value of Financial Instruments (continued)

Assets and Liabilities Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis (restated for 2008) are summarized below:

	Fair Value Measurements at December 31, 2009, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>			
Impaired loans	—	—	\$ 12,141
Mortgage servicing rights	—	—	474

	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)
<u>Assets:</u>			
Impaired loans	—	—	\$ 11,786

Impaired loans, which are usually measured for impairment using the fair value of the collateral, had a principal balance of \$27,644 at December 31, 2009. The portion of this impaired loan balance for which a specific allowance for credit losses was allocated totaled \$16,069, resulting in a specific valuation allowance of \$3,928. This led to an additional provision for loan loss expense of \$74. At December 31, 2008, impaired loans had a principal balance of \$21,153. The portion of this impaired loan balance for which a specific allowance for credit losses was allocated totaled \$15,640, resulting in a specific valuation allowance of \$3,854. The specific valuation allowance for those loans has increased from \$3,854 at December 31, 2008 to \$3,928 at December 31, 2009.

Mortgage servicing rights, which are carried at lower of cost or fair value, were carried at their fair value of \$474, which is made up of the outstanding balance of \$620, net of a valuation allowance of \$146 at December 31, 2009, resulting in a charge of \$91 for the year ending December 31, 2009.

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.

Securities: Securities classified as held to maturity are reported at amortized cost. 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note N - Fair Value of Financial Instruments (continued)

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 value of loan commitments and standby letters of credits was not material at December 31, 2009 or 2008. 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 ASC 825. While ASC 820 amended ASC 825 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>2009</u>		<u>2008</u>	
	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>	<u>Carrying</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
Financial assets:				
Cash and cash equivalents.....	\$ 15,670	\$ 15,670	\$ 18,292	\$ 18,292
Securities	100,457	100,702	92,326	92,581
Federal Home Loan Bank stock	6,281	N/A	6,281	N/A
Loans	643,158	661,005	622,592	637,422
Accrued interest receivable	2,896	2,896	3,172	3,172
Financial liabilities:				
Deposits	647,644	649,530	592,361	591,742
Securities sold under agreements to repurchase	31,641	31,641	24,070	24,070
Other borrowed funds	42,709	43,276	76,774	78,777
Subordinated debentures	13,500	13,712	13,500	13,718
Accrued interest payable	4,075	4,075	4,933	4,933

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 O - Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2009, the Company and Bank meet all capital adequacy requirements to which it is subject.

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

At year-end, 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>
2009						
Total capital (to risk weighted assets)						
Consolidated	\$ 85,941	13.6%	\$ 50,588	8.0%	\$ 63,235	N/A
Bank	79,583	12.7	50,059	8.0	62,574	10.0%
Tier 1 capital (to risk weighted assets)						
Consolidated	78,033	12.3	25,294	4.0	37,941	N/A
Bank	71,760	11.5	25,030	4.0	37,545	6.0
Tier 1 capital (to average assets)						
Consolidated	78,033	9.6	32,507	4.0	40,633	N/A
Bank	71,760	8.9	32,112	4.0	40,140	5.0
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

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, 2010, approximately \$4,155 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 P - 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:	
	2009	2008
Assets		
Cash and cash equivalents	\$ 1,215	\$ 1,169
Investment in subsidiaries	78,910	75,440
Notes receivable - subsidiaries	4,230	5,461
Other assets	302	295
Total assets	<u>\$ 84,657</u>	<u>\$ 82,365</u>
Liabilities		
Notes payable	\$ 4,247	\$ 5,479
Subordinated debentures	13,500	13,500
Other liabilities	389	330
Total liabilities	<u>18,136</u>	<u>19,309</u>
Shareholders' Equity		
Total shareholders' equity	66,521	63,056
Total liabilities and shareholders' equity	<u>\$ 84,657</u>	<u>\$ 82,365</u>

CONDENSED STATEMENTS OF INCOME

	Years ended December 31:		
	2009	2008	2007
Income:			
Interest on notes	\$ 156	\$ 259	\$ 311
Other operating income	56	33	35
Dividends from subsidiaries	4,000	6,250	5,000
Expenses:			
Interest on notes	157	261	314
Interest on subordinated debentures	1,089	1,089	1,143
Operating expenses	<u>230</u>	<u>309</u>	<u>227</u>
Income before income taxes and equity in undistributed earnings of subsidiaries	2,736	4,883	3,662
Income tax benefit	423	458	450
Equity in undistributed earnings of subsidiaries	3,486	1,787	2,185
Net Income	<u>\$ 6,645</u>	<u>\$ 7,128</u>	<u>\$ 6,297</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31:		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Net Income	\$ 6,645	\$ 7,128	\$ 6,297
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(3,486)	(1,787)	(2,185)
Change in other assets	(7)	133	(39)
Change in other liabilities	59	(3)	(73)
Net cash provided by operating activities	<u>3,211</u>	<u>5,471</u>	<u>4,000</u>
Cash flows from investing activities:			
Change in notes receivable	<u>1,231</u>	<u>197</u>	<u>(320)</u>
Net cash provided by (used in) investing activities	<u>1,231</u>	<u>197</u>	<u>(320)</u>
Cash flows from financing activities:			
Change in notes payable	(1,232)	(244)	329
Proceeds from subordinated debentures	—	—	8,500
Repayment of subordinated debentures	—	—	(8,500)
Cash dividends paid	(3,186)	(3,061)	(2,938)
Proceeds from issuance of common shares.....	22	20	398
Purchases of treasury shares	—	(2,269)	(3,394)
Net cash used in financing activities	<u>(4,396)</u>	<u>(5,554)</u>	<u>(5,605)</u>
Cash and cash equivalents:			
Change in cash and cash equivalents	46	114	(1,925)
Cash and cash equivalents at beginning of year	<u>1,169</u>	<u>1,055</u>	<u>2,980</u>
Cash and cash equivalents at end of year	<u>\$ 1,215</u>	<u>\$ 1,169</u>	<u>\$ 1,055</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note Q - Segment Information

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

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 93.4%, 94.0% and 94.8% of total consolidated revenues for the years ending December 31, 2009, 2008 and 2007, respectively.

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

Segment information for the years ended December 31, is as follows:

Year Ended December 31, 2009

	<u>Banking</u>	<u>Consumer Finance</u>	<u>Total Company</u>
Net interest income	\$ 27,817	\$ 2,874	\$ 30,691
Provision expense	\$ 3,049	\$ 163	\$ 3,212
Tax expense	\$ 1,843	\$ 429	\$ 2,272
Net income	\$ 5,810	\$ 835	\$ 6,645
Assets	\$ 797,276	\$ 14,712	\$ 811,988

Year Ended December 31, 2008

	<u>Banking</u>	<u>Consumer Finance</u>	<u>Total Company</u>
Net interest income	\$ 28,067	\$ 2,638	\$ 30,705
Provision expense	\$ 3,479	\$ 237	\$ 3,716
Tax expense	\$ 2,357	\$ 372	\$ 2,729
Net income	\$ 6,405	\$ 723	\$ 7,128
Assets	\$ 767,485	\$ 13,623	\$ 781,108

Year Ended December 31, 2007

	<u>Banking</u>	<u>Consumer Finance</u>	<u>Total Company</u>
Net interest income	\$ 26,216	\$ 2,311	\$ 28,527
Provision expense	\$ 2,125	\$ 127	\$ 2,252
Tax expense	\$ 2,298	\$ 333	\$ 2,631
Net income	\$ 5,645	\$ 652	\$ 6,297
Assets	\$ 770,958	\$ 12,460	\$ 783,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note R - Consolidated Quarterly Financial Information (unaudited)

	Quarters Ended			
	<u>Mar. 31</u>	<u>Jun. 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
2009				
Total interest income	\$ 12,611	\$ 11,710	\$ 11,733	\$ 11,569
Total interest expense	4,331	4,407	4,285	3,909
Net interest income	8,280	7,303	7,448	7,660
Provision for loan losses ⁽¹⁾	848	296	957	1,111
Net income	2,051	1,396	1,700	1,498
Earnings per share	\$.51	\$.35	\$.43	\$.38
2008				
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

⁽¹⁾ During the second quarter of 2009, the Bank experienced a decrease in its provision expense as a result of a \$648 loan recovery from a commercial loan relationship.

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, 2009 and 2008, 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, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, 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, 2009, 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 16, 2010

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, 2009, 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, 2009, 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 16, 2010 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
Chairman, CEO



Scott W. Shockey
Vice President, CFO

March 9, 2010

SUMMARY OF COMMON STOCK DATA

OHIO VALLEY BANC CORP.

Years ended December 31, 2009 and 2008

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, 2008.

<u>2009</u>	<u>High</u>	<u>Low</u>
First Quarter	\$22.29	\$18.00
Second Quarter	32.31	21.30
Third Quarter	30.69	25.34
Fourth Quarter	28.50	20.34

<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

Shown below is a table which reflects the dividends declared per share on Ohio Valley's common shares. As of March 12, 2010, the number of holders of record of common shares was 2,142, an increase from 2,124 shareholders at March 13, 2009.

<u>Dividends per share</u>	<u>2009</u>	<u>2008</u>
First Quarter	\$.20	\$.19
Second Quarter	.20	.19
Third Quarter	.20	.19
Fourth Quarter	.20	.19

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.

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

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

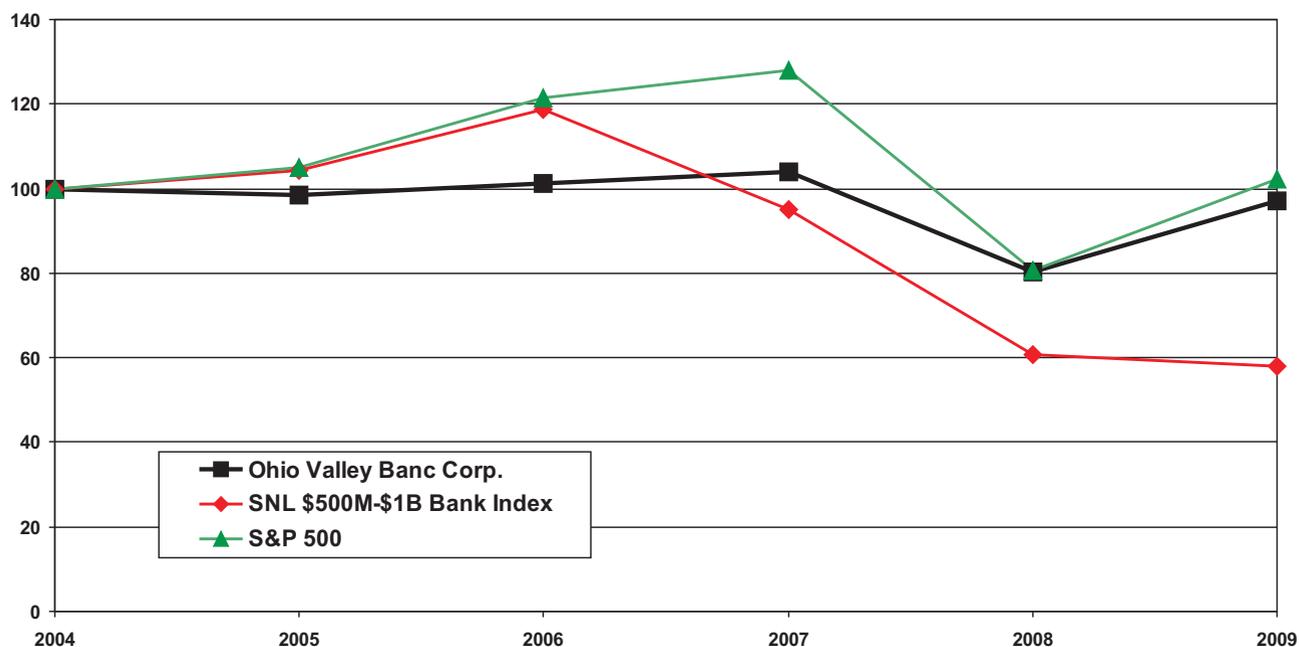
PERFORMANCE GRAPH

OHIO VALLEY BANC CORP.

Year ended December 31, 2009

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, 2004 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 eighty-five (85) 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 85 banks in the SNL Index.

Total Return Performance



<i>Index</i>	<i>Period Ending</i>					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Ohio Valley Banc Corp.	100.00	98.48	101.31	103.86	80.38	96.97
SNL \$500M-\$1B Bank Index	100.00	104.29	118.61	95.04	60.90	58.00
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11

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 \$6,645 for 2009, a decrease of 6.8% from 2008. Earnings per share were \$1.67 for 2009, a decrease of 5.6% from 2008. The decrease in net income and earnings per share for 2009 was primarily due to higher costs related to deposit assessments by the Federal Deposit Insurance Corporation ("FDIC"). Such costs rose to \$1,625 in 2009 from \$268 in 2008 and reflected higher assessment rates and a \$373 second quarter 2009 special assessment levied by the FDIC on insured financial institutions to rebuild the Deposit Insurance Fund. The higher FDIC costs reduced 2009's net income and earnings per share by \$896 and \$0.22, respectively. Partially offsetting the significant FDIC insurance expense increase was noninterest income improvement of 25.1% during 2009. The growth in noninterest income was largely due to life insurance proceeds collected in the third quarter of 2009 as well as increased transaction volume related to the Company's mortgage banking activity and seasonal tax clearing services performed during the first half of 2009. During 2008, Ohio Valley Banc Corp. generated net income of \$7,128, an increase of 13.2% from 2007. Earnings per share were \$1.77 for 2008, an increase of 16.4% from 2007. The increase in net income and earnings per share for 2008 was primarily due to a 7.6% 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").

Total assets during 2009 increased \$30,880, or 4.0%, resulting in total assets at year-end of \$811,988. The Company's annualized net income to average asset ratio, or return on assets ("ROA") was .81% for 2009 compared to .91% in 2008 and .82% in 2007. The annualized net income to average equity ratio, or return on equity ("ROE") was 10.23% for 2009 compared to 11.62% in 2008 and 10.40% in 2007. The decrease in both the Company's ROA and ROE was due to the higher assessments and special assessment imposed by the

FDIC during 2009. The higher FDIC costs reduced 2009's ROA and ROE by 11 basis points and 138 basis points, respectively. Prior to 2009, the Company experienced increasing trends in both ROA and ROE for 2008 and 2007 as a 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 assets and liabilities and the level of interest rates for financial instruments. Changes in net interest income are measured by net interest margin and net interest spread. Net interest margin is expressed as net interest income divided by average interest-earning assets. Net interest spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Both of these are reported on a fully tax-equivalent ("FTE") basis. Net interest margin is greater than net interest spread due to the interest earned on interest-earning assets funded from 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, 2009. Tables I and II have been prepared to summarize the significant changes outlined in this analysis.

Net interest income on an FTE basis decreased \$22 in 2009, or 0.07%, compared to the \$31,068 earned in 2008. The decrease was primarily attributable to a compressing net interest margin caused by a continued decrease in short-term interest rates initiated by the Federal Reserve Board in 2007. Further impacting the decrease to net interest income was an increase in higher relative balances being invested in overnight or short-term earning assets such as taxable investment securities and interest-bearing balances with banks, which return lower yields. 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 taxable securities and interest-bearing balances with banks.

For 2009, average earning assets grew \$40,136, or 5.5%, as compared to growth of \$10,834, or 1.5%, in 2008. Driving this

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED AVERAGE BALANCE SHEET & ANALYSIS OF NET INTEREST INCOME

Table I
(dollars in thousands)

December 31

	2009			2008			2007		
	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	\$ 27,077	\$ 58	0.21%	\$ 5,710	\$ 137	2.39%	\$ 549	\$ 23	4.22%
Federal funds sold	18	—	0.05	5,552	157	2.83	4,428	221	5.00
Securities:									
Taxable	97,124	3,038	3.13	82,606	3,432	4.15	76,748	3,477	4.53
Tax exempt	9,916	659	6.64	12,784	768	6.01	14,427	797	5.52
Loans	<u>641,878</u>	<u>44,223</u>	<u>6.89</u>	<u>629,225</u>	<u>47,402</u>	<u>7.53</u>	<u>628,891</u>	<u>50,793</u>	<u>8.08</u>
Total interest-earning assets	776,013	47,978	6.18%	735,877	51,896	7.05%	725,043	55,311	7.63%
Noninterest-earning assets:									
Cash and due from banks	8,524			15,029			14,137		
Other nonearning assets	42,515			38,217			38,094		
Allowance for loan losses	<u>(8,100)</u>			<u>(6,811)</u>			<u>(7,720)</u>		
Total noninterest-earning assets	42,939			46,435			44,511		
Total assets	\$ 818,952			\$ 782,312			\$ 769,554		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
NOW accounts	\$ 92,550	\$ 1,326	1.43%	\$ 88,110	\$ 1,599	1.81%	\$ 78,636	\$ 1,924	2.45%
Savings and Money Market	135,728	1,636	1.21	121,392	2,061	1.70	97,240	2,705	2.78
Time deposits	331,130	10,721	3.24	311,188	12,976	4.17	341,686	16,686	4.88
Repurchase agreements	27,540	75	0.27	28,040	421	1.50	27,433	1,051	3.83
Other borrowed money	48,905	2,085	4.26	60,678	2,682	4.42	60,603	2,911	4.80
Subordinated debentures	<u>13,500</u>	<u>1,089</u>	<u>8.07</u>	<u>13,500</u>	<u>1,089</u>	<u>8.07</u>	<u>13,593</u>	<u>1,143</u>	<u>8.41</u>
Total int.-bearing liabilities	649,353	16,932	2.61%	622,908	20,828	3.34%	619,191	26,420	4.27%
Noninterest-bearing liabilities:									
Demand deposit accounts	93,045			85,436			78,048		
Other liabilities	<u>11,613</u>			<u>12,622</u>			<u>11,766</u>		
Total noninterest-bearing liabilities	104,658			98,058			89,814		
Shareholders' equity	<u>64,941</u>			<u>61,346</u>			<u>60,549</u>		
Total liabilities and shareholders' equity	\$ 818,952			\$ 782,312			\$ 769,554		
Net interest earnings		\$ 31,046			\$ 31,068			\$ 28,891	
Net interest earnings as a percent of interest-earning assets			4.00%			4.23%			3.99%
Net interest rate spread			3.57%			3.71%			3.36%
Average interest-bearing liabilities to average earning assets			83.68%			84.65%			85.40%

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

continued growth in earning assets for 2009 was average interest-bearing balances with banks, increasing to \$27,077 at year-end 2009, up from \$5,710 at year-end 2008 and \$549 at year-end 2007. The larger increase in 2009 was due to the Company's excess liquidity position, primarily resulting from average deposit growth exceeding the growth in average loans. As loan growth continued at a mild pace throughout much of 2009, more excess funds from core deposit growth, on average, were temporarily invested into interest-bearing balances with banks. This caused these short-term, lower yielding instruments to represent a large percentage of earning assets, finishing at 3.5% of earning assets at year-end 2009 as compared to 0.8% at year-end 2008. Excess funds from average core deposit growth were also invested into average taxable securities balances, which expanded \$14,518, or 17.6%, for 2009 and represented 12.5% of earning assets at year-end 2009. This compares to average taxable securities growth of \$5,858, or 7.6%, for 2008 representing 11.2% of earning assets at year-end 2008. 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, increased \$12,653, or 2.0%, during 2009, while remaining relatively stable during 2008, increasing just \$334, or 0.1%. The growth in average loans was largely from commercial loans. Although average loan balances increased during 2009, it represented a smaller portion of earning assets, finishing at 82.7% of earning assets for 2009 as compared to 85.5% for 2008, as most of the earning asset growth in 2009 came from short-term balances with banks and securities.

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 4.2% between 2009 and 2008 and increased 0.6% between 2007 and 2008. The larger increase in 2009 came mostly from time deposits, which increased \$19,942, or 6.4%. Interest-bearing liabilities in 2009 were comprised largely of time deposits and NOW accounts, which together represented 65.2% of total interest-bearing liabilities, as compared to 64.1% in 2008 and 67.9% in 2007. Other borrowed money represented 7.5% of total interest-bearing liabilities in 2009, as compared to 9.7% in 2008 and 9.8% in 2007. The composition of other borrowed funds as well as time deposits and NOW accounts has declined from 2007 to 2009. The primary 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 20.9% in 2009 as compared to 19.5% in 2008 and 15.7% in 2007. 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 2008 and 2009. The consumer preference for this product has generated a significant amount of funding dollars which have helped to support earning asset growth, maturity runoff of time deposits and payoffs on other borrowed funds. This composition shift from 2007 to 2009 with higher savings and money market balances and lower time deposits has served as a cost effective contribution to the net interest margin. The average cost of savings and money market accounts was 1.21%, 1.70% and 2.78% during the years ending 2009, 2008 and 2007, respectively. This is compared to the much higher average cost of time deposits of 3.24%, 4.17% and 4.88% during the years ending 2009, 2008 and 2007, respectively.

The net interest margin decreased 23 basis points to 4.00% in 2009 from 4.23% in 2008. Conversely, this compared to a 24 basis points increase in the net interest margin in 2008. During 2009, there was a decrease of 9 basis points from the contributions of interest free funds (i.e. demand deposits, shareholders' equity) from 0.52% in 2008 to 0.43% in 2009. The net interest margin was further impacted by a decrease in the net interest rate spread on interest sensitive assets and liabilities of 14 basis points, with the average cost of interest-bearing liabilities decreasing 73 basis points from 3.34% to 2.61% being completely offset by the average yield on interest-earning assets decreasing 87 basis points from 7.05% to 6.18%.

Lower asset yields caused interest income on an FTE basis to decrease \$3,918, or 7.5%, from 2008. Lower asset yields in 2009 were partly due to the growth in earning asset composition being comprised mostly of shorter-term average interest-bearing balances with banks and taxable securities, which yielded just 0.21% and 3.13% during 2009, respectively. During most of 2009, the Company experienced limited loan growth, primarily due to lower residential real estate loan balances, while experiencing an increasing trend of higher core deposit growth. Further contributing to lower asset yields were loan yields decreasing 64 basis points from 2008 to 2009. This negative effect reflects the decrease in short-term interest rates initiated by the Federal Reserve Board in 2007. The Company's commercial, participation and real estate loan portfolios have been most sensitive to these decreases in short-term interest rates since 2007, particularly the prime interest rate. The prime interest rate began 2008 at 7.25% and decreased 200 basis points in the first quarter, 25 basis points in the second quarter and 175 basis points in the fourth quarter to end 2008 at 3.25%. During 2009, the prime interest rate remained at 3.25%, allowing for additional asset repricings as a lagging effect. During 2008, 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, attributed to the decreases in short-term interest rates initiated by the Federal Reserve since 2007.

Partially offsetting these negative effects to interest income in 2009 were positive contributions from real estate fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RATE VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME & EXPENSE

Table II

(dollars in thousands)

	2009			2008		
	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	\$ 136	\$ (215)	\$ (79)	\$ 128	\$ (14)	\$ 114
Federal funds sold	(79)	(78)	(157)	47	(111)	(64)
Securities:						
Taxable	541	(935)	(394)	255	(300)	(45)
Tax exempt	(184)	75	(109)	(96)	67	(29)
Loans	938	(4,117)	(3,179)	27	(3,418)	(3,391)
Total interest income	1,352	(5,270)	(3,918)	361	(3,776)	(3,415)
Interest expense						
NOW accounts	77	(350)	(273)	213	(538)	(325)
Savings and Money Market	223	(648)	(425)	570	(1,214)	(644)
Time deposits	790	(3,045)	(2,255)	(1,407)	(2,303)	(3,710)
Repurchase agreements	(7)	(339)	(346)	23	(653)	(630)
Other borrowed money	(505)	(92)	(597)	3	(232)	(229)
Subordinated debentures	—	—	—	(8)	(46)	(54)
Total interest expense	578	(4,474)	(3,896)	(606)	(4,986)	(5,592)
Net interest earnings	\$ 774	\$ (796)	\$ (22)	\$ 967	\$ 1,210	\$ 2,177

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.

During the end of 2008 and entering 2009, the nation's long-term interest rates that are tied to fixed-rate mortgages became increasingly affordable. At March 31, 2009 and December 31, 2008, the 30-year treasury rate was 3.56% and 2.69%, respectively, as compared to 4.31% at September 30, 2008. This was responsible for a significant increase in the demand for real estate refinancings that would allow consumers to take advantage of historical low rates. This also allowed the Company to originate a significant volume of real estate loans that were sold to the secondary market. Both the significant volume of refinancings and secondary market loan originations during the early part of 2009 resulted in the Company's real estate fees increasing \$342, or 67.0%, during 2009 as compared to 2008. Further contributing to interest income was additional fee income from increased originations of the Company's refund anticipation loans ("RAL") in early 2009. 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 2009, the Company had recognized \$397 in RAL fees as compared to \$265 during 2008 and \$94 during 2007.

RAL fees have been subject to scrutiny by various governmental and consumer groups who have questioned the fairness and legality of RAL fees and the risks to which such business subjects the banks that offer RALs. The Bank may be required by a regulator to terminate, and is considering terminating, the offering of such loans. The Bank also has a separate agreement with the tax software provider for the Company's electronic refund check/deposit ("ERC/ERD") clearing services. Through the ERC/ERD agreement, the Company serves as a facilitator for the clearing of tax refunds. The ERC/ERD service does not subject the Bank to the risks related to the RALs and has not been subject to the same scrutiny. Nevertheless, if the Bank terminates its contract with the tax software provider for the RAL business, the Bank may also lose the ERC/ERD business.

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. Treasury securities	\$ 10,557	.41%	\$ —	—	\$ —	—	\$ —	—
U.S. Government sponsored entity securities	22,636	1.67%	11,486	4.40%	—	—	—	—
Obligations of states and political subdivisions.....	2,097	7.15%	1,775	7.03%	4,259	5.01%	8,422	3.40%
Agency mortgage-backed securities, residential	15,019	3.23%	21,090	3.85%	3,116	4.00%	—	—
Total securities	\$ 50,309	2.10%	\$ 34,351	4.20%	\$ 7,375	4.58%	\$ 8,422	3.40%

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.

In relation to lower earning asset yields for 2009, the Company's interest-bearing liability costs decreased 73 basis points causing interest expense to drop \$3,896, or 18.7%, from 2008 to 2009 as a result of lower rates paid on interest-bearing liabilities. Since the beginning of 2008, the Federal Reserve Board has reduced the prime and federal funds interest rates by 400 basis points. The prime interest rate is currently at 3.25% and the target federal funds rate has decreased to a range of 0.0% to 0.25%. 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 2009 (as a continued lagging effect to the Federal Reserve action to drop short-term interest rates). The year-to-date weighted average costs of the Company's time deposits have decreased from 4.88% at year-end 2007 to 4.17% at year-end 2008 and 3.24% at year-end 2009. During 2008, the Company's interest-bearing liability costs decreased 93 basis points causing interest expense to drop \$5,592, or 21.2%, from 2007 to 2008. This was due to the previously mentioned Federal Reserve rate reductions initiated in 2007 that caused a downward shift in short-term interest causing the repricings of various Bank deposit products during this time, including time deposits, public fund NOW accounts, Gold Club and Market Watch accounts.

While the Company has finished 2009 with a decrease in the net interest margin as compared to 2008, there has been margin improvement throughout the second half of 2009. As previously mentioned, during the first quarter of 2009, the Company experienced a significant volume of mortgage refinancings and RAL loan volume which increased real estate and consumer loan fees and also the net interest margin, which was 4.42% at the end of 2009's first quarter. It was also during this time the Company experienced a significant increase in excess deposits which led to temporary increases in lower

yielding interest-bearing deposits with banks and short-term taxable securities with maturity terms less than one year. Entering the second quarter, the real estate and RAL fees began to stabilize causing a decrease to the Company's second quarter net interest margin of 3.78%. However, entering the second half of 2009, the Company improved its net interest margin to 3.85% in the third quarter of 2009 and 3.99% in the fourth quarter of 2009. The Company attributes this margin enhancement effect to the re-investment of lower yielding interest-bearing deposits with banks earning 0.25% or less to higher yielding assets such as loans and longer-term investment securities. Net interest margin will benefit as continued maturities of short-term taxable securities can be re-invested to loans and other longer-term, higher yielding investments.

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 Board's continued actions of decreasing short-term interest rates in 2008 were necessary to take steps in repairing the recessionary problems and promote economic stability. The Company believes it is reasonably possible the prime interest rate and the federal funds rate will remain at the historically low levels for the majority of 2010. However, there can be no assurance to that effect or as to the magnitude of any change in market interest rates should a change be prompted by the Federal Reserve Board, as such changes are dependent upon a variety of factors that are beyond the Company's control. For additional discussion on the Company's rate sensitive assets and liabilities, please see "Interest Rate Sensitivity and Liquidity" and "Table VIII" within this Management's Discussion and Analysis.

NONINTEREST INCOME

Total noninterest income increased \$1,554, or 25.1%, in 2009 as compared to 2008. Contributing most to the increase in

MANAGEMENT'S DISCUSSION AND ANALYSIS

noninterest income was bank owned life insurance proceeds, seasonal tax refund processing fees and mortgage banking income partially offset by a decrease in the Bank's service charge fees on deposit accounts.

Noninterest income growth during 2009 came mostly from the Company's earnings from tax-free bank owned life insurance ("BOLI") investments. BOLI investments are maintained by the Company in association with various benefit plans, including deferred compensation plans, director retirement plans and supplemental retirement plans. During the third quarter of 2009, the Company received BOLI proceeds resulting in a gain of \$556 which led to a year-to-date increase of \$703, or 92.9%, in BOLI earnings for 2009.

Also contributing to 2009's noninterest income growth was the Company's mortgage banking income. Mortgage banking income includes gains on the sale of mortgage loans, mortgage servicing fees and mortgage servicing rights fees, net of impairment. Historic low interest rates related to long-term fixed-rate mortgage loans have caused consumers to refinance existing mortgages in order to reduce their monthly costs. Despite the low level of home sales, consumers are selectively purchasing real estate while locking in low long-term rates. To help manage this consumer demand for longer-termed, fixed-rate real estate mortgages, the Company took advantage of opportunities to sell most real estate loans to the secondary market, mostly in the first half of 2009. The decision to sell long-term fixed-rate mortgages at lower rates was also effective in minimizing the interest rate risk exposure to rising rates. During the year ended December 31, 2009, the Company sold 432 loans totaling \$57,815 to the secondary market as compared to 109 loans totaling \$11,703 during the year ended December 31, 2008. This volume increase in loan sales contributed to total mortgage banking income growth of \$658, or 658.0%, during 2009 as compared to 2008. The Company anticipates the mortgage banking loan sales to decline in 2010.

Further contributing to noninterest income growth was the Company's tax refund processing fees classified as ERC / ERD fees. 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. During the year ended December 31, 2009, the Company's ERC / ERD fees increased by \$256, or 94.1%, as compared to 2008. As a result of ERC / ERD fee activity being mostly seasonal, the majority of income was recorded during the first half of 2009, with only minimal income recorded thereafter.

Growth in noninterest income also came from the net gains and losses on the sales of OREO assets, classified as other noninterest income. This income was the result of higher OREO losses experienced in 2008 combined with higher OREO gains experienced during 2009. As a result, income from OREO sales increased \$69 during 2009 as compared to 2008. The year-to-date increase was primarily the result of a \$41 loss incurred on the sale of one large real estate property

during the first quarter of 2008 and a \$24 gain recognized on the sale of one large real estate property during the second quarter of 2009.

Further enhancing growth in other noninterest income was debit card interchange income, increasing \$77, or 11.8%, during 2009 as compared to 2008. 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 1,473,913 transactions during 2009, up 11.7% from the 1,319,191 transactions during 2008, derived mostly from gasoline and restaurant purchases.

Partially offsetting noninterest income growth was a decrease in the Bank's service charge fees on deposit accounts, which declined by \$257, or 8.4%, during 2009 as compared to 2008. The decrease was in large part due to a lower volume of overdraft balances, as customers presented fewer checks against non-sufficient funds during 2009 as compared to 2008.

The total of all remaining noninterest income categories increased \$48 during 2009 as compared to 2008. The total growth in noninterest income demonstrates management's desire to leverage technology to enhance efficiency and diversify the Company's revenue sources.

In 2008, total noninterest income increased \$957, or 18.3%, as compared to 2007. Contributing most to this increase was lower losses on the sale of OREO of \$746, or 96.0%, from year-end 2007. This was largely due to the liquidation of a large non-performing asset during the fourth quarter of 2007, creating a pretax loss of \$686 in 2007, causing a reverse effect in 2008. Further increasing 2008's noninterest income were increases to the Company's Electronic Refund Check/Deposit fees of \$162, or 147.3%, and service charge fees on deposit accounts of \$91, or 3.1%.

NONINTEREST EXPENSE

Total noninterest expense increased \$2,984, or 12.8%, in 2009 and increased \$742, or 3.3%, in 2008. The growth in noninterest expense during 2009 was most affected by a significant increase in the Company's FDIC insurance premium expense, which was up \$1,357, or 506.3%, during 2009 as compared to 2008. The increase in deposit insurance expense was due to increases in the fee assessment rates during 2009 and a special assessment applied to all FDIC insured institutions as of June 30, 2009. With regard to the increase in fee assessment rates, prior to the third quarter of 2008, the Company had benefited from its share of available credits that were used to offset insurance assessments that resulted in minimum quarterly insurance premiums, approximately \$17 per quarter. This assessment credit benefit was 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 an annual rate close to 7 basis points of total deposits. 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.

In May 2009, the FDIC issued a final rule which levied a

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Table IV

Years Ended December 31

(dollars in thousands)

	2009	2008	2007	2006	2005
Commercial loans ⁽¹⁾	\$ 5,777	\$ 5,898	\$ 5,273	\$ 7,806	\$ 4,704
Percentage of loans to total loans	42.43%	39.78%	40.63%	39.45%	38.33%
Residential real estate loans	822	806	327	310	623
Percentage of loans to total loans	36.66%	40.09%	39.31%	38.16%	38.06%
Consumer loans	1,599	1,095	1,137	1,296	1,806
Percentage of loans to total loans	<u>20.91%</u>	<u>20.13%</u>	<u>20.06%</u>	<u>22.39%</u>	<u>23.61%</u>
Allowance for Loan Losses	<u>\$ 8,198</u>	<u>\$ 7,799</u>	<u>\$ 6,737</u>	<u>\$ 9,412</u>	<u>\$ 7,133</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	<u>.44%</u>	<u>.42%</u>	<u>.78%</u>	<u>.54%</u>	<u>.31%</u>

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

Table V

(dollars in thousands)

	2009	2008	2007	2006	2005
Impaired loans	\$ 27,644	\$ 21,153	\$ 6,871	\$ 17,402	\$ 7,983
Past due 90 days or more and still accruing	1,639	1,878	927	1,375	1,317
Nonaccrual	3,619	3,396	2,734	12,017	1,240
Accruing loans past due 90 days or more to total loans .....	.25%	.30%	.14%	.22%	.21%
Nonaccrual loans as a % of total loans .....	.56%	.54%	.43%	1.92%	.20%
Impaired loans as a % of total loans	4.24%	3.36%	1.08%	2.78%	1.29%
Allowance for loan losses as a % of total loans	1.26%	1.24%	1.06%	1.51%	1.16%

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.

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.

In 2009, the Company changed its methodology for identifying impaired loans. Amounts as of December 31, 2008 have been reclassified to be consistent with the 2009 methodology. The change resulted in reclassifying current or performing loans as impaired loans for which full payment under the original terms is not probable. As of December 31, 2008, \$13,054 of loans were reclassified as impaired loans and the related general allowance for loan losses allocation of \$2,450 was reclassified as a specific allowance for loan losses. Prior to the change in methodology, the general allowance for loan losses allocation related to these loans was based on historical credit losses, and these allocations were materially consistent with amounts that would have been determined had the loans been classified as impaired. The reclassification had no impact on the allowance for loan losses, the provision for loan losses, net income or retained earnings. Amounts as of December 31, 2008 have been reclassified to be consistent with the 2009 methodology; however, amounts prior to December 31, 2008 have not been reclassified.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MATURITY AND REPRICING DATA OF LOANS

As of December 31, 2009

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	\$ 35,181	\$ 26,025	\$ 177,555	\$ 238,761
Commercial loans ⁽¹⁾	154,856	88,163	33,347	276,366
Consumer loans	35,121	67,509	33,599	136,229
Total loans.....	<u>\$ 225,158</u>	<u>\$ 181,697</u>	<u>\$ 244,501</u>	<u>\$ 651,356</u>

Loans maturing or repricing after one year with:				
Variable interest rates				\$ 96,603
Fixed interest rates				329,595
Total				<u>\$ 426,198</u>

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

special assessment applicable to all FDIC insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of total deposits. This special assessment, which totaled \$373 for the Company, was part of the FDIC's efforts to rebuild the Deposit Insurance Fund back to an adequate level.

While these special assessments levied on all institutions were proven to be vital in maintaining adequate insurance levels, the Deposit Insurance Fund remained extremely low due to the continued high rate of bank failures during 2009. As a result, during the fourth quarter of 2009, the FDIC approved an alternative to future special assessments, which would negatively impact the Company's earnings. The alternative was to have all banks prepay twelve quarters worth of FDIC assessments on December 30, 2009. The prepayment, which includes assumptions about future deposit and assessment rate growth, would be based on third quarter deposits. The prepaid amount would be amortized over the entire prepayment period. As a result of this ruling, on December 30, 2009, the Company prepaid its assessment in the amount of \$3,567. While the prepayment decreased the amount of investable assets, the lost earnings on the amount of this prepayment is significantly less than the impact of an additional special assessment. Continuing declines in the Deposit Insurance Fund may result in the FDIC imposing additional assessments in the future, which could adversely affect the Company's capital levels and earnings.

Also contributing to the noninterest expense increase was salaries and employee benefits, the Company's largest noninterest expense item, which increased \$916, or 6.5%, during 2009 as compared to 2008. The increase was largely due to increased annual cost of living salary increases, higher incentive costs and a higher full-time equivalent ("FTE") employee base. The Company's FTE employees increased from 264 employees at December 31, 2008 on staff to 270 employees at December 31, 2009. During 2008, salary and

employee benefits increased \$1,012, or 7.8%, from 2007. This increase was in large part due to 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.

In 2009, occupancy and furniture and equipment expenses increased \$193, or 7.4%, as compared to 2008. This was in large part due to the replacement of all of the Company's automated teller machines ("ATM") during the second half of 2008. The investment of over \$500 was necessary to upgrade each ATM location with more current equipment to better service customer needs. All ATM's had been fully replaced by the end of 2009's first quarter, with depreciation commencing on most of these assets beginning January 2009. 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.

During 2009, corporation franchise tax increased \$107, or 17.7%, as compared to 2008. Conversely during 2008, corporation franchise tax decreased \$65, or 9.7%, as compared to 2007. The lower tax expense in 2008 was the result of a tax credit the Company was able to apply for and receive in 2008 based on the training programs that exist and are utilized within the Company for the benefit of its employees. The one-time

MANAGEMENT'S DISCUSSION AND ANALYSIS

nature of the tax credit that was utilized in 2008, created a reverse effect in 2009 causing most of the expense increase.

Increases in the Company's other noninterest expenses were realized during 2009, increasing \$514, or 10.3%, as compared to 2008. Leading the growth in this area were increases to the Company's telecommunications costs, which increased \$213, or 38.7%, during 2009 as compared to 2008. During the second half of 2008, the Company improved the communication lines between all of its branches to achieve faster relay of information and increase work efficiency. This investment upgrade of communication lines has equated to a \$35 per month cost. Other noninterest expense was increased by \$119, or 14.4%, by higher supplies and postage costs due to increased mailings and postal rates over 2008. In addition, other noninterest expense increases came from the Company's loan expense, which increased \$113, or 69.9%, during 2009 as compared to 2008 due to a larger than normal volume of recovered foreclosure costs that were collected during 2008 that did not re-occur in 2009.

During 2008, other noninterest expenses were down \$389, or 7.2%, in large part due to decreases 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.

The Company's efficiency ratio is defined as noninterest expense as a percentage of FTE net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity to help expand the net interest margin as well as developing more innovative ways to generate noninterest revenue. However, the recent developments with rising FDIC insurance assessment rates and a special assessment resulting in an additional charge of \$373 has contributed to higher overhead expense levels, which have outpaced revenue levels and have caused the year-to-date efficiency ratio to increase from the prior period. The efficiency ratio during 2009 increased to 67.8% from the 62.5% experienced during 2008.

FINANCIAL CONDITION:

CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consist of cash, interest- and noninterest-bearing deposits with 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, 2009, cash and cash equivalents had decreased \$2,622, or 14.3%, to \$15,670 as compared to \$18,292 at December 31, 2008. The decrease in cash and cash equivalents was partially affected by increased loan balances and investment security purchases during 2009 as compared to year-end 2008. Within cash and cash equivalents, there was a shift in asset balances from cash and non-interest deposits with banks to more dollars being invested within interest-bearing deposits with banks. This composition shift was largely due to

the Company's preference to utilize its interest-bearing Federal Reserve Bank clearing account to maintain its excess funds. 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 fourth quarter of 2008, the Company began shifting its emphasis of maintaining its excess liquidity from federal funds sold to its existing clearing account on hand at the Federal Reserve Bank. During this period in 2008, the Federal Reserve Board announced that it would begin paying interest on depository institutions' required and excess reserve balances. The interest rate paid on both the required and excess reserve balances will be based on the targeted federal funds rate established by the Federal Open Market Committee. As of the filing date of this report, the interest rate calculated by the Federal Reserve remained at 0.25%. Prior to this, the Federal Reserve Bank balances held by the Company were non-interest bearing. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently targeting a range of 0.0% to 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. Management believes that the current balance of cash and cash equivalents remains at a level that will meet cash obligations and provide adequate liquidity. Further information regarding the Company's liquidity can be found under the caption "Liquidity" in this Management's Discussion and Analysis.

SECURITIES

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

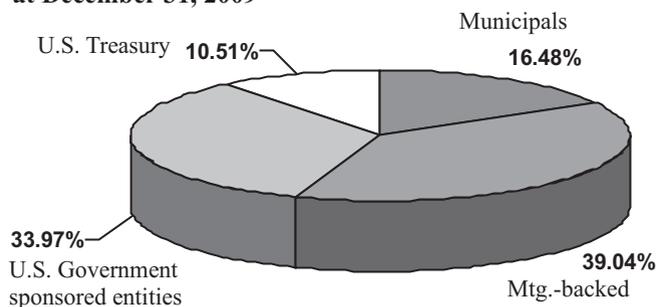
The balance of total securities increased \$8,131, or 8.8%, as compared to 2008, with the ratio of securities to total assets also increasing to 12.4% at December 31, 2009, compared to 11.8% at December 31, 2008. The Company's investment securities portfolio consists of U.S. Treasury securities, U.S. Government sponsored entity ("GSE") securities, mortgage-backed securities and obligations of states and political subdivisions. U.S. Treasury and GSE securities collectively increased \$12,813, or 40.2%, as a result of several new purchases during the first half of 2009. During this period, the Company continued to experience a significant increase in excess funds from growth in total deposit balances. With the demand for loan balances at a relatively stable pace for much of 2009, the Company invested the excess funds into new short-term U.S. Treasury and GSE securities totaling \$29,536 with maturities less than one year and interest rate yields less than 1.0%. The Company's intention is to re-invest these shorter-term securities into future loan growth or longer-term securities

MANAGEMENT'S DISCUSSION AND ANALYSIS

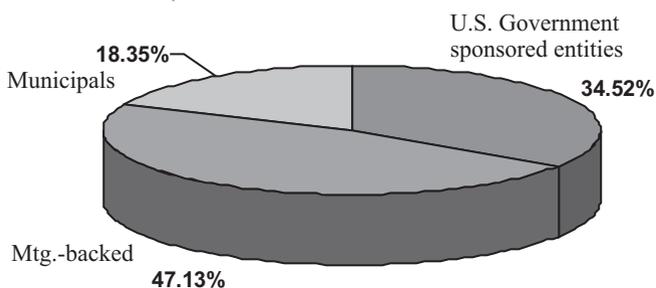
if interest rates are increased in the near future. In addition to helping achieve diversification within the Company's securities portfolio, U.S. Treasury and GSE securities have also been used to satisfy pledging requirements for repurchase agreements. At December 31, 2009, the Company's repurchase agreements increased 31.5%, increasing the need to secure these balances. The increases in U.S. Treasury and GSE securities were partially offset by decreases in both mortgage-backed securities and obligations of states and political subdivisions, which were down \$4,289, or 9.9%, and \$393, or 2.3%, respectively, from year-end 2008. Mortgage-backed securities continue to make up the largest portion of the Company's investment portfolio, totaling \$39,225, or 39.0% of total investments at December 31, 2009. However, this composition represents a decrease from 47.1% at December 31, 2008 due to the increase in short-term U.S. Treasury and GSE security purchases during 2009. Typically, 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. However, with the current interest rate environment, the cash flow that is being collected is being reinvested at lower rates. Principal repayments from mortgage-backed securities totaled \$17,103 from January 1, 2009 through December 31, 2009.

INVESTMENT PORTFOLIO COMPOSITION

at December 31, 2009



at December 31, 2008



With the general decrease in interest rates evident since 2007, the reinvestment rates on debt securities continue to show lower returns during 2009. The weighted average FTE yield on debt securities at year-end 2009 was 3.38%, as compared to 4.34% at year-end 2008 and 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. The Company will continue to focus on generating interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets.

LOANS

In 2009, the Company's primary category of earning assets and most significant source of interest income, total loans, increased \$20,965, or 3.3%, to finish at \$651,356. Higher loan balances were mostly influenced by total commercial loans, which were up \$24,735, or 10.2%, from year-end 2009. The Company's commercial loans include both commercial real estate and commercial and industrial loans. Management continues to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans. The Company's commercial and industrial loan portfolio, up \$13,994, or 31.2%, from year-end 2008, consists of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock. Commercial real estate, the Company's largest segment of commercial loans, increased \$10,741, or 5.4%. This segment of loans is mostly secured by commercial real estate and rental property. Commercial real estate includes 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 (22.0% of portfolio), medical industry loans (11.2% of portfolio), hotel and motel loans (7.9% of portfolio) and land development loans (7.8% of portfolio). During 2009, the primary market areas for the Company's commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson, Pike and Franklin counties of Ohio, which accounted for 68.3% of total originations. The growing West Virginia markets also accounted for 18.9% of total originations for the same time period. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company and normal underwriting considerations. Additionally, the potential for larger than normal commercial loan payoffs may limit loan growth during 2010.

Also contributing to the loan portfolio increase were

MANAGEMENT'S DISCUSSION AND ANALYSIS

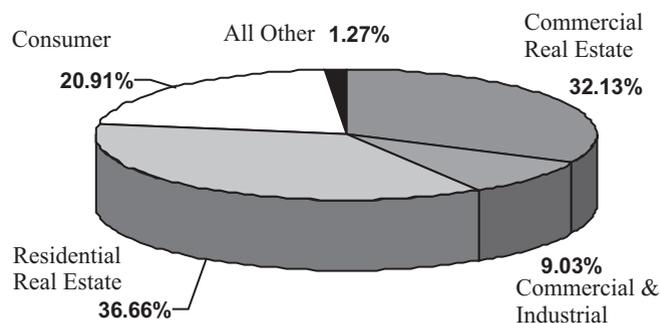
consumer loans, which were up \$9,318, or 7.3%, from year-end 2009. The Company's consumer loans are secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The increase in consumer loans came mostly from the Company's automobile indirect lending segment, which increased \$5,733, or 21.2%, from year-end 2008. The automobile indirect lending segment continues to represent the largest portion of the Company's consumer loan portfolio, representing 24.0% of total consumer loans at December 31, 2009. Prior to 2009, the Company's indirect automobile segment was on a declining pace due to the growing economic factors that had weakened the economy and consumer spending. During this time, the Company's loan underwriting process and interest rates offered on indirect automobile opportunities struggled to compete with the more aggressive lending practices of local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates related to this segment. As the economy continues to be challenged, these banks and captive finance companies that once were successful in getting the majority of the indirect automobile opportunities are now struggling because of the losses they have had to absorb as well as the overall decrease in demand for auto loans. As a result, these businesses have had to tighten their operations and underwriting processes, which has allowed the Company to compete better for a larger portion of the indirect business within its local markets. Furthermore, the Company has added several new auto dealer relationships that have contributed to more business opportunities in 2009.

The remaining consumer loan products not discussed above were collectively up \$3,585, or 3.6%, which included general increases in loan balances from home equity capital lines. While the total consumer loan portfolio was up from year-end 2008, management will continue to place more emphasis on other loan portfolios (i.e. residential real estate and commercial) that will promote increased profitable loan growth and higher returns. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return. Management believes that the volume of indirect automobile opportunities will continue to stabilize and does not anticipate any significant growth during 2010.

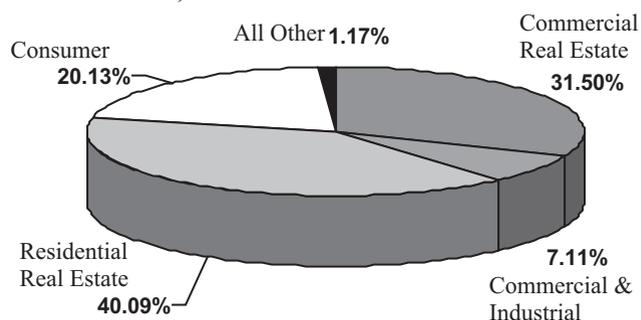
Generating residential real estate loans remains a key focus of the Company's lending efforts. Residential real estate loan balances comprise the largest portion of the Company's loan portfolio and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. During 2009, total residential real estate loan balances decreased \$13,932, or 5.5%, from year-end 2008 to total \$238,761. During the end of 2008 and first quarter of 2009, long-term interest rates decreased to historic low levels that prompted a significant surge of demand for these types of long-term fixed-rate real estate loans. At March 31, 2009 and December 31, 2008, the 30-year treasury rate was 3.56% and 2.69%, respectively, as

LOAN PORTFOLIO COMPOSITION

at December 31, 2009



at December 31, 2008



compared to 4.31% at September 30, 2008. Consumers wanted to take advantage of the low rates and reduce their monthly costs. To help manage interest rate risk and satisfy demand for longer-termed, fixed-rate real estate loans, the Company gained significant opportunities during 2009 to originate and sell fixed-rate mortgages to the secondary market. As a result, during the year ended December 31, 2009, the Company sold 432 loans totaling \$57,815 to the secondary market as compared to 109 loans totaling \$11,703 during the year ended December 31, 2008. The increased volume of loans sold to the secondary market contributed to growth in real estate origination fees and higher gains on sale revenue in 2009 as compared to 2008. The increase in demand for real estate refinancings combined with the Company's emphasis on selling loans to the secondary market to manage interest rate risk has led to a decrease in the Company's longer-termed, fixed-rate real estate loans, which were down \$11,224, or 6.1%, from year-end 2008. Terms of these fixed-rate loans include 15-, 20- and 30-year periods. These origination and sale trends also contributed to a lower balance of one-year adjustable-rate mortgages, which were down \$6,406, or 19.4%, from year-end 2008.

The remaining real estate loan portfolio balances increased \$3,698 primarily from the Company's other variable-rate

MANAGEMENT'S DISCUSSION AND ANALYSIS

products. The Company believes it has limited its interest rate risk exposure due to its practice of promoting and selling residential mortgage loans to the secondary market.

Additionally, the Company recognized an increase of \$844, or 11.4%, in other loans from year-end 2008. 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 \$867.

The Company continues to monitor the pace of its loan volume. The well-documented housing market crisis and other disruptions within the economy have negatively impacted consumer spending, which has limited the lending opportunities within the Company's market locations. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. To combat this ongoing potential for loan loss, the Company will continue to remain consistent in its approach to sound underwriting practices and a focus on asset quality. The Company has already seen the volume of secondary market loan sales stabilize during the third and fourth quarters of 2009 and anticipate that trend to continue into 2010 as long-term interest rates begin to increase. At September 30 and December 31, 2009, the 30-year treasury rate was 4.03% and 4.63%, respectively, as compared to 2.69% at December 31, 2008. The Company anticipates total loan growth in 2010 to be challenged, with volume to continue at a stable pace throughout the rest of the year.

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 incurred losses. Management continually monitors the loan portfolio to identify potential portfolio risks and to detect potential credit deterioration in the early stages, and then establishes reserves based upon its evaluation of these inherent risks. Actual losses on loans are reflected as reductions in the reserve and are referred to as charge-offs. The amount of the provision for loan losses charged to operating expenses is the amount necessary, in management's opinion, to maintain the allowance for loan losses at an adequate level that is reflective of probable and inherent loss. The allowance required is primarily a function of the relative quality of the loans in the loan portfolio, the mix of loans in the portfolio and the rate of growth of outstanding loans. Impaired loans are considered in the determination of the overall adequacy of the allowance for loan losses.

During 2009, the Company realized a decrease in its provision for loan loss expense by \$504, or 13.6%, as compared to 2008. The lower provision charge in 2009 was mostly due to the specific allocations recorded by the Company on two

commercial loans in 2008 totaling \$654. The loans were charged off in 2009 and did not require a specific allocation as these were already reflected in the allowance for loan losses for 2008. The increase in total charge-offs for 2009 of \$802, or 22.7%, was partially offset by increased loan recoveries of \$643, or 73.5%, due to a large recovery from a previously charged off commercial loan during June 2009 that totaled \$648. This limited the Company's net charge-off increase to \$159, or 6.0%, during 2009 as compared to 2008.

The Company's allowance for loan losses in 2009 increased \$399, or 5.1%, to finish at \$8,198. The increase in the allowance for loan losses was in large part due to increases in the Company's specific allocations on commercial loans and general allocations associated with growth in loans experienced during 2009. Specific allocations were also slightly impacted by growth in impaired loans. At December 31, 2009, there was \$27,644 of loans held by the Company classified as impaired, or for which management has concerns regarding the ability of the borrowers to meet existing repayment terms. This represents an increase to the impaired loan balance at December 31, 2008 of \$21,153. These impaired loans reflect the distinct possibility that the Company will not be able to collect all amounts due according to the contractual terms of the loan. Although these loans have been identified as potential problem loans, they may never become delinquent or classified as non-performing. The evaluation of the impaired loan balances created just a \$74 increase to the specific allocation requirement based on the collateral values associated with these impaired loans during 2009.

The Company was successful in maintaining a stable level of nonperforming loans from year-end 2008. Nonperforming loans consist of nonaccruing loans and accruing loans past due 90 days or more. Nonperforming loans finished at \$5,258 at year-end 2009 as compared to \$5,274 at year-end 2008, requiring little change to the specific allocations made on behalf of the portfolio risks and credit deterioration of these nonperforming credits. As a result, the Company's ratio of nonperforming loans to total loans decreased from 0.84% at December 31, 2008 to 0.81% at December 31, 2009. The Company experienced a slight increase in its nonperforming assets to total assets ratio, increasing from 1.28% at December 31, 2008 to 1.31% at December 31, 2009, due to an increase in OREO properties of \$699.

As a result of higher net charge-offs, increased impaired loan allocations and increased loan growth, the ratio of allowance for loan losses to total loans increased slightly to 1.26% at December 31, 2009 as compared to 1.24% at December 31, 2008. Management believes that the allowance for loan losses at December 31, 2009 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as

MANAGEMENT'S DISCUSSION AND ANALYSIS

management continues to stress not just loan growth, but quality in loan underwriting as well.

DEPOSITS

Deposits are used as part of the Company's liquidity management strategy to meet obligations for depositor withdrawals, fund the borrowing needs of loan customers, and to fund ongoing operations. Deposits, both interest- and noninterest-bearing, continue to be the most significant source of funds used by the Company to support earning assets. The Company seeks to maintain a proper balance of core deposit relationships on hand while also utilizing various wholesale deposit sources, such as brokered and internet certificates of deposit ("CD") balances, as an alternative funding source to efficiently manage the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. The accompanying table VII shows the composition of total deposits as of December 31, 2009. Total deposits increased \$55,283, or 9.3%, to finish at \$647,644 at year-end 2009, resulting mostly from an increase in the Company's time deposits, interest-bearing demand deposits and money market deposit balances.

Core relationship deposits are considered by management as a primary source of the Bank's liquidity. The Bank focuses on these kinds of deposit relationships with consumers from

local markets who can maintain multiple accounts and services at the Bank. The Company views core deposits as the foundation of its long-term funding sources because it believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors. As a result, the Bank's core customer relationship strategy has resulted in a higher percentage of its deposits being held in money market accounts and NOW accounts at year-end 2009, while a lesser percentage has resulted in retail time deposits at year-end 2009. Furthermore, the Company's core noninterest-bearing demand accounts have been maintained at comparable levels to that of year-end 2008, increasing 1.5%.

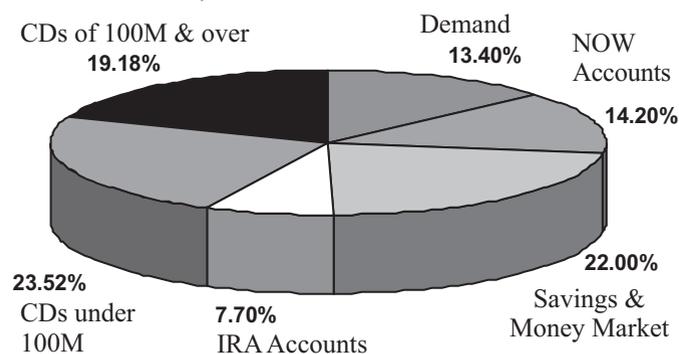
Deposit growth came mostly from money market deposit balances, increasing \$18,019, or 21.0%, during 2009 as compared to year-end 2008. This increase was primarily driven by the Company's Market Watch money market account product. Introduced in 2005, the Market Watch product is a limited transaction investment account with tiered rates that competes with current market rate offerings and serves as an alternative to certificates of deposit for some customers. With an added emphasis on further building and maintaining core deposit relationships, the Company began marketing a special six-month introductory rate offer of 3.00% APY during the first quarter of 2009 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 money market year-to-date increase in 2009. As of December 31, 2009, this program had gathered \$99,811 in deposits, a 21.7% increase from the balances at year-end 2008.

Further enhancing deposit growth was interest-bearing NOW account balances, which increased \$11,143, or 13.8%, during 2009 as compared to year-end 2008. This growth was largely driven by public fund balances related to local city and county school construction projects within Gallia County, Ohio.

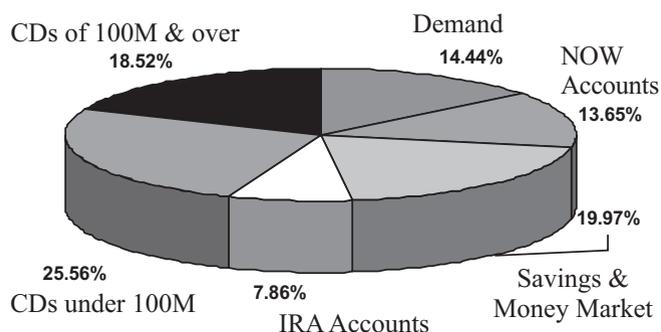
Also contributing to growth in deposits were time deposits, increasing \$18,687, or 6.1%, from year-end 2008. Time deposits, particularly CD's, are the most significant source of funding for the Company's earning assets, making up 50.4% of total deposits. With loan balances maintaining a relatively stable growth pace, up just 3.3% from year-end 2008, there has not been an aggressive need to target new time deposits as a funding source. As market rates have aggressively lowered since September 2007, the Company has seen the cost of its retail CD balances repriced downward (as a lagging effect to the actions by the Federal Reserve) to reflect current deposit rates. This lagging effect has caused the interest rates on the Company's retail CD portfolio to stabilize and become comparable to the interest rate offerings of its alternative funding source, wholesale fund deposits. As market rates have fallen considerably from a year ago, the Bank's CD customers have been more likely to consider re-investing their matured CD balances with other institutions offering the most attractive rates. This has led to an increased maturity runoff within its "customer relation" retail CD portfolio. Furthermore, with the significant downturn in economic conditions, the Bank's CD

COMPOSITION OF TOTAL DEPOSITS

at December 31, 2009



at December 31, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

Table VII

as of December 31

(dollars in thousands)	2009	2008	2007
Interest-bearing deposits:			
NOW accounts	\$ 91,998	\$ 80,855	\$ 65,618
Money Market	103,644	85,625	72,276
Savings accounts	38,834	32,664	31,436
IRA accounts	49,841	46,574	44,050
Certificates of Deposit ..	276,557	261,137	297,057
	<u>560,874</u>	<u>506,855</u>	<u>510,437</u>
Noninterest-bearing deposits:			
Demand deposits	86,770	85,506	78,589
Total deposits	<u>\$ 647,644</u>	<u>\$ 592,361</u>	<u>\$ 589,026</u>

customers in general have experienced reduced funds available to deposit with structured terms, choosing to remain more liquid. As a result, the Company has experienced a shift within its time deposit portfolio, with retail CD balances decreasing \$18,203 from year-end 2008, while utilizing more wholesale funding deposits (i.e., brokered and internet CD issuances), which increased \$36,890 from year-end 2008. The Bank increased its use of brokered deposits mostly during the fourth quarter of 2008 and the first quarter of 2009 with laddered maturities into the future. This trend of utilizing brokered CD's selectively based on maturity and interest rate opportunities not only fits well with management's strategy of funding the balance sheet with low-costing wholesale funds, but it also assists to support the interest rate risks associated with the limited loan originations of longer-term fixed rate mortgages experienced during the first half of 2009. Although brokered and internet CD's may exhibit more price volatility than core deposits, management is comfortable with these sources of funds based on the maturity distribution and overall policy limits established for these deposit types.

The Company's interest-free funding source, noninterest bearing demand deposits, also increased \$1,264, or 1.5%, from year-end 2008, largely due to growth in business checking account balances.

The Company will continue to experience increased competition for deposits in its market areas, which should challenge its net growth. The Company will continue to emphasize growth in its core deposits as well as to utilize its wholesale CD funding sources, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Repurchase agreements, which are financing arrangements that have overnight maturity terms, were up \$7,571, or 31.5%, from year-end 2008. This increase was mostly due to seasonal fluctuations of two commercial relationships during 2009.

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 2009, other borrowed funds were down \$34,065, or 44.4%, from year-end 2008. Management used the growth in deposit proceeds to repay FHLB borrowings during 2009. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

OFF-BALANCE SHEET ARRANGEMENTS

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

CAPITAL RESOURCES

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. Total shareholders' equity at December 31, 2009 of \$66,521 was up \$3,465, or 5.5%, as compared to the balance of \$63,056 on December 31, 2008. Contributing most to this increase was year-to-date net income of \$6,645, partially offset by cash dividends paid of \$3,186, or \$.80 per share, year-to-date. The Company had treasury stock totaling \$15,712 at December 31, 2009, unchanged from year-end 2008.

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 2009, shareholders invested more than \$1,194 through the dividend reinvestment and stock purchase plan. These proceeds resulted in the acquisition of 51,468 existing shares through open market purchases. At December 31, 2009, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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, 2009 % Change in Net Interest Income	December 31, 2008 % Change in Net Interest Income
+300	(.26%)	(5.47%)
+200	(.58%)	(4.12%)
+100	(.58%)	(2.30%)
-100	.68%	2.54%

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. During 2009, the interest rate risk profile became less exposed to rising interest rates due to various balance sheet changes. For example, the duration of earning assets shortened with higher relative balances being invested in variable rate or short-term instruments. In addition, the balance of fixed-rate mortgages decreased, as management chose to sell the majority of new originations and refinancings

to the secondary market. On the liability side of the balance sheet, management emphasized longer-term CD specials and selected longer maturity terms for brokered CD issuances. Furthermore, the balance of nonmaturity deposits increased significantly from year end. These balances, such as savings and NOW accounts, exhibit a low correlation to changes in interest rates. Lastly, the balance of borrowed funds decreased due to a decline in short-term borrowings, which are highly rate sensitive. Given the low rate environment, the next move in interest rates would most likely be an increasing trend. As a result, management would consider the current interest rate risk profile more desirable than our profile at December 31, 2008.

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities of \$101,635 represented 12.5% of total assets at December 31, 2009. In addition, the FHLB offers advances to the Bank which further enhances the Bank's ability to meet liquidity demands. At December 31, 2009, the Bank could borrow an additional \$95,091 from the FHLB, of which, \$75,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At December 31, 2009, this line totaled \$81,000. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank. 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

CONTRACTUAL OBLIGATIONS

Table IX

The following table presents, as of December 31, 2009, 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	\$ 321,246	\$ —	\$ —	\$ —	\$ 321,246	
Consumer and brokered time deposits	F	180,318	120,016	25,066	998	326,398	
Repurchase agreements	G	31,641	—	—	—	31,641	
Other borrowed funds	H	28,774	6,772	6,281	882	42,709	
Subordinated debentures	I	—	—	—	13,500	13,500	

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 allocations, general allocations and other estimated general allocations.

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 whole. To achieve this task, the

Company has created a quarterly report ("Watch List"), which lists the loans from each loan portfolio that management deems to be potential credit risks. A loan will automatically be added to the Watch List if the loan balance is over \$200 and the loan is either delinquent 60 days or more or nonaccrual. In addition, management may decide to add loans to the Watch List that do not meet the above-mentioned criteria. 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. The function of the Committee is to review and analyze large borrowers for credit risk, scrutinize the Watch List 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.

Included in the specific allocation analysis are impaired loans, which generally consist of loans with balances of \$200 or more on nonaccrual status or non-performing in nature. Each loan is individually analyzed to determine if a specific allocation is necessary based on expected potential 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 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 million 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 three-year performance evaluation of credit losses per

KEY RATIOS

Table X	2009	2008	2007	2006	2005
Return on average assets .....	.81%	.91%	.82%	.71%	.97%
Return on average equity	10.23%	11.62%	10.40%	9.00%	12.18%
Dividend payout ratio	47.95%	42.94%	46.66%	52.56%	38.55%
Average equity to average assets	7.93%	7.84%	7.87%	7.88%	7.93%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2% to a high of 8%, 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, 2009. 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.

