OHIO VALLEY BANC CORP
Form 10-Q
May 10, 2016

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

Form 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from ____________ to ____________

Commission file number 0-20914

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

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

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

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

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

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

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

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

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

The number of common shares of the registrant outstanding as of May 10, 2016 was 4,142,247.

OHIO VALLEY BANC CORP.
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## PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | March 31, 2016 UNAUDITED | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Cash and noninterest-bearing deposits with banks | $ 10,311 | $9,475 |
| Interest-bearing deposits with banks | 128,993 | 36,055 |
| Total cash and cash equivalents | 139,304 | 45,530 |
| | | |
| Certificates of deposit in financial institutions | 1,470 | 1,715 |
| Securities available for sale | 87,979 | 91,651 |
| Securities held to maturity (estimated fair value: 2016 - $20,527; 2015 - $20,790) | 19,506 | 19,903 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 6,576 | 6,576 |
| | | |
| Total loans | 585,845 | 585,752 |
| Less: Allowance for loan losses | (6,946) | (6,648) |
| Net loans | 578,899 | 579,104 |
| | | |
| Premises and equipment, net | 10,372 | 10,404 |
| Other real estate owned | 2,179 | 2,358 |
| Accrued interest receivable | 1,778 | 1,819 |
| Goodwill | 1,267 | 1,267 |
| Bank owned life insurance and annuity assets | 28,561 | 28,352 |
| Other assets | 5,626 | 7,606 |
| Total assets | $ 883,517 | $796,285 |
| | | |
| LIABILITIES | | |
| Noninterest-bearing deposits | $ 240,642 | $176,499 |
| Interest-bearing deposits | 500,363 | 484,247 |
| Total deposits | 741,005 | 660,746 |
| | | |
| Other borrowed funds | 28,133 | 23,946 |
| Subordinated debentures | 8,500 | 8,500 |
| Accrued liabilities | 12,248 | 12,623 |
| Total liabilities | 789,886 | 705,815 |
| | | |
| COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5) | ---- | ---- |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 2016 - 4,801,986 shares issued; 2015 - 4,777,414 shares issued) | 4,802 | 4,777 |

| | | |
|---|---|---|
| Additional paid-in capital | 35,868 | 35,318 |
| Retained earnings | 67,749 | 65,782 |
| Accumulated other comprehensive income | 924 | 305 |
| Treasury stock, at cost (659,739 shares) | (15,712 ) | (15,712 ) |
| Total shareholders’ equity | 93,631 | 90,470 |
| Total liabilities and shareholders’ equity | $ 883,517 | $796,285 |

See accompanying notes to consolidated financial statements

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

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Interest and dividend income: | | |
| Loans, including fees | $ 8,927 | $ 8,899 |
| Securities: | | |
| Taxable | 488 | 449 |
| Tax exempt | 114 | 139 |
| Dividends | 74 | 74 |
| Other Interest | 167 | 66 |
| | 9,770 | 9,627 |
| Interest expense: | | |
| Deposits | 498 | 535 |
| Other borrowed funds | 125 | 121 |
| Subordinated debentures | 47 | 41 |
| | 670 | 697 |
| Net interest income | 9,100 | 8,930 |
| Provision for loan losses | 479 | (78) |
| Net interest income after provision for loan losses | 8,621 | 9,008 |
| | | |
| Noninterest income: | | |
| Service charges on deposit accounts | 405 | 353 |
| Trust fees | 60 | 58 |
| Income from bank owned life insurance and annuity assets | 209 | 176 |
| Mortgage banking income | 57 | 59 |
| Electronic refund check / deposit fees | 1,754 | 2,095 |
| Debit / credit card interchange income | 586 | 538 |
| Gain (loss) on other real estate owned | (5) | 15 |
| Other | 169 | 195 |
| | 3,235 | 3,489 |
| Noninterest expense: | | |
| Salaries and employee benefits | 4,570 | 4,400 |
| Occupancy | 429 | 402 |
| Furniture and equipment | 185 | 178 |
| Professional fees | 337 | 356 |
| Marketing expense | 247 | 234 |
| FDIC insurance | 149 | 166 |
| Data processing | 353 | 368 |
| Software | 292 | 247 |
| Foreclosed assets | 65 | 35 |
| Merger related expenses | 227 | ---- |
| Other | 1,115 | 1,041 |
| | 7,969 | 7,427 |

| | | |
|---|---|---|
| Income before income taxes | 3,887 | 5,070 |
| Provision for income taxes | 1,055 | 1,446 |
| | | |
| NET INCOME | $ 2,832 | $ 3,624 |
| | | |
| Earnings per share | $ .69 | $ .88 |

See accompanying notes to consolidated financial statements

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

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Net Income | $2,832 | $3,624 |
| | | |
| Other comprehensive income: | | |
| Change in unrealized gain on available for sale securities | 938 | 455 |
| Related tax (expense) | (319) | (154) |
| Total other comprehensive income, net of tax | 619 | 301 |
| | | |
| Total comprehensive income | $3,451 | $3,925 |

See accompanying notes to consolidated financial statements

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

| | Three months ended March 31, 2016 | Three months ended March 31, 2015 |
|---|---|---|
| Balance at beginning of period | $90,470 | $86,216 |
| Net income | 2,832 | 3,624 |
| Other comprehensive income, net of tax | 619 | 301 |
| Common stock issued to ESOP, 24,572 shares | 575 | ---- |
| Cash dividends | (865) | (865) |
| Balance at end of period | $93,631 | $89,276 |
| Cash dividends per share | $.21 | $.21 |

See accompanying notes to consolidated financial statements

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

| | Three months ended March 31, 2016 | Three months ended March 31, 2015 |
|---|---|---|
| Net cash provided by operating activities: | $5,344 | $12,738 |
| | | |
| Investing activities: | | |
| Proceeds from maturities of securities available for sale | 4,538 | 3,619 |
| Purchases of securities available for sale | ---- | (8,019) |
| Proceeds from maturities of securities held to maturity | 466 | 360 |
| Purchases of securities held to maturity | (80) | (285) |
| Proceeds from maturities of certificates of deposit in financial institutions | 245 | ---- |
| Net change in loans | (304) | 94 |
| Proceeds from sale of other real estate owned | 205 | 260 |
| Purchases of premises and equipment | (221) | (317) |
| Net cash provided by (used in) investing activities | 4,849 | (4,288) |
| | | |
| Financing activities: | | |
| Change in deposits | 80,259 | 77,578 |
| Cash dividends | (865) | (865) |
| Proceeds from Federal Home Loan Bank borrowings | 4,527 | ---- |
| Repayment of Federal Home Loan Bank borrowings | (329) | (324) |
| Change in other short-term borrowings | (11) | ---- |
| Net cash provided by financing activities | 83,581 | 76,389 |
| | | |
| Change in cash and cash equivalents | 93,774 | 84,839 |
| Cash and cash equivalents at beginning of period | 45,530 | 30,977 |
| Cash and cash equivalents at end of period | $139,304 | $1115,816 |
| | | |
| Supplemental disclosure: | | |
| | | |
| Cash paid for interest | $649 | $665 |
| Cash paid for income taxes | ---- | ---- |
| Transfers from loans to other real estate owned | 30 | 221 |
| Other real estate owned sales financed by the Bank | 274 | ---- |

See accompanying notes to consolidated financial statements

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at March 31, 2016, and its results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2016. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by U.S. generally accepted accounting principles ("US GAAP") that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2015 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2015 have been reclassified to conform to the presentation for 2016. These reclassifications had no effect on the net results of operations or shareholders' equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: The accounting and reporting policies followed by the Company conform to US GAAP established by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Areas involving the use of management's estimates and assumptions that are more susceptible to change in the near term involve the allowance for loan losses, mortgage servicing rights, deferred tax assets, the fair value of certain securities, the fair value of financial instruments and the determination and carrying value of impaired loans and other real estate owned.

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

EARNINGS PER SHARE: Earnings per share are computed based on net income divided by the weighted average number of common shares outstanding during the period. The weighted average common shares outstanding were 4,127,666 for the three months ended March 31, 2016 and 4,117,675 for the three months ended March 31, 2015. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

NEW ACCOUNTING PRONOUNCEMENTS: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018, with early adoption permitted on January 1, 2017. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial statements.

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

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

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

| | Fair Value Measurements at March 31, 2016 Using | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| U.S. Government sponsored entity securities | ---- | $7,994 | ---- |
| Agency mortgage-backed securities, residential | ---- | 79,985 | ---- |

| | Fair Value Measurements at December 31, 2015 Using | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| U.S. Government sponsored entity securities | ---- | $8,965 | ---- |
| Agency mortgage-backed securities, residential | ---- | 82,686 | ---- |

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

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

| | Fair Value Measurements at March 31, 2016, Using | | |
|---|---|---|---|
| | Quoted Prices in Active | Significant Other Observable | Significant Unobservable Inputs |

| | Markets for Identical Assets (Level 1) | Inputs (Level 2) | (Level 3) |
|---|---|---|---|
| Assets: | | | |
| Impaired loans: | | | |
| Commercial real estate: | | | |
| Nonowner-occupied | ---- | ---- | $ 2,375 |
| Commercial and industrial | ---- | ---- | 3,905 |
| | | | |
| Other real estate owned: | | | |
| Commercial real estate: | | | |
| Construction | ---- | ---- | 1,147 |

| | Fair Value Measurements at December 31, 2015, Using | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | |
| Impaired loans: | | | |
| Commercial real estate: | | | |
| Nonowner-occupied | ---- | ---- | $ 2,473 |
| Commercial and industrial | ---- | ---- | 3,779 |
| | | | |
| Other real estate owned: | | | |
| Commercial real estate: | | | |
| Construction | ---- | ---- | 1,147 |

At March 31, 2016, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $7,928, with a corresponding valuation allowance of $1,648, resulting in an increase of $89 in provision expense during the three months ended March 31, 2016, with no additional charge-offs recognized. This is compared to an increase of $150 in provision expense during the three months ended March 31, 2015. At December 31, 2015, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $7,811, with a corresponding valuation allowance of $1,559, resulting in an increase of $741 in provision expense during the year ended December 31, 2015, with $1,422 in additional charge-offs recognized.

Other real estate owned that was measured at fair value less costs to sell at March 31, 2016 and December 31, 2015 had a net carrying amount of $1,147, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,070 at December 31, 2015. There were no corresponding write downs during the three months ended March 31, 2016 and 2015.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2016 and December 31, 2015:

| March 31, 2016 | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | (Weighted Average) |
|---|---|---|---|---|---|
| Impaired loans: | | | | | |
| Commercial real estate: | | | | | |
| Nonowner-occupied | $2,375 | Sales approach | Adjustment to comparables | 0% to 12.5% | 5.7% |
| Commercial and industrial | 3,905 | Sales approach | Adjustment to comparables | 0.9% to 30% | 14.4% |
| | | | | | |
| Other real estate owned: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Commercial real estate: | | | | | |
| Construction | 1,147 | Sales approach | Adjustment to comparables | 5% to 35% | 18% |

| December 31, 2015 | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | (Weighted Average) |
|---|---|---|---|---|---|
| Impaired loans: | | | | | |
| Commercial real estate: | | | | | |
| Nonowner-occupied | $2,473 | Sales approach | Adjustment to comparables | 0% to 12.5% | 5.7% |
| Commercial and industrial | 3,779 | Sales approach | Adjustment to comparables | 0.9% to 30% | 14.3% |
| | | | | | |
| Other real estate owned: | | | | | |
| Commercial real estate: | | | | | |
| Construction | 1,147 | Sales approach | Adjustment to comparables | 0% to 35% | 15.2% |

The carrying amounts and estimated fair values of financial instruments at March 31, 2016 and December 31, 2015 are as follows:

| | | Fair Value Measurements at March 31, 2016 Using: | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $139,304 | $139,304 | $---- | $---- | $139,304 |
| Certificates of deposit in financial institutions | 1,470 | ---- | 1,470 | ---- | 1,470 |
| Securities available for sale | 87,979 | ---- | 87,979 | ---- | 87,979 |
| Securities held to maturity | 19,506 | ---- | 9,822 | 10,705 | 20,527 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 6,576 | N/A | N/A | N/A | N/A |
| Loans, net | 578,899 | ---- | ---- | 583,867 | 583,867 |
| Accrued interest receivable | 1,778 | ---- | 327 | 1,451 | 1,778 |
| | | | | | |
| Financial liabilities: | | | | | |
| Deposits | 741,005 | 240,642 | 500,856 | ---- | 741,498 |
| Other borrowed funds | 28,133 | ---- | 27,952 | ---- | 27,952 |
| Subordinated debentures | 8,500 | ---- | 5,388 | ---- | 5,388 |
| Accrued interest payable | 470 | 3 | 467 | ---- | 470 |

| | | Fair Value Measurements at December 31, 2015 Using: | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $45,530 | $45,530 | $---- | $---- | $45,530 |
| Certificates of deposit in financial institutions | 1,715 | ---- | 1,715 | ---- | 1,715 |
| Securities available for sale | 91,651 | ---- | 91,651 | ---- | 91,651 |
| Securities held to maturity | 19,903 | ---- | 9,814 | 10,976 | 20,790 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 6,576 | N/A | N/A | N/A | N/A |
| Loans, net | 579,104 | ---- | ---- | 582,427 | 582,427 |
| Accrued interest receivable | 1,819 | ---- | 224 | 1,595 | 1,819 |
| | | | | | |
| Financial liabilities: | | | | | |
| Deposits | 660,746 | 176,499 | 484,636 | ---- | 661,135 |
| Other borrowed funds | 23,946 | ---- | 23,672 | ---- | 23,672 |
| Subordinated debentures | 8,500 | ---- | 5,368 | ---- | 5,368 |
| Accrued interest payable | 449 | 4 | 445 | ---- | 449 |

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at March 31, 2016 and December 31, 2015 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

| Securities Available for Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| March 31, 2016 | | | | |
| U.S. Government sponsored entity securities | $ 8,009 | $ ---- | $ (15) | $ 7,994 |
| Agency mortgage-backed securities, residential | 78,569 | 1,445 | (29) | 79,985 |
| Total securities | $ 86,578 | $ 1,445 | $ (44) | $ 87,979 |
| | | | | |
| December 31, 2015 | | | | |
| U.S. Government sponsored entity securities | $ 9,011 | $ ---- | $ (46) | $ 8,965 |
| Agency mortgage-backed securities, residential | 82,178 | 981 | (473) | 82,686 |
| Total securities | $ 91,189 | $ 981 | $ (519) | $ 91,651 |

| Securities Held to Maturity | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Estimated Fair Value |
|---|---|---|---|---|
| March 31, 2016 | | | | |
| Obligations of states and political subdivisions | $ 19,501 | $ 1,021 | $ ---- | $ 20,522 |
| Agency mortgage-backed securities, residential | 5 | ---- | ---- | 5 |

| | | | | |
|---|---|---|---|---|
| Total securities | $19,506 | $ 1,021 | ---- | $20,527 |
| | | | | |
| December 31, 2015 | | | | |
| Obligations of states and political subdivisions | $19,898 | $ 892 | $ (5 ) | $20,785 |
| Agency mortgage-backed securities, residential | 5 | ---- | ---- | 5 |
| Total securities | $19,903 | $ 892 | $ (5 ) | $20,790 |

The amortized cost and estimated fair value of debt securities at March 31, 2016, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay the debt obligations prior to their contractual maturities. Securities not due at a single maturity are shown separately.

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| Debt Securities: | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $---- | $---- | $261 | $268 |
| Due in over one to five years | 8,009 | 7,994 | 6,565 | 6,907 |
| Due in over five to ten years | ---- | ---- | 10,593 | 11,243 |
| Due after ten years | ---- | ---- | 2,082 | 2,104 |
| Agency mortgage-backed securities, residential | 78,569 | 79,985 | 5 | 5 |
| Total debt securities | $86,578 | $87,979 | $19,506 | $20,527 |

The following table summarizes securities with unrealized losses at March 31, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| March 31, 2016 | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Securities Available for Sale | | | | | | |
| U.S. Government sponsored entity securities | $ 7,994 | $ (15 ) | $ ---- | $ ---- | $ 7,994 | $ (15 ) |
| Agency mortgage-backed securities, residential | 15,583 | (29 ) | ---- | ---- | 15,583 | (29 ) |
| Total available for sale | $ 23,577 | $ (44 ) | $ ---- | $ ---- | $ 23,577 | $ (44 ) |

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2015 | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Securities Available for Sale | | | | | | |
| U.S. Government sponsored entity securities | $ 7,964 | $ (46 ) | $ ---- | $ ---- | $ 7,964 | $ (46 ) |
| Agency mortgage-backed securities, residential | 42,112 | (407 ) | 3,645 | (66) | 45,757 | (473 ) |
| Total available for sale | $ 50,076 | $ (453 ) | $ 3,645 | $ (66) | $ 53,721 | $ (519 ) |

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Securities Held to Maturity | | | | | | | | | | | | | | |
| Obligations of states and political subdivisions | $ | 995 | $ | (5 | ) | $ | ---- | $ | ---- | $ | 995 | $ | (5 | ) |
| Total held to maturity | $ | 995 | $ | (5 | ) | $ | ---- | $ | ---- | $ | 995 | $ | (5 | ) |

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality as of March 31, 2016, and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery.  Management does not believe any individual unrealized loss at March 31, 2016 and December 31, 2015 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

| Loans are comprised of the following: | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Residential real estate | $227,026 | $223,875 |
| Commercial real estate: | | |
| Owner-occupied | 71,117 | 73,458 |
| Nonowner-occupied | 71,731 | 72,002 |
| Construction | 26,512 | 23,852 |
| Commercial and industrial | 81,034 | 81,936 |
| Consumer: | | |
| Automobile | 44,952 | 44,566 |
| Home equity | 19,558 | 20,841 |
| Other | 43,915 | 45,222 |
| | 585,845 | 585,752 |
| Less: Allowance for loan losses | 6,946 | 6,648 |
| | | |
| Loans, net | $578,899 | $579,104 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2016 and 2015:

| March 31, 2016 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,087 | $1,959 | $2,589 | $1,013 | $6,648 |
| Provision for loan losses | 40 | 17 | 82 | 340 | 479 |
| Loans charged off | (104) | ---- | ---- | (483) | (587) |
| Recoveries | 162 | 19 | 1 | 224 | 406 |
| Total ending allowance balance | $1,185 | $1,995 | $2,672 | $1,094 | $6,946 |

| March 31, 2015 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning balance | $1,426 | $4,195 | $1,602 | $1,111 | $8,334 |
| Provision for loan losses | 31 | 6 | 14 | (129) | (78) |
| Loans charged-off | (97) | (8) | (2) | (261) | (368) |
| Recoveries | 105 | 17 | 124 | 186 | 432 |
| Total ending allowance balance | $1,465 | $4,210 | $1,738 | $907 | $8,320 |

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | Residential Real Estate | Commercial Real Estate | Commercial | Consumer | Total |
|---|---|---|---|---|---|

| | | | and Industrial | | |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment | $---- | $ 309 | $ 1,900 | $3 | $2,212 |
| Collectively evaluated for impairment | 1,185 | 1,686 | 772 | 1,091 | 4,734 |
| Total ending allowance balance | $1,185 | $ 1,995 | $ 2,672 | $1,094 | $6,946 |
| | | | | | |
| Loans: | | | | | |
| Loans individually evaluated for impairment | $730 | $ 8,022 | $ 8,869 | $218 | $17,839 |
| Loans collectively evaluated for impairment | 226,296 | 161,338 | 72,165 | 108,207 | 568,006 |
| Total ending loans balance | $227,026 | $ 169,360 | $ 81,034 | $108,425 | $585,845 |

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| December 31, 2015 | Residential Real Estate | Commercial Real Estate | Commercial and Industrial | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment | $---- | $ 311 | $ 1,850 | $ 3 | $ 2,164 |
| Collectively evaluated for impairment | 1,087 | 1,648 | 739 | 1,010 | 4,484 |
| Total ending allowance balance | $ 1,087 | $ 1,959 | $ 2,589 | $ 1,013 | $ 6,648 |
| | | | | | |
| Loans: | | | | | |
| Loans individually evaluated for impairment | $ 1,001 | $ 7,318 | $ 8,691 | $ 218 | $ 17,228 |
| Loans collectively evaluated for impairment | 222,874 | 161,994 | 73,245 | 110,411 | 568,524 |
| Total ending loans balance | $ 223,875 | $ 169,312 | $ 81,936 | $ 110,629 | $ 585,752 |

The following tables present information related to loans individually evaluated for impairment by class of loans as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| With an allowance recorded: | | | |
| Commercial real estate: | | | |
| Owner-occupied | $ 204 | $ 204 | $ 204 |
| Nonowner-occupied | 393 | 393 | 105 |
| Commercial and industrial | 4,524 | 4,524 | 1,900 |
| Consumer: | | | |
| Home equity | 218 | 218 | 3 |
| With no related allowance recorded: | | | |
| Residential real estate | 730 | 730 | ---- |
| Commercial real estate: | | | |
| Owner-occupied | 3,797 | 3,250 | ---- |
| Nonowner-occupied | 5,896 | 3,495 | ---- |
| Construction | 680 | 680 | ---- |
| Commercial and industrial | 4,345 | 4,345 | ---- |
| Total | $ 20,787 | $ 17,839 | $ 2,212 |

| December 31, 2015 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| With an allowance recorded: | | | |
| Commercial real estate: | | | |
| Owner-occupied | $ 204 | $ 204 | $ 204 |
| Nonowner-occupied | 396 | 396 | 107 |
| Commercial and industrial | 4,355 | 4,355 | 1,850 |
| Consumer: | | | |

| | | | |
|---|---|---|---|
| Home equity | 218 | 218 | 3 |
| With no related allowance recorded: | | | |
| Residential real estate | 1,001 | 1,001 | ---- |
| Commercial real estate: | | | |
| Owner-occupied | 3,812 | 3,265 | ---- |
| Nonowner-occupied | 5,178 | 2,773 | ---- |
| Construction | 680 | 680 | ---- |
| Commercial and industrial | 4,336 | 4,336 | ---- |
| Total | $20,180 | $17,228 | $2,164 |

The following tables present information related to loans individually evaluated for impairment by class of loans for the three months ended March 31, 2016 and 2015:

| | Three months ended March 31, 2016 | | |
|---|---|---|---|
| | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
| With an allowance recorded: | | | |
| Commercial real estate: | | | |
| Owner-occupied | $ 204 | $ 4 | $ 4 |
| Nonowner-occupied | 395 | 5 | 5 |
| Commercial and industrial | 4,439 | 41 | 41 |
| Consumer: | | | |
| Home equity | 219 | 2 | 2 |
| With no related allowance recorded: | | | |
| Residential real estate | 731 | 9 | 9 |
| Commercial real estate: | | | |
| Owner-occupied | 3,257 | 43 | 43 |
| Nonowner-occupied | 3,134 | 13 | 13 |
| Construction | 680 | ---- | ---- |
| Commercial and industrial | 4,341 | 51 | 51 |
| Total | $ 17,400 | $ 168 | $ 168 |

| | Three months ended March 31, 2015 | | |
|---|---|---|---|
| | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
| With an allowance recorded: | | | |
| Commercial real estate: | | | |
| Owner-occupied | $ 827 | $ ---- | $ ---- |
| Nonowner-occupied | 7,618 | 16 | 16 |
| Commercial and industrial | 2,701 | 25 | 25 |
| Consumer: | | | |
| Home equity | 219 | 3 | 3 |
| With no related allowance recorded: | | | |
| Residential real estate | 1,412 | 9 | 9 |
| Commercial real estate: | | | |
| Owner-occupied | 2,566 | 30 | 30 |
| Nonowner-occupied | 300 | 12 | 12 |
| Construction | 340 | ---- | ---- |
| Commercial and industrial | 4,390 | 55 | 55 |
| Total | $ 20,373 | $ 150 | $ 150 |

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees.

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified as impaired loans.

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of March 31, 2016 and December 31, 2015, other real estate owned secured by residential real estate totaled $951 and $1,131, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $1,114 and $988 as of March 31, 2016 and December 31, 2015, respectively.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | Loans Past Due 90 Days And Still Accruing | Nonaccrual |
|---|---|---|
| Residential real estate | $90 | $2,103 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 367 |
| Nonowner-occupied | ---- | 2,635 |
| Construction | ---- | 769 |
| Commercial and industrial | ---- | 1,185 |
| Consumer: | | |
| Automobile | 47 | 15 |
| Home equity | ---- | 63 |
| Other | 4 | 5 |
| Total | $141 | $7,142 |

| December 31, 2015 | Loans Past Due 90 Days And Still Accruing | Nonaccrual |
|---|---|---|
| Residential real estate | $20 | $2,048 |
| Commercial real estate: | | |
| Owner-occupied | ---- | 404 |
| Nonowner-occupied | ---- | 2,737 |
| Construction | ---- | 769 |
| Commercial and industrial | ---- | 1,152 |
| Consumer: | | |
| Automobile | 18 | 27 |
| Home equity | ---- | 96 |
| Other | 1 | 3 |
| Total | $39 | $7,236 |

The following table presents the aging of the recorded investment of past due loans by class of loans as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| Residential real estate | $3,116 | $755 | $1,919 | $5,790 | $221,236 | $227,026 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | |
| Owner-occupied | 412 | 1,038 | 231 | 1,681 | 69,436 | 71,117 |
| Nonowner-occupied | ---- | 239 | 2,635 | 2,874 | 68,857 | 71,731 |
| Construction | ---- | ---- | 769 | 769 | 25,743 | 26,512 |
| Commercial and industrial | 71 | 75 | 1,077 | 1,223 | 79,811 | 81,034 |
| Consumer: | | | | | | |
| Automobile | 552 | 198 | 62 | 812 | 44,140 | 44,952 |
| Home equity | 35 | 15 | 45 | 95 | 19,463 | 19,558 |
| Other | 324 | 73 | 4 | 401 | 43,514 | 43,915 |
| Total | $4,510 | $2,393 | $6,742 | $13,645 | $572,200 | $585,845 |

| December 31, 2015 | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| Residential real estate | $2,564 | $1,484 | $1,708 | $5,756 | $218,119 | $223,875 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 141 | 33 | 371 | 545 | 72,913 | 73,458 |
| Nonowner-occupied | 35 | 334 | 2,737 | 3,106 | 68,896 | 72,002 |
| Construction | ---- | 2 | 769 | 771 | 23,081 | 23,852 |
| Commercial and industrial | 31 | 88 | 1,077 | 1,196 | 80,740 | 81,936 |
| Consumer: | | | | | | |
| Automobile | 727 | 197 | 36 | 960 | 43,606 | 44,566 |
| Home equity | 75 | ---- | 76 | 151 | 20,690 | 20,841 |
| Other | 420 | 104 | 4 | 528 | 44,694 | 45,222 |
| Total | $3,993 | $2,242 | $6,778 | $13,013 | $572,739 | $585,752 |

Troubled Debt Restructurings:

A troubled debt restructuring ("TDR") occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. All TDR's are considered to be impaired. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a reduction in the contractual principal and interest payments of the loan; or short-term interest-only payment terms.

The Company has allocated reserves for a portion of its TDR's to reflect the fair values of the underlying collateral or the present value of the concessionary terms granted to the customer.

The following table presents the types of TDR loan modifications by class of loans as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | TDR's Performing to Modified Terms | TDR's Not Performing to Modified Terms | Total TDR's |
|---|---|---|---|
| Residential real estate | | | |
| Interest only payments | $730 | $---- | $730 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | 456 | ---- | 456 |
| Rate reduction | ---- | 232 | 232 |
| Reduction of principal and interest payments | 598 | ---- | 598 |
| Maturity extension at lower stated rate than market rate | 1,964 | ---- | 1,964 |
| Credit extension at lower stated rate than market rate | 204 | ---- | 204 |
| Nonowner-occupied | | | |
| Interest only payments | 539 | 2,375 | 2,914 |
| Rate reduction | 393 | ---- | 393 |
| Credit extension at lower stated rate than market rate | 581 | ---- | 581 |

| | | | |
|---|---|---|---|
| Commercial and industrial | | | |
| Interest only payments | 7,544 | ---- | 7,544 |
| Credit extension at lower stated rate than market rate | 439 | 391 | 830 |
| Consumer: | | | |
| Home equity | | | |
| Maturity extension at lower stated rate than market rate | 218 | ---- | 218 |
| | | | |
| Total TDR’s | $13,666 | $2,998 | $16,664 |

| December 31, 2015 | TDR’s Performing to Modified Terms | TDR’s Not Performing to Modified Terms | Total TDR’s |
|---|---|---|---|
| Residential real estate | | | |
| Interest only payments | $1,001 | $---- | $1,001 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Interest only payments | 433 | ---- | 433 |
| Rate reduction | ---- | 232 | 232 |
| Reduction of principal and interest payments | 604 | ---- | 604 |
| Maturity extension at lower stated rate than market rate | 1,996 | ---- | 1,996 |
| Credit extension at lower stated rate than market rate | 204 | ---- | 204 |
| Nonowner-occupied | | | |
| Interest only payments | 300 | 2,473 | 2,773 |
| Rate reduction | 396 | ---- | 396 |
| Commercial and industrial | | | |
| Interest only payments | 7,579 | ---- | 7,579 |
| Credit extension at lower stated rate than market rate | 226 | 391 | 617 |
| Consumer: | | | |
| Home equity | | | |
| Maturity extension at lower stated rate than market rate | 218 | ---- | 218 |
| Total TDR’s | $12,957 | $3,096 | $16,053 |

During the three months ended March 31, 2016, the TDR's described above increased the provision expense and the allowance for loan losses by $48 with no corresponding charge-offs. During the year ended December 31, 2015, the TDR's described above increased the allowance for loan losses and provision expense by $93 with corresponding charge-offs of $1,422. The charge-offs of $1,422 during 2015 included $1,304 that were related to specific reserves that had already been provided for during 2014, and, as a result, did not impact provision expense during 2015.

At March 31, 2016, the balance in TDR loans increased $611, or 3.8%, from year-end 2015. The increase was largely due to concessions granted on two commercial real estate nonowner-occupied loans during the first quarter of 2016. The Company had 82% of its TDR's performing according to their modified terms at March 31, 2016, as compared to 81% at December 31, 2015. The Company's specific allocations in reserves to customers whose loan terms have been modified in TDR’s totaled $1,717 at March 31, 2016, as compared to $1,669 in reserves at December 31, 2015. At March 31, 2016, the Company had $823 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR’s, as compared to $995 at December 31, 2015.

The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended March 31, 2016:

| | TDR’s Performing to Modified Terms | | TDR’s Not Performing to Modified Terms | |
|---|---|---|---|---|
| Three months ended March 31, 2016 | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |

| | | | | |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Nonowner-occupied | | | | |
| Interest only payments | $238 | $ 238 | $---- | $ ---- |
| Credit extension at lower stated rate than market rate | 581 | 581 | ---- | ---- |
| Total TDR's | $819 | $ 819 | $---- | $ ---- |

All of the Company's loans that were restructured during the three months ended March 31, 2016 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at March 31, 2016 that experienced any payment defaults within twelve months following their loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. TDR loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The loans modified during the three months ended March 31, 2016 had no impact on the provision expense or the allowance for loan losses. As of March 31, 2016, the Company had no allocation of reserves to customers whose loan terms were modified during the first three months of 2016.

There were no TDR loan modifications that occurred during the three months ended March 31, 2015.

Credit Quality Indicators:

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

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

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

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

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

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

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of March 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of commercial loans by class of loans was as follows:

| March 31, 2016 | Pass | Criticized | Classified | Total |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Owner-occupied | $61,731 | $5,548 | $3,838 | $71,117 |
| Nonowner-occupied | 61,968 | 1,775 | 7,988 | 71,731 |
| Construction | 25,375 | ---- | 1,137 | 26,512 |
| Commercial and industrial | 69,708 | 4,809 | 6,517 | 81,034 |
| Total | $218,782 | $12,132 | $19,480 | $250,394 |

| December 31, 2015 | Pass | Criticized | Classified | Total |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Owner-occupied | $62,287 | $6,738 | $4,433 | $73,458 |
| Nonowner-occupied | 61,577 | 6,305 | 4,120 | 72,002 |
| Construction | 23,080 | ---- | 772 | 23,852 |
| Commercial and industrial | 70,852 | 5,232 | 5,852 | 81,936 |
| Total | $217,796 | $18,275 | $15,177 | $251,248 |

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

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of March 31, 2016 and December 31, 2015:

| March 31, 2016 | | Consumer | | | |
|---|---|---|---|---|---|
| | Automobile | Home Equity | Other | Residential Real Estate | Total |
| Performing | $44,890 | $19,495 | $43,906 | $224,833 | $333,124 |
| Nonperforming | 62 | 63 | 9 | 2,193 | 2,327 |
| Total | $44,952 | $19,558 | | | |