

OVBC

Annual Report

2021



Start your engines...



Message from Management

Dear Neighbors and Friends,

Surely 2021, like 2020, will go down in history as the time of the global pandemic. Though this unceasing disease did its best to force our community apart, we noticed something pretty amazing, but not surprising, our community came TOGETHER like never before.

When we opened a new drive-thru office in the north end of Point Pleasant, you showed us your love by flocking to it. When we shared our joy over breathing new life into OVB on the Square, you congratulated us and set to work on how to expand on this revitalization of the downtown. When we collected toys for local children in need, more of you than ever before stood up and said, "How can we help?"

This doesn't happen in the big city. It happens here at home where your company is constantly working to improve service. One of our most promising new endeavors of the year was the opening of Race Day Mortgage, an on-line-only consumer direct mortgage company. We hope to leave the competition in the dust through speed of service and a seamless online model, backed by OVB's quality customer service approach.

The giving we do to sustain the community and the steps we take to improve service are connected. In all that we do, you are the driving force behind this company's will to put our Community First. You are keeping us on track for success.

For several years now, we have invited shareholders, employees, customers, and neighbors to join us in our Community First mission. And you have accepted the challenge, rising to the occasion with a shared generosity and enthusiasm to make this a better place to live and work. With your support, your company reached the milestone of the 2nd highest record earnings in company history.

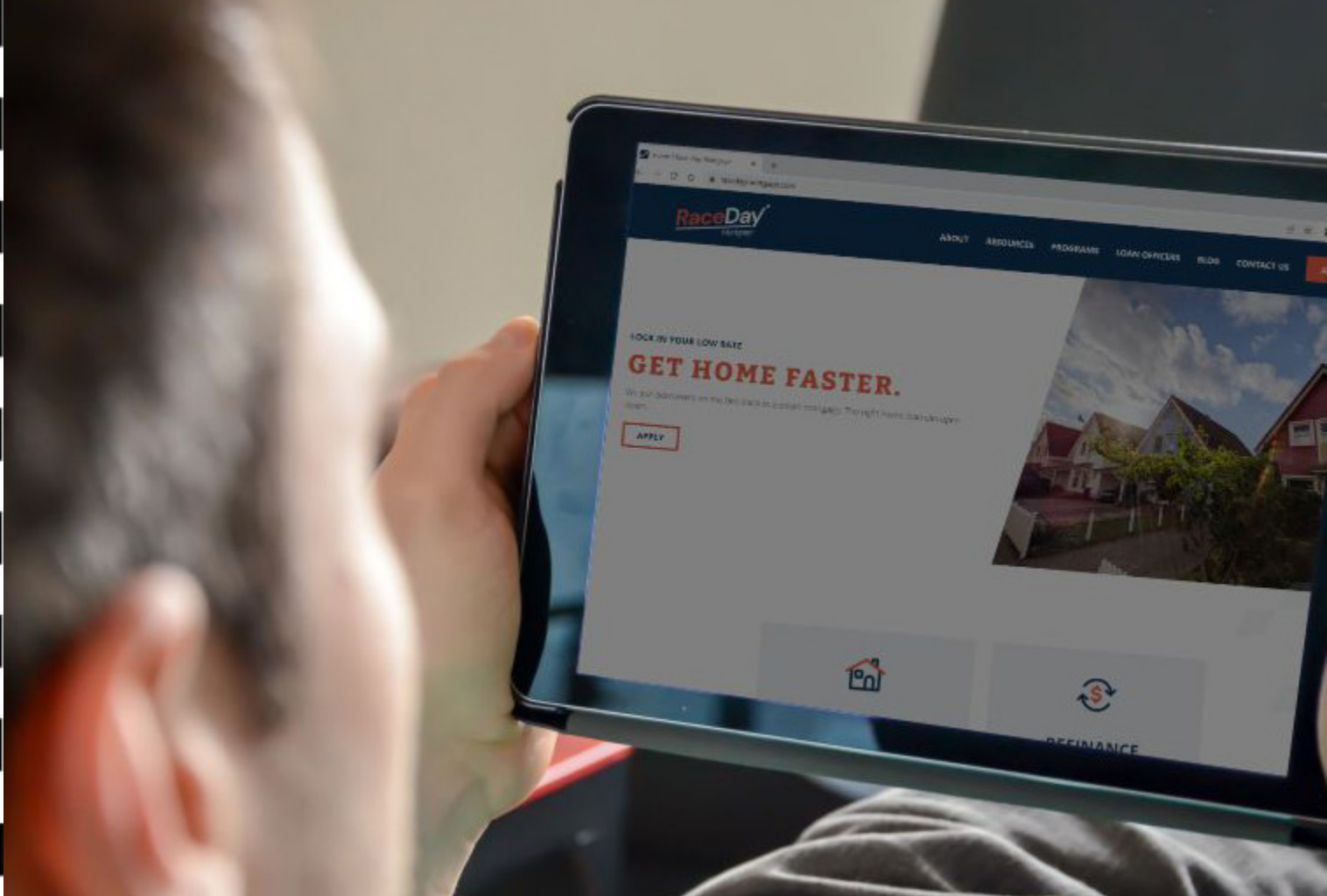
Thank you.

Within these pages, please find information regarding your company's management and operation for the past year. Between the lines, you may even spot a little of our determination to remain an independent community bank. You can learn more by attending our Annual Shareholders Meeting to be held Wednesday, May 18, at the brand new Holzer Leadership & Innovation Institute. Get involved. Let's keep Community First.

Sincerely,

Thomas E. Wiseman
Chairman of the Board & CEO
Ohio Valley Banc Corp.

Larry E. Miller, II
President & Chief Operating Officer
Ohio Valley Banc Corp.



Being a community leader is about *being* the one who helps others cross the *finish line*

Ohio Valley Bank and Loan Central have always been known for providing outstanding service to the community. These financial professionals try every day to do what is expected and then go one step beyond.

In September of 2021, Ohio Valley Bank opened its own subsidiary, a nationwide online-only consumer direct mortgage company.

Yes, our community got a little bigger.

Race Day Mortgage serves customers in not only Ohio, but also Tennessee, North Carolina, South Carolina, Florida, Colorado, Utah, Pennsylvania, Washington, and Nevada. Plans are in place to add more states over the next few years.

You won't find a Race Day Mortgage office on a map or with Siri. The loan officers and processing personnel who help these clients work remotely from Columbus, Ohio, to Houston, Texas. These mortgage professionals, though

serving a much larger community than the bank, serve their customers with respect, a sense of urgency, and a determination to do whatever it takes. Lessons they have embraced from Ohio Valley Bank.

As of press time, Race Day Mortgage has a perfect 5-Star Rating on Bankrate.com. But don't take our word for it, see what this Las Vegas customer had to say.

"We recently refinanced our home with Race Day Mortgage. I have gone through the home buying process and refi process numerous times. My experience with Race Day Mortgage was nothing short of amazing! I was shopping around and checking different rates on Bankrate and could not be happier to have gone with Race Day. Not only was the customer service fantastic, the process was super stress free, quick, and easy! I could not recommend them enough! In fact, I recommended them to some long time friends who also went through the process and had nothing but positive things to say. Thanks again for everything!"

2021 notable small numbers

Every year, we tend to report the big numbers. This year, we share the small numbers that make an enormous impact...

106

New pages built as part of the redesign of www.ovbc.com, which debuted in July. The new site features a robust fraud and scam information section, more free financial education resources, integrated blog, and is highlighted with local photography.

42

The 42nd card in OVB's Community First Debit Card Program was introduced, meaning that the program now raises much needed funds for 42 local schools and charities on an ongoing basis.

10

States served by Race Day Mortgage with 8 more states to be added in early 2022 and plans to further expand.

7

Free services offered with every OVB checking account: Digital Banking, Online Bill Pay, Debit Card, Benjamin Tracker money management, eDelivery statements and notices, OVB Line Telephone Banking, and OVB ATM service.

6

Loan Central offices stayed open extended, holiday, and special weekend hours to help members of their community get their taxes done in record time.

1

Mission to put your "Community First."



2019 Little Miss Apple Festival Kennedy Knittel proudly shows the 2021 finalists the exhibit created in her honor at OVB Jackson.

Being a community bank is about *being there for our* **community**

Our Community First mission is a new way of thinking about shareholder return. When we give back to the community we serve, the businesses and people in that community are better able to do their work and in turn give back themselves.

This year, we were thrilled to see our friends and neighbors join us and put their Community First in creative ways.

Right Page Left to Right:

Jackson County OVB 4-H Scholar Elizabeth Fannin slipped into the 4-H building early because she couldn't wait to see her lifesize photo at the Fair. Every OVB 4-H Scholar receives a total of \$3,000 in scholarship money over four years. As of 2021, the OVB 4-H Scholarship Program has awarded 241 scholarships.

Young gymnasts Ella Grant and Bekah Circle unveiled the Southern Ohio Gymnastics Association (SOGA) debit card design as part of OVB's Community First Debit Card Program. For every upgrade to the SOGA design, the boosters receive \$5. Over 40 other local schools and charities are getting the funds they need through this groundbreaking program created by OVB.

Ohio Valley Bank's Point Pleasant North office opened with a ribbon-cutting ceremony right in the drive-thru lane! The convenient new location has been very popular with customers, handling over 13,000 teller and

ATM transactions in their first four and a half months of operation.

OVB's Jenni Swain and Bill Richards put in a little elbow grease during an Impact Day at the Gallipolis Freight and Railroad Museum. Employees are allowed up to three paid days off to volunteer in their community through the Impact Day program. In addition to cleaning train cars, the bank's volunteers also put up wall paneling inside.

Right Middle: Employees representing every Ohio Valley Bank and Loan Central location lined up to pass a commemorative flag presented to former Chairman Jeff Smith on his retirement at the OVB on the Square flag raising ceremony. Many members of the community, including the VFW Honor Guard, came out to take part in the special occasion.

Page Bottom: OVB's Leigh Anne Roten and Maranda Prevatt delivered a donation to the Fisher House made possible by employees serving on the bank's Veterans Action Committee. Fisher House serves as a place to stay for the families of veterans who are patients at the Williams Veterans Medical Center in Huntington. OVB Barboursville and other locations also held drives to collect non-perishable food, toiletry items, and slippers for the house over the year. Pictured with Fisher House Director Jason Wyant.



Director & Officer Listing

OVBC DIRECTORS

Thomas E. Wiseman
Chairman & Chief Executive Officer,
Ohio Valley Banc Corp. and Ohio Valley Bank

Larry E. Miller II
President & Chief Operating Officer,
Ohio Valley Banc Corp. and Ohio Valley Bank

David W. Thomas, Lead Director
Former Chief Examiner, Ohio Division of
Financial Institutions
bank supervision and regulation

Anna P. Barnitz
Treasurer & CFO, Bob's Market & Greenhouses, Inc.
wholesale horticultural products and retail landscaping
stores

Kimberly A. Canady
Owner, Canady Farms, LLC
agricultural products and agronomy services

Brent R. Eastman
President & Co-owner, Ohio Valley Supermarkets
Partner, Eastman Enterprises
grocery

Edward J. Robbins
President & CEO, Ohio Valley Veneer, Inc.
wood harvesting, processing and manufacturing of dry
lumber & flooring in Ohio, Kentucky, and Tennessee

Edward B. Roberts
Co-owner, OakBridge Financial Partners LLC
Financial Advisor, LPL Financial
financial services

Brent A. Saunders
Chairman of the Board, Holzer Health System
Attorney, Halliday, Sheets & Saunders
healthcare and legal

K. Ryan Smith
President, University of Rio Grande,
Rio Grande Community College
Former Speaker of the Ohio House of Representatives
higher education

OVBC OFFICERS

Thomas E. Wiseman, Chairman & Chief Executive Officer
Larry E. Miller II, President & Chief Operating Officer
Tommy R. Shepherd, Senior Vice President & Secretary
Scott W. Shockey, Senior Vice President & CFO
Bryan F. Stepp, Senior Vice President - Lending/Credit
Bryna S. Butler, Vice President
Frank W. Davison, Vice President
Allen W. Elliott, Vice President
Cherie A. Elliott, Vice President
Brandon O. Huff, Vice President
Ryan J. Jones, Vice President
Marilyn G. Kearns, Vice President
Mario P. Liberatore, Vice President
Shawn R. Siders, Vice President
Paula W. Clay, Assistant Secretary
Cindy H. Johnston, Assistant Secretary

OHIO VALLEY BANK DIRECTORS

| | |
|--------------------------------|-------------------|
| Thomas E. Wiseman, Chairman | Edward J. Robbins |
| David W. Thomas, Lead Director | Edward B. Roberts |
| Anna P. Barnitz | Brent A. Saunders |
| Kimberly A. Canady | K. Ryan Smith |
| Brent R. Eastman | |
| Larry E. Miller II | |

LOAN CENTRAL DIRECTORS

Larry E. Miller II
Cherie A. Elliott
Ryan J. Jones

RACE DAY MORTGAGE DIRECTORS

| | |
|-----------------|-------------------|
| Bryan F. Stepp | Scott W. Shockey |
| Bryna S. Butler | Thomas E. Wiseman |
| Tim J. Scholten | |

WEST VIRGINIA ADVISORY BOARD

Mario P. Liberatore, Chairman
E. Allen Bell
Richard L. Handley
Stephen L. Johnson
John A. Myers

DIRECTORS EMERITUS

| | |
|-------------------|----------------------|
| W. Lowell Call | Barney A. Molnar |
| Steven B. Chapman | Jeffrey E. Smith |
| Robert E. Daniel | Wendell B. Thomas |
| Harold A. Howe | Lannes C. Williamson |
| John G. Jones | |



OHIO VALLEY BANK OFFICERS

EXECUTIVE OFFICERS

| | |
|---------------------|---|
| Thomas E. Wiseman | Chairman & Chief Executive Officer |
| Larry E. Miller II | President & Chief Operating Officer |
| Tommy R. Shepherd | Executive Vice President & Secretary |
| Scott W. Shockey | Executive Vice President, Chief Financial Officer |
| Bryan F. Stepp | Executive Vice President, Lending/Credit |
| Mario P. Liberatore | President, OVB West Virginia |

SENIOR VICE PRESIDENTS

| | |
|-------------------|----------------------------|
| Bryna S. Butler | Corporate Communications |
| Frank W. Davison | Operations |
| Allen W. Elliott | Branch Administration |
| Brandon O. Huff | Process Efficiency Officer |
| Ryan J. Jones | Chief Risk Officer |
| Marilyn G. Kearns | Human Resources |
| Shawn R. Siders | Chief Credit Officer |

VICE PRESIDENTS

| | |
|------------------------|---|
| John A. Anderson | Director of Loan Operations |
| Shelly N. Boothe | Commerical Business Development Officer |
| Kyla R. Carpenter | Director of Marketing |
| Paula W. Clay | Assistant Secretary |
| Jody M. DeWees | Trust |
| Lori A. Edwards | Residential Loan Operations Manager |
| Brian E. Hall | Corporate Banking |
| Cindy H. Johnston | Assistant Secretary |
| Angela S. Kinnaird | Director of Customer Support |
| Tamela D. LeMaster | Branch Administration/CRM |
| Adam D. Massie | Northern Region Manager |
| Jay D. Miller | Business Development Officer |
| Diana L. Parks | Internal Audit Liaison |
| Christopher S. Petro | Comptroller |
| Benjamin F. Pewitt | Business Development |
| Gregory A. Phillips | Consumer Lending |
| Christopher L. Preston | Business Development West Virginia |
| Daniel T. Roush | Senior Compliance Officer |
| Rick A. Swain | Western Division Branch Manager |
| Patrick H. Tackett | Corporate Banking |

ASSISTANT VICE PRESIDENTS

| | |
|----------------------|---|
| Terri M. Camden | Asst. Human Resources Director |
| Barbara A. Patrick | BSA Officer/Loss Prevention |
| Stephenie L. Peck | Regional Branch Administrator |
| Raymond G. Polcyn | Manager of Buying Department |
| Richard P. Speirs | Facilities Manager /Security Officer |
| Kimberly R. Williams | Systems Officer |
| Melissa P. Wooten | Shareholder Relations Manager & Trust Officer |
| Joe J. Wyatt | Region Manager Jackson County |

ASSISTANT CASHIERS

| | |
|---------------------|-------------------------------|
| Glen P. Arrowood II | Manager of Indirect Lending |
| William F. Richards | Advertising Manager |
| Pamela K. Smith | Eastern Cabell Region Manager |
| Anthony W. Staley | Product Development |
| | Business Sales & Support |



LOAN CENTRAL OFFICERS

| |
|--|
| Larry E. Miller II, Chairman of the Board |
| Cherie A. Elliott, President |
| Timothy R. Brumfield, Vice President & Secretary, Manager, Gallipolis Office |
| John J. Holtzapfel, Compliance Officer, Manager, Wheelersburg Office |
| Melody D. Hammond, Manager, Chillicothe Office |
| Joseph I. Jones, Manager, South Point Office |
| Steven B. Leach, Manager, Jackson Office |
| T. Joe Wilson, Manager, Waverly Office |



RACE DAY MORTGAGE OFFICERS

| | |
|------------------|-----------------------|
| Bryan F. Stepp | President |
| Scott W. Shockey | Secretary - Treasurer |



The Swain family has been OVBC shareholders for multiple generations. Little ones Natalie, Sable (between Mom Jenni and Dad BJ), Lyla, and Finlee enjoy the security their shares provide.

Being a responsible shareholder is about *planning* for your company's *future*

Ohio Valley Banc Corp. shareholders are folks who believe in the power of community and pride in one's hometown. We believe this is the reason for much of your company's success.

As shares pass from generation to generation, it is vitally important to protect these ideals. Rather than selling shares on the open market, ensure shares are in the hands of shareholders who hold these values and want to see OVBC remain an independent community bank.

It is easy for registered shareholders to transfer ownership of any number of shares at any time without brokerage fees. This is accomplished through the "gifting" of shares. Shares can be gifted to a child, grandchild, or anyone. Contact the OVBC Shareholder Relations Department at 800-468-6682 or email investorrelations@ovbc.com to get started.

OVBC shareholders received over \$4 million in dividends in 2021, and our shareholders returned that loyalty by reinvesting over \$1.1 million of those dividends through the Dividend Reinvestment Program and Employee Stock Ownership Plan. On top of that, over \$757,000 was invested through supplemental payments by current shareholders. Growing numbers are realizing the benefit of OVBC ownership. Make sure your family is included in those numbers, and know that the staff of OVBC's companies look forward to serving you and your loved ones for many generations to come.

\$4,017,965
in dividends
paid to OVBC shareholders
in 2021

\$1,152,143
of those dividends
reinvested in the company
through the Dividend Reinvest-
ment Program and Employee
Profit Sharing Plan.





OHIO VALLEY BANC CORP.
ANNUAL REPORT 2021
FINANCIALS

SELECTED FINANCIAL DATA

| | Years Ended December 31 | | | | |
|---|-------------------------|------------|------------|------------|------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| (dollars in thousands, except share and per share data) | | | | | |
| SUMMARY OF OPERATIONS: | | | | | |
| Total interest income | \$ 44,712 | \$ 46,173 | \$ 50,317 | \$ 49,197 | \$ 45,708 |
| Total interest expense | 3,699 | 6,191 | 7,265 | 5,471 | 3,975 |
| Net interest income | 41,013 | 39,982 | 43,052 | 43,726 | 41,733 |
| Provision for loan losses | (419) | 2,980 | 1,000 | 1,039 | 2,564 |
| Total other income | 9,864 | 11,438 | 9,166 | 8,938 | 9,435 |
| Total other expenses | 37,280 | 36,133 | 39,498 | 37,426 | 36,609 |
| Income before income taxes | 14,016 | 12,307 | 11,720 | 14,199 | 11,995 |
| Income taxes | 2,284 | 2,048 | 1,813 | 2,255 | 4,486 |
| Net income | 11,732 | 10,259 | 9,907 | 11,944 | 7,509 |
| PER SHARE DATA: | | | | | |
| Earnings per share | \$ 2.45 | \$ 2.14 | \$ 2.08 | \$ 2.53 | \$ 1.60 |
| Cash dividends declared per share | \$ 0.84 | \$ 0.84 | \$ 0.84 | \$ 0.84 | \$ 0.84 |
| Book value per share | \$ 29.74 | \$ 28.48 | \$ 26.77 | \$ 24.87 | \$ 23.26 |
| Weighted average number of common shares outstanding | 4,780,609 | 4,787,446 | 4,767,279 | 4,725,971 | 4,685,067 |
| AVERAGE BALANCE SUMMARY: | | | | | |
| Total loans | \$ 841,681 | \$ 811,434 | \$ 775,860 | \$ 773,995 | \$ 753,204 |
| All other interest-earning assets ⁽¹⁾ | 307,228 | 205,532 | 189,187 | 223,390 | 193,199 |
| Deposits | 1,042,364 | 906,315 | 850,400 | 886,639 | 845,227 |
| Other borrowed funds ⁽²⁾ | 34,564 | 40,416 | 45,850 | 48,967 | 47,663 |
| Shareholders' equity | 138,831 | 131,038 | 122,314 | 112,393 | 108,110 |
| Total assets | 1,233,801 | 1,096,191 | 1,035,230 | 1,063,256 | 1,014,115 |
| PERIOD END BALANCES: | | | | | |
| Total loans | \$ 831,191 | \$ 848,664 | \$ 772,774 | \$ 777,052 | \$ 769,319 |
| All other interest-earning assets ⁽¹⁾ | 334,811 | 255,662 | 166,761 | 184,925 | 189,941 |
| Deposits | 1,059,908 | 993,739 | 821,471 | 846,704 | 856,724 |
| Shareholders' equity | 141,356 | 136,324 | 128,179 | 117,874 | 109,361 |
| Total assets | 1,249,769 | 1,186,932 | 1,013,272 | 1,030,493 | 1,026,290 |
| KEY RATIOS: | | | | | |
| Return on average assets | .95% | .94% | .96% | 1.12% | 0.74% |
| Return on average equity | 8.45% | 7.83% | 8.10% | 10.63% | 6.95% |
| Dividend payout ratio | 34.25% | 39.20% | 40.37% | 33.20% | 52.36% |
| Average equity to average assets | 11.25% | 11.95% | 11.82% | 10.57% | 10.66% |

- (1) All other interest-earning assets include securities, interest-bearing deposits with banks and restricted investments in bank stocks.
(2) Other borrowed funds include subordinated debentures.

CONSOLIDATED STATEMENTS OF CONDITION

As of December 31

2021 2020

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

Assets

| | | |
|---|--------------|--------------|
| Cash and noninterest-bearing deposits with banks | \$ 14,111 | \$ 14,989 |
| Interest-bearing deposits with banks | 137,923 | 123,314 |
| Total cash and cash equivalents | 152,034 | 138,303 |
| Certificates of deposit in financial institutions..... | 2,329 | 2,500 |
| Securities available for sale | 177,000 | 112,322 |
| Securities held to maturity (estimated fair value: 2021 - \$10,450; 2020 - \$10,344)..... | 10,294 | 10,020 |
| Restricted investments in bank stocks | 7,265 | 7,506 |
| Total loans | 831,191 | 848,664 |
| Less: Allowance for loan losses | (6,483) | (7,160) |
| Net loans | 824,708 | 841,504 |
| Premises and equipment, net | 20,730 | 21,312 |
| Premises and equipment held for sale, net | 438 | 637 |
| Other real estate owned, net | 15 | 49 |
| Accrued interest receivable | 2,695 | 3,319 |
| Goodwill | 7,319 | 7,319 |
| Other intangible assets, net | 64 | 112 |
| Bank owned life insurance and annuity assets | 37,281 | 35,999 |
| Operating lease right-of-use asset, net | 1,195 | 880 |
| Other assets | 6,402 | 5,150 |
| Total assets | \$ 1,249,769 | \$ 1,186,932 |

Liabilities

| | | |
|------------------------------------|------------|------------|
| Noninterest-bearing deposits | \$ 353,578 | \$ 314,777 |
| Interest-bearing deposits | 706,330 | 678,962 |
| Total deposits | 1,059,908 | 993,739 |
| Other borrowed funds | 19,614 | 27,863 |
| Subordinated debentures | 8,500 | 8,500 |
| Operating lease liability | 1,195 | 880 |
| Other liabilities | 19,196 | 19,626 |
| Total liabilities | 1,108,413 | 1,050,608 |

Commitments and Contingent Liabilities (See Note L)

Shareholders' Equity

| | | |
|--|--------------|--------------|
| Common stock (\$1.00 stated value per share, 10,000,000 shares authorized; 5,447,185 shares issued) | 5,447 | 5,447 |
| Additional paid-in capital | 51,165 | 51,165 |
| Retained earnings | 100,702 | 92,988 |
| Accumulated other comprehensive income | 708 | 2,436 |
| Treasury stock, at cost (2021 – 693,933 shares, 2020 – 659,739 shares) | (16,666) | (15,712) |
| Total shareholders' equity | 141,356 | 136,324 |
| Total liabilities and shareholders' equity | \$ 1,249,769 | \$ 1,186,932 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

| For the years ended December 31 | 2021 | 2020 |
|--|-------------|-------------|
| (dollars in thousands, except per share data) | | |
| Interest and dividend income: | | |
| Loans, including fees | \$ 42,102 | \$ 43,204 |
| Securities: | | |
| Taxable | 1,948 | 2,164 |
| Tax exempt | 236 | 286 |
| Dividends | 231 | 245 |
| Interest-bearing deposits with banks | 163 | 226 |
| Other interest | 32 | 48 |
| | 44,712 | 46,173 |
| Interest expense: | | |
| Deposits | 2,977 | 5,254 |
| Other borrowed funds | 564 | 729 |
| Subordinated debentures | 158 | 208 |
| | 3,699 | 6,191 |
| Net interest income | 41,013 | 39,982 |
| Provision for loan losses | (419) | 2,980 |
| Net interest income after provision for loan losses | 41,432 | 37,002 |
| Noninterest income: | | |
| Service charges on deposit accounts | 1,864 | 1,685 |
| Trust fees | 285 | 257 |
| Income from bank owned life insurance and annuity assets | 904 | 820 |
| Mortgage banking income | 854 | 1,254 |
| Electronic refund check / deposit fees | 675 | --- |
| Debit / credit card interchange income | 4,644 | 4,031 |
| Gain (loss) on other real estate owned | 1 | (35) |
| Loss on sale of securities | (1,066) | --- |
| Tax preparation fees | 754 | 644 |
| Litigation settlement | --- | 2,000 |
| Other | 949 | 782 |
| | 9,864 | 11,438 |
| Noninterest expense: | | |
| Salaries and employee benefits | 21,649 | 21,636 |
| Occupancy | 1,796 | 1,817 |
| Furniture and equipment | 1,136 | 1,096 |
| Professional fees | 1,578 | 1,519 |
| Marketing expense | 826 | 613 |
| FDIC insurance | 326 | 165 |
| Data processing | 2,406 | 2,170 |
| Software | 1,858 | 1,454 |
| Foreclosed assets | 55 | 128 |
| Amortization of intangibles | 48 | 62 |
| Other | 5,602 | 5,473 |
| | 37,280 | 36,133 |
| Income before income taxes | 14,016 | 12,307 |
| Provision for income taxes | 2,284 | 2,048 |
| NET INCOME | \$ 11,732 | \$ 10,259 |
| Earnings per share | \$ 2.45 | \$ 2.14 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| For the years ended December 31 | 2021 | 2020 |
|---|-----------|-----------|
| (dollars in thousands) | | |
| NET INCOME | \$ 11,732 | \$ 10,259 |
| Other comprehensive income (loss): | | |
| Change in unrealized gain (loss) on available for sale securities | (3,253) | 2,415 |
| Reclassification adjustment for realized losses | 1,066 | --- |
| | (2,187) | 2,415 |
| Related tax effect | 459 | (507) |
| Total other comprehensive income (loss), net of tax | (1,728) | 1,908 |
| Total comprehensive income | \$ 10,004 | \$ 12,167 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2021 and 2020

(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, 2020 | \$ 5,447 | \$ 51,165 | \$ 86,751 | \$ 528 | \$ (15,712) | \$ 128,179 |
| Net income | ---- | ---- | 10,259 | ---- | ---- | 10,259 |
| Other comprehensive income (loss), net | ---- | ---- | ---- | 1,908 | ---- | 1,908 |
| Cash dividends, \$.84 per share | ---- | ---- | (4,022) | ---- | ---- | (4,022) |
| Balances at December 31, 2020 ... | 5,447 | 51,165 | 92,988 | 2,436 | (15,712) | 136,324 |
| Net income | ---- | ---- | 11,732 | ---- | ---- | 11,732 |
| Other comprehensive income (loss), net | ---- | ---- | ---- | (1,728) | ---- | (1,728) |
| Cash dividends, \$.84 per share | ---- | ---- | (4,018) | ---- | ---- | (4,018) |
| Shares acquired for treasury, 34,194 shares | ---- | ---- | ---- | ---- | (954) | (954) |
| Balances at December 31, 2021 ... | \$ 5,447 | \$ 51,165 | \$ 100,702 | \$ 708 | \$ (16,666) | \$ 141,356 |

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended December 31 | 2021 | 2020 |
|---|------------|------------|
| (dollars in thousands) | | |
| Cash flows from operating activities: | | |
| Net income | \$ 11,732 | \$ 10,259 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of premises and equipment | 1,461 | 1,341 |
| Net amortization (accretion) of purchase accounting adjustments | 37 | (42) |
| Net amortization of securities | 815 | 459 |
| Net realized loss on sale of securities | 1,066 | --- |
| Proceeds from sale of loans in secondary market | 18,972 | 40,158 |
| Loans disbursed for sale in secondary market | (18,118) | (38,904) |
| Amortization of mortgage servicing rights | 103 | 126 |
| Impairment (recovery) of mortgage servicing rights | (11) | 11 |
| Gain on sale of loans | (946) | (1,391) |
| Amortization of intangible assets | 48 | 62 |
| Deferred tax (benefit) expense | (130) | 12 |
| Provision for loan losses | (419) | 2,980 |
| Earnings on bank owned life insurance and annuity assets | (904) | (820) |
| (Gain) loss on sale of other real estate owned | (1) | 35 |
| Change in accrued interest receivable | 624 | (755) |
| Change in other liabilities | (113) | (632) |
| Change in other assets | (1,079) | (408) |
| Net cash provided by operating activities | 13,137 | 12,491 |
| Cash flows from investing activities: | | |
| Proceeds from sales of securities available for sale | 47,666 | --- |
| Proceeds from maturities and paydowns of securities available for sale | 41,301 | 36,154 |
| Purchases of securities available for sale | (157,686) | (41,162) |
| Proceeds from calls and maturities of securities held to maturity | 3,700 | 2,694 |
| Purchases of securities held to maturity | (4,001) | (721) |
| Proceeds from maturities of certificates of deposit in financial institutions | 935 | 980 |
| Purchases of certificates of deposit in financial institutions | (764) | (1,120) |
| Redemptions of restricted investments in bank stocks | 241 | --- |
| Net change in loans | 17,181 | (78,038) |
| Proceeds from sale of other real estate owned | 50 | 548 |
| Purchases of premises and equipment | (1,085) | (3,450) |
| Disposals of premises and equipment | 486 | 13 |
| Proceeds from bank owned life insurance | 172 | --- |
| Purchases of bank owned life insurance and annuity assets | (550) | (4,583) |
| Net cash (used in) investing activities | (52,354) | (88,685) |
| Cash flows from financing activities: | | |
| Change in deposits | 66,169 | 172,290 |
| Cash dividends | (4,018) | (4,022) |
| Purchases of treasury stock | (954) | --- |
| Proceeds from Federal Home Loan Bank borrowings | 600 | --- |
| Repayment of Federal Home Loan Bank borrowings | (7,789) | (5,093) |
| Change in other long-term borrowings | --- | (405) |
| Change in other short-term borrowings | (1,060) | (629) |
| Net cash provided by financing activities | 52,948 | 162,141 |
| Cash and cash equivalents: | | |
| Change in cash and cash equivalents | 13,731 | 85,947 |
| Cash and cash equivalents at beginning of year | 138,303 | 52,356 |
| Cash and cash equivalents at end of year | \$ 152,034 | \$ 138,303 |
| Supplemental disclosure: | | |
| Cash paid for interest | \$ 4,360 | \$ 6,681 |
| Cash paid for income taxes | 2,800 | 2,050 |
| Transfers from loans to other real estate owned | 15 | 92 |
| Operating lease liability arising from obtaining right-of-use asset | 570 | --- |

See accompanying notes to consolidated financial statements

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”), an Ohio state-chartered bank that is a member of the Federal Reserve Bank (“FRB”) and is regulated primarily by the Ohio Division of Financial Institutions and the Federal Reserve Board. Ohio Valley also has a subsidiary that engages in consumer lending generally to individuals with higher credit risk history, Loan Central, Inc.; a subsidiary insurance agency that facilitates the receipts of insurance commissions, Ohio Valley Financial Services Agency, LLC; and a limited purpose property and casualty insurance company, OVBC Captive, Inc. The Bank has two wholly-owned subsidiaries, Race Day Mortgage, Inc., an Ohio corporation that provides online consumer mortgages, and Ohio Valley REO, LLC (“Ohio Valley REO”), an Ohio limited liability company, to which the Bank transfers certain real estate acquired by the Bank through foreclosure for sale by Ohio Valley REO. Ohio Valley and its subsidiaries are collectively referred to as the “Company.”

The Company provides a full range of commercial and retail banking services from 22 offices located in 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 (“FDIC”). 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, Inc., Ohio Valley Financial Services Agency, LLC, and OVBC Captive, Inc. 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: To prepare financial statements in conformity with accounting principles generally accepted in the U.S., management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, noninterest-bearing deposits with banks, federal funds sold and interest-bearing deposits with banks with maturity terms of less than 90 days. 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.

Certificates of deposit in financial institutions: Certificates of deposit in financial institutions are carried at cost and have maturity terms of 90 days or greater. The longest maturity date is September 22, 2023.

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 trade date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

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 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.

Restricted Investments in Bank Stocks: As a member of the Federal Home Loan Bank (“FHLB”) system and the FRB system, the Bank is required to own a certain amount of stock based on its level of borrowings and other factors and may invest in additional amounts. FHLB stock and FRB stock are carried at cost, classified as restricted securities, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company has additional investments in other restricted bank stocks that are not material to the financial statements.

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. The amount of the Company’s recorded investment is not materially different than the amount of unpaid principal balance for loans.

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 90 days or over 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 or over and still accruing 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.

The Bank also originates long-term, fixed-rate mortgage loans, with full intention of being sold to the secondary market. These loans are considered held for sale during the period of time after the principal has been advanced to the borrower by the Bank, but before the Bank has been reimbursed by the Federal Home Loan Mortgage Corporation or mortgage broker, typically within a few business days. Loans sold to the secondary market are carried at the lower of aggregate cost or fair value. Total loans on the balance sheet included \$1,682 in loans held for sale by the Bank as of December 31, 2021, as compared to \$70 loans held for sale at December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified and for which the borrower is experiencing financial difficulties are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years for the consumer and real estate portfolio segment and 5 years for the commercial portfolio segment. The total loan portfolio's actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial and Industrial, Commercial Real Estate, Residential Real Estate, and Consumer.

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

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop raw land into 1-4 family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

Residential real estate loans consist of loans to individuals for the purchase of 1-4 family primary residences with repayment primarily through wage or other income sources of the individual borrower. The Company's loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 6 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. The Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

At December 31, 2021, there were no changes to the accounting policies or methodologies within any of the Company's loan portfolio segments from the prior period.

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:

| | % of Total Loans | |
|---------------------------------------|------------------|----------------|
| | 2021 | 2020 |
| Residential real estate loans | 33.02% | 36.00% |
| Commercial real estate loans | 33.90% | 29.86% |
| Consumer loans | 16.05% | 15.56% |
| Commercial and industrial loans | 17.03% | 18.58% |
| | <u>100.00%</u> | <u>100.00%</u> |

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, 2021, the Bank's primary correspondent balance was \$135,995 on deposit at the FRB, 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 method over the estimated useful life of the owned asset and, for leasehold improvement, over the remaining term of the leased facility, whichever is shorter. The useful lives range from 3 to 8 years for equipment, furniture and fixtures and 7 to 39 years for buildings and improvements.

The Company enters into leases in the normal course of business primarily for branch buildings and office space to conduct business. The Company's leases have remaining terms ranging from 16 months to 20 years, some of which include options to extend the leases for up to 15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected to not recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. At December 31, 2021, the Company did not have any finance leases.

The Company's operating lease ROU assets and operating lease liabilities are valued based on the present value of future minimum lease payments, discounted with an incremental borrowing rate for the same term as the underlying lease. The Company has one lease arrangement that contains variable lease payments that are adjusted periodically for an index.

Foreclosed assets: 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. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Goodwill: Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. Goodwill is the only intangible asset with an indefinite life on our balance sheet. The Company has selected December 31 as the date to perform its annual qualitative impairment test. For the year ended December 31, 2021, the Company used a qualitative assessment based on profitability and positive equity to determine that it was more likely than not that the fair value of goodwill was more than the carrying amount, resulting in no impairment. For the year ended December 31, 2020, management could not conclude using a qualitative assessment that its fair value of goodwill exceeded the carrying amount due to the Company's stock price having traded below book value for an extended period throughout 2020. Therefore, the Company performed a quantitative impairment test to conclude that there was no goodwill impairment for the year ended December 31, 2020. See Note F for more specific disclosures related to goodwill impairment testing.

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, 2021 and 2020, the Company's MSR assets were \$480 and \$458, respectively.

Earnings Per Share: Earnings per share is based on net income divided by the following weighted average number of common shares outstanding during the periods: 4,780,609 for 2021 and 4,787,446 for 2020. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized at the time of enactment of such change in tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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 (loss). Other comprehensive income (loss) 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 and Annuity Assets: 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. The Company also purchased an annuity investment for a certain key executive that earns interest.

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

Dividend Reinvestment Plan: The Company maintains a Dividend Reinvestment Plan. The plan enables shareholders to elect to have their cash dividends on all or a portion of shares held automatically reinvested in additional shares of the Company’s common stock. The stock is issued out of the Company’s authorized shares and credited to participant accounts at fair market value. Dividends are reinvested on a quarterly basis.

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 L 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 P for more specific disclosure related to dividend restrictions.

Restrictions on Cash: Cash on hand or on deposit with a third-party correspondent bank and the FRB totaled \$136,379 and \$121,432 at year-end 2021 and 2020, respectively, and were subject to clearing requirements but not subject to any regulatory reserve requirements. The balances on deposit with a third-party correspondent do not earn interest.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company’s intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), or (3) an instrument with no hedging designation (“stand-alone derivative”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note A - Summary of Significant Accounting Policies (continued)

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

At December 31, 2021 and 2020, the only derivative instruments used by the Company were interest rate swaps, which are classified as stand-alone derivatives. See Note H for more specific disclosures related to interest rate swaps.

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

Reclassifications: The consolidated financial statements for 2020 have been reclassified to conform with the presentation for 2021. These reclassifications had no effect on the net results of operations or shareholders' equity.

Current Events: In March 2020, the World Health Organization declared the outbreak of the coronavirus ("COVID-19") as a global pandemic. COVID-19 has continued to negatively impact the global economy, disrupt global supply chains, create significant volatility, disrupt financial markets, and increase unemployment levels.

The continued financial impact of COVID-19 depends largely on the actions taken by governmental authorities and other third parties. In addition, COVID-19 may continue to adversely impact several industries within our geographic footprint for some time and impair the ability of our customers to fulfill their contractual obligations to the Company. This could result in a material adverse effect on our business operations, asset valuations, liquidity, financial condition, and results of operations. These effects may include an increase in the Company's allowance for loan losses and valuation impairments on the Company's securities, impaired loans, goodwill, other real estate owned, and interest rate swap agreements.

Accounting Guidance to be Adopted in Future Periods: In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses". ASU 2016-13 requires entities to replace the current "incurred loss" model with an "expected loss" model, which is referred to as the current expected credit loss ("CECL") model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. The Bank's CECL steering committee has developed a CECL model and is evaluating the source data, various credit loss methodologies and model results in relation to the new ASU guidance. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. Management expects the adoption will result in a material increase to the allowance for loan losses balance. For SEC filers who are smaller reporting companies, such as the Company, ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note B - Securities

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|-------------------|--------------------------------|---------------------------------|-------------------------|
| Securities Available for Sale | | | | |
| <u>December 31, 2021</u> | | | | |
| U.S. Government securities | \$ 20,182 | \$ ---- | \$ (39) | \$ 20,143 |
| U.S. Government sponsored entity securities | 25,980 | 109 | (173) | 25,916 |
| Agency mortgage-backed securities, residential | 129,942 | 1,476 | (477) | 130,941 |
| Total securities | <u>\$ 176,104</u> | <u>\$ 1,585</u> | <u>\$ (689)</u> | <u>\$ 177,000</u> |
| <u>December 31, 2020</u> | | | | |
| U.S. Government sponsored entity securities | \$ 17,814 | \$ 339 | \$ ---- | \$ 18,153 |
| Agency mortgage-backed securities, residential | 91,425 | 2,748 | (4) | 94,169 |
| Total securities | <u>\$ 109,239</u> | <u>\$ 3,087</u> | <u>\$ (4)</u> | <u>\$ 112,322</u> |
| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Estimated Fair Value |
| Securities Held to Maturity | | | | |
| <u>December 31, 2021</u> | | | | |
| Obligations of states and political subdivisions | \$ 10,292 | \$ 200 | \$ (44) | \$ 10,448 |
| Agency mortgage-backed securities, residential | 2 | ---- | ---- | 2 |
| Total securities | <u>\$ 10,294</u> | <u>\$ 200</u> | <u>\$ (44)</u> | <u>\$ 10,450</u> |
| <u>December 31, 2020</u> | | | | |
| Obligations of states and political subdivisions | \$ 10,018 | \$ 324 | \$ ---- | \$ 10,342 |
| Agency mortgage-backed securities, residential | 2 | ---- | ---- | 2 |
| Total securities | <u>\$ 10,020</u> | <u>\$ 324</u> | <u>\$ ----</u> | <u>\$ 10,344</u> |

At year-end 2021, there were holdings of \$18,500 in securities issued by the Federal Farm Credit Bank that exceeded 10% of shareholders' equity. At year-end 2020, 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.

During 2021, proceeds from the sales of debt securities totaled \$47,666 with gross losses of \$1,066 recognized. There were no sales of debt securities during 2020.

Securities with a carrying value of approximately \$123,742 at December 31, 2021 and \$83,344 at December 31, 2020 were pledged to secure public deposits and repurchase agreements and for other purposes as required or permitted by law.

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 December 31, 2021, 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 December 31, 2021 and 2020 represents an OTTI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note B - Securities (continued)

The amortized cost and estimated fair value of debt securities at December 31, 2021, 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 | |
|--|--------------------|----------------------------|-------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Debt Securities: | | | | |
| Due in one year or less | \$ 4,001 | \$ 4,018 | \$ 230 | \$ 234 |
| Due in one to five years | 22,095 | 22,104 | 4,243 | 4,366 |
| Due in five to ten years | 20,066 | 19,937 | 3,408 | 3,419 |
| Due after ten years | ---- | ---- | 2,411 | 2,429 |
| Agency mortgage-backed securities, residential | 129,942 | 130,941 | 2 | 2 |
| Total debt securities | \$ 176,104 | \$ 177,000 | \$ 10,294 | \$ 10,450 |

The following table summarizes securities with unrealized losses at December 31, 2021 and December 31, 2020, aggregated by major security type and length of time in a continuous unrealized loss position:

| December 31, 2021 | Less than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|--------------------|-------------------|--------------------|---------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Securities Available for Sale | | | | | | |
| U.S. Government securities | \$ 20,143 | \$ (39) | \$ ---- | \$ ---- | \$ 20,143 | \$ (39) |
| U.S. Government sponsored entity securities | 18,307 | (173) | ---- | ---- | 18,307 | (173) |
| Agency mortgage-backed securities, residential | 64,560 | (477) | ---- | ---- | 64,560 | (477) |
| Total available for sale | \$ 103,010 | \$ (689) | \$ ---- | \$ ---- | \$ 103,010 | \$ (689) |

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss | Fair Value | Unrecognized Loss |
| Securities Held to Maturity | | | | | | |
| Obligations of states and political subdivisions | \$ 2,617 | \$ (38) | \$ 130 | \$ (6) | \$ 2,747 | \$ (44) |
| Total held to maturity | \$ 2,617 | \$ (38) | \$ 130 | \$ (6) | \$ 2,747 | \$ (44) |

| December 31, 2020 | Less than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|--------------------|-------------------|--------------------|---------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Securities Available for Sale | | | | | | |
| Agency mortgage-backed securities, residential | \$ 14,517 | \$ (4) | \$ ---- | \$ ---- | \$ 14,517 | \$ (4) |
| Total available for sale | \$ 14,517 | \$ (4) | \$ ---- | \$ ---- | \$ 14,517 | \$ (4) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C - Loans and Allowance for Loan Losses

Loans are comprised of the following at December 31:

| | 2021 | 2020 |
|---------------------------------------|------------|------------|
| Residential real estate | \$ 274,425 | \$ 305,478 |
| Commercial real estate: | | |
| Owner-occupied | 71,979 | 51,863 |
| Nonowner-occupied | 176,100 | 164,523 |
| Construction | 33,718 | 37,063 |
| Commercial and industrial | 141,525 | 157,692 |
| Consumer: | | |
| Automobile | 48,206 | 55,241 |
| Home equity | 22,375 | 19,993 |
| Other | 62,863 | 56,811 |
| | 831,191 | 848,664 |
| Less: Allowance for loan losses | (6,483) | (7,160) |
| Loans, net | \$ 824,708 | \$ 841,504 |

Commercial and industrial loans include \$446 of loans originated under the PPP at December 31, 2021, as compared to \$27,933 at December 31, 2020. These loans are guaranteed by the SBA.

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2021 and 2020:

| December 31, 2021 | Residential Real Estate | Commercial Real Estate | Commercial & Industrial | Consumer | Total |
|--------------------------------------|----------------------------|---------------------------|----------------------------|----------|----------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 1,480 | \$ 2,431 | \$ 1,776 | \$ 1,473 | \$ 7,160 |
| Provision for loan losses | (615) | (61) | (258) | 515 | (419) |
| Loans charged off | (84) | (115) | (120) | (1,162) | (1,481) |
| Recoveries | 199 | 293 | 173 | 558 | 1,223 |
| Total ending allowance balance | \$ 980 | \$ 2,548 | \$ 1,571 | \$ 1,384 | \$ 6,483 |

| December 31, 2020 | Residential Real Estate | Commercial Real Estate | Commercial & Industrial | Consumer | Total |
|--------------------------------------|----------------------------|---------------------------|----------------------------|----------|----------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 1,250 | \$ 1,928 | \$ 1,447 | \$ 1,647 | \$ 6,272 |
| Provision for loan losses | 413 | 946 | 443 | 1,178 | 2,980 |
| Loans charged off | (340) | (559) | (185) | (1,949) | (3,033) |
| Recoveries | 157 | 116 | 71 | 597 | 941 |
| Total ending allowance balance | \$ 1,480 | \$ 2,431 | \$ 1,776 | \$ 1,473 | \$ 7,160 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C - Loans and Allowance for Loan Losses (continued)

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 December 31, 2021 and 2020:

| December 31, 2021 | Residential Real Estate | Commercial Real Estate | Commercial & Industrial | Consumer | Total |
|---|----------------------------|---------------------------|----------------------------|-------------------|-------------------|
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment..... | \$ ---- | \$ ---- | \$ 10 | \$ ---- | \$ 10 |
| Collectively evaluated for impairment..... | 980 | 2,548 | 1,561 | 1,384 | 6,473 |
| Total ending allowance balance..... | <u>\$ 980</u> | <u>\$ 2,548</u> | <u>\$ 1,571</u> | <u>\$ 1,384</u> | <u>\$ 6,483</u> |
| Loans: | | | | | |
| Loans individually evaluated for impairment | \$ ---- | \$ 5,411 | \$ 4,531 | \$ 81 | \$ 10,023 |
| Loans collectively evaluated for impairment | 274,425 | 276,386 | 136,994 | 133,363 | 821,168 |
| Total ending loans balance..... | <u>\$ 274,425</u> | <u>\$ 281,797</u> | <u>\$ 141,525</u> | <u>\$ 133,444</u> | <u>\$ 831,191</u> |
| | | | | | |
| December 31, 2020 | Residential Real Estate | Commercial Real Estate | Commercial & Industrial | Consumer | Total |
| Allowance for loan losses: | | | | | |
| Ending allowance balance attributable to loans: | | | | | |
| Individually evaluated for impairment..... | \$ ---- | \$ ---- | \$ ---- | \$ ---- | \$ ---- |
| Collectively evaluated for impairment..... | 1,480 | 2,431 | 1,776 | 1,473 | 7,160 |
| Total ending allowance balance..... | <u>\$ 1,480</u> | <u>\$ 2,431</u> | <u>\$ 1,776</u> | <u>\$ 1,473</u> | <u>\$ 7,160</u> |
| Loans: | | | | | |
| Loans individually evaluated for impairment | \$ 411 | \$ 5,845 | \$ 4,686 | \$ 84 | \$ 11,026 |
| Loans collectively evaluated for impairment | 305,067 | 247,604 | 153,006 | 131,961 | 837,638 |
| Total ending loans balance..... | <u>\$ 305,478</u> | <u>\$ 253,449</u> | <u>\$ 157,692</u> | <u>\$ 132,045</u> | <u>\$ 848,664</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C – Loans and Allowance for Loan Losses (continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of the years ended December 31, 2021 and 2020:

| December 31, 2021 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|-------------------------------------|--------------------------------|------------------------|--|------------------------------|----------------------------------|--------------------------------------|
| With an allowance recorded: | | | | | | |
| Commercial and industrial | \$ 1,993 | \$ 1,993 | \$ 10 | \$ 1,987 | \$ 94 | \$ 94 |
| With no related allowance recorded: | | | | | | |
| Commercial real estate: | | | | | | |
| Owner-occupied | 5,052 | 5,027 | --- | 5,151 | 309 | 309 |
| Nonowner-occupied | 384 | 384 | --- | 387 | 29 | 29 |
| Commercial and industrial | 2,538 | 2,538 | --- | 2,981 | 139 | 139 |
| Consumer: | | | | | | |
| Home equity | 31 | 31 | --- | 32 | 2 | 2 |
| Other | 50 | 50 | --- | 49 | 2 | 2 |
| Total | \$ 10,048 | \$ 10,023 | \$ 10 | \$ 10,587 | \$ 575 | \$ 575 |

| December 31, 2020 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Impaired Loans | Interest Income Recognized | Cash Basis Interest Recognized |
|---------------------------------|--------------------------------|------------------------|--|------------------------------|----------------------------------|--------------------------------------|
| With an allowance recorded: | | | | | | |
| Residential real estate | 418 | 411 | --- | 423 | 21 | 21 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 5,256 | 5,256 | --- | 3,417 | 260 | 260 |
| Nonowner-occupied | 632 | 589 | --- | 626 | 29 | 29 |
| Commercial and industrial | 4,686 | 4,686 | --- | 3,772 | 196 | 196 |
| Consumer: | | | | | | |
| Home equity | 34 | 34 | --- | 28 | 2 | 2 |
| Other | 50 | 50 | --- | 10 | 2 | 2 |
| Total | \$ 11,076 | \$ 11,026 | \$ --- | \$ 8,276 | \$ 510 | \$ 510 |

The recorded investment of a loan excludes accrued interest and net deferred origination fees and costs due to immateriality.

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 December 31, 2021 and December 31, 2020, other real estate owned for residential real estate properties totaled \$15 and \$49, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of \$316 and \$1,097 as of December 31, 2021 and December 31, 2020, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C – Loans and Allowance for Loan Losses (continued)

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 December 31, 2021 and 2020:

| | <u>Loans Past Due 90 Days And Still Accruing</u> | <u>Nonaccrual</u> |
|---------------------------------|--|-------------------|
| December 31, 2021 | | |
| Residential real estate | \$ 10 | \$ 2,683 |
| Commercial real estate: | | |
| Owner-occupied | --- | 1,055 |
| Nonowner-occupied | --- | --- |
| Construction | --- | 146 |
| Commercial and industrial | 65 | 150 |
| Consumer: | | |
| Automobile | 55 | 147 |
| Home equity | --- | 148 |
| Other | 160 | 17 |
| Total | \$ 290 | \$ 4,346 |

| | <u>Loans Past Due 90 Days And Still Accruing</u> | <u>Nonaccrual</u> |
|---------------------------------|--|-------------------|
| December 31, 2020 | | |
| Residential real estate | \$ 127 | \$ 5,256 |
| Commercial real estate: | | |
| Owner-occupied | --- | 205 |
| Nonowner-occupied | --- | 362 |
| Construction | --- | 156 |
| Commercial and industrial | 15 | 149 |
| Consumer: | | |
| Automobile | 146 | 129 |
| Home equity | --- | 210 |
| Other | 136 | 36 |
| Total | \$ 424 | \$ 6,503 |

The following table presents the aging of the recorded investment of past due loans by class of loans as of December 31, 2021 and 2020:

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due | Loans Not Past Due | Total |
|---------------------------------|---------------------------|---------------------------|--------------------------------|-------------------|-----------------------|-------------------|
| December 31, 2021 | | | | | | |
| Residential real estate | \$ 2,208 | \$ 1,218 | \$ 921 | \$ 4,347 | \$ 270,078 | \$ 274,425 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 895 | --- | 153 | 1,048 | 70,931 | 71,979 |
| Nonowner-occupied | 100 | --- | --- | 100 | 176,000 | 176,100 |
| Construction | 36 | 53 | 33 | 122 | 33,596 | 33,718 |
| Commercial and industrial | 517 | 60 | 215 | 792 | 140,733 | 141,525 |
| Consumer: | | | | | | |
| Automobile | 656 | 148 | 194 | 998 | 47,208 | 48,206 |
| Home equity | 35 | 165 | 47 | 247 | 22,128 | 22,375 |
| Other | 401 | 133 | 177 | 711 | 62,152 | 62,863 |
| Total | \$ 4,848 | \$ 1,777 | \$ 1,740 | \$ 8,365 | \$ 822,826 | \$ 831,191 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C – Loans and Allowance for Loan Losses (continued)

| December 31, 2020 | 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 | \$ 2,845 | \$ 496 | \$ 1,663 | \$ 5,004 | \$ 300,474 | \$ 305,478 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 470 | 1003 | 193 | 1,666 | 50,197 | 51,863 |
| Nonowner-occupied | 94 | ---- | 362 | 456 | 164,067 | 164,523 |
| Construction | ---- | 82 | ---- | 82 | 36,981 | 37,063 |
| Commercial and industrial | 1,112 | 11 | 164 | 1,287 | 156,405 | 157,692 |
| Consumer: | | | | | | |
| Automobile | 831 | 131 | 258 | 1,220 | 54,021 | 55,241 |
| Home equity | 204 | 81 | 113 | 398 | 19,595 | 19,993 |
| Other | 446 | 76 | 172 | 694 | 56,117 | 56,811 |
| Total | \$ 6,002 | \$ 1,880 | \$ 2,925 | \$ 10,807 | \$ 837,857 | \$ 848,664 |

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 TDRs 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 TDRs 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 December 31, 2021 and December 31, 2020:

| | TDRs Performing to Modified Terms | TDRs Not Performing to Modified Terms | Total TDRs |
|--|--|--|-----------------|
| <u>December 31, 2021</u> | | | |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Reduction of principal and interest payments | \$ 1,455 | \$ ---- | \$ 1,455 |
| Maturity extension at lower stated rate than market rate | 268 | ---- | 268 |
| Credit extension at lower stated rate than market rate | 375 | ---- | 375 |
| Nonowner-occupied | | | |
| Credit extension at lower stated rate than market rate | 385 | ---- | 385 |
| Commercial and industrial | | | |
| Interest only payments | 2,301 | ---- | 2,301 |
| Total TDRs | \$ 4,784 | \$ ---- | \$ 4,784 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C – Loans and Allowance for Loan Losses (continued)

| | TDRs Performing to Modified Terms | TDRs Not Performing to Modified Terms | Total TDRs |
|--|--|--|-----------------|
| <u>December 31, 2020</u> | | | |
| Residential real estate: | | | |
| Interest only payments | \$ 202 | \$ ---- | \$ 202 |
| Commercial real estate: | | | |
| Owner-occupied | | | |
| Reduction of principal and interest payments | 1,486 | ---- | 1,486 |
| Maturity extension at lower stated rate than market rate | 351 | ---- | 351 |
| Credit extension at lower stated rate than market rate | 384 | ---- | 384 |
| Nonowner-occupied | | | |
| Credit extension at lower stated rate than market rate | 390 | ---- | 390 |
| Commercial and industrial | | | |
| Interest only payments | 4,400 | ---- | 4,400 |
| Total TDRs | <u>\$ 7,213</u> | <u>\$ ----</u> | <u>\$ 7,213</u> |

The Company had no specific allocations in reserves to customers whose loan terms have been modified in TDRs at December 31, 2021 and 2020. At December 31, 2021, the Company had \$3,199 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs, as compared to \$1,100 at December 31, 2020.

There were no TDR loan modifications that occurred during the years ended December 31, 2021 and 2020 that impacted provision expense or the allowance for loan losses.

During the years ended December 31, 2021 and 2020, the Company had no TDRs 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 Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020 and provided guidance on the modification of loans as a result of COVID-19, which outlined, among other criteria, that short-term modifications made on a good faith basis to borrowers who were current as defined under the CARES Act prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers are considered current if they are less than 30 days past due on their contractual payments at the time of modification. As of December 31, 2021, the Company had modified 655 loans related to COVID-19 with an outstanding loan balance of \$124,657 that were not reported as TDRs. As of December 31, 2021, the Company had 30 of those modified loans still operating under their COVID-19 related deferral terms with an outstanding loan balance of \$374 that were not reported as TDRs in the tables presented above.

The terms of certain other loans were modified during the years ended December 31, 2021 and 2020 that did not meet the definition of a TDR. These loans have a total recorded investment of \$23,171 as of December 31, 2021 and \$16,624 as of December 31, 2020. The modification of these loans primarily involved the modification of the terms of a loan to borrowers who were not experiencing financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C - Loans and Allowance for Loan Losses (continued)

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 11. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called "criticized" and "classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 through 11. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed \$1,000.

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

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

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

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

Doubtful. Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This 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, and receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

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

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or re-evaluation date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note C - Loans and Allowance for Loan Losses (continued)

As of December 31, 2021 and December 31, 2020, and based on the most recent analysis performed, the risk category of commercial loans by class of loans is as follows:

| December 31, 2021 | Pass | Criticized | Classified | Total |
|---------------------------------|-------------------|-----------------|-----------------|-------------------|
| Commercial real estate: | | | | |
| Owner-occupied | \$ 66,999 | \$ 618 | \$ 4,362 | \$ 71,979 |
| Nonowner-occupied | 175,901 | ---- | 199 | 176,100 |
| Construction | 33,685 | ---- | 33 | 33,718 |
| Commercial and industrial | 134,983 | 1,862 | 4,680 | 141,525 |
| Total | \$ 411,568 | \$ 2,480 | \$ 9,274 | \$ 423,322 |

| December 31, 2020 | Pass | Criticized | Classified | Total |
|---------------------------------|-------------------|-----------------|------------------|-------------------|
| Commercial real estate: | | | | |
| Owner-occupied | \$ 46,604 | \$ 669 | \$ 4,590 | \$ 51,863 |
| Nonowner-occupied | 160,324 | 3,629 | 570 | 164,523 |
| Construction | 37,063 | ---- | ---- | 37,063 |
| Commercial and industrial | 150,786 | 2,064 | 4,842 | 157,692 |
| Total | \$ 394,777 | \$ 6,362 | \$ 10,002 | \$ 411,141 |

The Company also obtains the credit scores of its borrowers upon origination (if available by the credit bureau) but not thereafter. 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 payment activity as of December 31, 2021 and December 31, 2020:

| December 31, 2021 | Consumer | | | Residential Real Estate | Total |
|---------------------|------------------|------------------|------------------|----------------------------|-------------------|
| | Automobile | Home Equity | Other | | |
| Performing | \$ 48,004 | \$ 22,227 | \$ 62,686 | \$ 271,732 | \$ 404,649 |
| Nonperforming | 202 | 148 | 177 | 2,693 | 3,220 |
| Total | \$ 48,206 | \$ 22,375 | \$ 62,863 | \$ 274,425 | \$ 407,869 |

| December 31, 2020 | Consumer | | | Residential Real Estate | Total |
|---------------------|------------------|------------------|------------------|----------------------------|-------------------|
| | Automobile | Home Equity | Other | | |
| Performing | \$ 54,966 | \$ 19,783 | \$ 56,639 | \$ 300,095 | \$ 431,483 |
| Nonperforming | 275 | 210 | 172 | 5,383 | 6,040 |
| Total | \$ 55,241 | \$ 19,993 | \$ 56,811 | \$ 305,478 | \$ 437,523 |

The Company, through its subsidiaries, grants residential, consumer, and commercial loans to customers located primarily in the southeastern area of Ohio as well as the western counties of West Virginia. Approximately 4.45% of total loans were unsecured at December 31, 2021, up from 4.22% at December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note D - Premises and Equipment

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

| | 2021 | 2020 |
|-------------------------------------|-----------|-----------|
| Land | \$ 2,570 | \$ 2,719 |
| Buildings | 22,360 | 22,081 |
| Leasehold improvements | 1,402 | 1,302 |
| Furniture and equipment | 9,528 | 8,892 |
| | 35,860 | 34,994 |
| Less accumulated depreciation | 15,130 | 13,682 |
| Total premises and equipment | \$ 20,730 | \$ 21,312 |

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

| | 2021 | 2020 |
|--|--------|--------|
| Land | \$ 105 | \$ 153 |
| Buildings | 387 | 564 |
| | 492 | 717 |
| Less accumulated depreciation | 54 | 80 |
| Total premises and equipment held for sale | \$ 438 | \$ 637 |

Note E – Leases

Balance sheet information related to leases at December 31 was as follows:

| | 2021 | 2020 |
|---|----------|--------|
| Operating leases: | | |
| Operating lease right-of-use assets | \$ 1,195 | \$ 880 |
| Operating lease liabilities | 1,195 | 880 |

The components of lease cost were as follows for the year ending December 31:

| | 2021 | 2020 |
|--------------------------------|--------|--------|
| Operating lease cost | \$ 161 | \$ 170 |
| Short-term lease expense | 36 | 31 |

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2021 are as follows:

| | Operating Leases |
|------------------------------|---------------------|
| 2022 | \$ 168 |
| 2023 | 127 |
| 2024 | 106 |
| 2025 | 106 |
| 2026 | 107 |
| Thereafter | 866 |
| Total lease payments | 1,480 |
| Less: Imputed Interest | (285) |
| Total operating leases | \$ 1,195 |

Other information at December 31 was as follows:

| | 2021 | 2020 |
|--|------------|-----------|
| Weighted-average remaining lease term for operating leases | 13.7 years | 9.6 years |
| Weighted-average discount rate for operating leases | 2.29% | 2.79% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note F – Goodwill and Intangible Assets

Goodwill: The change in goodwill during the year is as follows:

| | Gross Carrying Amount | |
|----------------|-----------------------|----------|
| | 2021 | 2020 |
| Goodwill | \$ 7,319 | \$ 7,319 |

Impairment exists when a reporting unit’s carrying value of goodwill exceeds its fair value. At December 31, 2021, the Company’s reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it is more likely than not that fair value of goodwill is more than the carrying value, resulting in no impairment for the year ended December 31, 2021. Therefore, the Company did not proceed to step one of the annual goodwill impairment testing requirement.

During 2020, the general economic conditions the Company operates in had trended from generally stable to somewhat challenged in relation to the pandemic. At December 31, 2020, the Company’s reporting unit remained profitable and had positive equity. However, earnings for 2020 were negatively impacted by adding general reserves to the allowance in relation to the pandemic and to a lower net interest margin in relation to the first quarter rate cuts. As a result, the Company’s stock price experienced a decrease in value during 2020, and was trading below book value at December 31, 2020. Given the economic outlook, the challenge of growing earnings going forward in this environment, and the Company’s stock price trading below book value, management could not conclude that evidence provided by a qualitative assessment would support that it would be more likely than not the fair value of goodwill is more than the carrying amount. Therefore, the Company proceeded to complete the quantitative impairment test.

The quantitative impairment test includes comparing the carrying value of the reporting unit, including the existing goodwill and intangible assets, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment charge is recorded for the amount in which the carrying value of the reporting unit exceeds the fair value of the reporting unit, up to the amount of goodwill attributed to the reporting unit. After performing the quantitative testing, it was determined that the reporting unit’s fair value exceeded the reporting unit’s carrying value, resulting in no impairment for the year ended December 31, 2020.

Acquired intangible assets: Acquired intangible assets were as follows at year-end:

| | 2021 | | 2020 | |
|--------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Core deposit intangibles | \$ 738 | \$ 674 | \$ 738 | \$ 626 |

Aggregate amortization expense was \$48 for 2021 and \$62 for 2020.

Estimated amortization expense for each of the next five years:

| | |
|-------------|-------|
| 2022 | \$ 35 |
| 2023 | 21 |
| 2024 | 8 |
| 2025 | ---- |
| 2026 | ---- |
| Total | \$ 64 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note G - Deposits

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

| | 2021 | 2020 |
|---|------------|------------|
| NOW accounts | \$ 205,362 | \$ 185,364 |
| Savings and Money Market | 311,686 | 286,937 |
| Time: | | |
| In denominations of \$250,000 or less | 147,000 | 165,834 |
| In denominations of more than \$250,000 | 42,282 | 40,827 |
| Total time deposits | 189,282 | 206,661 |
| Total interest-bearing deposits | \$ 706,330 | \$ 678,962 |

Following is a summary of total time deposits by remaining maturity at December 31, 2021:

| | |
|------------------|------------|
| 2022 | \$ 138,738 |
| 2023 | 41,386 |
| 2024 | 5,529 |
| 2025 | 1,329 |
| 2026 | 1,932 |
| Thereafter | 368 |
| Total | \$ 189,282 |

Brokered deposits, included in time deposits, were \$11,438 and \$18,834 at December 31, 2021 and 2020, respectively.

Note H - Interest Rate Swaps

The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. The Company utilizes interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. As part of this strategy, the Company provides its customer with a fixed-rate loan while creating a variable-rate asset for the Company by the customer entering into an interest rate swap with the Company on terms that match the loan. The Company offsets its risk exposure by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a standalone derivative. At December 31, 2021, the Company had offsetting interest rate swaps associated with commercial loans with a notional value of \$13,843 and a fair value asset of \$583 and a fair value liability for the same amount. This is compared to offsetting interest rate swaps with a notional value of \$10,967 and a fair value asset and liability of \$913 at December 31, 2020. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreement. To further offset the risk exposure related to market value fluctuations of its interest rate swaps, the Company maintains collateral deposits on hand with a third-party correspondent, which totaled \$600 at December 31, 2021 and \$1,250 at December 31, 2020.

Note I - Other Borrowed Funds

Other borrowed funds at December 31, 2021 and 2020 are comprised of advances from the FHLB of Cincinnati and promissory notes.

| | FHLB Borrowings | Promissory Notes | Totals |
|------------|-----------------|------------------|----------|
| 2021 | \$17,476 | \$2,138 | \$19,614 |
| 2020 | 24,665 | 3,198 | 27,863 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note I - Other Borrowed Funds (continued)

Pursuant to collateral agreements with the FHLB, advances are secured by \$265,850 in qualifying mortgage loans, \$37,091 in commercial loans and \$5,125 in FHLB stock at December 31, 2021. Fixed-rate FHLB advances of \$17,476 mature through 2042 and have interest rates ranging from 1.53% to 2.97% and a year-to-date weighted average cost of 2.39% and 2.40% at December 31, 2021 and 2020, respectively. There were no variable-rate FHLB borrowings at December 31, 2021.

At December 31, 2021, the Company had a cash management line of credit enabling it to borrow up to \$100,000 from the FHLB, subject to the stock ownership and collateral limitations described in the next paragraph. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis.

Based on the Company's current FHLB stock ownership, total assets and pledgeable loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of \$176,096 at December 31, 2021. Of this maximum borrowing capacity of \$176,096, the Company had \$90,241 available to use as additional borrowings.

Promissory notes, issued primarily by Ohio Valley, are due at various dates through a final maturity date of March 13, 2023, and have fixed rates ranging from 1.00% to 1.30% and a year-to-date weighted average cost of 1.23% at December 31, 2021, as compared to 2.20% at December 31, 2020. At December 31, 2021, there were six promissory notes payable by Ohio Valley to related parties totaling \$2,138. See Note M for further discussion of related party transactions. There were no promissory notes payable to other banks at December 31, 2021 and 2020, respectively.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$68,380 at December 31, 2021 and \$76,740 at December 31, 2020.

Scheduled principal payments over the next five years:

| | FHLB Borrowings | Promissory Notes | Totals |
|------------------|--------------------|---------------------|------------------|
| 2022 | \$ 2,109 | \$ 1,031 | \$ 3,140 |
| 2023 | 1,784 | 1,107 | 2,891 |
| 2024 | 1,693 | --- | 1,693 |
| 2025 | 1,560 | --- | 1,560 |
| 2026 | 1,434 | --- | 1,434 |
| Thereafter | 8,896 | --- | 8,896 |
| | <u>\$ 17,476</u> | <u>\$ 2,138</u> | <u>\$ 19,614</u> |

Note J - Subordinated Debentures and Trust Preferred Securities

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 was fixed at 6.58% for five years, and then converted to a floating-rate term on March 15, 2012, based on a rate equal to the 3-month LIBOR plus 1.68%. The interest rate on these trust preferred securities was 1.88% at December 31, 2021 and 1.90% at December 31, 2020. 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.

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. The subordinated debentures may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note K - Income Taxes

The provision for income taxes consists of the following components:

| | 2021 | 2020 |
|--------------------------------------|----------|----------|
| Current tax expense | \$ 2,414 | \$ 2,036 |
| Deferred tax (benefit) expense | (130) | 12 |
| Total income taxes | \$ 2,284 | \$ 2,048 |

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

| | 2021 | 2020 |
|--|----------|----------|
| Items giving rise to deferred tax assets: | | |
| Allowance for loan losses | \$ 1,410 | \$ 1,557 |
| Deferred compensation | 2,007 | 1,822 |
| Deferred loan fees/costs | 148 | 136 |
| Other real estate owned | --- | 1 |
| Accrued bonus | 286 | 212 |
| Purchase accounting adjustments | 2 | 18 |
| Net operating loss | 82 | 99 |
| Lease liability | 324 | 235 |
| Nonaccrual interest income | 174 | --- |
| Other | 275 | 339 |
| Items giving rise to deferred tax liabilities: | | |
| Mortgage servicing rights | (104) | (100) |
| FHLB stock dividends | (676) | (676) |
| Unrealized gain on securities available for sale | (188) | (647) |
| Prepaid expenses | (205) | (202) |
| Depreciation and amortization | (783) | (894) |
| Right-of-use asset | (324) | (235) |
| Net deferred tax asset | \$ 2,428 | \$ 1,665 |

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 the future reversals of existing taxable temporary differences, deductions against forecasted income and tax planning strategies.

At December 31, 2021, the Company's deferred tax asset related to Section 382 net operating loss carryforwards was \$391, which will expire in 2026.

The difference between the financial statement tax provision and amounts computed by applying the statutory federal income tax rate of 21% to income before taxes is as follows:

| | 2021 | 2020 |
|--|----------|----------|
| Statutory tax (21%) | \$ 2,943 | \$ 2,584 |
| Effect of nontaxable interest | (378) | (348) |
| Effect of nontaxable insurance premiums | (220) | (210) |
| Income from bank owned insurance, net | (168) | (161) |
| Effect of postretirement benefits | 26 | 124 |
| Effect of nontaxable life insurance death proceeds | (10) | --- |
| Effect of state income tax | 150 | 125 |
| Tax credits | (72) | (102) |
| Other items | 13 | 36 |
| Total income taxes ⁽¹⁾ | \$ 2,284 | \$ 2,048 |

(1) Effective income tax rates were 16.3% for 2021 and 16.6% for 2020

At December 31, 2021 and December 31, 2020, 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 did not recognize any interest and/or penalties related to income tax matters for the periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note K - Income Taxes (continued)

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 2018. The tax years 2018-2020 remain open to federal and state examinations.

Note L - 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:

| | 2021 | 2020 |
|---------------------------------|----------|----------|
| Fixed rate | \$ 1,014 | \$ 1,127 |
| Variable rate | 84,929 | 83,956 |
| Standby letters of credit | 3,659 | 3,373 |

At December 31, 2021, the fixed-rate commitments have interest rates ranging from 2.50% to 6.25% and maturities ranging from 15 years to 30 years.

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 M - Related Party Transactions

Certain directors, executive officers and companies with which they are affiliated were loan customers during 2021. A summary of activity on these borrower relationships with aggregate debt greater than \$120 is as follows:

| | |
|--|------------------|
| Total loans at January 1, 2021 | \$ 2,729 |
| New loans | 16,401 |
| Repayments | (472) |
| Other changes | (810) |
| Total loans at December 31, 2021 | <u>\$ 17,848</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.

Deposits from principal officers, directors, and their affiliates at year-end 2021 and 2020 were \$110,405 and \$94,056. In addition, the Company had promissory notes outstanding with directors and their affiliates totaling \$2,138 at year-end 2021 and \$3,198 at year-end 2020. The interest rates ranged from 1.00% to 2.85%, with terms ranging from 12 to 24 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note N - 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 \$265 and \$242 for 2021 and 2020.

Ohio Valley maintains an Employee Stock Ownership Plan (“ESOP”) covering substantially all employees of the Company. Ohio Valley issues shares to the ESOP, purchased by the ESOP with subsidiary cash contributions, 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 292,680 and 298,294 at December 31, 2021 and 2020. In addition, the subsidiaries made contributions to the ESOP as follows:

| | Years ended December 31 | |
|---------------------------------------|-------------------------|---------|
| | 2021 | 2020 |
| Number of shares issued | ---- | ---- |
| Fair value of stock contributed | \$ ---- | \$ ---- |
| Cash contributed | 580 | 614 |
| Total expense | \$ 580 | \$ 614 |

Life insurance contracts with a cash surrender value of \$35,052 and annuity assets of \$2,229 at December 31, 2021 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 supplemental retirement plans 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 plans provide 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 \$8,973 and \$8,377 at December 31, 2021 and 2020. Expenses related to the plans for each of the last two years amounted to \$830 and \$743. In association with the split-dollar life insurance plan, the present value of the postretirement benefit totaled \$3,843 at December 31, 2021 and \$3,721 at December 31, 2020.

Note O - 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note O - Fair Value of Financial Instruments (continued)

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. In some instances, fair value adjustments can be made based on a quoted price from an observable input, such as a purchase agreement. Such adjustments would be classified as a Level 2 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. In some instances, fair value adjustments can be made based on a quoted price from an observable input, such as a purchase agreement. Such adjustments would be classified as a Level 2 classification.

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%.

Interest Rate Swap Agreements: The fair value of interest rate swap agreements is determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves (Level 2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note O - Fair Value of Financial Instruments (continued)

Assets and Liabilities Measured on a Recurring Basis

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

| | Fair Value Measurements at December 31, 2021, 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 securities | ---- | \$ 20,143 | ---- |
| U.S. Government sponsored entity securities | ---- | 25,916 | ---- |
| Agency mortgage-backed securities, residential | ---- | 130,941 | ---- |
| Interest rate swap derivatives | ---- | 599 | ---- |
| <u>Liabilities:</u> | | | |
| Interest rate swap derivatives | ---- | (599) | ---- |

| | Fair Value Measurements at December 31, 2020, 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 | ---- | \$ 18,153 | ---- |
| Agency mortgage-backed securities, residential | ---- | 94,169 | ---- |
| Interest rate swap derivatives | ---- | 928 | ---- |
| <u>Liabilities:</u> | | | |
| Interest rate swap derivatives | ---- | (928) | ---- |

Assets and Liabilities Measured on a Nonrecurring Basis

There were no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2020. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2021 are summarized below:

| | Fair Value Measurements at December 31, 2021, 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: | | | |
| Commercial and Industrial | \$ ---- | \$ ---- | \$ 1,983 |

At December 31, 2021, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled \$1,993, with a corresponding valuation allowance of \$10, resulting in an increase of \$10 in provision expense during the year ended December 31, 2021, with no corresponding charge-offs. At December 31, 2020, the Company had no recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans and, therefore, recorded no impact to provision expense during the year ended December 31, 2020.

There was no other real estate owned that was measured at fair value less costs to sell at December 31, 2021 and 2020. Furthermore, there were no corresponding write downs during the years ended December 31, 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note O - Fair Value of Financial Instruments (continued)

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 December 31, 2021:

| December 31, 2021 | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | (Weighted Average) |
|---------------------------------|------------|------------------------|---|-----------|--------------------|
| Impaired loans: | | | | | |
| Commercial and Industrial | \$ 1,983 | Sales approach | Adjustment to comparables and equipment comparables | 0% to 25% | 18.5% |

The carrying amounts and estimated fair values of financial instruments at December 31, 2021 and December 31, 2020 are as follows:

| | Carrying Value | Fair Value Measurements at December 31, 2021 Using: | | | |
|--|----------------|---|---------|---------|------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 152,034 | \$ 152,034 | \$ ---- | \$ ---- | \$ 152,034 |
| Certificates of deposit in financial institutions..... | 2,329 | ---- | 2,329 | ---- | 2,329 |
| Securities available for sale | 177,000 | ---- | 177,000 | ---- | 177,000 |
| Securities held to maturity | 10,294 | ---- | 6,063 | 4,387 | 10,450 |
| Loans, net | 824,708 | ---- | ---- | 821,899 | 821,899 |
| Interest rate swap derivatives | 599 | ---- | 599 | ---- | 599 |
| Accrued interest receivable | 2,695 | ---- | 363 | 2,332 | 2,695 |

| Financial Liabilities: | | | | | |
|--------------------------------------|-----------|---------|---------|------|-----------|
| Deposits | 1,059,908 | 870,626 | 189,796 | ---- | 1,060,422 |
| Other borrowed funds | 19,614 | ---- | 20,279 | ---- | 20,279 |
| Subordinated debentures | 8,500 | ---- | 5,657 | ---- | 5,657 |
| Interest rate swap derivatives | 599 | ---- | 599 | ---- | 599 |
| Accrued interest payable | 439 | 1 | 438 | ---- | 439 |

| | Carrying Value | Fair Value Measurements at December 31, 2020 Using: | | | |
|--|----------------|---|---------|---------|------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 138,303 | \$ 138,303 | \$ ---- | \$ ---- | \$ 138,303 |
| Certificates of deposit in financial institutions..... | 2,500 | ---- | 2,500 | ---- | 2,500 |
| Securities available for sale | 112,322 | ---- | 112,322 | ---- | 112,322 |
| Securities held to maturity | 10,020 | ---- | 4,989 | 5,355 | 10,344 |
| Loans, net | 841,504 | ---- | ---- | 837,387 | 837,387 |
| Interest rate swap derivatives | 928 | ---- | 928 | ---- | 928 |
| Accrued interest receivable | 3,319 | ---- | 283 | 3,036 | 3,319 |

| Financial Liabilities: | | | | | |
|--------------------------------------|---------|---------|---------|------|---------|
| Deposits | 993,739 | 787,078 | 208,552 | ---- | 995,630 |
| Other borrowed funds | 27,863 | ---- | 29,807 | ---- | 29,807 |
| Subordinated debentures | 8,500 | ---- | 5,556 | ---- | 5,556 |
| Interest rate swap derivatives | 928 | ---- | 928 | ---- | 928 |
| Accrued interest payable | 1,100 | 1 | 1,099 | ---- | 1,100 |

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

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

Note P - 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 judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations applicable to insured depository institutions provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the Bank met the capital requirements to be deemed well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since year-end 2021 and 2020 that management believes have changed the institution's well capitalized category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio ("CBLR") framework, for qualifying community banking organizations (banks and holding companies), consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of March 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that made temporary changes to the CBLR framework, pursuant to Section 4012 of the CARES Act, and a second interim final rule that provided a graduated increase in the CBLR requirement after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The CBLR removes the requirement for qualifying banking organizations to calculate and report risk-based capital and only requires a Tier 1 to average assets ("leverage") ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums are considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules and, if applicable, are considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the CBLR minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021 and 2020, the Bank qualified as a community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The following tables summarize the actual and required capital amounts of the Bank as of year-end.

| Bank | Actual | | To Be Well Capitalized Under Prompt Corrective Action Regulations | |
|-------------------------|------------------------------------|-------|---|-------|
| | Amount | Ratio | Amount | Ratio |
| | Tier 1 capital (to average assets) | | | |
| December 31, 2021 | \$ 126,201 | 10.3% | \$ 104,387 | 8.5% |
| December 31, 2020 | 120,989 | 10.7 | 90,407 | 8.0 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note P – Regulatory Matters (continued)

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 and state law. These restrictions generally limit dividends to the current and prior two years retained earnings of the Bank and Loan Central, Inc., and 90% of the prior year's net income of OVBC Captive, Inc. At January 1, 2022 approximately \$12,747 of the subsidiaries' retained earnings were available for dividends under these guidelines. The ability of Ohio Valley to borrow funds from the Bank is limited as to amount and terms by banking regulations. The Board of Governors of the Federal Reserve System also has a policy requiring 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.

Note Q - Parent Company Only Condensed Financial Information

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

CONDENSED STATEMENTS OF CONDITION

| | Years ended December 31: | |
|--|--------------------------|------------|
| | 2021 | 2020 |
| Assets | | |
| Cash and cash equivalents | \$ 5,366 | \$ 4,112 |
| Investment in subsidiaries | 147,214 | 143,424 |
| Notes receivable – subsidiaries | 2,123 | 1,603 |
| Other assets | 38 | 32 |
| Total assets | \$ 154,741 | \$ 149,171 |
| Liabilities | | |
| Notes payable | \$ 2,138 | \$ 3,198 |
| Subordinated debentures | 8,500 | 8,500 |
| Other liabilities | 2,747 | 1,149 |
| Total liabilities | 13,385 | 12,847 |
| Shareholders' Equity | | |
| Total shareholders' equity | 141,356 | 136,324 |
| Total liabilities and shareholders' equity | \$ 154,741 | \$ 149,171 |

CONDENSED STATEMENTS OF INCOME

| | Years ended December 31: | |
|---|--------------------------|-----------|
| | 2021 | 2020 |
| Income: | | |
| Interest on notes | \$ 20 | \$ 41 |
| Dividends from subsidiaries | 6,650 | 4,125 |
| Expenses: | | |
| Interest on notes | 31 | 82 |
| Interest on subordinated debentures | 158 | 208 |
| Operating expenses | 379 | 344 |
| Income before income taxes and equity in undistributed earnings of subsidiaries | 6,102 | 3,532 |
| Income tax benefit | 112 | 121 |
| Equity in undistributed earnings of subsidiaries | 5,518 | 6,606 |
| Net Income | \$ 11,732 | \$ 10,259 |
| Comprehensive Income | \$ 10,004 | \$ 12,167 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

CONDENSED STATEMENTS OF CASH FLOWS

| | Years ended December 31: | |
|---|--------------------------|-----------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net Income | \$ 11,732 | \$ 10,259 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in undistributed earnings of subsidiaries | (5,518) | (6,606) |
| Common stock issued to ESOP | ---- | ---- |
| Change in other assets | (6) | 16 |
| Change in other liabilities | 1,598 | 832 |
| Net cash provided by operating activities | 7,806 | 4,501 |
| Cash flows from investing activities: | | |
| Change in notes receivable | (520) | 360 |
| Net cash provided by investing activities | (520) | 360 |
| Cash flows from financing activities: | | |
| Change in notes payable | (1,060) | (1,035) |
| Proceeds from common stock through dividend reinvestment | ---- | ---- |
| Purchases of treasury stock..... | (954) | ---- |
| Cash dividends paid | (4,018) | (4,022) |
| Net cash used in financing activities | (6,032) | (5,057) |
| Cash and cash equivalents: | | |
| Change in cash and cash equivalents | 1,254 | (196) |
| Cash and cash equivalents at beginning of year | 4,112 | 4,308 |
| Cash and cash equivalents at end of year | \$ 5,366 | \$ 4,112 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note R - 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 94.1% and 94.3% of total consolidated revenues for the years ended December 31, 2021 and 2020, 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. All goodwill is in the Banking segment.

Segment information is as follows:

| | Year Ended December 31, 2021 | | |
|---------------------------|------------------------------|----------|-----------|
| | Banking | Consumer | Total |
| | | Finance | Company |
| Net interest income | \$ 38,883 | \$ 2,130 | \$ 41,013 |
| Provision expense | (500) | 81 | (419) |
| Noninterest income | 8,831 | 1,033 | 9,864 |
| Noninterest expense | 34,847 | 2,433 | 37,280 |
| Tax expense | 2,149 | 135 | 2,284 |
| Net income | 11,218 | 514 | 11,732 |
| Assets | 1,235,231 | 14,538 | 1,249,769 |

| | Year Ended December 31, 2020 | | |
|---------------------------|------------------------------|----------|-----------|
| | Banking | Consumer | Total |
| | | Finance | Company |
| Net interest income | \$ 37,825 | \$ 2,157 | \$ 39,982 |
| Provision expense | 2,945 | 35 | 2,980 |
| Noninterest income | 10,344 | 1,094 | 11,438 |
| Noninterest expense | 33,693 | 2,440 | 36,133 |
| Tax expense | 1,886 | 162 | 2,048 |
| Net income | 9,645 | 614 | 10,259 |
| Assets | 1,173,820 | 13,112 | 1,186,932 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of condition of Ohio Valley Banc Corp. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Economic Conditions Qualitative Factor

As more fully described in Note A and Note C to the consolidated financial statements, the Company's allowance for loan losses represents management's best estimate of probable incurred losses in the loan portfolio. The allowance consists of a specific component which relates to individually impaired loans and a general component. For the general component, management performs a quantitative and qualitative analysis to determine the general reserve portion of the allowance for loan losses. The quantitative component consists of historical loss experience determined by portfolio segment and is based on the actual loss history experienced by the Company. The total loan portfolio's actual loss experience is supplemented with qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions (economic conditions); industry conditions; and effects of changes in credit concentrations. The most significant qualitative factor considered as of December 31, 2021 was the economic conditions. Management exercised significant judgment when assessing the economic conditions qualitative factor in estimating the allowance for loan losses.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We identified auditing the economic conditions qualitative factor component of the allowance for loan losses as a critical audit matter because auditing management's assessment of the economic conditions qualitative factor required significant auditor judgment.

The primary audit procedures we performed to address this critical audit matter included the following:

- Evaluated the relevance and reliability of data used in the development of the economic conditions qualitative factor
- Evaluated management's judgments and assumptions used to determine the economic conditions qualitative factor for reasonableness
- Performed data validation of inputs and tested mathematical accuracy of management's calculation of the economic conditions qualitative factor



Crowe LLP

We have served as the Company's auditor since 1992.

Cleveland, Ohio
March 16, 2022

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.

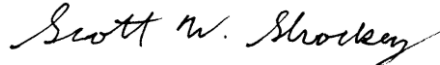
Management assessed Ohio Valley Banc Corp.’s system of internal control over financial reporting as of December 31, 2021, in relation to criteria for effective internal control over financial reporting as described in the 2013 “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of December 31, 2021, its system of internal control over financial reporting is effective and meets the criteria of the “Internal Control Integrated Framework.”

Crowe LLP, independent registered public accounting firm, has not issued an integrated audit report on Ohio Valley Banc Corp.’s internal control over financial reporting.

Ohio Valley Banc Corp.



Thomas E. Wiseman
Chief Executive Officer



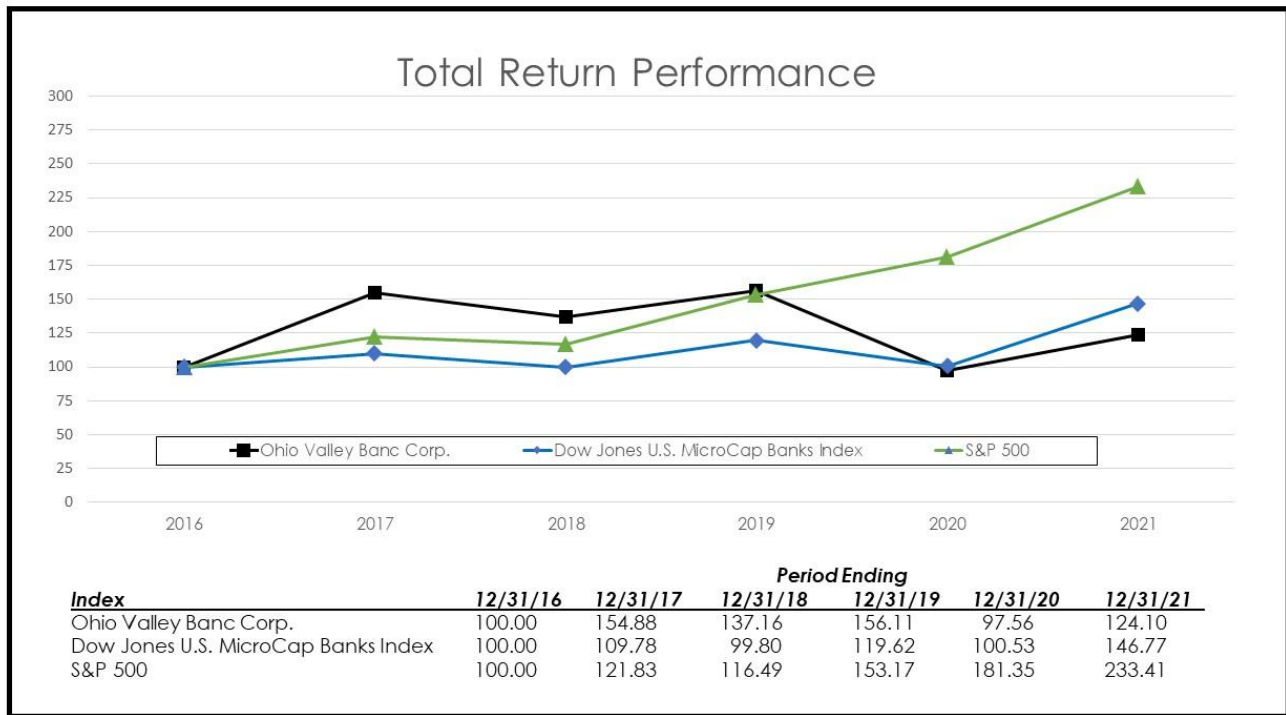
Scott W. Shockey
Senior Vice President, CFO

March 16, 2022

PERFORMANCE GRAPH

OHIO VALLEY BANC CORP. Year ended December 31, 2021

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 Dow Jones U.S. MicroCap Banks Index (indicated "Dow Jones U.S. MicroCap Banks Index" on the Performance Graph) for fiscal years indicated. Information reflected on the graph assumes an investment of \$100 on December 31, 2016, in the common shares of each of the Company, the S & P 500 Index, and the Dow Jones U.S. MicroCap Banks Index. Cumulative total return assumes reinvestment of dividends. The Dow Jones U.S. MicroCap Banks Index represents the stock performance of 163 banks located throughout the United States, including the Company, within the respective market capitalization range as selected by Dow Jones. The Dow Jones U.S. MicroCap Banks Index was selected as a replacement peer index for the SNL \$1 Billion-\$5 Billion Bank Asset-Size Index due to the latter no longer being published.



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

FORWARD LOOKING STATEMENTS

Certain statements contained in this report and other publicly available documents incorporated herein by reference constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended (the "Exchange Act"), 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," "intends," "plan," "goal," "seek," "project," "estimate," "strategy," "future," "likely," "may," "should," "will," and other similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control, particularly with regard to developments related to the Coronavirus ("COVID-19") pandemic, and which could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: the effects of COVID-19 on our business, operations, customers and capital position; higher default rates on loans made to our customers related to COVID-19 and its impact on our customers' operations and financial condition; the impact of COVID-19 on local, national and global economic conditions; unexpected changes in interest rates or disruptions in the mortgage market; the effects of various governmental responses to COVID-19; changes in political, economic or other factors, such as inflation rates, recessionary or expansive trends, taxes, the effects of implementation of legislation and the continuing economic uncertainty in various parts of the world; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning such factors is available in the Company's filings with the Securities and Exchange Commission, under the Exchange Act, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. 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.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to provide an analysis of the financial condition and results of operations of Ohio Valley Banc Corp. ("Ohio Valley" or the "Company") that 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 financial 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.

BUSINESS OVERVIEW:

The Company is primarily engaged in commercial and retail banking through its wholly-owned subsidiary, The Ohio Valley Bank Company (the "Bank"), offering a blend of commercial and consumer banking services within southeastern Ohio, as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; the making of

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

construction and real estate loans; and credit card services. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. Ohio Valley also has a subsidiary that engages in consumer lending generally to individuals with higher credit risk history, Loan Central, Inc. ("Loan Central"); a subsidiary insurance agency that facilitates the receipt of insurance commissions, Ohio Valley Financial Services Agency, LLC; and a limited purpose property and casualty insurance company, OVBC Captive, Inc. (the "Captive"). The Bank has two wholly-owned subsidiaries, Race Day Mortgage, Inc. ("Race Day"), an online consumer direct mortgage company, and Ohio Valley REO, LLC, an entity to which the Bank transfers certain real estate acquired by the Bank through foreclosure for sale.

In January 2020, the Bank began offering Tax Refund Advance Loans ("TALs") to Loan Central tax customers. A TAL represents a short-term loan offered by the Bank to tax preparation customers of Loan Central. Previously, Loan Central offered and originated tax refund anticipation loans that represented a large composition of its annual earnings. However, new Ohio laws that became effective in April 2019 placed numerous restrictions on short-term and small loans extended by certain non-bank lenders in Ohio. As a result, Loan Central is no longer able to directly offer the service to its tax preparation customers, but it is able to do so through the Bank. After Loan Central prepares a customer's tax return, the customer is offered the opportunity to have immediate access to a portion of the anticipated tax refund by entering into a TAL with the Bank. As part of the process, the tax customer completes a loan application and authorizes the expected tax refund to be deposited with the Bank once it is issued by the IRS. Once the Bank receives the tax refund, the refund is used to repay the TAL and Loan Central's tax preparation fees, then the remainder of the refund is remitted to Loan Central's tax customer.

IMPACT of COVID-19:

COVID-19 has caused significant disruption in the United States and international economies and financial markets. The primary markets served by the Company in southeastern Ohio and western West Virginia were significantly impacted by COVID-19, which has changed the way we live and work. The continued effects of COVID-19 on the economy, supply chains, financial markets, unemployment levels, businesses and our customers is unknown and unpredictable.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act provided assistance to small businesses through the establishment of the Paycheck Protection Program ("PPP"). The PPP provided small businesses with funds to use for payroll and certain other expenses. The funds were provided in the form of loans that would be fully forgiven if certain criteria were met. In 2021, Congress amended the PPP by extending the authority of the Small Business Administration ("SBA") to guarantee loans and the ability of PPP lenders to disburse PPP loans until May 31, 2021. The Company supported its clients who experienced financial hardship due to COVID-19 through participation in the PPP, assistance with expedited deposits of CARES Act stimulus payments, and loan modifications, as needed.

RESULTS OF OPERATIONS:

SUMMARY

2021 v. 2020

Ohio Valley generated net income of \$11,732 for 2021, an increase of \$1,473, or 14.4%, from 2020. Earnings per share were \$2.45 for 2021, an increase of 14.5% from 2020. The increase in net income and earnings per share for 2021 was impacted by higher net interest income and lower provision

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

expense, which collectively contributed to a \$4,430 increase in earnings from 2020. For 2021, the Company finished with negative provision expense of \$419, compared to \$2,980 in provision expense for 2020. The decrease in provision expense was largely due to a decrease in net loan charge offs during 2021 and the establishment of an economic risk factor for the pandemic during the first quarter of 2020 that was less impactful in 2021. Net interest income increased 2.6% in 2021 largely due to growth in average earning assets, partially offset by a decrease in the fully tax-equivalent net interest income as a percentage of average earning assets ("net interest margin"). Average earnings assets increased 13.0% coming from growth in loans, investment securities and interest-bearing deposits with banks. The positive impact from earning asset growth was partially offset by net interest margin compression in relation to aggressive rate cuts by the Federal Reserve in response to the pandemic during 2020. The positive contributions from higher net interest income and lower provision expense were partially offset by lower noninterest income and higher noninterest expense, which collectively contributed to a \$2,721 decrease in earnings from 2020. Contributing to lower noninterest income were realized losses of \$1,066 from the sale of lower-yielding securities during 2021 and the receipt of \$2,000 during 2020 from a litigation settlement with a third-party. Partially offsetting these negative factors within noninterest income was growth in debit/credit card interchange income and electronic refund check/electronic refund deposit ("ERC/ERD") fees during 2021. The increase in noninterest expenses during 2021 came mostly from higher software, data processing, marketing and FDIC costs.

The Company's net interest income in 2021 was \$41,013, representing an increase of \$1,031, or 2.6%, from 2020. Impacting net interest income growth was average earning assets, which were up \$131,943 during 2021, as compared to 2020. The growth came largely from increases in interest-bearing deposits with banks and investment securities, which were up \$57,860 and \$43,836, over 2020, respectively. Interest-bearing deposits were impacted by higher balances maintained at the Federal Reserve Bank ("FRB") driven by heightened deposit balances related to stimulus payments received by customers. A portion of the deposit increase was invested in the securities portfolio during 2021. Average loans also grew \$30,247 during 2021, largely impacted by higher commercial loan balances. In general, commercial loan demand has been positive in the Company's market areas, particularly in the counties of Pike and Athens in Ohio and Cabell County in West Virginia. Furthermore, the Company participated in the PPP to assist various businesses in our market areas during the pandemic. The loan fees earned in association with the PPP loans during 2021 contributed to a \$587 increase in total loan fees, which also had a positive impact to net interest income. Partially offsetting the positive impacts from average earning asset growth and loan fee increases was the decrease in net interest margin in relation to the decrease in market rates. In March 2020, the Federal Reserve took action to reduce interest rates by 150 basis points in response to COVID-19. This action led to a sustained low-rate interest environment, which contributed to lower earning asset yields during the remainder of 2020 and all of 2021. Interest-bearing costs were reduced during those periods, but not to the same magnitude as earning assets due to a lagging effect associated with time deposits and certain other interest-bearing deposits being at or near their interest rate floors. Furthermore, the change in asset mix during 2020 and 2021 into more PPP loans and elevated deposits at the Federal Reserve had a dilutive effect on the net interest margin, with PPP loans carrying a 1.0% interest rate and the rate on balances maintained at the Federal Reserve below 25 basis points. As a result, the Company's net interest margin finished at 3.61% during the year ended December 31, 2021, a decrease of 36 basis points from a 3.97% net interest margin during the same period in 2020.

The Company recorded negative provision expense of \$419 during 2021, representing a decrease of \$3,399 compared to 2020. The decrease in provision expense was largely impacted by the economic effects of the COVID-19 pandemic, which resulted in a higher general allocation of the allowance for loan losses during the first quarter of 2020. Based on declining economic conditions and increasing

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

unemployment levels, management increased general reserves by \$2,315 to reflect higher anticipated losses due to COVID-19. Further impacting lower provision expense in 2021 was a \$1,332 decrease in net charge-offs on loans that had not been specifically allocated for, primarily from the consumer and residential real estate loan portfolios.

The Company's noninterest income decreased \$1,574, or 13.8%, from 2020. The year-to-date decrease in noninterest income was largely impacted by proceeds of \$2,000 received in a litigation settlement with a third-party. The proceeds were paid to the Bank as part of a settlement agreement signed during the first quarter of 2020. The settlement agreement was related to the previously disclosed litigation the Bank filed against a third-party tax software product provider for early termination of its tax processing contract. As part of the settlement agreement, the Bank is processing a certain amount of tax items, which started in 2021 and will end in 2025. As a result, the Bank recognized \$675 in ERC/ERD income during 2021, which partially offset the impact of the non-recurring litigation settlement proceeds in 2020. Further contributing to the decrease in noninterest income for 2021 were losses of \$1,066 realized on the sale of \$48,732 in lower-yielding investment securities during the fourth quarter of 2021. The proceeds from the sale were reinvested into similar higher-yielding securities, which are expected to increase future income. As was anticipated, mortgage banking income decreased \$400 during 2021, primarily due to the 2020 heightened refinancing volume that subsided in 2021. Partially offsetting decreases in noninterest income was an increase of \$613 in interchange income on debit and credit card transactions as customers increased spending during 2021.

The Company's noninterest expenses during 2021 increased \$1,147, or 3.2%, from 2020. This increase was impacted by various items including higher software, data processing, marketing and FDIC costs. Software expense increased \$404 in relation to the purchase of software to enhance the platform used for the loan origination process, as well as to process PPP loans. Data processing expense increased \$236 due to higher debit and credit card transaction volume impacted by heightened consumer spending. Marketing expense increased \$213 due to resuming select marketing campaigns in 2021 that had been limited in 2020 due to COVID-19 restrictions on lobby access. FDIC insurance costs were up \$161 primarily due to assessment credits received from the FDIC in 2020 that were not received in 2021.

The Company's provision for income taxes increased \$236 during 2021, largely due to the changes in taxable income affected by the factors mentioned above.

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 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 the percentage of net interest income to 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 exceeds the net interest rate spread because noninterest-bearing sources of funds, principally noninterest-bearing demand deposits and stockholders' equity, also support interest-earning assets. The 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 two years ended December 31, 2021 and 2020. Tables I and II have been prepared to summarize the significant changes outlined in this analysis.

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

Net interest income in 2021 totaled \$41,491 on an FTE basis, up \$1,069, or 2.6%, from 2020. This positive change reflects a 13.0% increase in average earning assets partially offset by the net effect of a 65 basis point decrease in earning asset yield less a 41 basis point decrease in average interest-bearing liability cost. The increase in average earning assets came mostly from interest-bearing balances with banks and securities, which increased 74.0% and 34.4% during 2021, respectively, as compared to the same period in 2020. Average loans also increased 3.7% over the same time period. The average earning asset yield during 2021 was impacted by the FRB's action to lower rates by 150 basis points in March 2020. Market rate decreases during 2020 had a corresponding impact to lower average deposit costs during 2021, primarily within time, savings and money market deposits. The net interest margin decrease of 36 basis points reflected a 41 basis point positive impact from lower funding costs that was completely offset by a 65 basis point negative impact from the mix and yield on earning assets and a 12 basis point negative impact from the use of noninterest-bearing funding (i.e., demand deposits and shareholders' equity).

Net interest income increased in 2021 primarily due to the increase in average volume of earning assets plus the decrease in average cost of interest-bearing liabilities, partially offset by the decrease in average yield on earning assets. The volume increase in average earning assets was responsible for increasing FTE interest income by \$2,445 during 2021 compared to 2020, while the decrease in average interest-bearing liability costs contributed to a \$2,416 reduction in interest expense during the same period. These positive impacts were partially offset by lower average earning asset yields, which decreased FTE interest income by \$3,868 during 2021 compared to 2020. The increase in average earning assets for 2021 was largely impacted by interest-bearing balances with other banks. The average volume on interest-bearing balances with other banks contributed to \$136 in interest income growth during 2021, primarily from excess deposits within the Federal Reserve clearing account. Balances within interest-bearing deposits with banks are driven primarily by the Company's interest-bearing Federal Reserve clearing account. The Company utilizes its interest-bearing Federal Reserve clearing account to manage excess funds, as well as to assist in funding earning asset growth. The impact of COVID-19 continued to generate higher levels of excess funds within the clearing account during 2021, which included customer deposits of stimulus monies from various government relief programs. The volume increase in the Bank's Federal Reserve clearing account during 2021 led to a \$57,860, or 74.0%, increase in average interest-bearing balances with other banks during 2021 compared to 2020, and also led to a higher composition of average interest-bearing balances with other banks, finishing at 11.8% of average earning assets in 2021, as compared to 7.7% in 2020. The action of the FRB to reduce rates by 150 basis points in March 2020 had an immediate effect on reducing the interest income generated by the Company's Federal Reserve clearing account. The clearing account interest rate was adjusted down to 0.25% in March 2020, and has been fluctuating at or below 0.25% since that time. As a result, the average yield factor on interest-bearing balances with other banks continued to have a negative impact on earnings, decreasing interest income by \$215 in 2021, as compared to a \$1,285 decrease in interest income during 2020.

Average securities of \$171,157 at year-end 2021 represented a 34.4% increase from the \$127,321 in average securities at year-end 2020. The significant surge in deposits during 2021 was a result of various government stimulus programs that produced heightened levels of excess liquidity. The Company utilized a portion of these excess funds to purchase investment securities. Average taxable securities in 2021 increased 37.6% over the prior year, particularly from purchases of U.S. Government, Agency and Agency mortgage-backed securities. As a result, the composition of average taxable securities grew to 14.1% of average earning assets at year-end 2021, as compared to 11.6% at year-end 2020. Average tax exempt securities were down 6.3% from the prior year, largely related to maturities of state and municipal investments. As a result, the composition of average state and municipal investments trended down to 0.8% of average earning assets at year-end 2021, as compared to 0.9% at year-end 2020. Management

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continues to focus on generating loan growth as loans provide the greatest return to the Company. Management also maintains securities at a dollar level adequate enough to provide ample liquidity and cover pledging requirements.

Net interest income was negatively impacted by loans, particularly with the decrease in average yield. The decrease in short-term rates in March 2020 had a direct impact on the repricing of a portion of the Company's loan portfolio that contributed to lower earnings in 2021. This decreased the average loan yield by 32 basis points to 5.05% at year-end 2021, as compared to 5.37% at year-end 2020, which caused FTE interest income to decrease by \$2,639 during 2021. Partially offsetting the effects from loan yields was a \$30,247, or 3.7%, increase in average loans, which contributed to \$1,587 in additional FTE interest income during 2021 compared to 2020. This growth came predominantly from the commercial real estate and commercial and industrial loan segments. This was due to positive loan demand occurring within the Company's primary market areas, particularly Athens and Pike counties in Ohio and Cabell County in West Virginia. While the Company experienced origination increases of government-guaranteed PPP loans in 2020, and to a smaller extent in early 2021, the payoffs of those loans were experienced during the second half of 2021, causing an average balance decrease in PPP loans in 2021 compared to 2020. While average loans increased in 2021, interest-bearing deposits with other banks and investment securities experienced more accelerated growth in 2021. As a result, the Company's average loan composition decreased to 73.3% of average earning assets at year-end 2021, as compared to 79.8% for 2020.

Net interest income was positively impacted by a decline in the average cost of interest-bearing liabilities, particularly with the Company's time deposits, during 2021. The short-term rate decrease from 2020 had a direct impact in lowering CD rate offerings. However, there was a lagging effect to the impact that this market rate decrease had on reducing time deposit expense. As CD rates have repriced downward, the Company benefited from lower interest expense only to the extent that new CDs at lower rates were issued. As CDs continued to rollover into lower rates during the second half of 2020 and all of 2021, a greater reduction to interest expense on time deposits was recognized. As a result, the average cost of time deposits decreased 74 basis points from 1.75% in 2020 to 1.01% in 2021, which contributed to a \$1,483 decrease in interest expense for the year. This is compared to a \$427 decrease in interest expense during 2020. Lower CD rates have also generated less consumer demand for CD products. As a result, the average time deposit segment decreased \$11,337, or 5.4%, during 2021, which led to a decrease in the composition of average time deposits from 30.8% of interest-bearing liabilities at year-end 2020 to 26.9% at year-end 2021.

Lower interest rates also had a significant impact on core deposit segments that include negotiable order of withdrawal ("NOW"), savings and money market accounts. Interest expense was significantly impacted by a decrease in the average costs of this core group of interest-bearing liabilities, particularly savings and money market accounts. This is largely due to the short-term rate cuts made by the FRB in March 2020 that influenced the repricing of various deposit products into 2021. These repricing efforts in a lower rate environment have contributed to lower average costs in 2021. This includes the rate reduction associated with the Company's prime investment deposit account, which contributed to a \$542 decrease in money market interest expense during 2021. As a result, the average cost of savings and money market accounts decreased from 0.36% in 2020 to 0.09% in 2021, which led to a \$794 decrease in interest expense during 2021. Conversely, customer deposits continued to increase during 2021 within these core deposit segments impacted by stimulus relief monies and a consumer preference to preserve these customer deposit proceeds during the pandemic. As a result, average balances during 2021 increased 19.5% within NOW accounts and 15.7% within savings and money market accounts, altogether representing 68.5% of average interest-bearing liabilities in 2021, as compared to 63.4% in 2020.

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In addition, the Company's average other borrowings and subordinated debentures collectively decreased \$5,852, or 14.5%, during 2021. The decrease was related to the principal repayments applied to various FHLB advances. Borrowings and subordinated debentures continue to represent the smallest composition of average interest-bearing liabilities, finishing at 4.6% and 5.9% at the end of 2021 and 2020, respectively.

Total interest and fee income on average earning assets decreased \$1,423, or 3.1%, during 2021, and \$4,133, or 8.1%, during 2020. The decreases in earnings were largely the result of a decline in market rates during the second half of 2019 and in March 2020 partially offset by loan fee increases during 2021. The Company's interest and fees from its consumer loan portfolio decreased \$376, or 3.6%, during 2021. The decrease was primarily the result of lower consumer loan yields and a decrease in average automobile loans. As a result, consumer loan interest decreased \$358 and consumer loan fees decreased \$18 during 2021. During 2020, consumer loan interest and fees decreased \$1,726, or 14.3%. The decrease was also impacted by lower consumer yields, as well as a decrease in average automobile and home equity loan balances, which contributed to an \$804 decrease in consumer loan interest during 2020. Consumer loan fees also decreased \$922 during 2020. The decrease was primarily due to a change in the Company's business model with Loan Central that was necessary to comply with new regulations, which resulted in Loan Central not assessing any loan fees for tax refund loan advances during 2020. Rather, Loan Central began assessing a fee for preparing a tax return in combination with a reduced loan fee. The fee income for preparing the tax return was recorded as noninterest income.

The Company's interest and fees from its commercial loan portfolio increased \$1,387, or 7.0%, during 2021. The increase was impacted by higher average commercial loan balances that completely offset the negative impact of lower commercial loan yields. Commercial loan demand was successful in generating an average balance increase of 14.0% within the Company's commercial real estate and commercial and industrial portfolios. Balance increases were driven by a \$48,035 increase in average commercial loans from the Company's Pike and Athens counties in Ohio and Cabell County in West Virginia. Further impacting commercial revenue during 2021 was a \$728 increase in loan fees. The Company has participated in the PPP since 2020 as part of the government's relief program for businesses impacted by COVID-19. These originations began in the second quarter of 2020, with another round added during the first quarter of 2021. The majority of PPP loan originations from both rounds had paid off by year-end 2021. This resulted in the income recognition of \$1,184 in PPP loan fees from the SBA during 2021, an increase of \$479 in PPP fees over 2020. During 2020, the Company's commercial loan interest and fees decreased by \$157, or 0.8%. The decrease was impacted by lower commercial loan yields that completely offset the positive impacts of higher average commercial loan balances and higher commercial loan fees during 2020. Commercial loan yields were negatively impacted by the low rate environment in 2020. Average commercial loans grew by 17.2% and came primarily from \$35,141 in PPP loan originations. Loan fees of \$1,175 were collected from the SBA during this first round of PPP loans in 2020, of which, \$705 were recorded to fee income. While PPP loans contributed to higher commercial loan balances in 2020, they also had a dilutive effect on loan yields as a result of the 1% interest rate associated with each loan.

The Company's interest and fees from its residential real estate loan portfolio decreased \$2,113, or 16.2%, during 2021. The decrease was impacted by lower average balances, yields and fees on the residential real estate loan portfolio during 2021. Residential real estate loan yields were negatively impacted by a sustained low rate environment in 2021. Lower average residential real estate loan balances in 2021 came mostly from the Bank's warehouse lending volume. Warehouse lending consists of a line of credit provided by the Bank to another mortgage lender that makes loans for the purchase of one- to four-family residential real estate properties. The mortgage lender eventually sells the loans and repays

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CONSOLIDATED AVERAGE BALANCE SHEET & ANALYSIS OF NET INTEREST INCOME

| Table I | December 31 | | | | | |
|--|---------------------|--------------------|-------------------|---------------------|--------------------|-------------------|
| | 2021 | | | 2020 | | |
| (dollars in thousands) | Average Balance | Income/ Expense | Yield/ Average | Average Balance | Income/ Expense | Yield/ Average |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing balances with banks | \$ 136,071 | \$ 195 | 0.14% | \$ 78,211 | \$ 274 | 0.35% |
| Securities: | | | | | | |
| Taxable | 162,511 | 2,179 | 1.34 | 118,090 | 2,409 | 2.04 |
| Tax exempt | 8,646 | 297 | 3.44 | 9,231 | 359 | 3.90 |
| Loans | 841,681 | 42,519 | 5.05 | 811,434 | 43,571 | 5.37 |
| Total interest-earning assets | 1,148,909 | 45,190 | 3.93% | 1,016,966 | 46,613 | 4.58% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 14,739 | | | 13,619 | | |
| Other nonearning assets | 77,254 | | | 73,395 | | |
| Allowance for loan losses | (7,101) | | | (7,789) | | |
| Total noninterest-earning assets ... | 84,892 | | | 79,225 | | |
| Total assets | \$ 1,233,801 | | | \$ 1,096,191 | | |
| Liabilities and Shareholders' Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | \$ 211,636 | \$ 680 | 0.32% | \$ 177,170 | \$ 618 | 0.35% |
| Savings and money market | 299,129 | 265 | 0.09 | 258,434 | 932 | 0.36 |
| Time deposits | 200,572 | 2,032 | 1.01 | 211,909 | 3,704 | 1.75 |
| Other borrowed money | 26,064 | 564 | 2.16 | 31,916 | 729 | 2.28 |
| Subordinated debentures | 8,500 | 158 | 1.86 | 8,500 | 208 | 2.44 |
| Total int.-bearing liabilities | 745,901 | 3,699 | 0.49% | 687,929 | 6,191 | 0.90% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposit accounts | 331,027 | | | 258,802 | | |
| Other liabilities | 18,042 | | | 18,422 | | |
| Total noninterest-bearing liabilities | 349,069 | | | 277,224 | | |
| Shareholders' equity | 138,831 | | | 131,038 | | |
| Total liabilities and shareholders' equity | \$ 1,233,801 | | | \$ 1,096,191 | | |
| Net interest earnings | | \$ 41,491 | | | \$ 40,422 | |
| Net interest margin | | | 3.61% | | | 3.97% |
| Net interest rate spread | | | 3.44% | | | 3.68% |
| Average interest-bearing liabilities to average earning assets | | | 64.92% | | | 67.65% |

Fully taxable equivalent yields are reported for tax exempt securities and loans and calculated assuming a 21% tax rate, net of nondeductible interest expense. Tax-equivalent adjustments for securities during the years ended December 31, 2021 and 2020 totaled \$61 and \$73, respectively. Tax-equivalent adjustments for loans during the years ended December 31, 2021 and 2020 totaled \$417 and \$367, respectively. 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.

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RATE VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME & EXPENSE

Table II

(dollars in thousands)

| | 2021 | | | 2020 | | |
|--|--|-------------------|-----------------|--|-------------------|-------------------|
| | Increase (Decrease) From Previous Year Due to | | | Increase (Decrease) From Previous Year Due to | | |
| | Volume | Yield/Rate | Total | Volume | Yield/Rate | Total |
| <u>Interest income</u> | | | | | | |
| Interest-bearing balances with banks | \$ 136 | \$ (215) | \$ (79) | \$ 287 | \$ (1,285) | \$ (998) |
| Securities: | | | | | | |
| Taxable..... | 744 | (974) | (230) | 14 | (540) | (526) |
| Tax exempt..... | (22) | (40) | (62) | (64) | (9) | (73) |
| Loans..... | 1,587 | (2,639) | (1,052) | 2,048 | (4,584) | (2,536) |
| Total interest income..... | 2,445 | (3,868) | (1,423) | 2,285 | (6,418) | (4,133) |
| <u>Interest expense</u> | | | | | | |
| NOW accounts | 114 | (52) | 62 | 49 | 31 | 80 |
| Savings and money market | 127 | (794) | (667) | 111 | (469) | (358) |
| Time deposits | (189) | (1,483) | (1,672) | (67) | (427) | (494) |
| Other borrowed money | (128) | (37) | (165) | (125) | (29) | (154) |
| Subordinated debentures | ---- | (50) | (50) | ---- | (148) | (148) |
| Total interest expense | (76) | (2,416) | (2,492) | (32) | (1,042) | (1,074) |
| Net interest earnings | \$ 2,521 | \$ (1,452) | \$ 1,069 | \$ 2,317 | \$ (5,376) | \$ (3,059) |

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. The tax exempt securities and loan income is presented on an FTE basis. FTE yield assumes a 21% tax rate, net of related nondeductible interest expense.

the Bank. As mortgage refinancings reached their peak during the second half of 2020, the volume of warehouse lending balances decreased to zero at June 30, 2021. As a result, average warehouse lending balances decreased from \$25,110 in 2020 to \$7,214 in 2021. The sustained low rate environment combined with less mortgage refinancings also contributed to a shift into more long-term fixed-rate mortgages (up \$4,284) and less short-term adjustable-rate mortgages (down \$11,044) during 2021. Lower real estate loan fees were the result of fewer loan modifications during 2021. During 2020, residential real estate loan interest and fees decreased by \$679, or 5.0%. The change in 2020 was impacted by lower residential real estate loan yields that completely offset higher loan fees. Residential real estate loan yields were negatively impacted by the low rate environment in 2020. The impact of lower loan yields completely offset a \$132 increase in loan fees during 2020. Higher loan fees were largely the result of loan modifications that were generated under the CARES Act. The low interest rate environment in 2020 caused a significant amount of mortgage refinancings to occur. As a result, the Company experienced a portfolio shift from payoffs and maturities within its long-term fixed-rate mortgages to new short-term adjustable-rate mortgages during 2020. Furthermore, the Company sold a portion of its long-term, fixed-rate real estate loans to the Federal Home Loan Mortgage Corporation, while retaining the servicing rights

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for those mortgages. This strategy was successful in generating a significant amount of loan sale and servicing fee revenue within noninterest income during 2020.

The Company's interest income from taxable investment securities decreased \$230, or 9.6%, in 2021 and \$526, or 17.9%, in 2020. For 2021, the Company took opportunities to reinvest a portion of excess deposits into new U.S. Government, U.S. Government sponsored entity and Agency mortgage-backed securities, which contributed to a \$44,421 increase in average taxable securities. However, the positive impacts from higher average taxable securities was completely offset by a 70 basis point decline in taxable securities yield from 2.04% to 1.34%. This was primarily due to investment purchases and reinvestment of maturities at market rates lower than the average portfolio yield. For 2020, the decrease in income on taxable securities was heavily influenced by the short-term rate decreases from March 2020 in response to COVID-19.

Total interest expense incurred on the Company's interest-bearing liabilities decreased \$2,492, or 40.3%, during 2021, and \$1,074, or 14.8%, during 2020. The decreases in interest expense during 2021 and 2020 were largely the result of a decline in market rates during March 2020. The Company's strategy continues to focus on funding earning asset growth with lower cost, core deposit funding sources to further reduce, or limit growth in, interest expense. With the FRB's action to reduce short-term rates in 2020, the Bank saw many of its interest-bearing deposit products reprice downward. This led to a decrease in the Company's weighted average costs from 0.90% at year-end 2020 to 0.49% at year-end 2021. This caused the interest cost on most deposit products to decrease during 2020 and 2021. However, the pace of interest expense savings was slowed during 2020 due to a lag in repricing on deposits. Given the Company's asset-sensitivity, decreases in short-term interest rates had a negative impact on net interest income in that interest-earning assets repriced faster than interest-bearing liabilities. This delayed the positive impact that lower market rates had on reducing deposit expense during most of 2020, particularly with CDs. The Company can only benefit from lower CD interest expense to the extent that new CDs at lower rates could be issued. As CD rates have continued to reprice downward, the Company has experienced more of an interest expense savings in 2021 than in 2020. The Company's repricing efforts continued in 2021 with a rate reduction to the Company's prime investment deposit account, which had a significant impact in lowering money market expense during 2021. Lower rates on deposits also contributed to less of a consumer demand for CDs in 2020 and 2021, which caused a shift into more NOW, savings and money market balances. This composition shift from higher-cost CDs to lower-cost NOW, savings and money market accounts helped to reduce the Company's interest expense during 2020 and 2021.

The Company's interest expenses were also impacted by other borrowed money and subordinated debentures, which were down collectively by \$215, or 22.9%, during the year ended 2021, and \$302, or 24.4% during the year ended 2020. The decreases were primarily from the average balance decrease in FHLB borrowings caused by principal repayments during both 2020 and 2021, and the average cost decrease of subordinated debentures during both periods.

During 2021, the Company's net interest margin was negatively impacted by the decreasing market rates that contributed to lower earning asset yields. The negative impact from 2020's interest rate cuts by the FRB materially reduced interest income on earning assets during 2021. The margin was also negatively impacted by a larger amount of excess deposits being maintained at the Federal Reserve yielding below 0.25%. However, the margin benefited from a larger reduction to interest costs in 2021 due to the lagging effect in CD rates that limited cost savings in 2020. These factors contributed to a decline in the net interest margin from 3.97% in 2020 to 3.61% in 2021. The Company's primary focus is to invest its funds into higher-yielding assets, particularly loans, as opportunities arise. However, if loan balances do not continue to expand and remain a larger component of overall earning assets, the Company will face pressure within its net interest income and margin improvement.

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PROVISION EXPENSE

Credit risk is inherent in the business of originating loans. The Company sets aside an allowance for loan losses through charges to income, which are reflected in the consolidated statement of income as the provision for loan losses. Provision for loan loss is recorded to achieve an allowance for loan losses that is adequate to absorb losses in the Company's loan portfolio. Management performs, on a quarterly basis, a detailed analysis of the allowance for loan losses that encompasses loan portfolio composition, loan quality, loan loss experience and other relevant economic factors.

The Company's provision expense decreased \$3,399 from 2020 to 2021 in large part due to the addition of a new risk reserve allocation in March 2020 for COVID-19 that was less impactful in 2021. The risk factor was necessary to account for the changes in economic conditions resulting from increases in unemployment that would produce higher anticipated losses as a result of COVID-19. Given that the economic scenarios deteriorated significantly since the pandemic was declared in early March 2020, it was determined the credit risk in the loan portfolio had increased, resulting in the need for an additional reserve for credit loss. As a result, the general reserve allocation related to COVID-19 totaled \$2,315 at December 31, 2020, which had a corresponding impact to provision expense. During 2021, the Company did not experience any significant charge-offs related to COVID-19, but continued to monitor the related economic effects that the pandemic had on the allowance for loan losses. At December 31, 2021, the general reserve allocation related to COVID-19 totaled \$2,633.

Provision expense during 2021 was further impacted by a \$1,332, or 83.8%, decrease in net-charge offs on loans that had not already been specifically allocated for in prior years. Gross charge-offs totaled \$1,481 during 2021, a decrease of \$1,552 compared to 2020. Lower gross charge-offs during 2021 were experienced primarily within the commercial real estate and consumer loan portfolios.

Excluding the risk factors from COVID-19, the Company also recognized lower provision expense from general allocations during 2021. The Company's general allocation evaluates several factors that include: loan volume, average historical loan loss trends, credit risk, regional unemployment conditions, asset quality, and changes in classified and criticized assets. Provision expense decreases arising from general allocations were mostly impacted by a decrease in the Company's historical loan loss factor, which trended down from 0.24% at year-end 2020 to 0.18% at year-end 2021. Further contributing to lower provision expense were decreases in loan balances generally allocated for at December 31, 2021 compared to December 31, 2020, primarily within the residential real estate loan portfolio. The risk associated with the decline in loans generated lower general reserves and a corresponding decrease to provision expense. Lower provision expense during 2021 also came from decreases in both criticized and classified assets, as well as lower nonperforming loans that yielded less general allocations. Criticized and classified assets within the commercial loan portfolio collectively decreased \$4,610, or 28.2%, from year-end 2020 to year-end 2021. Furthermore, the Company's nonperforming loans to total loans were 0.56% at year-end 2021, as compared to 0.82% at year-end 2020, while nonperforming assets to total assets were 0.37% at year-end 2021 and 0.59% at year-end 2020.

Partially offsetting the decreasing effects to provision expense mentioned above were higher specific allocations. Specific allocations of the allowance for loan losses identify loan impairment by measuring fair value of the underlying collateral and the present value of estimated future cash flows. The provision expense for specific allocations increased \$315 during 2021 in large part to unused reserve allocations from 2020. During the first quarter of 2020, charge-offs of \$502 were taken on two commercial real estate properties that contained an \$807 specific allocation from the prior year. As a result, \$305 of the unused specific reserve was reversed from the allowance for loan losses. Therefore, provision expense was lowered by \$305 in 2020 due to the unused reserve, which had a reverse impact to higher provision expense in 2021.

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Management believes that the allowance for loan losses was adequate at December 31, 2021, and reflected probable incurred losses in the portfolio. The allowance for loan losses was 0.78% of total loans at December 31, 2021, as compared to 0.84% at December 31, 2020. 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, particularly with respect to COVID-19, could cause further increases in the required allowance for loan losses and require additional provision expense. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well. Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail below under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

NONINTEREST INCOME

During 2021, total noninterest income decreased \$1,574, or 13.8%, as compared to 2020. The decrease in noninterest revenue was primarily impacted by proceeds of \$2,000 received in a litigation settlement with a third-party in 2020. During the first quarter of 2020, the Bank entered into a settlement agreement related to the previously disclosed litigation the Bank had filed against a third-party tax software product provider for breach of contract. Under the settlement agreement, the third-party paid a \$2,000 settlement payment to the Bank in March 2020, which was recorded as noninterest income. As part of the settlement agreement, the Bank is processing a certain amount of tax items, which started in 2021 and will end in 2025. As a result, the Bank recognized \$675 in ERC/ERD income during 2021, which helped to partially offset the effects of the settlement proceeds received in 2020.

Noninterest income during 2021 was also impacted by losses of \$1,066 realized on the sale of investment securities. During the fourth quarter of 2021, the Company received proceeds of \$47,666 from the sale of thirteen securities totaling \$48,732 at a weighted average yield of 0.89%. The lower-yielding securities were replaced with similar securities with a higher weighted average yield of 1.30%. The transaction is expected to increase future income and have a positive impact to the margin.

Noninterest income was negatively impacted by a decrease in mortgage banking income affected by a lower volume of real estate loans sold to the secondary market in 2021. To help manage consumer demand for longer-term, fixed-rate real estate mortgages during a low interest rate environment, the Company will sell a portion of the real estate loan volume it originates during that period. The decision to sell long-term fixed-rate mortgages at lower rates will also help to minimize the interest rate risk exposure to rising rates. Market rates in 2020 were decreased in response to the pandemic, and as a result, the Company experienced a significant increase in the number of loans sold to the secondary market during that time. This period of significant mortgage refinancings generated more income during 2020 than 2021, which contributed to a \$400, or 31.9%, decrease in mortgage banking income during the year ended December 31, 2021, as compared to the same period in 2020.

Noninterest income was positively impacted in 2021 by an increase in the Company's interchange income from a higher volume of transactions and new card issuances of its debit and credit card products. This was largely impacted by the economic stimulus proceeds received by customers due to the COVID-19 pandemic that has increased consumer spending. As a result, debit and credit card interchange income increased \$613, or 15.2%, during 2021, as compared to 2020.

Other noninterest income also increased \$167, or 21.4%, during 2021, as compared to 2020. This was primarily impacted by the sale of Bank owned property during 2021, which contributed to a \$193 increase in the gains on property sales. The increases were impacted by the sale of vacant land in

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Lawrence County, Ohio and a branch building in Jackson, Ohio that had been acquired as part of the merger with the Milton Banking Company in 2016.

Noninterest income was also positively impacted in 2021 by an increase in the Company's tax preparation fee income, which was up \$110, or 17.1%, during the year ended December 31, 2021, as compared to the same period in 2020. As previously discussed, the Company changed its business model in 2020 from assessing TAL fees to assessing tax preparation fees in response to a state law enacted in 2019. By charging for the tax preparation services, the Company recorded \$754 in tax preparation fee income during the year ended December 31, 2021, as compared to \$644 during the same period in 2020.

The Company's remaining noninterest income categories increased \$327, or 12.0%, during the year ended 2021 as compared to 2020. This was in large part due to a \$179 increase in service charges on deposits, impacted by a surge in consumer spending during 2021. The Company also experienced an \$84 increase in income from bank owned life insurance ("BOLI") and annuity assets during 2021, in part due to BOLI death benefit proceeds received in 2021.

NONINTEREST EXPENSE

Management continues to work diligently to minimize noninterest expense. For 2021, total noninterest expense increased \$1,147, or 3.2%, as compared to 2020. The Company's largest noninterest expense item, salaries and employee benefits, was limited to a \$13, or 0.1%, increase during 2021. This minimal change in expense was partly impacted by the costs associated with the severance package payout of an employee from September 2020 that had a reverse effect in 2021. Expense savings were also impacted by a lower employee base, with the Bank's average full-time equivalent employee base at 233 employees at year-end 2021 compared to 241 employees at year-end 2020. This cost savings helped to offset the expenses associated with annual merit increases associated with the improved financial performance achieved in 2021.

The Company also experienced an increase in software expense during 2021, which was up \$404, or 27.8%, over the year ended 2020. The increase was primarily related to the purchase of software to enhance the platform used for the loan origination process. Software cost increases were also impacted by the use of a portal to process PPP loans during 2021. The loan portal costs were completely offset by the PPP loan fees that were recorded during 2021.

Data processing expense also increased \$236, or 10.9%, during 2021. Higher costs in this category were the direct result of the large volume increase in debit and credit card transactions, which increased processing costs. Transaction volume can be partly tied to the various stimulus programs offered by the government that benefited the consumer during 2021.

Also contributing to higher noninterest expense were the Company's marketing costs, which increased \$213, or 34.8%, during 2021 compared to 2020. During 2020, COVID-19 significantly disrupted consumer behavior and caused banking center lobbies to be limited or closed. As a result, the opportunities to advertise and promote the brand of the Company were very limited in 2020. The pandemic environment, consisting of social distancing, self-quarantining and remote working arrangements, slowed many of the marketing goals that were set in 2020, which led to lower expense during that time. The Company resumed its marketing campaigns during 2021, with less of an impact from the pandemic-related factors of the previous year.

FDIC insurance costs were up \$161, or 97.6%, during 2021 compared to 2020. During 2020, the Bank utilized its remaining FDIC credits that were issued in September 2019. The Bank's FDIC assessments during the first half of 2020 were reduced by \$115 in credits. The Bank fully exhausted all of its credits as of June 30, 2020 and did not recognize any premium expense discounts during the rest of 2020.

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

Other noninterest expense increased \$129, or 2.4%, during 2021 compared to 2020. During the fourth quarter of 2021, the Company redeemed \$3,187 in long-term FHLB advances that had been used to fund fixed rate loans. The specific loans being funded were paid off, which permitted the Company to redeem the advances. By redeeming the advances, a prepayment penalty of \$186 was incurred, which contributed to the increase in other noninterest expense. Also impacting other noninterest expense were various overhead costs from Race Day, including loan expense and consulting fees, being offset by a reduction in the Bank's customer incentive costs during 2021.

The remaining noninterest expense categories decreased \$9, or 0.2%, during the year-ended 2021, as compared to 2020.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. The effects from provision expense are excluded from the efficiency ratio. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. During 2021, the Company's asset yields were negatively impacted by market rate reductions related to COVID-19. Growth in average earning assets, higher loan fees, and redeploying excess Federal Reserve Bank balances into securities helped to generate a 2.6% increase in net interest income. However, this increase was completely offset by a 13.8% decrease in noninterest income, which was impacted by the receipt of \$2,000 in litigation proceeds in 2020 and \$1,066 in realized losses from the sale of securities in 2021. This was also combined with a 3.2% increase in overhead costs impacted by higher software, data processing and marketing expenses during 2021. As a result, the Company's efficiency number increased (regressed) from 69.67% at December 31, 2020, to 72.59% at December 31, 2021.

PROVISION FOR INCOME TAXES

The provision for income taxes during 2021 totaled \$2,284, compared to \$2,048 in 2020. The effective tax rates for 2021 and 2020 were 16.3% and 16.6%, respectively. The decrease in the effective tax rate in 2021 was mostly impacted by additional costs associated with certain nondeductible retirement benefit plans during 2020.

FINANCIAL CONDITION:

CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consist of cash, as well as interest- and non-interest bearing balances due from other banks. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At December 31, 2021, cash and cash equivalents had increased \$13,731 to \$152,034, compared to \$138,303 at December 31, 2020. The increase in cash and cash equivalents came mostly from higher interest-bearing deposits on hand with correspondent banks. At December 31, 2021, the Company's interest-bearing Federal Reserve clearing account represented over 89% of cash and cash equivalents. The Company utilizes its interest-bearing Federal Reserve clearing account to manage excess funds, as well as to assist in funding earning asset growth. The primary factor for the significant influx in clearing account balances was the investment of heightened deposit balances received during 2021 as a result of the pandemic environment. At December 31, 2021, total deposits increased \$66,169 from year-end 2020 in relation to customers receiving stimulus funds from various government programs and their desire to preserve cash during the uncertain economic environment. Furthermore, several congressional acts led to the extension of the PPP loan program during the first half of 2021. Under the reopened PPP, commercial business customers received loan proceeds, which helped to generate higher levels of investable deposits during the first quarter of 2021. During the second quarter

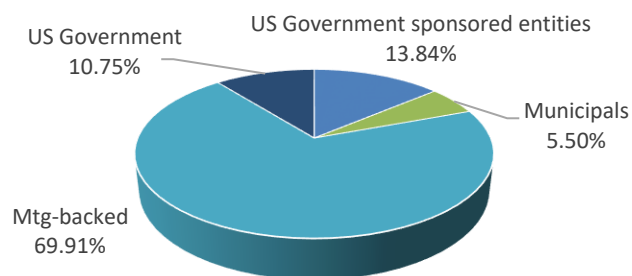
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

of 2021, the Company utilized a portion of its clearing account balances and proceeds from the payoffs of PPP loans to reinvest in higher-yielding investment securities. This redeployment of assets from year-end 2020 into higher-yielding investment securities lowered the dilutive effect that higher clearing account balances was having on the net interest margin. The interest rate paid on both the required and excess reserve balances of the Federal Reserve Bank account is based on the targeted federal funds rate established by the Federal Open Market Committee. During the first quarter of 2020, the rate associated with the Company’s Federal Reserve Bank clearing account decreased 150 basis points due to concerns about the impact of COVID-19 on the economy, resulting in a target federal funds rate range of 0% to 0.25%. Although interest-bearing deposits in the Federal Reserve Bank are the Company's lowest-yielding interest-earning asset, the investment rate is higher than the rate the Company would have received from its investments in federal funds sold. Furthermore, Federal Reserve balances are guaranteed by the U.S. Government.

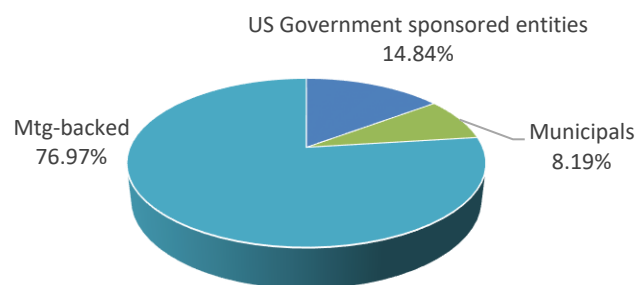
As liquidity levels continuously vary based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. The Company’s focus during periods of heightened liquidity will be to invest excess funds into longer-term, higher-yielding assets, primarily loans, when the opportunities arise. Further information regarding the Company’s liquidity can be found below under the caption “Liquidity” in this Management’s Discussion and Analysis.

Investment Portfolio Composition

at December 31, 2021



at December 31, 2020



the year ended 2021, the Company utilized a portion of its heightened excess deposits to purchase investment securities with the intent of minimizing the amount of funds being maintained within the lower-yielding interest-bearing Federal Reserve clearing account. This resulted in \$75,231 of new Agency mortgage-backed securities, while receiving principal repayments of \$35,976. The monthly repayment of principal has been the primary advantage of Agency mortgage-backed securities as compared to other

CERTIFICATES OF DEPOSIT IN FINANCIAL INSTITUTIONS

At December 31, 2021, the Company had \$2,329 in CDs owned by the Captive, down \$171, or 6.8%, from year-end 2020. The deposits on hand at December 31, 2021, consist of ten certificates with remaining maturity terms ranging from less than 5 months up to 21 months.

SECURITIES

Management's goal in structuring its investment securities portfolio is to maintain a prudent level of liquidity and to provide an acceptable rate of return without sacrificing asset quality. During 2021, the balance of total securities increased \$64,952, or 53.1%, compared to year-end 2020. The Company’s investment securities portfolio is made up mostly of Agency mortgage-backed securities, representing 69.9% of total investments at December 31, 2021. During

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

types of investment securities, which deliver proceeds upon maturity or at a specified call date. The Company also used excess deposits to purchase \$20,224 in U.S. Government securities, \$8,900 in U.S. Government sponsored entity securities, and \$826 in state and municipal securities, net of maturities.

Furthermore, during the fourth quarter of 2021, the Company received proceeds of \$47,666 from the sale of thirteen securities totaling \$48,732. These securities carrying a weighted average yield of 0.89% were replaced with similar securities at a higher weighted average yield of 1.30%. While this sale and repurchase of securities resulted in a realized loss of \$1,066 with little change to the balance of earning assets, the Company will benefit from the shift to higher-yielding securities that is expected to increase future income and have a positive impact to the margin.

While short-term rates have remained low, the expectation of a rise in rates in the near future contributed to an increase in long-term reinvestment rates on securities during 2021. This led to a \$2,187 decrease in the net unrealized gain position associated with the Company's available for sale securities, which decreased the fair value of securities at December 31, 2021. The fair value of an investment security moves inversely to interest rates, so as reinvestment rates increased, the unrealized gain in the portfolio decreased. These changes in rates are typical and do not impact earnings of the Company as long as the securities are held to full maturity.

Maturing securities provided the Company with sufficient liquidity in 2020 and 2021 so as to obviate the need for other sources of fundraising, such as debt offerings.

During the first quarter of 2020, short-term rates increased in large part due to COVID-19. As a result, the weighted average FTE yield on debt securities decreased from 2.11% at December 31, 2020 to 1.37% at December 31, 2021. The Company's focus will be to generate interest revenue primarily through loan growth, as loans generate the highest yields of total earning assets. Table III provides a summary of the securities portfolio by category and remaining contractual maturity. Issues classified as equity securities have no stated maturity date and are not included in Table III.

SECURITIES

Table III

| As of December 31, 2021 (dollars in thousands) | MATURING | | | | | | | |
|---|--------------------|--------------|------------------------------------|--------------|------------------------------------|--------------|------------------|--------------|
| | Within One Year | | After One but Within Five Years | | After Five but Within Ten Years | | After Ten Years | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| U.S. Government securities | \$ ---- | ---- | \$ 14,072 | 1.16% | \$ 6,071 | 1.22% | \$ ---- | ---- |
| U.S. Government sponsored entity securities | 4,018 | 1.82% | 8,032 | 1.66% | 13,866 | 1.43% | ---- | ---- |
| Obligations of states and political subdivisions..... | 234 | 5.11% | 4,366 | 3.96% | 3,419 | 2.58% | 2,429 | 2.82% |
| Agency mortgage-backed securities, residential | 187 | 2.52% | 53,456 | 2.38% | 69,592 | 1.50% | 7,708 | 2.01% |
| Total securities | <u>\$ 4,439</u> | <u>2.02%</u> | <u>\$ 79,926</u> | <u>2.18%</u> | <u>\$ 92,948</u> | <u>1.51%</u> | <u>\$ 10,137</u> | <u>2.20%</u> |

Tax-equivalent adjustments of \$61 have been made in calculating yields on obligations of states and political subdivisions using a 21% 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 fair values, which include the market value adjustments for available for sale securities.

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

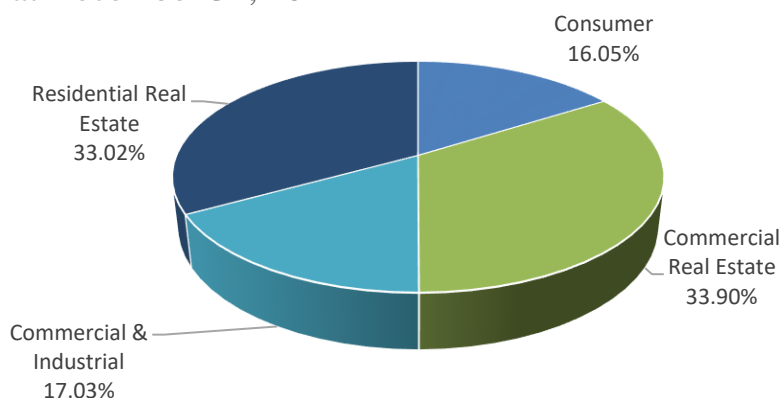
LOANS

In 2021, the Company's primary category of earning assets and most significant source of interest income, total loans, decreased \$17,473, or 2.1%, to \$831,191. The decrease in loan balances from year-end 2020 came primarily from the residential real estate and commercial and industrial loan portfolios, being partially offset by balance increases in the commercial real estate and consumer loan portfolios.

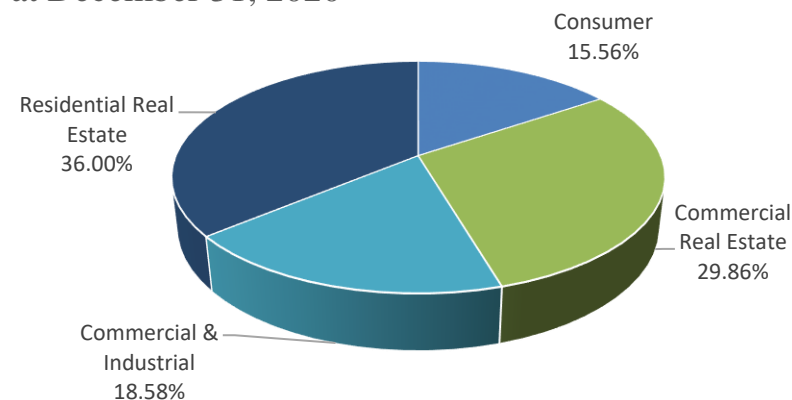
Generating residential real estate loans remains a significant focus of the Company's lending efforts. The residential real estate loan portfolio represents the largest class of the Company's overall loan portfolio at 33.0% and consists primarily of one-to-four family residential mortgages and carries many of the same customer and industry risks as the commercial loan portfolio. During 2021, residential real estate

loans decreased \$31,053, or 10.2%, as compared to year-end 2020. The decrease in residential real estate loans was largely from the Bank's warehouse lending volume. Warehouse lending consists of a line of credit provided by the Bank to another mortgage lender that makes loans for the purchase of one-to-four family residential real estate properties. The mortgage lender eventually sells the loans and repays the Bank. As mortgage refinances reached their peak during the second half of 2020, the volume of warehouse lending balances decreased to zero by the end of the second quarter of 2021, as compared to \$19,365 at year-end 2020. Furthermore, the low rate environment has contributed to a shift into more long-term fixed-rate mortgages (up \$211) and less short-term adjustable-rate mortgages (down \$16,444) at year-end 2021. As part of management's interest rate risk strategy, the Company sold the majority of its long-term fixed-rate residential mortgages to the Federal Home Loan Mortgage Corporation

Loan Portfolio Composition at December 31, 2021



Loan Portfolio Composition at December 31, 2020



during the heavy refinancing period, while maintaining the servicing rights for those mortgages.

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 commercial lending segment increased \$12,181, or 3.0%, from year-end 2020, which came mostly from commercial real estate loans. The commercial real estate loan segment comprised the largest portion of the Company's total commercial loan portfolio at December 31, 2021, representing 66.6% of such portfolio. Commercial real estate consists of owner-occupied, nonowner-occupied and construction loans. Owner-occupied loans consist of

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

nonfarm, nonresidential properties. A commercial owner-occupied loan is a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans of the Company include loans secured by hospitals, churches, and hardware and convenience stores. Nonowner-occupied loans are property loans for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property, such as apartment buildings, condominiums, hotels and motels. These loans are primarily impacted by local economic conditions, which dictate occupancy rates and the amount of rent charged. Commercial construction loans are extended to individuals as well as corporations for the construction of an individual property or multiple properties and are secured by raw land and the subsequent improvements. Commercial real estate also includes loan participations with other banks outside the Company's primary market area. Although the Company is not actively seeking to participate in loans originated outside its primary market area, it has taken 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. Commercial real estate loans totaled \$281,797 at December 31, 2021, an increase of \$28,348, or 11.2%, over the balance of commercial real estate loans at year-end 2020. Most of this growth came from owner- and nonowner-occupied loan originations, with balances collectively increasing \$31,693, or 14.7%, from year-end 2020. The increase came mostly from the Athens and Pike county market areas in Ohio and the Cabell county market area in West Virginia. Partially offsetting increases in the commercial owner- and nonowner-occupied loan segments were larger payoffs from construction loans related to one-to-four family residential homes, as well as multi-family residential and land development properties, which decreased \$3,345, or 9.0%, from year-end 2020.

Partially offsetting the growth in commercial real estate loans was a decrease of \$16,167, or 10.3%, in the commercial and industrial loan portfolio from year-end 2020. Commercial and industrial loans consist of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock. The commercial and industrial loan segment also includes PPP loan balances that had the largest impact to the decrease in this loan segment. In response to COVID-19 during the first quarter of 2020, the Company was authorized to originate PPP loans under the CARES Act, and then again during the first half of 2021. PPP loans have an interest rate of 1.0%, a two-year loan term to maturity, and principal and interest payments are deferred for six months from the date of disbursement. PPP loans are guaranteed by the SBA as long as the small business borrower meets certain criteria on the use of loan proceeds. Although a second round of PPP loans were initiated by the Bank during the first half of 2021, the Bank experienced a \$27,487 decrease in its PPP loan portfolio from year-end 2020. This was due to the payoffs of PPP loans from the initial round of originations in 2020 and the majority of the second round of originations during the first half of 2021. As a result, there were \$446 in PPP loans still outstanding as of December 31, 2021.

While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company, the effects of competitive pressure and normal underwriting considerations.

The Company's loan balances were also impacted by an increase in the consumer loan portfolio, which was up \$1,399, or 1.1%, from year-end 2020. The Company's consumer loans are primarily secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. As part of the Company's efforts to invest the heightened cash provided by the various stimulus programs, the Company purchased multiple pools of loans issued to healthcare professionals during the first half of 2021. In relation to the

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

purchase of these loans, the other consumer loan segment increased \$6,052, or 10.7%, from year-end 2020. Partially offsetting this increase was a decrease in automobile loan balances of \$7,035, or 12.7%, from year-end 2020. Automobile loans represent the Company's largest consumer loan segment at 36.1% of total consumer loans. Automobile loans decreased primarily as a result of COVID-19 and the stay-at-home orders that resulted in limited automobile sales within the Company's market areas during 2020. The pandemic environment continued to have a negative impact on auto loan originations in 2021 in part due to supply constraints that were impacted by a chip shortage. Further limiting the volume of automobile loan originations were heightened incentives being offered from the captive auto finance companies in response to the pandemic. The remaining consumer loan portfolio increased \$2,382, or 11.9%, from year-end 2020, from higher home equity lines of credit. The Company will continue to attempt to increase its auto lending segment while maintaining strict loan underwriting processes to limit future loss exposure. However, the Company will place more emphasis on loan portfolios (i.e. commercial and, to a smaller extent, residential real estate) with higher returns than auto loans. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return.

The Company will continue to follow its secondary market strategy until long-term interest rates increase to a range that falls within an acceptable level of interest rate risk for the Company. Furthermore, the Company will continue to monitor the pace of its loan volume and will remain consistent in its approach to sound underwriting practices with a focus on asset quality.

MATURITY AND REPRICING DATA OF LOANS

As of December 31, 2021

Table IV

(dollars in thousands)

| | Within One Year | After One but Within Five Years | After Five but Within Fifteen Years | After Fifteen Years | Total |
|--------------------------------------|--------------------|---------------------------------------|---|---------------------------|-------------------|
| Residential real estate loans..... | \$ 50,302 | \$ 151,515 | \$ 64,089 | \$ 8,519 | \$ 274,425 |
| Commercial real estate loans..... | 79,288 | 179,077 | 22,343 | 1,089 | 281,797 |
| Commercial and industrial loans..... | 47,305 | 41,272 | 27,823 | 25,125 | 141,525 |
| Consumer loans ⁽¹⁾ | 41,467 | 58,766 | 33,211 | ---- | 133,444 |
| Total loans..... | <u>\$ 218,362</u> | <u>\$ 430,630</u> | <u>\$ 147,466</u> | <u>\$ 34,733</u> | <u>\$ 831,191</u> |

| Loans maturing or repricing after one year with: | Variable Interest Rates | Fixed Interest Rates | Total |
|--|-------------------------------|----------------------------|-------------------|
| Residential real estate loans..... | \$ 162,762 | \$ 61,361 | \$ 224,123 |
| Commercial real estate loans..... | 188,442 | 14,067 | 202,509 |
| Commercial and industrial loans..... | 28,054 | 66,166 | 94,220 |
| Consumer loans ⁽¹⁾ | 218 | 91,759 | 91,977 |
| Total loans..... | <u>\$ 379,476</u> | <u>\$ 233,353</u> | <u>\$ 612,829</u> |

⁽¹⁾ Includes automobile, home equity and other consumer loans.

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

ALLOWANCE FOR LOAN LOSSES

Tables V and VI 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, which include loans classified as TDRs, are considered in the determination of the overall adequacy of the allowance for loan losses.

Management continues to focus on improving asset quality and lowering credit risk while working to maintain its relationships with its borrowers. During 2021, the Company's allowance for loan losses decreased \$677, or 9.5%, to \$6,483, compared to \$7,160 at year-end 2020. During 2021, the Company experienced a \$687 decrease in its general allocations of the allowance for loan losses. As part of the Company's quarterly analysis of the allowance for loan losses, management reviewed various factors that directly impact the general allocation needs of the allowance, which include: historical loan losses, loan delinquency levels, local economic conditions and unemployment rates, criticized/classified asset coverage levels and loan loss recoveries. A lower historical loan loss factor and lower criticized and classified assets were the key factors to the year-to-date drop in general allocations. The historical loan loss factor decreased from 0.24% at year-end 2020 to 0.18% at year-end 2021, while both the criticized and classified risk factors decreased as a result of various commercial loan upgrades from improvements in the financial performance of certain borrowers' ability to repay their loans. This contributed to lower criticized and classified assets from year-end 2021, particularly within the residential and commercial real estate segments. Additionally, the Company's delinquency levels decreased from year-end 2020, with nonperforming loans to total loans of 0.56% at December 31, 2021 compared to 0.82% at December 31, 2020, and lower nonperforming assets to total assets of 0.37% at December 31, 2021 compared to 0.59% at year-end 2020.

During the first quarter of 2020, the Company added a new risk factor to the evaluation of the allowance for loan losses pertaining to the COVID-19 pandemic. The risk factor was necessary to account for the changes in economic conditions resulting from increases in unemployment that were expected to produce higher anticipated losses as a result of COVID-19. The general reserve allocation related to COVID-19 totaled \$2,633 at December 31, 2021 as compared to \$2,315 at December 31, 2020. While the Company has yet to experience any significant charge-offs related to COVID-19, the continued uncertainty regarding the severity and duration of the pandemic and related economic effects will continue to impact the Company's estimate of its allowance for loan losses and resulting provision expense going forward.

Specific allocations of the allowance for loan losses identify loan impairment by measuring fair value of the underlying collateral and the present value of estimated future cash flows. At year-end 2021, the Company identified \$10 in impairment on loans being specifically evaluated, as compared to no impairment at year-end 2020. The change in specific reserves from year-end 2020 was primarily attributable to the loan impairments of one borrower relationship during the fourth quarter of 2021.

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

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Table V

(dollars in thousands)

| | Years Ended December 31 | |
|---|--------------------------------|-----------------|
| | 2021 | 2020 |
| Residential real estate loans | \$ 980 | \$ 1,480 |
| Percentage of loans to total loans | 33.02% | 36.00% |
| Percentage of net charge-offs to average loans..... | -.04% | .06% |
| Commercial real estate loans | 2,548 | 2,431 |
| Percentage of loans to total loans | 33.90% | 29.86% |
| Percentage of net charge-offs to average loans..... | -.07% | .19% |
| Commercial and industrial loans | 1,571 | 1,776 |
| Percentage of loans to total loans | 17.03% | 18.58% |
| Percentage of net charge-offs to average loans..... | -.04% | .09% |
| Consumer loans ⁽¹⁾ | 1,384 | 1,473 |
| Percentage of loans to total loans | 16.05% | 15.56% |
| Percentage of net charge-offs to average loans..... | .45% | 1.01% |
| Allowance for loan losses | <u>\$ 6,483</u> | <u>\$ 7,160</u> |
| Total loans percentage | <u>100.00%</u> | <u>100.00%</u> |
| Net charge-offs to average loans | <u>.03%</u> | <u>.26%</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 automobile, home equity and other consumer loans.

CREDIT RATIOS

Table VI

(dollars in thousands)

| | Years Ended December 31 | |
|---|--------------------------------|-------------|
| | 2021 | 2020 |
| Loans | \$ 831,191 | \$ 848,664 |
| Allowance for loan losses | 6,483 | 7,160 |
| Past due 90 days or more and still accruing | 290 | 424 |
| Nonaccrual..... | 4,346 | 6,503 |
| Allowance for loan losses to total loans | .78% | .84% |
| Nonaccrual loans to total loans | .52% | .77% |
| Allowance for loan losses to nonaccrual loans | 149.17% | 110.10% |

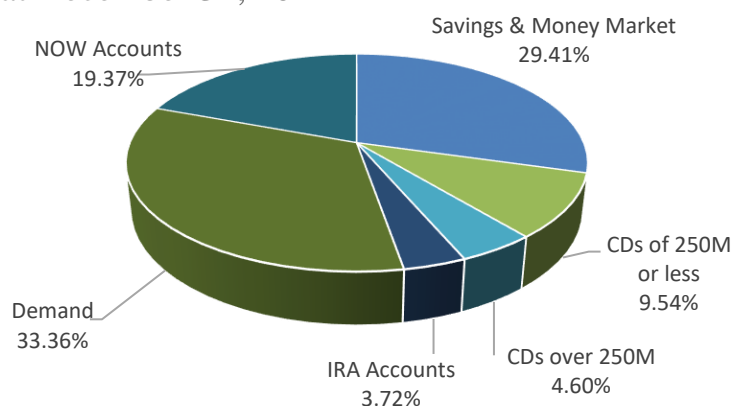
Management formally considers placing a loan on nonaccrual status when collection of principal or interest has become doubtful. Furthermore, generally, a loan is not returned to accrual status unless either all delinquent principal or interest has been brought current or the loan becomes well secured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

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

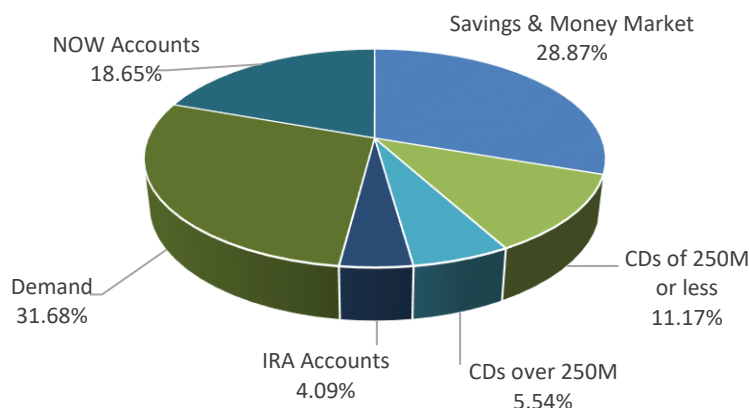
At December 31, 2021, the ratio of the allowance for loan losses decreased to 0.78%, compared to 0.84% at December 31, 2020. Management believes that the allowance for loan losses at December 31, 2021, was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, 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, particularly with respect to COVID-19, are factors that could change, and management will make adjustments to the allowance for loan losses as needed. Asset quality will continue to remain a key focus of the Company, as management continues to stress not just loan growth, but also quality in loan underwriting. Future provisions to the allowance for loan losses will continue to be based on management’s quarterly in-depth

evaluation that is discussed in further detail below under the caption “Critical Accounting Policies - Allowance for Loan Losses” within this Management’s Discussion and Analysis.

Composition of Total Deposits at December 31, 2021



at December 31, 2020



DEPOSITS

Deposits are used as part of the Company’s liquidity management strategy to meet obligations for depositor withdrawals, to 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. Deposits are attractive sources of funding because of their stability and general low cost as compared to other funding sources. 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 CD balances, as an alternative funding source to manage efficiently the net interest margin. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. Total deposits increased \$66,169, or 6.7%, from year-end 2020 to \$1,059,908 at December 31, 2021. This significant increase was largely attributable to the retention of proceeds from government stimulus programs, such as the PPP and

consumer economic impact payments received, and a more cautious consumer.

Total deposits consist mostly of “core” deposits, which include noninterest-bearing deposits, as well as interest-bearing demand, savings, and money market deposits. The Bank focuses on core deposit relationships with consumers from local markets who can maintain multiple accounts and services at the

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

Bank. The Company believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors. The increase in total deposits came primarily from noninterest-bearing balances, which increased \$38,801, or 12.3%, from year-end 2020. The increase came mostly from the Company's business and incentive-based checking account balances.

Higher deposits also came from interest-bearing deposits, which increased \$27,368, or 4.0%, from year-end 2020. The increase in interest-bearing deposit balances came mostly from the Company's savings deposits, which increased \$26,490, or 22.1%, from year-end 2020. The increase came primarily from higher statement savings account balances impacted by the government stimulus proceeds previously mentioned. NOW account balances were also up \$19,998, or 10.8%, from year-end 2020, largely driven by higher municipal NOW product balances within the Gallia County, Ohio, and Mason County, West Virginia, market areas. Interest-bearing deposit growth was partially offset by lower money market account balances, which were down \$1,741, or 1.0%, from year-end 2020. The deposit rate on the Company's Prime Investment money market account was reduced during the first quarter of 2021 in response to decreasing market rates in 2020. This contributed to a consumer shift from money market deposits into savings and noninterest-bearing deposit accounts.

Increases in interest-bearing deposit balances were partially offset by lower time deposits, which include CDs and individual retirement accounts. Total time deposits decreased \$17,379, or 8.4%, from year-end 2020. This decrease came largely from the Company's use of brokered and internet CD issuances. While the Company's preference is to fund earning asset demand with retail core deposits, wholesale deposits are utilized to help satisfy earning asset growth. Due to the heightened liquidity position from year-end 2020, brokered and internet CD issuances decreased \$12,111, or 35.4%. The Company will continue to evaluate its use of wholesale deposits to manage the Company's liquidity position and interest rate risk associated with longer-term, fixed-rate asset loan demand. The Company's retail CDs were also down \$5,268, or 3.1% from year-end 2020. The FRB reduced short-term rates by 150 basis points due to COVID-19, which contributed to the decline in product rate offerings during 2020 and 2021. This has contributed to the decrease in CD balances from year-end 2020.

The Company expects to continue to experience increased competition for deposits in its market areas, which could challenge its net growth. The Company will continue to emphasize growth and retention within its core deposit relationships during 2022, reflecting the Company's efforts to reduce its reliance on higher cost funding and improving net interest income.

OTHER BORROWED FUNDS

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund potential asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of FHLB advances and promissory notes. During 2021, other borrowed funds were down \$8,249, or 29.6%, from year-end 2020. The decrease was related primarily to the principal repayments applied to various FHLB advances during 2021. The decrease also included the redemption of \$3,187 in long-term FHLB advances during the fourth quarter of 2021 that had been used to fund fixed rate loans to manage interest rate risk. The specific loans being funded were paid off, which permitted the Company to redeem the advances. By redeeming the advances, a prepayment penalty of \$186 was incurred. The redemption of FHLB advances demonstrates management's emphasis on reducing interest expense on higher-cost funding sources. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize FHLB advances and promissory notes to help manage interest rate sensitivity and liquidity.

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

SUBORDINATED DEBENTURES

The Company received proceeds from the issuance of one trust preferred security on March 22, 2007, totaling \$8,500 at a fixed rate of 6.58%. The trust preferred security is now at an adjustable rate equal to the 3-month LIBOR plus 1.68%. The Company does not report the securities issued by the trust as a liability, but instead, reports as a liability the subordinated debenture issued by the Company and held by the trust.

OFF-BALANCE SHEET ARRANGEMENTS

As discussed in Notes I and L to the financial statements at December 31, 2021 and 2020, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements. Management does not anticipate that the Company's current off-balance sheet activities will have a material impact on the results of operations or financial condition.

CAPITAL RESOURCES

Federal regulators have classified and defined capital into the following components: (i) Tier 1 capital, which includes tangible shareholders' equity for common stock, qualifying preferred stock and certain qualifying hybrid instruments, and (ii) Tier 2 capital, which includes a portion of the allowance for loan losses, certain qualifying long-term debt, preferred stock and hybrid instruments which do not qualify as Tier 1 capital.

In September 2019, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies issued a final rule providing simplified capital requirements for certain community banking organizations (banks and holding companies). Under the rule, a qualifying community banking organization ("QCBO") is eligible to opt into the Community Bank Leverage Ratio ("CBLR") framework in lieu of the Basel III capital requirements if it has less than \$10 billion in total consolidated assets, limited amounts of certain trading assets and liabilities, limited amounts of off-balance sheet exposure and a leverage ratio greater than 9.0%. The new rule took effect January 1, 2020, and QCBOs were allowed to opt into the new CBLR framework in their Call Report beginning the first quarter of 2020.

A QCBO opting into the CBLR framework must maintain a CBLR of 9.0%, subject to a two quarter grace period to come back into compliance, provided that the QCBO maintains a leverage ratio of more than 8.0% during the grace period. A QCBO failing to satisfy these requirements must comply with the existing Basel III capital requirements as implemented by the banking regulators in July 2013.

The numerator of the CBLR is Tier 1 capital, as calculated under present rules. The denominator of the CBLR is the QCBO's average assets, calculated in accordance with the QCBO's Call Report instructions and less assets deducted from Tier 1 capital.

The Bank opted into the CBLR, and will, therefore, not be required to comply with the Basel III capital requirements. As of December 31, 2021, the Bank's CBLR was 10.28%.

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

Pursuant to the CARES Act, the federal banking regulators in April 2020 issued interim final rules to set the CBLR at 8% beginning in the second quarter of 2020 through the end of 2020. Beginning in 2021, the CBLR increased to 8.5% for the calendar year. Community banks will have until January 1, 2022 before the CBLR requirement will return to 9%.

As detailed in Note P to the financial statements at December 31, 2021, the Bank was deemed to be "well capitalized" under applicable prompt corrective action regulations. Total shareholders' equity at December 31, 2021 of \$141,356 increased \$5,032, or 3.7%, as compared to \$136,324 at December 31, 2020. Capital growth during 2021 came primarily from year-to-date net income of \$11,732, less dividends paid of \$4,018. Capital growth during 2021 was also partially offset by a \$1,728 after-tax decrease in net unrealized gains on available for sale securities from year-end 2020, as long-term reinvestment rates increased during 2021 causing a decrease in the fair value of the Company's investment portfolio.

LIQUIDITY

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year, and available for sale securities, which totaled \$329,264, represented 26.3% of total assets at December 31, 2021 compared to \$252,641 and 21.3% of total assets at December 31, 2020. The COVID-19 pandemic had a significant impact on higher levels of excess funds during both 2020 and 2021, which included customer deposits of stimulus monies from various government relief programs. To further enhance the Bank's ability to meet liquidity demands, the FHLB offers advances to the Bank. At December 31, 2021, the Bank could borrow an additional \$90,241 from the FHLB. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At December 31, 2021, this line had total availability of \$55,783. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank. For further cash flow information, see the condensed consolidated statement of cash flows above. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

INFLATION

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

In management's opinion, changes in interest rates affect the financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not change at the same rate or in the same manner 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.

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

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 that are highly dependent on subjective or complex judgments, estimates, and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses and goodwill to be critical accounting policies.

Allowance for Loan Losses:

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of \$200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The

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

historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years for the consumer and real estate portfolio segment and 5 years for the commercial portfolio segment. The total loan portfolio's actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. During 2020, the Company established a new economic risk factor in relation to the COVID-19 pandemic. The risk factor captures the exposure of our current historical loss metrics to the heightened losses experienced following the Great Recession that occurred from 2007 to 2009. To the extent the loss history incurred during an economic downturn exceeded our current loss history, a general allocation to the allowance for loan losses was made. The COVID-19 risk factor allocation amount is subject to change based on the actual loss history experienced and may be removed when the risk of loss in relation to the pandemic environment diminishes. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

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

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop

KEY RATIOS

Table VII

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--------------------------------------|--------|--------|--------|--------|--------|
| Return on average assets | .95% | .94% | .96% | 1.12% | .74% |
| Return on average equity..... | 8.45% | 7.83% | 8.10% | 10.63% | 6.95% |
| Dividend payout ratio..... | 34.25% | 39.20% | 40.37% | 33.20% | 52.36% |
| Average equity to average assets ... | 11.25% | 11.95% | 11.82% | 10.57% | 10.66% |

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

raw land into one-to-four family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

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

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 6 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most significant portions of the Company's net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

Goodwill:

Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet. No impairment to Goodwill was indicated based on year-end testing.

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 southeastern Ohio and western West Virginia. Management believes this risk to be general in nature, as there are no material concentrations of loans to any industry or consumer group. To the extent possible, the Company diversifies its loan portfolio to limit credit risk by avoiding industry concentrations.



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