FNB First Neighborhood Bank

Better people. Better service. Better bank.™

2012

ANNUAL REPORT

2012

Message from the Chairman of the Board

In our 2011 Annual Report, we discussed the many new challenges facing the banking industry related to proposed regulatory changes and other unknown factors with our economy.

The Board of Directors and management of West-Central Bancorp, Inc., and First Neighborhood Bank continued to focus on remaining a safe and sound financial institution committed to serving the communities where we work and live.

During 2012, we contracted with an outside consulting firm to perform an independent asset quality and reporting review. We also were evaluated by our external accounting firm regarding all facets of our bank operations. Finally, during the fourth quarter, we were audited for audit and compliance, as well as, safety and soundness by government regulators. I am pleased to report that overall findings were very good. Along with minimal loan losses and loan delinquency ratios, all indicators point to a safe and sound asset portfolio and well-run bank. First Neighborhood Bank has again been awarded the five star or "superior" rating by Bauer Financial, Inc., an independent research firm. Criteria used in determining the rating include capital ratios, profitability/loss trends, level of delinquent loans, and market versus book value of the investment portfolio and liquidity.

Earnings for 2012 remained relatively flat compared to the prior year. With the current low interest rate environment and weak loan demand, management continued to look at further cost savings to maintain shareholder value. Recently, we have begun to experience some growth in loan requests and are positioned very well for earnings potential in the event of a rising rate environment. We will continue to look for other money saving opportunities in 2013. We are currently in the process of updating our website and hope to include copies of our annual report beginning in 2014. The printing and mailing costs of over 350 reports annually are very significant. The availability of the website will be just another step in enhancing your return as a shareholder.

Management and staff will also continue to educate our customers to the use of our bill pay product and the availability of their statements via eStatements. These solutions are a major cost savings and are safer and more secure for our customers than the past general mailings.

I am happy to report that capital grew by 4.2% over the prior year and has averaged around 5% growth annually since 2009. This is significant as this growth has occurred since the start of the nationwide real estate market collapse and many negative factors in our local and national economies. We have remained steady in our commitment to remain a safe, profitable financial institution within the markets that we serve.

As we move forward into 2013 and beyond, the challenges in the banking industry continue to expand and multiply. However, the Board of Directors and management of West-Central Bancorp, Inc., and First Neighborhood Bank will continue to look at every opportunity to increase our shareholder's return while maintaining our integrity as a well-run financial institution.

David M. Righter

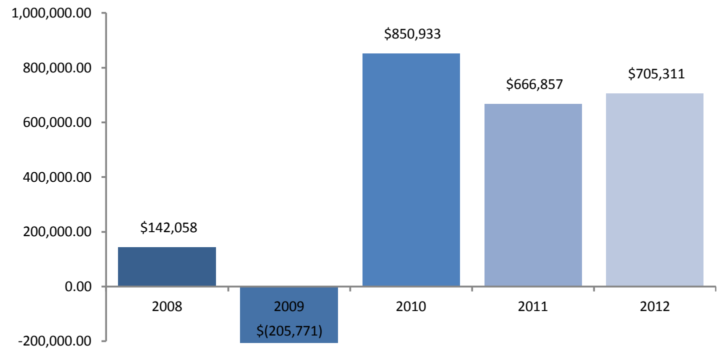
David M. Righter
Chairman of the Board and
Chief Executive Officer

2012

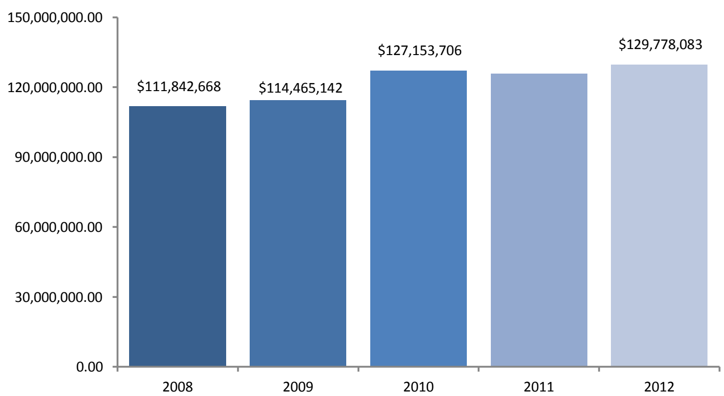
2012 Financial Highlights

- Net income for 2012 of $705,311 showed an improvement of 5.77% over 2011. The increase came mainly from expense control and not from net interest margins.

NET INCOME



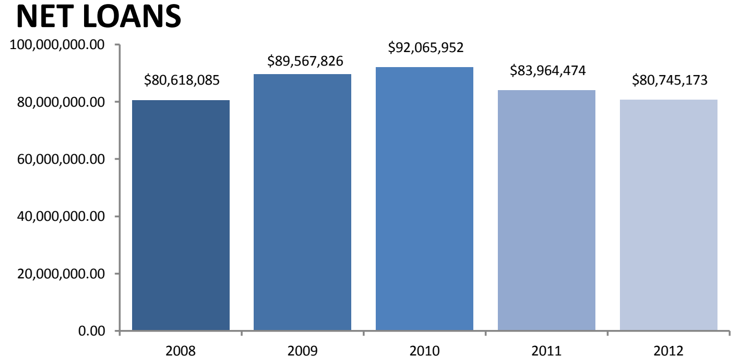
TOTAL DEPOSITS



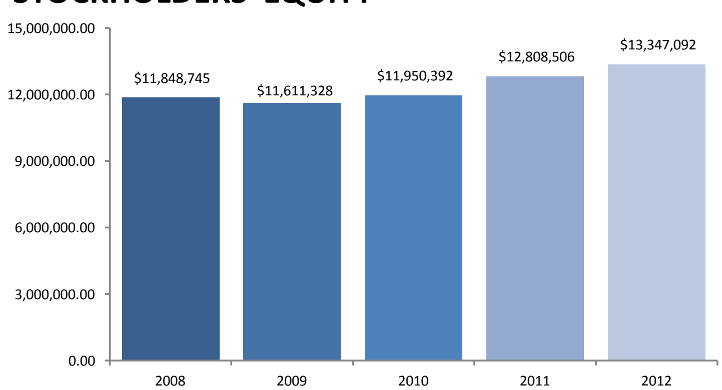
- Deposits accounts increased 3.14% over 2011 levels. Historically the bank has had a stable, core deposit base.

- Outstanding loans declined slightly during 2012. Current economic conditions contributed to a decline in loans over the past two years.

NET LOANS



STOCKHOLDERS' EQUITY



- Stockholder equity increased by 4.20% in 2012. Book value per share is currently $63.15.

Leadership

SENIOR OFFICERS

David M. Righter – *President, Chief Executive Officer*

Jeanette Atkinson – *Executive Vice President, Chief Financial Officer*

Reta Varda – *Senior Vice President, IT Officer*

Douglass Swearingen – *Senior Vice President, Chief Lending Officer*

OFFICERS

Shauna Bock – *Vice President, Parkersburg Office Manager*

Teresa DePue – *Credit Analyst Officer*

Haley Farrah – *Mortgage Banking Officer*

Joshua Hively – *CRA/Security Officer, Business Development Officer*

Jared Moncman – *Accounting Officer, Assistant Cashier*

Mark Richards – *Personal Banking Officer*

Jaclyn Righter – *Audit & Compliance Officer*

Beth Sellers – *Human Resources Officer*

Jeremy Webb – *Business Development Officer*

Tammy White – *BSA Officer, Deposit Coordinator*

Back Row (From left to right): Douglass Swearingen, Reta Varda, Jeanette Atkinson
Front Row: David M. Righter

Leadership

BOARD OF DIRECTORS

David M. Righter
Mr. Righter is the Chairman of the Board of Directors of West-Central Bancorp, Inc., and President/CEO of First Neighborhood Bank.

James A. Cochrane
Mr. Cochrane is a developer and the owner of RCDI, Inc., located in Parkersburg, WV.

Charlene W. Crooks
Ms. Crooks is a retired President of multiple companies in the former SBR, Inc., organization. She currently serves as a marketing consultant based in Parkersburg, WV.

J. Scott Freshwater
Mr. Freshwater currently serves as Vice President of Reserve Oil & Gas, Inc.; President of Contractor Services, Inc., (CSI) of West Virginia; Member of United Gas Pipeline (UGP) LLC; and Member of Petro Services LLC.

R. Randal Heavner, MD
Dr. Heavner is a family physician and President of the Mid-Ohio Valley Medical Group, Inc. He is on the Board of Directors of West Virginia Academy of Family Physicians and co-owner of Creative Photography and Art Studio.

James F. McCulty
Mr. McCulty is the retired Chairman of the Board of Directors of West-Central Bancorp, Inc., and retired President/CEO of First Neighborhood Bank.

Garlan E. Miller
Mr. Miller is a CPA who operates an accounting business based in Spencer, WV.

Stephen L. Thompson
Mr. Thompson is a partner with the Barth & Thompson Law Offices located in Charleston, WV.

John A. Varda
Mr. Varda is co-owner of McIntosh Hardware located in Spencer, WV.

DIRECTORS EMERITI

Richard E. Bowlby

Dan W. DeMarino

Charles L. Staats

Joe A. Starcher

BOARD OF DIRECTORS

Front Row (From left to right):
Charlene Crooks, James McCulty, David Righter (CEO), Scott Freshwater
Back Row (From left to right): Richard Bowlby (Director Emeritus), James Cochrane, Stephen Thompson, Garlan Miller, John Varda, Dr. Randal Heavner, Charles Staats (Director Emeritus)

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS
HarmanThompson Division

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West-Central Bancorp, Inc. and Subsidiaries
Spencer, West Virginia

Report on Financial Statements

We have audited the accompanying consolidated financial statements of West-Central Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. West-Central Bancorp, Inc. and Subsidiaries' consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year ended December 31, 2010, were audited by other auditors whose report was dated February 8, 2011, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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A Professional Limited Liability Company

To the Board of Directors
West-Central Bancorp, Inc. and Subsidiaries
Spencer, West Virginia

Page Two

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West-Central Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Suttle & Stalnaker, PLLC

Parkersburg, West Virginia
February 12, 2013

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

STATEMENT I

	2012	2011
ASSETS		
Cash and Due from Banks	$ 8,072,889	$ 5,338,918
Interest-Bearing Deposits in Other Banks	183,006	129,950
Federal Funds Sold	6,660,000	8,975,000
Cash and Cash Equivalents	14,915,895	14,443,868
Time Deposits	1,500,000	-0-
Investment Securities:		
Securities Available-for-Sale, at Fair Value	38,910,725	33,092,305
Other Securities	248,100	301,600
Loans	81,616,718	84,808,029
Less: Allowance for Loan Losses	(871,545)	(843,555)
Loans - Net	80,745,173	83,964,474
Accrued Interest Receivable	433,498	413,191
Premises and Equipment, at Cost Less Accumulated Depreciation	3,129,819	3,293,293
Other Real Estate Owned	735,000	653,000
Cash Surrender Value - Bank Owned Life Insurance	3,009,484	2,926,361
Deferred Income Taxes	440,009	452,052
Other Assets	399,275	473,828
TOTAL ASSETS	**$ 144,466,978**	**$ 140,013,972**
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
Demand - Noninterest-Bearing	31,156,183	27,494,775
Demand - Interest-Bearing	32,442,275	30,159,117
Savings	17,912,123	16,488,186
Time	48,267,502	51,685,220
TOTAL DEPOSITS	**129,778,083**	**125,827,298**
Advance Payments from Borrowers for Taxes and Insurance	45,983	44,785
Accrued Interest Payable	67,311	92,765
Other Liabilities	1,228,509	1,240,618
TOTAL LIABILITIES	**131,119,886**	**127,205,466**
SHAREHOLDERS' EQUITY		
Common Stock (Par Value $1.00; 5,000,000 Shares Authorized; 350,860 Shares Issued; 211,343 and 212,528 Shares Outstanding in 2012 and 2011, respectively)	350,860	350,860
Additional Paid in Capital	1,597,246	1,597,246
Retained Earnings	13,704,742	13,147,371
Less: Treasury Stock, at Cost (139,517 and 138,332 Shares in 2012 and 2011, respectively)	(2,539,505)	(2,475,515)
Accumulated Other Comprehensive Income	233,749	188,544
TOTAL SHAREHOLDERS' EQUITY	**13,347,092**	**12,808,506**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 144,466,978**	**$ 140,013,972**

The accompanying notes are an integral part of these financial statements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012

STATEMENT II

	2012	2011	2010
INTEREST INCOME			
Interest and Fees on Loans	$ 4,453,045	$ 5,121,634	$ 5,442,205
Interest on Interest-Bearing Deposits in Other Banks	131	98	96
Interest on Federal Funds Sold	23,868	15,231	13,891
Interest and Dividends on Investment Securities	729,194	672,322	633,726
TOTAL INTEREST INCOME	**5,206,238**	**5,809,285**	**6,089,918**
INTEREST EXPENSE			
Interest on Deposits	814,626	1,193,064	1,485,663
Interest on Borrowings	1,016	2,524	3,886
TOTAL INTEREST EXPENSE	**815,642**	**1,195,588**	**1,489,549**
NET INTEREST INCOME	**4,390,596**	**4,613,697**	**4,600,369**
Provision for Loan Losses	180,000	180,000	280,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**4,210,596**	**4,433,697**	**4,320,369**
NONINTEREST INCOME			
Service Charges and Fees	656,204	609,102	656,154
Increase in Cash Surrender Value - Bank Owned Life Insurance	83,121	89,496	103,080
Realized Net Gains from Sales of Investment Securities Available-for-Sale	-0-	146,312	224,579
Other Income	52,887	70,081	45,980
TOTAL NONINTEREST INCOME	**792,212**	**914,991**	**1,029,793**
NONINTEREST EXPENSE			
General and Administrative:			
Compensation and Benefits	2,040,555	2,057,229	2,137,221
Occupancy and Equipment	632,156	643,538	669,315
FDIC Assessment	80,026	220,558	193,801
Data Processing	385,435	305,054	298,568
Other Expenses	995,545	1,205,158	996,160
TOTAL NONINTEREST EXPENSE	**4,133,717**	**4,431,537**	**4,295,065**
INCOME BEFORE INCOME TAX EXPENSE	**869,091**	**917,151**	**1,055,097**
Income Tax Expense	163,780	250,294	204,164
NET INCOME	**$ 705,311**	**$ 666,857**	**$ 850,933**
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	**$ 705,311**	**$ 666,857**	**$ 850,933**
PER COMMON SHARE DATA:			
NET INCOME	**$ 3.33**	**$ 3.14**	**$ 4.00**
CASH DIVIDENDS DECLARED	**$ 0.70**	**$ 0.70**	**$ 0.70**
AVERAGE COMMON SHARES OUTSTANDING	**211,767**	**212,528**	**212,528**

The accompanying notes are an integral part of these financial statements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012
STATEMENT III

	2012	2011	2010
NET INCOME	**$ 705,311**	**$ 666,857**	**$ 850,933**
Other Comprehensive Income:			
Unrealized Gains (Losses) or Investment Securities Available-for-Sale Arising During the Period	74,205	709,338	(375,521)
Adjustment for Income Tax (Expense) Benefit	(29,000)	(280,062)	147,169
	45,205	429,276	(228,352)
Less: Reclassification Adjustment for (Gains) Losses on Investment Securities Available-for-Sale Included in Net Income	-0-	(146,312)	(224,579)
Adjustment for Income Tax Expense (Benefit)	-0-	57,062	89,832
	-0-	(89,250)	(134,747)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX	45,205	340,026	(363,099)
COMPREHENSIVE INCOME	**$ 750,516**	**$ 1,006,883**	**$ 487,834**

The accompanying notes are an integral part of these financial statements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012

STATEMENT IV

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 2009	**$ 350,860**	**$ 1,597,246**	**$ 11,927,120**	**$ (2,475,515)**	**$ 211,617**	**$ 11,611,328**
Net Income for Year			850,933			850,933
Cash Dividends Declared ($0.70 Per Share)			(148,770)			(148,770)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale, Net of Income Tax					(363,099)	(363,099)
BALANCE AT DECEMBER 31, 2010	**350,860**	**1,597,246**	**12,629,283**	**(2,475,515)**	**(151,482)**	**11,950,392**
Net Income for Year			666,857			666,857
Cash Dividends Declared ($0.70 Per Share)			(148,769)			(148,769)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale, Net of Income Tax					340,026	340,026
BALANCE AT DECEMBER 31, 2011	**350,860**	**1,597,246**	**13,147,371**	**(2,475,515)**	**188,544**	**12,808,506**
Net Income for Year			705,311			705,311
Cash Dividends Declared ($0.70 Per Share)			(147,940)			(147,940)
Purchase of Treasury Stock (1,185 Shares)				(63,990)		(63,990)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale, Net of Income Tax					45,205	45,205
BALANCE AT DECEMBER 31, 2012	**$ 350,860**	**$ 1,597,246**	**$ 13,704,742**	**$ (2,539,505)**	**$ 233,749**	**$ 13,347,092**

The accompanying notes are an integral part of these financial statements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012

STATEMENT V

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	$ 705,311	$ 666,857	$ 850,933
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Depreciation	277,891	285,001	314,209
Provision for Loan Losses	180,000	180,000	280,000
Provision for Deferred Income Tax	(16,957)	(2,922)	51,640
Amortizations (Accretions) on Investments - Net	5,640	(47,991)	(9,358)
Realized Net (Gains) Losses from Sales of Investment Securities Available-for-Sale	-0-	(146,312)	(224,579)
Realized Net (Gains) Losses from Sales of Other Real Estate Owned	50,000	89,865	26,000
Other Real Estate Owned Write-Down	43,000	-0-	37,144
Realized Net (Gains) Losses from Disposal of Equipment	8,771	1,838	-0-
(Increase) Decrease in Accrued Interest Receivable	(20,307)	230	(74,211)
(Increase) Decrease in Cash Surrender Value - Bank Owned Life Insurance	(83,123)	(89,496)	(103,080)
(Increase) Decrease in Other Assets	74,553	188,361	786,660
Increase (Decrease) in Accrued Interest Payable	(25,454)	(34,368)	(29,435)
Increase (Decrease) in Other Liabilities	3,430	(201,512)	230,990
TOTAL ADJUSTMENTS	**497,444**	**222,694**	**1,285,980**
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**1,202,755**	**889,551**	**2,136,913**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Increase) Decrease in Time Deposits	(1,500,000)	-0-	-0-
Purchases of Investment Securities Available-for-Sale	(32,620,905)	(33,910,742)	(35,843,742)
Proceeds from Maturities and Calls of Investment Securities Available-for-Sale	26,871,050	28,770,000	19,120,007
Proceeds from Principal Payments on Mortgage-Backed Securities Available-for-Sale	-0-	-0-	823,701
Proceeds from Sales of Investment Securities Available-for-Sale	-0-	2,432,705	4,411,634
Redemption of Federal Home Loan Bank Stock	53,500	68,900	2,300
Loan Originations and Principal Payment on Loans	2,664,301	7,552,835	(3,296,126)
Proceeds from Sales of Other Real Estate Owned	200,000	956,778	195,000
Capital Expenditures	(123,188)	(155,599)	(83,703)
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**(4,455,242)**	**5,714,877**	**(14,670,929)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase (Decrease) in Total Deposits	3,950,785	(1,326,408)	12,688,564
Net Increase (Decrease) in Advance Payments from Borrowers for Taxes and Insurance	1,198	16,598	26,229
Repayments of Long-Term Borrowings	(15,539)	(14,031)	(12,670)
Cash Dividends Paid	(147,940)	(148,769)	(148,770)
Purchase of Treasury Stock	(63,990)	-0-	-0-
NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	**3,724,514**	**(1,472,610)**	**12,553,353**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**472,027**	**5,131,818**	**19,337**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**14,443,868**	**9,312,050**	**9,292,713**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 14,915,895**	**$ 14,443,868**	**$ 9,312,050**

The accompanying notes are an integral part of these financial statements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012

STATEMENT V
(CONTINUED)

	2012	2011	2010
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Loans Transferred to Other Real Estate Owned	$ 419,632	$ 632,274	$ 518,000
Proceeds from Sales of Other Real Estate Owned Financed through Loans	$ -0-	$ 176,750	$ 70,000
Total Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale	$ 74,205	$ 563,026	$ (600,100)
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION			
Cash Paid during the Period For:			
Interest	$ 841,096	$ 1,229,956	$ 1,518,984
Income Taxes, Net of Refunds	$ 180,045	$ 448,540	$ -0-

The accompanying notes are an integral part of these financial statements.

2012

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 12, 2013, the date which the financial statements were available to be issued.

Nature of Operations

West-Central Bancorp, Inc. (the Bancorp) is a bank holding company whose wholly owned bank subsidiary, First Neighborhood Bank, Inc. (the Bank) is a commercial bank with operations in Spencer and Parkersburg, West Virginia. The Bank provides retail and commercial loans and deposit services principally to customers in Roane and Wood counties in West Virginia and surrounding counties. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the West Virginia Division of Banking and the Federal Deposit Insurance Corporation. The Bancorp's other subsidiary, West Central Insurance, LLC, had no significant operations during the years ended December 31, 2012, 2011, and 2010.

Basis of Financial Statement Presentation

The accounting and reporting policies of West-Central Bancorp, Inc. and its Subsidiaries conform to accounting principles generally accepted in the United States of America and to general practices followed within the banking industry.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of West-Central Bancorp, Inc. and its Subsidiaries, First Neighborhood Bank, Inc. and West Central Insurance, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Statements of Cash Flows

For the purpose of the statement of cash flows, the Bancorp and its Subsidiaries have defined cash and cash equivalents as those amounts included in the consolidated balance sheets captions " Cash and Due from Banks," " Interest-Bearing Deposits in Other Banks," and " Federal Funds Sold," all of which mature within ninety (90) days.

Investment Securities

It is the policy of the Bank to prohibit the use of their respective investment accounts to maintain a trading account or to speculate in securities that would demonstrate management's intent to profit from short-term price movements.

Debt securities are classified as held-to-maturity when management has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

Securities not classified as held-to-maturity or as trading are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses, adjusted for applicable income taxes, reported in other comprehensive income. Realized gains and losses on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment, net of income tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Loans

The Bank grants mortgage, commercial, and installment loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout West Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans are stated at unpaid principal balances, less the allowance for loan losses.

Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Allowance for Credit Losses

The allowance for credit losses consists of an allowance for loan losses for outstanding loan and credit financial instruments of the Bank.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Bank uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to the (1) commercial portfolio, (2) mortgage portfolio, and (3) installment portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Bank uses both internally-developed and vendor-supplied models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Bank's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Premises and Equipment

Land is carried at cost. Bank premises and equipment are carried at cost, less accumulated depreciation. Depreciation is computed primarily using the straight-line, 150% declining balance, and double declining balance methods for financial reporting purposes over the estimated useful lives of the respective assets. Useful lives are revised when a change in life expectancy becomes apparent.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations as realized.

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is held-for-sale and is initially recorded at the lower of the Bank's carrying amount (book value) or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of the new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Advertising

The Bancorp and its Subsidiaries' policy is to expense advertising costs as incurred. Advertising costs for the years ended December 31, 2012, 2011, and 2010 were $112,160, $90,500, and $89,860, respectively.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of securities available-for-sale, supplemental employee benefit plans, subsequent loss write-downs on other real estate owned, the allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation limitation reserves are established, as deemed necessary, and adjusted periodically on certain deferred tax assets to reflect estimated recoverability of the asset in a reasonable time period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Bancorp and its Subsidiaries file consolidated federal and state tax returns. Tax allocation arrangements between the Bancorp and its Subsidiaries follow the policy of determining federal and state income taxes as if the Subsidiaries filed separate federal and state income tax returns with consolidation surtax eliminations at the Bancorp's level.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Earnings Per Share

Earnings per share of common stock are computed based upon the weighted-average number of shares of common stock outstanding. The weighted-average shares outstanding were 211,767, 212,528 and 212,528 for the years ended December 31, 2012, 2011 and 2010, respectively. During each of the three years in the period ended December 31, 2012, the Bancorp did not have any potentially dilutive securities.

Employee Benefit Plans

The Bank has a profit-sharing plan and an employee stock ownership plan (ESOP) which covers substantially all employees. The amount of the contributions to the plans is at the discretion of the Bank's Board of Directors.

Reclassification of Prior Years' Statements

Certain accounts in the consolidated financial statements for 2011 and 2010, as previously presented, have been reclassified to conform with the 2012 presentation. The reclassifications had no effect on net income or shareholders' equity.

NOTE 2: RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve as of December 31, 2012 and 2011 was $461,000 and $499,000, respectively.

NOTE 3: INVESTMENT SECURITIES

The amortized cost, unrealized gains, unrealized losses, and estimated fair values of securities as of December 31, 2012 and 2011 are summarized as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
DECEMBER 31, 2012				
SECURITIES AVAILABLE-FOR-SALE				
U.S. Government Federal Agencies	$ 23,003,088	$ 42,941	$ (26,132)	$ 23,019,897
State, County, and Municipal – Nontaxable	13,580,966	305,689	(42,952)	13,843,703
State, County, and Municipal – Taxable	1,939,922	112,706	(5,503)	2,047,125
TOTAL	**$ 38,523,976**	**$ 461,336**	**$ (74,587)**	**$ 38,910,725**
DECEMBER 31, 2011				
SECURITIES AVAILABLE-FOR-SALE				
U.S. Government Federal Agencies	$ 23,017,230	$ 78,550	$ (21,944)	$ 23,073,836
State, County, and Municipal – Nontaxable	8,323,553	227,244	(5,814)	8,544,983
State, County, and Municipal – Taxable	1,438,978	35,671	(1,163)	1,473,486
TOTAL	**$ 32,779,761**	**$ 341,465**	**$ (28,921)**	**$ 33,092,305**

The caption "Other Securities" in the consolidated balance sheets consists of Federal Home Loan Bank stock. This equity security is carried at cost, since it may only be sold back to the Federal Home Loan Bank or another member at par value.

Impairment is evaluated considering numerous factors and their relative significance varies from case to case. Factors considered include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in fair value.

As of December 31, 2012, the twenty-six (26) debt securities with unrealized losses have depreciated approximately 0.42% from the Bank's amortized cost basis. These securities are predominately rated investment grade securities (A3 or better) and the unrealized losses are due to overall increases in market rates and not due to any underlying credit concerns of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies or by a state or political subdivision, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, if classified as available-for-sale, no declines are deemed to be other-than-temporary.

NOTE 3: INVESTMENT SECURITIES (CONTINUED)

Provided below is a summary of securities held-to-maturity and available-for-sale which were in an unrealized loss position as of December 31, 2012 and 2011, respectively.

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER		TOTAL	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
DECEMBER 31, 2012						
U.S. Government Federal Agencies	$ 11,973,868	$ (26,132)	$ -0-	$ -0-	$ 11,973,868	$ (26,132)
State, County, and Municipal – Nontaxable	4,167,263	(41,604)	979,940	(1,348)	5,147,203	(42,952)
State, County, and Municipal – Taxable	500,750	(5,503)	-0-	-0-	500,750	(5,503)
TOTAL	$ 16,641,881	$ (73,239)	$ 979,940	$ (1,348)	$ 17,621,821	$ (74,587)
DECEMBER 31, 2011						
U.S. Government Federal Agencies	$ 7,984,334	$ (21,944)	$ -0-	$ -0-	$ 7,984,334	$ (21,944)
State, County, and Municipal – Nontaxable	-0-	-0-	934,890	(5,814)	934,890	(5,814)
State, County, and Municipal – Taxable	421,506	(1,163)	-0-	-0-	421,506	(1,163)
TOTAL	$ 8,405,840	$ (23,107)	$ 934,890	$ (5,814)	$ 9,340,730	$ (28,921)

The maturities, amortized cost, and estimated fair values of securities as of December 31, 2012, are summarized as follows:

	SECURITIES AVAILABLE-FOR-SALE	
	AMORTIZED COST	FAIR VALUE
Due in One Year or Less	$ 2,259,285	$ 2,263,784
Due after One Year through Five Years	18,009,266	18,024,868
Due after Five Years through Ten Years	11,471,750	11,648,554
Due after Ten Years	6,783,675	6,973,519
TOTAL	$ 38,523,976	$ 38,910,725

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 3: INVESTMENT SECURITIES (CONTINUED)

The following is a summary of the proceeds from the sales of investment securities available-for-sale and the related gross realized gains and losses:

	PROCEEDS	GROSS REALIZED GAINS	GROSS REALIZED LOSSES
For the Year Ended December 31,			
2012	$ -0-	$ -0-	$ -0-
2011	$ 2,432,705	$ 146,312	$ -0-
2010	$ 4,411,634	$ 224,579	$ -0-

Securities pledged to secure public deposits and for other purposes required or permitted by law had a book value of $3,688,614 and $3,878,260 as of December 31, 2012 and 2011, respectively. The fair value of the pledged securities totaled $3,912,510 and $4,503,257 as of December 2012 and 2011, respectively.

Included in the Bank's investment in obligations of State, County, and Municipal Subdivisions as of December 31, 2012 and 2011, were securities with fair values totaling approximately $4,910,580 and $4,800,575 which were issued by the State of West Virginia. There were no significant concentrations to any one political subdivision within this State.

NOTE 4: BANK OWNED LIFE INSURANCE

The Bank invested in whole life insurance contracts on the lives of five (5) current and former officers, the cash surrender values of which are presented in the consolidated balance sheets as "Cash Surrender Value – Bank Owned Life Insurance". The Bank is the named beneficiary of these insurance contracts and considers these contracts to be investment grade assets as a part of the asset-liability management strategy of the organization. These contracts are insurance products of Nationwide Insurance and Equias Alliance and consist of eight (8) policies. These policies have a stated aggregate death benefit as of December 31, 2012 and 2011 of $6,772,542 and $5,753,989, respectively, and aggregate cash surrender values of $3,009,484 and $2,926,361 as of December 31, 2012 and 2011, respectively.

These policies were funded by premium payments of $2,292,680. Cash surrender value increases to the carrying amounts of the policies are recognized as income of $83,121, $89,496, and $103,080 for the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 5: LOANS

The composition of recorded investment in loans by segment is as follows:

	DECEMBER 31,	
	2012	2011
Commercial	$ 42,730,729	$ 42,780,647
Mortgage	36,251,818	38,825,830
Installment	2,634,171	3,201,552
TOTAL LOANS	**81,616,718**	**84,808,029**
Less: Allowance for Loan Losses	871,545	843,555
LOANS - NET	**$ 80,745,173**	**$ 83,964,474**

As of December 31, 2012 and 2011, overdrafts from deposit accounts of $83,961 and $59,551, respectively, are included within the appropriate loan segment above.

As of December 31, 2012 and 2011, the Bank had direct extensions of credit to entities in the oil and gas industry totaling approximately $2,378,017 and $1,640,240, respectively, and unfunded commitments to lend totaling approximately $2,816,176 and $2,693,510, respectively. These outstanding loans consist of installment contracts repayable over periods ranging from 1 to 120 months, generally secured by liens on equipment; and line-of-credit arrangements payable upon demand, secured primarily by one or more of the following: pledges of accounts receivable or inventories, real estate, or personal guarantees. The Bank evaluates each such customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based upon management's credit evaluation.

In the ordinary course of business, the Bancorp and its Subsidiaries have and expect to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers and did not involve more than a normal credit risk of collectability or present any other unfavorable features to the Bancorp and its Subsidiaries. Loans to such borrowers are summarized as follows:

	DECEMBER 31,	
	2012	2011
BALANCE AT BEGINNING OF YEAR	**$ 3,022,264**	**$ 3,270,074**
Repayments	(331,717)	(897,810)
Borrowings	690,649	650,000
BALANCE AT END OF YEAR	**$ 3,381,196**	**$ 3,022,264**

NOTE 6: CREDIT QUALITY

Management monitors the credit quality of its loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest, unless the loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days). When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. The Bank's method of income recognition for loans that are classified as nonaccrua1 is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Bank's age analysis of its past due loans, segregated by class of loans:

	30-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL FINANCING RECEIVABLES	RECORDED INVESTMENT >90 DAYS & ACCRUING
DECEMBER 31, 2012						
Secured by Real Estate:						
Construction	$ -0-	$ -0-	$ -0-	$ 1,175,203	$ 1,175,203	$ -0-
Farmland	-0-	-0-	-0-	708,838	708,838	-0-
Residential	51,139	-0-	51,139	42,757,761	42,808,900	-0-
Commercial	130,846	109,896	240,742	18,259,926	18,500,668	-0-
Commercial and Industrial	262,678	-0-	262,678	14,552,087	14,814,765	-0-
Consumer	13,726	-0-	13,726	3,336,244	3,349,970	-0-
Government	-0-	-0-	-0-	258,374	258,374	-0-
TOTAL	$ 458,389	$ 109,896	$ 568,285	$ 81,048,433	$ 81,616,718	$ -0-
DECEMBER 31, 2011						
Secured by Real Estate:						
Construction	$ -0-	$ -0-	$ -0-	$ 1,170,042	$ 1,170,042	$ -0-
Farmland	-0-	-0-	-0-	769,346	769,346	-0-
Residential	94,991	-0-	94,991	45,259,992	45,354,983	-0-
Commercial	19,040	442,224	461,264	18,498,909	18,960,173	-0-
Commercial and Industrial	-0-	69,486	69,486	13,962,986	14,032,472	-0-
Consumer	23,771	-0-	23,771	4,392,276	4,416,047	-0-
Government	-0-	-0-	-0-	104,966	104,966	-0-
TOTAL	$ 137,802	$ 511,710	$ 649,512	$ 84,158,517	$ 84,808,029	$ -0-

NOTE 6: CREDIT QUALITY (CONTINUED)

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. The following table sets forth the Bank's nonaccrual loans, segregated by class of loans:

	DECEMBER 31,	
	2012	2011
Secured by Real Estate:		
Construction	$ -0-	$ -0-
Farmland	-0-	-0-
Residential	-0-	-0-
Commercial	109,896	461,264
Commercial and Industrial	-0-	69,486
Consumer	-0-	-0-
Government	-0-	-0-
TOTAL	**$ 109,896**	**$ 530,750**

The Bank assigns credit quality indicators of pass, special mention, substandard, and doubtful to its loans. The loans are internally assigned a grade based on a combination of the known creditworthiness of the borrower and on the loan's delinquency status. The Bank updates these grades on a quarterly basis.

Special mention loans have a potential weakness that deserves management's close attention. If left unmonitored, these potential weaknesses may result in deterioration of the repayment prospects for such loans or in the Bank's credit position at some future date. Adverse economic or market conditions may also support a special mention rating. Other nonfinancial reasons for rating a credit exposure special mention can include known borrower problems, pending litigation, or lending agreement issues.

A substandard loan contains weaknesses that, if left uncorrected, create some degree of doubt as to the likelihood of full collection of principal and interest. These loans require intensive supervision by management. Such loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigations.

A loan classified as doubtful exhibits all the weaknesses inherent in one classified as substandard with the additional characteristic that the weaknesses make its collection in full, based on currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the credit, its classification as loss is deferred at the present time. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain operationally solvent. Specific pending events may include mergers, acquisitions, liquidations, capital injections, the perfection of liens of additional collateral, the valuation of collateral, and refinancing. Loans classified as doubtful are also considered impaired. Generally, consumer credit exposures are charged off prior to being classified as doubtful.

NOTE 6: CREDIT QUALITY (CONTINUED)

The following table sets forth the Bank's credit quality indicators information, segregated by class of loans:

	PASS	SPECIAL MENTION	SUB-STANDARD	DOUBTFUL	TOTAL
DECEMBER 31, 2012					
Secured by Real Estate:					
Construction	$ 1,175,203	$ -0-	$ -0-	$ -0-	$ 1,175,203
Farmland	708,838	-0-	-0-	-0-	708,838
Residential	42,626,167	-0-	182,733	-0-	42,808,900
Commercial	17,605,582	-0-	895,086	-0-	18,500,668
Commercial and Industrial	14,766,955	-0-	47,810	-0-	14,814,765
Consumer	3,349,970	-0-	-0-	-0-	3,349,970
Government	258,374	-0-	-0-	-0-	258,374
TOTAL	**$ 80,491,089**	**$ -0-**	**$ 1,125,629**	**$ -0-**	**$ 81,616,718**
DECEMBER 31, 2011					
Secured by Real Estate:					
Construction	$ 1,170,042	$ -0-	$ -0-	$ -0-	$ 1,170,042
Farmland	769,346	-0-	-0-	-0-	769,346
Residential	45,295,799	-0-	59,184	-0-	45,354,983
Commercial	17,894,326	-0-	1,065,847	-0-	18,960,173
Commercial and Industrial	13,962,986	-0-	69,486	-0-	14,032,472
Consumer	4,416,047	-0-	-0-	-0-	4,416,047
Government	104,966	-0-	-0-	-0-	104,966
TOTAL	**$ 83,613,512**	**$ -0-**	**$ 1,194,517**	**$ -0-**	**$ 84,808,029**

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, such loans have exhibited a sustained period of delinquency or there have been significant events (such as bankruptcy, eminent foreclosure, or natural disasters) that impact repayment probability. Impairment is evaluated on an individual loan basis. Consistent with the Bank's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

NOTE 6: CREDIT QUALITY (CONTINUED)

The following table sets forth the Bank's impaired loans information, segregated by class of loan:

	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
DECEMBER 31, 2012					
With No Related Allowance Recorded:					
Secured by Real Estate:					
Construction	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Farmland	-0-	-0-	-0-	-0-	-0-
Residential	182,733	182,733	-0-	374,996	-0-
Commercial	785,190	785,190	-0-	644,810	-0-
Commercial and Industrial	47,810	47,810	-0-	69,227	-0-
Consumer	-0-	-0-	-0-	-0-	-0-
Government	-0-	-0-	-0-	-0-	-0-
With An Allowance Recorded:					
Secured by Real Estate:					
Construction	-0-	-0-	-0-	-0-	-0-
Farmland	-0-	-0-	-0-	-0-	-0-
Residential	-0-	-0-	-0-	-0-	-0-
Commercial	109,896	109,896	80,000	177,545	-0-
Commercial and Industrial	-0-	-0-	-0-	17,747	-0-
Consumer	-0-	-0-	-0-	-0-	-0-
Government	-0-	-0-	-0-	-0-	-0-
TOTAL	$ 1,125,629	$ 1,125,629	$ 80,000	$ 1,284,325	$ -0-

	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
DECEMBER 31, 2011					
With No Related Allowance Recorded:					
Secured by Real Estate:					
Construction	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Farmland	-0-	-0-	-0-	-0-	-0-
Residential	-0-	-0-	-0-	69,755	-0-
Commercial	38,032	38,032	-0-	22,808	-0-
Commercial and Industrial	69,486	69,486	-0-	72,105	-0-
Consumer	-0-	-0-	-0-	9,291	-0-
Government	-0-	-0-	-0-	-0-	-0-
With An Allowance Recorded:					
Secured by Real Estate:					
Construction	-0-	-0-	-0-	-0-	-0-
Farmland	-0-	-0-	-0-	-0-	-0-
Residential	-0-	-0-	-0-	130,273	-0-
Commercial	423,232	423,232	150,000	203,311	-0-
Commercial and Industrial	-0-	-0-	-0-	-0-	-0-
Consumer	-0-	-0-	-0-	-0-	-0-
Government	-0-	-0-	-0-	-0-	-0-
TOTAL	$ 530,750	$ 530,750	$ 150,000	$ 507,543	$ -0-

NOTE 7: ALLOWANCE FOR CREDIT LOSSES

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. Allocations are made for specific loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectability. Other loans not specifically reviewed are segregated by portfolio segment and allocations are made based upon historical loss percentages adjusted for current environmental factors. The environmental factors considered for each of the portfolio segments include estimated probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts is for the inherent imprecision in the allowance for credit losses analysis. During 2012, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged off amounts are credited to the allowance for loan losses. When a loan or a portion of a loan is identified to contain a loss, a charge-off recommendation is directed to management to charge off all or a portion of that loan.

Generally, any unsecured commercial loan that has reached 180 days delinquent in payment of interest must be charged off in full. If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is six months delinquent. Any commercial loan, secured or unsecured, on which a principal or interest payment has not been made within 90 days, is reviewed monthly for appropriate action.

First mortgage residential real estate loans which are well-secured and in process of collection are to be charged off on or before becoming 365 days past due. Home equity and improvement loans are to be reviewed before they become 180 days past due, and are to be charged off unless they are well-secured and in process of collection. If well-secured and in process of collection, charge-off can be deferred until the loan is 365 days past due.

Consumer loans that are past due 120 cumulative days from the contractual due date are charged off. Any consumer loan on which a principal or interest payment has not been made within 90 days is reviewed monthly for appropriate action.

The Bank considers the allowance for loan losses of $871,545 and $843,555 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2012 and 2011, respectively. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

NOTE 7: ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	COMMERCIAL	MORTGAGE	INSTALLMENT	UNALLOCATED	TOTAL
DECEMBER 31, 2012					
ALLOWANCE FOR CREDIT LOSSES:					
Beginning Balance	$ 332,297	$ 125,551	$ 23,306	$ 362,401	$ 843,555
Charge-Offs	(196,962)	(22,535)	-0-	-0-	(219,497)
Recoveries	39,873	18,700	8,914	-0-	67,487
Provision	232,769	(20,357)	(11,675)	(20,737)	180,000
ENDING BALANCE	$ 407,977	$ 101,359	$ 20,545	$ 341,664	$ 871,545
ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	$ 80,000	$ -0-	$ -0-	$ -0-	$ 80,000
ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT	$ 327,977	$ 101,359	$ 20,545	$ 341,664	$ 791,545
FINANCING RECEIVABLES: ENDING BALANCE	$ 42,730,729	$ 36,251,818	$ 2,634,171		$ 81,616,718
ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	$ 942,896	$ 182,733	$ -0-		$ 1,125,629
ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT	$ 41,787,833	$ 36,069,085	$ 2,634,171		$ 80,491,089
DECEMBER 31, 2011					
ALLOWANCE FOR CREDIT LOSSES:					
Beginning Balance	$ 335,961	$ 155,683	$ 21,560	$ 322,875	$ 836,079
Charge-Offs	(135,775)	(82,065)	(41,608)	-0-	(259,448)
Recoveries	63,391	15,298	8,235	-0-	86,924
Provision	68,720	36,635	35,119	39,526	180,000
ENDING BALANCE	$ 332,297	$ 125,551	$ 23,306	$ 362,401	$ 843,555
ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	$ 150,000	$ -0-	$ -0-	$ -0-	$ 150,000
ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT	$ 182,297	$ 125,551	$ 23,306	$ 362,401	$ 693,555
FINANCING RECEIVABLES: ENDING BALANCE	$ 42,780,647	$ 38,825,830	$ 3,201,552		$ 84,808,029
ENDING BALANCE: INDIVIDUALLY EVALUATED FOR IMPAIRMENT	$ 1,135,333	$ 59,184	$ -0-		$ 1,194,517
ENDING BALANCE: COLLECTIVELY EVALUATED FOR IMPAIRMENT	$ 41,645,314	$ 38,766,646	$ 3,201,552		$ 83,613,512

NOTE 8: ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

	DECEMBER 31,	
	2012	2011
Investment Securities	$ 180,544	$ 129,885
Loans	252,954	283,306
TOTAL	**$ 433,498**	**$ 413,191**

NOTE 9: PREMISES AND EQUIPMENT

The major categories of premises and equipment are as follows:

	DECEMBER 31,	
	2012	2011
Land	$ 723,854	$ 723,854
Building and Improvements	4,054,170	4,054,170
Furniture, Fixtures, and Equipment	2,384,545	2,485,964
Automobile	45,607	43,963
TOTAL COST	7,208,176	7,307,951
Less: Accumulated Depreciation	(4,078,357)	(4,014,658)
NET	**$ 3,129,819**	**$ 3,293,293**

Depreciation expense for the years ended December 31, 2012, 2011, and 2010, totaled $277,891, $285,001 and $314,209, respectively.

NOTE 10: OTHER REAL ESTATE OWNED

The following is a summary of activity of other real estate owned, expected to be disposed of in the near term, for the years ended:

	DECEMBER 31,	
	2012	2011
BALANCE AT BEGINNING OF YEAR	**$ 653,000**	**$ 1,331,000**
Loans Foreclosed	419,632	632,274
Adjustment to Carrying Value:		
At Date of Foreclosure or Repossession	(44,632)	(134,258)
Capital Improvement	-0-	9,043
Insurance Reimbursements	-0-	(1,815)
Additional Valuation Adjustments	(43,000)	-0-
TOTAL FORECLOSED PROPERTIES FOR DISPOSITION	**985,000**	**1,836,244**
Gross Proceeds from Sales of Foreclosed Properties	200,000	1,133,528
Expense of Sales	-0-	(40,149)
Realized Net (Gains) Losses on Sales	50,000	89,865
BASIS OF FORECLOSED PROPERTIES SOLD	**250,000**	**1,183,244**
BALANCE AT END OF YEAR	**$ 735,000**	**$ 653,000**

Subsequent write-downs and realized gains and losses on the sale of foreclosed property are recognized in the " Other Expense" caption in the consolidated statements of income.

NOTE 11: DEPOSITS

The aggregate amount of time deposits with a minimum denomination of $100,000 was $14,789,484 and $16,247,013 as of December 31, 2012 and 2011, respectively. Interest expense on time deposits in denominations of $100,000 or more for the years ended December 31, 2012, 2011, and 2010 was $204,732, $263,739, and $257,907, respectively.

As of December 31, 2012, scheduled maturities of time deposits are as follows:

2013	$ 26,772,319
2014	8,405,366
2015	4,158,715
2016	4,435,300
2017 and Thereafter	4,495,802
TOTAL	**$ 48,267,502**

The Bank held related party deposits of approximately $8,812,419 and $10,071,613 as of December 31, 2012 and 2011, respectively.

NOTE 12: SHORT-TERM BORROWINGS

The Bank obtained an unsecured, uncommitted, borrowing facility for the purchase of Federal Funds in the amount of $4,500,000 from CenterState Bank of Florida. Any borrowings bear an interest rate which is determined at the time of each advance. Requests for advances under this facility are subject to CenterState Bank's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings during the years ended December 31, 2012 and 2011, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburg (FHLB). As a member, the Bank obtained an open line-of-credit commitment from the FHLB for $1,000,000. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and is subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 to 4 family mortgages made by the Bank and other eligible collateral. At December 31, 2012, no loans were pledged for collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately $34,890,000 based on qualifying loan collateral. As of December 31, 2012 and 2011, there were no borrowings outstanding.

NOTE 13: INCOME TAXES

The consolidated provision for income taxes consists of the following:

	DECEMBER 31,		
	2012	2011	2010
Current:			
Federal	$ 156,250	$ 208,216	$ 112,982
State	24,487	45,000	39,542
	180,737	253,216	152,524
Deferred:			
Federal	(7,053)	(1,926)	49,125
State	(9,904)	(996)	2,515
	(16,957)	(2,922)	51,640
TOTAL INCOME TAX EXPENSE	**$ 163,780**	**$ 250,294**	**$ 204,164**

NOTE 13: INCOME TAXES (CONTINUED)

The consolidated provision for income taxes differs from the amounts computed by applying the U.S. federal statutory income tax rates to income before income tax expense as a result of the following:

	2012		2011		2010	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Federal Statutory Tax Rate	$ 290,533	34.0 %	$ 311,831	34.0 %	$ 358,733	34.0 %
Tax-exempt Interest	(118,539)	(14.1)	(85,462)	(9.3)	(82,325)	(7.8)
Increase in Cash Surrender Value of Life Insurance	(21,461)	(2.5)	(30,429)	(3.3)	(35,059)	(3.3)
State Income Taxes, Net of Federal Tax Benefit	9,625	1.1	29,043	3.2	27,758	2.6
Nondeductible Interest Expense	4,488	0.5	3,948	0.4	4,793	0.5
Effect of Other Items	(866)	(0.1)	21,363	2.3	(69,736)	(6.6)
REPORTED EFFECTIVE TAX RATE	**$ 163,780**	**18.9 %**	**$ 250,294**	**27.3 %**	**$ 204,164**	**19.4 %**

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the need for a valuation allowance and will recognize tax benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

NOTE 13: INCOME TAXES (CONTINUED)

The tax effects of temporary differences which give rise to the Bancorp's deferred tax assets and liabilities are as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
DEFERRED TAX ASSETS		
Allowance for Loan Losses	$ 242,073	$ 231,157
Employee Benefit Plans	354,523	359,830
Other Real Estate Owned	36,717	19,946
AMT Credit Carry-Forwards Available	-0-	60,290
TOTAL DEFERRED TAX ASSETS	**633,313**	**671,223**
DEFERRED TAX LIABILITY		
Unrealized Gains on Investment Securities Available-for-Sale	(153,000)	(124,000)
Accumulated Depreciation	(40,304)	(95,171)
TOTAL DEFERRED TAX LIABILITIES	**(193,304)**	**(219,171)**
NET DEFERRED TAX ASSETS	**$ 440,009**	**$ 452,052**

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Bancorp and its Subsidiaries and recognize a tax liability (or asset) if the Bancorp and its Subsidiaries have taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Bancorp and its Subsidiaries, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Bancorp files income tax returns in the United States federal jurisdiction and West Virginia state jurisdiction, and is subject to examination of those filings by the authorities representing those jurisdictions. There are no current examinations in process for any filings and management believes that the Bancorp is not subject to audit for any years prior to 2009.

NOTE 14: EMPLOYEE BENEFIT PLANS

Profit Sharing and Employee Stock Ownership Plans

The Bank has a defined contribution profit-sharing plan covering substantially all employees. The Bank's contributions under the profit-sharing plan are funded with a trustee and are contingent upon the Bank achieving a minimum earnings level.

The Bank has an Employee Stock Ownership Plan (ESOP) which enables eligible employees to acquire shares of the Bancorp's common stock. The cost of the ESOP is borne by the Bank through annual contributions to an Employee Stock Ownership Trust, the trustees of which are also members of the Bancorp and its Subsidiary Bank's Board of Directors. The expense recognized by the Bank is based on cash contributed or committed to be contributed by the Bank to the ESOP during the year. Dividends made by the Bancorp to the ESOP are reported as a reduction to retained earnings. The ESOP owns 21,654 shares of the Bancorp's common stock as of December 31, 2012, all of which are considered outstanding for earnings per share computations.

NOTE 14: EMPLOYEE BENEFIT PLANS (CONTINUED)

The amount of the contributions to the profit-sharing plan and the ESOP are determined at the discretion of the Bank's Board of Directors in compliance with Internal Revenue Service limitations. Contributions have historically been made in the amount of 10% of the Bank's income before profit-sharing, ESOP, and income taxes. In the event this calculated contribution exceeds the amount allowable under current Internal Revenue Service regulations, the excess is distributed to the employees in the form of a cash bonus. Contributions to the plans, including cash bonuses, for the years ended December 31, 2012, 2011, and 2010, were $91,000, $92,648 and $125,321, respectively.

Incentive Compensation Program

The Bank has an incentive compensation program for its key employees. Bonuses are awarded to key employees based on a prescribed formula using the Bank's return on assets as a base. Included in the incentive program formula is a discretionary amount of 10% of the total award which may be used for merit awards to individual employees. Under the terms of the incentive compensation program, no bonuses were charged to operations for the years ending December 31, 2012, 2011, and 2010.

Executive Supplemental Income Plan

The Bank has entered into a nonqualified supplemental income plan with certain senior officers that provide these participating officers with an income benefit payable at retirement age or death. The liabilities accrued for the Executive Supplemental Income Plan at December 31, 2012 and 2011, were $909,034 and $922,642, respectively, which are included in other liabilities in the accompanying consolidated balance sheets. In addition, the Bank has purchased certain insurance contracts to fund the liabilities arising under this plan. At December 31, 2012 and 2011, the cash surrender value of these insurance contracts was $3,009,484 and $2,926,361, respectively.

NOTE 15: RESTRICTIONS ON BANK DIVIDENDS

The payment of dividends to shareholders by the Bancorp is not encumbered by any restrictive provisions. There are, however, limitations set by law on the amount of funds available to the Bancorp from its Subsidiary Bank. Dividends may be paid out of funds legally available therefore subject to the restrictions set forth in West Virginia Code, Section 31-A-4-25 which provides that prior approval of the West Virginia Commissioner of Banking is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank's net profits for that year combined with its retained net profits for the preceding two years. The amount of funds legally available for distribution of dividends by the Bank to the Bancorp without prior approval from regulatory authorities for 2012 was approximately $1,886,000, less $150,310 which was distributed by December 31, 2012.

NOTE 16: REGULATORY CAPITAL

The Bancorp is a bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956. As a bank holding company, the Bancorp's activities and those of its Subsidiary Bank are limited to the business of banking and activities closely related or incidental to banking.

NOTE 16: REGULATORY CAPITAL (CONTINUED)

The Bancorp's Subsidiary Bank, First Neighborhood Bank, Inc. is subject to various regulatory capital requirements administered by its primary federal and state banking regulators. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the Bancorp's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt correction action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined). Management believes, as of December 31, 2012, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Corporation (FDIC), the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Bank's actual and required capital amounts and ratios are as follows:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT (THOUSANDS)	RATIO	AMOUNT (THOUSANDS)	RATIO	AMOUNT (THOUSANDS)	RATIO
AS OF DECEMBER 31, 2012						
Total Risk-Based Capital (to Risk-Weighted Assets)	$ 13,922	17.29%	≥ $ 6,442	≥ 8.00%	≥ $ 8,053	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 13,051	16.21%	≥ $ 3,221	≥ 4.00%	≥ $ 4,832	≥ 6.00%
Tier I Capital - (Leverage) (to Adjusted Total Assets)	$ 13,051	9.03%	≥ $ 5,782	≥ 4.00%	≥ $ 7,228	≥ 5.00%
AS OF DECEMBER 31, 2011						
Total Risk-Based Capital (to Risk-Weighted Assets)	$ 13,357	16.58%	≥ $ 6,444	≥ 8.00%	≥ $ 8,054	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 12,513	15.54%	≥ $ 3,222	≥ 4.00%	≥ $ 4,833	≥ 6.00%
Tier I Capital - (Leverage) (to Adjusted Total Assets)	$ 12,513	8.99%	≥ $ 5,569	≥ 4.00%	≥ $ 6,961	≥ 5.00%

NOTE 17: LEASES

The Bank leases land and equipment under noncancellable operating lease agreements and is subject to renewal options. Rent expense under those noncancellable operating leases approximated $43,000, $47,000 and $48,300 for the years ended December 31, 2012, 2011, and 2010, respectively.

Future minimum payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2012:

2013	$ 51,757
2014	16,845
2015	13,763
2016	13,763
2017	13,763
TOTAL	**$ 109,891**

NOTE 18: COMMITMENTS AND CONTINGENT LIABILITIES

The Bancorp and its Subsidiary Bank have an executive benefit agreement with the current Chief Executive Officer. This agreement contains change in control provisions that would entitle the officer to receive a multiple of his annual compensation if there is a change in control in the Bancorp (as defined) and a termination of his employment under certain circumstances. The maximum contingent liability under this agreement approximates $516,250 at December 31, 2012.

Commitments Under Servicing Agreement

The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments may become due if the agreement is terminated before June 2017. As of December 31, 2012, the contingent liability to the Bank's service center is estimated to be approximately $1,149,000 plus the actual costs incurred in connection with the termination.

The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, there are no legal actions pending at the time of the audit report.

NOTE 19: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit, standby letters-of-credit, and overdraft protection, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, standby letters-of-credit, and overdraft protection is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk are as follows:

Commitments to Extend Credit

The Bank has outstanding firm commitments to extend credit as follows:

	DECEMBER 31, 2012			DECEMBER 31, 2011		
	FIXED RATE	VARIABLE RATE	TOTAL	FIXED RATE	VARIABLE RATE	TOTAL
Real Estate Loans	$ -0-	$ 80,500	$ 80,500	$ 38,000	$ 40,000	$ 78,000
Commercial Loans	-0-	1,245,912	1,245,912	-0-	1,197,347	1,197,347
Home Equity Loans	-0-	1,349,989	1,349,989	-0-	1,427,209	1,427,209
Commercial Lines-of-Credit	34,500	8,692,987	8,727,487	41,462	7,885,416	7,926,878
	$ 34,500	$ 11,369,388	$ 11,403,888	$ 79,462	$ 10,549,972	$ 10,629,434

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. 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 creditworthiness 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. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby Letters-of-Credit

The Bank had commitments under standby letters-of-credit that totaled $604,921 and $604,690 as of December 31, 2012 and 2011, respectively.

Standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loans. These letters-of-credit are generally uncollateralized.

Overdraft Protection

The Bank has an overdraft privilege product with qualified individual transaction account holders providing automatic payment of overdrafts up to a specified amount based on the type of account, charging the standard overdraft fee. The Bank had commitments of $1,520,035 and $1,575,973 as of December 31, 2012 and 2011, respectively.

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of Fair Value

The Bancorp and its Subsidiaries use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bancorp and its Subsidiaries' various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value, a reasonable point within the range, is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bancorp and its Subsidiaries group its financial assets and financial liabilities generally measured at fair value in three levels, based on markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bancorp and its Subsidiaries have the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets and liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Accordingly, securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets recorded at fair value on a recurring basis.

Investment Securities Available-for-Sale

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage-backed securities, and municipal bonds. Level 3 securities include those with unobservable inputs. Transfers between levels can occur due to changes in the observability of significant inputs.

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following are fair values of assets measured on a recurring basis:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
DECEMBER 31, 2012				
Securities Available-For-Sale:				
U.S. Government Federal Agencies	$ 23,019,897	$	$ 23,019,897	$
State, County, and Municipal – Nontaxable	13,843,703		13,843,703	
State, County, and Municipal – Taxable	2,047,125		2,047,125	
TOTAL SECURITIES AVAILABLE-FOR-SALE	**$ 38,910,725**	**$ -0-**	**$ 38,910,725**	**$ -0-**
DECEMBER 31, 2011				
Securities Available-For-Sale:				
U.S. Government Federal Agencies	$ 23,073,836	$	$ 23,073,836	$
State, County, and Municipal – Nontaxable	8,544,983		8,544,983	
State, County, and Municipal – Taxable	1,473,486		1,473,486	
TOTAL SECURITIES AVAILABLE-FOR-SALE	**$ 33,092,305**	**$ -0-**	**$ 33,092,305**	**$ -0-**

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The following describes the valuation techniques used by the Bancorp and its Subsidiaries to measure certain financial assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

Impaired Loans

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired management measures impairment in accordance with ASC Topic 310, *Accounting by Creditors for Impairment of a Loan.* The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2012, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, impaired loans, where an allowance is established based on the fair value of collateral, required classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (OREO)

OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest income in the consolidated statements of income.

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following are the fair values of assets measured on a nonrecurring basis:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
DECEMBER 31, 2012				
Impaired Loans:				
Residential	$ 182,733	$ -0-	$ 182,733	$ -0-
Commercial Secured by Real Estate	815,086	-0-	815,086	-0-
Commercial and Industrial	47,810	-0-	47,810	-0-
TOTAL IMPAIRED LOANS	**$ 1,045,629**	**$ -0-**	**$ 1,045,629**	**$ -0-**
TOTAL OREO	**$ 735,000**	**$ -0-**	**$ 735,000**	**$ -0-**
DECEMBER 31, 2011				
Impaired Loans:				
Commercial Secured by Real Estate	$ 311,264	$ -0-	$ 311,264	$ -0-
Commercial and Industrial	69,486	-0-	69,486	-0-
TOTAL IMPAIRED LOANS	**$ 380,750**	**$ -0-**	**$ 380,750**	**$ -0-**
TOTAL OREO	**$ 653,000**	**$ -0-**	**$ 653,000**	**$ -0-**

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used by the Bancorp and its Subsidiaries in estimating the fair value of these financial instruments:

Cash and Cash Equivalents

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate those assets' fair values.

Time Deposits

Fair values for time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits.

Investment Securities and Other Securities

Fair values for investment securities, excluding restricted equity securities in the Federal Home Loan Bank (FHLB), are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Because there is no market, the carrying values of restricted equity securities approximate fair values based on the redemption provisions of the FHLB. The carrying amount of accrued interest receivable approximates the fair value.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans (for example; fixed rate commercial real estate, rental property mortgage loans, and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates the fair value.

Bank Owned Life Insurance

Bank owned life insurance is carried at its cash surrender value which approximates fair value.

Deposits

The fair values disclosed for demand deposits (for example, interest and noninterest-bearing checking accounts, regular savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates the fair value.

Advance Payments from Borrowers for Taxes and Insurance

The carrying amount of escrow accounts approximate fair value.

NOTE 20: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Off-Balance-Sheet Credit-Related Instruments

Fair values for off-balance-sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The estimated fair values of these commitments approximate their carrying value. The amounts of fees currently charged on commitments, standby letters-of-credit, and overdraft protection are deemed insignificant and, therefore, the estimated fair values and carrying values are not shown below.

The estimated fair value of the Bancorp and its Subsidiaries' financial instruments are as follows:

	DECEMBER 31, 2012		DECEMBER 31, 2011	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS				
Cash and Due from Banks	$ 8,072,889	$ 8,072,889	$ 5,338,918	$ 5,338,918
Interest Bearing Deposits in Other Banks	$ 183,006	$ 183,006	$ 129,950	$ 129,950
Federal Funds Sold	$ 6,660,000	$ 6,660,000	$ 8,975,000	$ 8,975,000
Time Deposits	$ 1,500,000	$ 1,500,000	$ -0-	$ -0-
Securities Available-for-Sale	$ 38,910,725	$ 38,910,725	$ 33,092,305	$ 33,092,305
Other Securities	$ 248,100	$ 248,100	$ 301,600	$ 301,600
Loans	$ 80,745,173	$ 87,930,476	$ 83,964,474	$ 86,204,478
Accrued Interest Receivable	$ 433,498	$ 433,498	$ 413,191	$ 413,191
Bank Owned Life Insurance	$ 3,009,484	$ 3,009,484	$ 2,926,361	$ 2,926,361
FINANCIAL LIABILITIES				
Deposits	$ 129,778,083	$ 128,683,872	$ 125,827,298	$ 126,168,243
Advance Pay from Borrowers For Taxes and Insurance	$ 45,983	$ 45,983	$ 44,785	$ 44,785
Accrued Interest Payable	$ 67,311	$ 67,311	$ 92,765	$ 92,765

NOTE 21: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The following financial statements reflect the financial position, results of operations, and cash flows of West-Central Bancorp, Inc. (Parent Company Only).

CONDENSED BALANCE SHEETS

	DECEMBER 31,	
	2012	**2011**
ASSETS		
Cash and Due from Banks (All from Subsidiary Bank)	$ 14,854	$ 60,332
Investment in Subsidiaries (Equity Basis)	13,332,238	12,748,174
TOTAL ASSETS	**$ 13,347,092**	**$ 12,808,506**
LIABILITIES	**$ -0-**	**$ -0-**
SHAREHOLDERS' EQUITY		
Common Stock (Par Value $1.00; 5,000,000 Shares Authorized; 350,860 Shares Issued; 211,343 and 212,528 Shares Outstanding in 2012 and 2011, respectively)	350,860	350,860
Additional Paid in Capital	1,597,246	1,597,246
Retained Earnings	13,704,742	13,147,371
Less: Treasury Stock, at Cost (139,517 and 138,332 Shares in 2012 and 2011, respectively)	(2,539,505)	(2,475,515)
Accumulated Other Comprehensive Income	233,749	188,544
TOTAL SHAREHOLDERS' EQUITY	**13,347,092**	**12,808,506**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 13,347,092**	**$ 12,808,506**

NOTE 21: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (CONTINUED)

CONDENSED STATEMENTS OF INCOME

	DECEMBER 31,		
	2012	2011	2010
REVENUE			
Dividend Income from Subsidiaries	$ 166,502	$ 160,866	$ 162,475
TOTAL REVENUE	**166,502**	**160,866**	**162,475**
EXPENSES			
Other Expenses	50	50	80
TOTAL EXPENSES	**50**	**50**	**80**
Income Before Income Tax Expense and Equity in Undistributed Net Income of Subsidiaries	166,452	160,816	162,395
Income Tax Expense	-0-	-0-	2,567
INCOME BEFORE EQUITY IN UNDISTRIBUTED NET INCOME OF SUBSIDIARIES	**166,452**	**160,816**	**159,828**
EQUITY IN UNDISTRIBUTED NET INCOME	**538,859**	**506,041**	**691,105**
NET INCOME	**$ 705,311**	**$ 666,857**	**$ 850,933**

NOTE 21: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

	DECEMBER 31,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	$ 705,311	$ 666,857	$ 850,933
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Undistributed Net (Income) Loss of Subsidiaries	(538,859)	(506,041)	(691,105)
Increase (Decrease) in Other Liabilities	-0-	(2,567)	2,567
TOTAL ADJUSTMENTS	**(538,859)**	**(508,608)**	**(688,538)**
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**166,452**	**158,249**	**162,395**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Dividends Paid	(147,940)	(148,769)	(148,770)
Purchase of Treasury Stock	(63,990)	-0-	-0-
NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	**(211,930)**	**(148,769)**	**(148,770)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(45,478)**	**9,480**	**13,625**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**60,332**	**50,852**	**37,227**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 14,854**	**$ 60,332**	**$ 50,852**

Principal sources of revenues for the Bancorp are dividends received from its Subsidiaries. State law imposes limitations on the payment of dividends by the Subsidiary Bank of the Bancorp. A dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net profits combined with the retained net profits of the two preceding years unless the bank obtains regulatory approval.

Loans and extensions of credit must be secured in specified amounts. The Bancorp had no borrowings outstanding from its Subsidiary Bank at December 31, 2012.

NOTE 21: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (CONTINUED)

The Bancorp accounts for its investments in its Subsidiaries by the equity method. During the years ended December 31, 2012, 2011 and 2010, changes in the investments were as follows:

	WEST CENTRAL INSURANCE, LLC	FIRST NEIGHBORHOOD BANK, INC.
Percent to Total Shares	100%	100%
BALANCE AT DECEMBER 31, 2009	**$ 46,610**	**11,527,490**
Add (deduct):		
Equity in Net Income	13,705	839,876
Dividends Declared	(13,705)	(148,770)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale	-0-	(363,099)
BALANCE AT DECEMBER 31, 2010	**46,610**	**11,855,497**
Add (deduct):		
Equity in Net Income	12,096	654,811
Dividends Declared	(12,096)	(148,770)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale	-0-	340,026
BALANCE AT DECEMBER 31, 2011	**46,610**	**12,701,564**
Add (deduct):		
Equity in Net Income	16,192	689,169
Dividends Declared	(16,192)	(150,310)
Change in Unrealized Gains (Losses) on Investment Securities Available-for-Sale	-0-	45,205
BALANCE AT DECEMBER 31, 2012	**$ 46,610**	**$ 13,285,628**

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