MIDDLEFIELD BANC CORP
Form 10-Q/A
December 13, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20552

FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

Commission File Number 000-32561

Middlefield Banc Corp.
(Exact name of registrant as specified in its charter)

Ohio	**34 - 1585111**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

15985 East High Street, Middlefield, Ohio 44062-9263

(Address of principal executive offices)

(440) 632-1666

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [√] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [√] NO [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Small reporting company [√]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES [ ] NO [√]

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

Class: Common Stock, without par value

Outstanding at May 9, 2013 : 2,016,496

EXPLANATORY NOTE

This Form 10-Q/A amendment to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2013 is being filed for the sole purpose of filing the corrected Exhibits 31.1, 31.2 and 32.

This Amendment contains the complete text of the original report in addition to the corrected Exhibits listed above. This Amendment does not reflect any events occurring subsequent to the May 9, 2013 filing date of the original Form 10-Q for the quarter ended March 31, 2012 or in any way modify or update disclosures in the original Form 10-Q for the quarter ended March 31, 2013.

MIDDLEFIELD BANC CORP.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED BALANCE SHEET
(Dollar amounts in thousands, except share data)
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$32,426	$33,568
Federal funds sold	13,204	11,778
Cash and cash equivalents	45,630	45,346
Investment securities available for sale	190,687	194,472
Loans	407,054	408,433
Less allowance for loan losses	7,732	7,779
Net loans	399,322	400,654
Premises and equipment	8,694	8,670
Goodwill	4,559	4,559
Core deposit intangible	184	195
Bank-owned life insurance	8,604	8,536
Accrued interest and other assets	9,294	7,856
TOTAL ASSETS	$666,974	$670,288
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$73,354	$75,912
Interest-bearing demand	68,060	63,915
Money market	80,051	81,349
Savings	181,872	175,406
Time	188,160	196,753
Total deposits	591,497	593,335
Short-term borrowings	5,240	6,538
Other borrowings	12,779	12,970
Accrued interest and other liabilities	1,608	2,008
TOTAL LIABILITIES	611,124	614,851
STOCKHOLDERS' EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 2,205,814 and 2,181,763 shares issued	34,697	34,295
Retained earnings	23,622	22,485
Accumulated other comprehensive income	4,265	5,391
Treasury stock, at cost; 189,530 shares	(6,734)	(6,734)
TOTAL STOCKHOLDERS' EQUITY	55,850	55,437
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$666,974	$670,288

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
INTEREST INCOME		
Interest and fees on loans	$5,572	$5,537
Interest-bearing deposits in other institutions	8	4
Federal funds sold	4	3
Investment securities:		
Taxable interest	674	915
Tax-exempt interest	733	747
Dividends on stock	23	26
Total interest income	7,014	7,232
INTEREST EXPENSE		
Deposits	1,297	1,497
Short term borrowings	52	59
Other borrowings	46	84
Trust preferred debt	34	46
Total interest expense	1,429	1,686
NET INTEREST INCOME	5,585	5,546
Provision for loan losses	313	600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,272	4,946
NONINTEREST INCOME		
Service charges on deposit accounts	447	431
Investment securities gains, net	185	-
Earnings on bank-owned life insurance	68	68
Gain on sale of loans	-	85
Other income	168	210
Total noninterest income	868	794
NONINTEREST EXPENSE		
Salaries and employee benefits	1,871	1,750
Occupancy expense	274	248
Equipment expense	189	170
Data processing costs	213	199
Ohio state franchise tax	154	129
Federal deposit insurance expense	154	243
Professional fees	276	214
Loss on sale of other real estate owned	8	18
Advertising expense	112	20

Other real estate expense	106	10
Other expense	644	781
Total noninterest expense	4,001	3,782
Income before income taxes	2,139	1,958
Income taxes	482	435
NET INCOME	$1,657	$1,523
EARNINGS PER SHARE		
Basic	$0.83	$0.86
Diluted	0.82	0.86
DIVIDENDS DECLARED PER SHARE	$0.26	$0.26

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	$1,657	$1,523
Other comprehensive loss:		
Net unrealized holding loss on available for sale securities	(1,521)	(60)
Tax effect	517	20
Reclassification adjustment for gains included in net income	(185)	-
Tax effect	63	-
Total other comprehensive loss	(1,126)	(40)
Comprehensive income	$531	$1,483

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollar amounts in thousands, except shares and dividend per share amount)
(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	$ 34,295	$ 22,485	$ 5,391	$ (6,734)	$ 55,437
Net income		1,657			1,657
Comprehensive loss			(1,126)		(1,126)
Common stock issuance (13,320 shares)	213				213
Dividend reinvestment and purchase plan (10,731 shares)	300				300
Stock options exercised	(111)				(111)
Cash dividends ($0.26 per share)		(520)			(520)
Balance, March 31, 2013	$ 34,697	$ 23,622	$ 4,265	$ (6,734)	$ 55,850

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES		
Net income	$1,657	$1,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	313	600
Investment securities gains, net	185	-
Depreciation and amortization	222	221
Amortization of premium and discount on investment securities	183	224
Accretion of deferred loan fees, net	(33)	(55)
Origination of loans held for sale	-	(1,084)
Proceeds from sale of loans held for sale	-	1,169
Gain on sale of loans	-	(85)
Earnings on bank-owned life insurance	(68)	(68)
Deferred income taxes	58	(28)
Loss on sale of other real estate owned	8	18
Increase in accrued interest receivable	(529)	(442)
Decrease in accrued interest payable	(24)	(104)
Decrease in prepaid federal deposit insurance	9	211
Other, net	(507)	(523)
Net cash provided by operating activities	1,474	1,577
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	6,773	18,533
Proceeds from sale of securities	7,438	-
Purchases	(12,500)	(8,611)
Increase (decrease) in loans, net	598	(2,643)
Proceeds from the sale of other real estate owned	137	210
Purchase of premises and equipment	(191)	(253)
Net cash provided by investing activities	2,255	7,236
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(1,838)	2,980
Decrease in short-term borrowings, net	(1,298)	(27)
Repayment of other borrowings	(191)	(270)
Common stock issuance	213	-
Stock options exercised	(111)	-
Proceeds from dividend reinvestment & purchase plan	300	180
Cash dividends	(520)	(457)
Net cash (used for) provided by financing activities	(3,445)	2,406

Increase in cash and cash equivalents	284	11,219
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	45,346	34,390
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$45,630	$45,609
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$1,453	$1,790
Income taxes	555	200
Non-cash investing transactions:		
Transfers from loans to other real estate owned	$454	$157

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ("Company") include its two bank subsidiaries The Middlefield Banking Company ("MB") and Emerald Bank ("EB") and a non-bank asset resolution subsidiary EMORECO, Inc. All significant inter-company items have been eliminated.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the instructions for Form 10-Q and Article 10 of Regulation S-X. In management's opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows. The consolidated balance sheet at December 31, 2012, has been derived from the audited financial statements at that date but does not include all of the necessary informational disclosures and footnotes as required by U. S. generally accepted accounting principles. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included with the Company's Form 10-K for the year ended December 31, 2012 (File No. 000-32561). The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU did not have a significant impact on the Company's financial statements.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU did not have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company has provided the necessary disclosures in Note 5.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). Examples of obligations within the scope of this Update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay among its co-obligors, on the basis of the guidance for contingent liabilities. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. This ASU is not expected to have a significant impact on the Company's financial statements.

NOTE 2 - STOCK-BASED COMPENSATION

The Company has no unvested stock options outstanding or unrecognized stock-based compensation costs outstanding as of March 31, 2013. The company had 9,000 unvested stock options outstanding but no unrecognized stock-based compensation costs outstanding as of March 31, 2012. Those options vested on May 9, 2012.

Stock option activity during the three months ended March 31 as follows:

	2013		Weighted-average Exercise Price	2012		Weighted-average Exercise Price
Outstanding, January 1	79,693	$	27.25	88,774	$	26.81
Exercised	18,561		24.08	-		-
Outstanding, March 31	61,132	$	28.21	88,774	$	26.81
Exercisable, March 31	61,132	$	28.21	88,774	$	26.81

NOTE 3 - EARNINGS PER SHARE

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the average shares outstanding. Diluted earnings per share adds the dilutive effects of options, warrants, and convertible securities to average shares outstanding.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	For the Three Months Ended March 31,	
	2013	2012
Weighted average common shares outstanding	2,189,175	1,953,512
Average treasury stock shares	(189,530)	(189,530)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,999,645	1,763,982
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	10,647	603
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	2,010,292	1,764,585

Options to purchase 61,132 shares of common stock, at prices ranging from $17.55 to $40.24, were outstanding during the three months ended March 31, 2013. Of those options, 59,617 were considered dilutive based on the market price exceeding the strike price. The remaining 1,515 options had no dilutive effect on earnings per share.

Options to purchase 88,774 shares of common stock, at prices ranging from $17.55 to $40.24, were outstanding during the three months ended March 31, 2012. Of those options, 9,000 were considered dilutive based on the market price exceeding the strike price. The remaining 79,774 options had no dilutive effect on earnings per share.

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following tables present the assets measured on a recurring basis on the Consolidated Balance Sheet at their fair value by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2013			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 25,752	$ -	$ 25,752
Obligations of states and political subdivisions	-	94,462	-	94,462
Mortgage-backed securities in government-sponsored entities	-	65,026	-	65,026
Private-label mortgage-backed securities	-	4,697	-	4,697
Total debt securities	-	189,937	-	189,937
Equity securities in financial institutions	5	745	-	750
Total	$ 5	$ 190,682	$ -	$ 190,687

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 24,960	$ -	$ 24,960
Obligations of states and political subdivisions	-	92,596	-	92,596
Mortgage-backed securities in government-sponsored entities	-	71,102	-	71,102
Private-label mortgage-backed securities	-	5,064	-	5,064
Total debt securities	-	193,722	-	193,722
Equity securities in financial institutions	5	745	-	750
Total	$ 5	$ 194,467	$ -	$ 194,472

The Company obtains fair values from an independent pricing service which represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2).

Financial instruments are considered Level III when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The Company has no securities considered to be Level III as of March 31, 2013.

The Company uses prices compiled by third party vendors due to the recent stabilization in the markets along with improvements in third party pricing methodology that have narrowed the variances between third party vendor prices and actual market prices.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include: quoted market prices for identical assets classified as Level I inputs; observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

The Company values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level III.

	March 31, 2013			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 16,363	$ 16,363
Other real estate owned	-	-	2,155	2,155

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 17,600	$ 17,600
Other real estate owned	-	-	1,846	1,846

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company uses Level III inputs to determine fair value:

Quantitative Information about Level III Fair Value Measurements

(unaudited, in thousands)	Estimate		Valuation Techniquest	Unobservable Input
	March 31, 2013	December 31, 2012		
Impaired loans	$ 16,363	17,600	Appraisal of collateral (1)	Appraisal adjustments (2)
				Liquidation expenses (2)
Other real estate owned	$ 2,155	1,846	Appraisal of collateral (1), (3)	

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The estimated fair value of the Company's financial instruments is as follows:

	March 31, 2013				
	Carrying Value	Level I	Level II (in thousands)	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$45,630	$45,630	$-	$-	$45,630
Investment securities available for sale	190,687	5	190,682	-	190,687
Net loans	399,322	-	-	402,219	402,219
Bank-owned life insurance	8,604	8,604	-	-	8,604
Federal Home Loan Bank stock	1,627	1,627	-	-	1,627
Accrued interest receivable	2,692	2,692	-	-	2,692
Financial liabilities:					
Deposits	$591,497	$403,337	$-	$190,881	$594,218
Short-term borrowings	5,240	5,240	-	-	5,240
Other borrowings	12,779	-	-	13,092	13,092
Accrued interest payable	468	468	-	-	468

	December 31, 2012				
	Carrying Value	Level I	Level II (in thousands)	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$45,346	$45,346	$-	$-	$45,346
Investment securities available for sale	194,472	5	194,467	-	194,472
Net loans	400,654	-	-	390,206	390,206
Bank-owned life insurance	8,536	8,536	-	-	8,536
Federal Home Loan Bank stock	1,887	1,887	-	-	1,887
Accrued interest receivable	2,163	2,163	-	-	2,163
Financial liabilities:					
Deposits	$593,335	$396,582	$-	$196,122	$592,704
Short-term borrowings	6,538	6,538	-	-	6,538
Other borrowings	12,970	-	-	13,337	13,337
Accrued interest payable	492	492	-	-	492

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the

instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. Since many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings
The fair value is equal to the current carrying value.

Bank-Owned Life Insurance
The fair value is equal to the cash surrender value of the life insurance policies.

Investment Securities Available for Sale
The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans
The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were used as estimates for fair value.

Deposits and Other Borrowed Funds
The fair values of certificates of deposit and other borrowed funds are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand as of year-end.

Commitments to Extend Credit
These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

NOTE 5 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the three months ended March 31, 2013:

	Unrealized gains on available for sale securities (a)
Balance as of December 31, 2012	$5,391
Other comprehensive loss before reclassification	(1,004)
Amount reclassified from accumulated other comprehensive income	(122)
Total other comprehensive loss	(1,126)
Balance as of March 31, 2013	$4,265

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income for the three months ended March 31, 2013:

Details about other comprehensive income	Amount Reclassified from Accumulated Other Comprehensive Income (a)	Affected Line Item in the Statement Where Net Income is Presented
Unealized gains on available for sale securities		
	$ 185	Investment securities gains, net
	(63)	Income taxes
	$ 122	Net of tax

NOTE 6 - INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair values of securities available for sale are as follows:

	March 31, 2013			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 25,277	$ 556	$ (81)	$ 25,752
Obligations of states and political subdivisions:				
Taxable	5,892	597	-	6,489
Tax-exempt	84,379	3,985	(391)	87,973
Mortgage-backed securities in government-sponsored entities	63,710	1,481	(165)	65,026
Private-label mortgage-backed securities	4,216	481	-	4,697
Total debt securities	183,474	7,100	(637)	189,937
Equity securities in financial institutions	750	-	-	750
Total	$ 184,224	$ 7,100	$ (637)	$ 190,687

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 24,485	$ 566	$ (91)	$ 24,960
Obligations of states and political subdivisions:				
Taxable	6,888	738	-	7,626
Tax-exempt	80,391	4,683	(104)	84,970
Mortgage-backed securities in government-sponsored entities	69,238	1,929	(65)	71,102
Private-label mortgage-backed securities	4,553	511	-	5,064
Total debt securities	185,555	8,427	(260)	193,722
Equity securities in financial institutions	750	-	-	750
Total	$ 186,305	$ 8,427	$ (260)	$ 194,472

The amortized cost and fair value of debt securities at March 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 2,915	$ 2,985
Due after one year through five years	4,543	4,811
Due after five years through ten years	21,842	22,805
Due after ten years	154,174	159,336
Total	$ 183,474	$ 189,937

Proceeds from the sales of securities available-for-sale and the gross realized gains and losses for the three months ended March 31 are as follows:

	2013	2012
Proceeds from sales	$ 7,438	-
Gross realized gains	204	-
Gross realized losses	(19)	-

Investment securities with an approximate carrying value of $66,318,142 and $52,126,000 at March 31, 2013 and 2012, respectively, were pledged to secure deposits and other purposes as required by law.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	March 31, 2013					
	Less than Twelve Months		Twelve Months or Greater		Total	
(Dollar amounts in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 11,925	$ (81)	$ -	$ -	$ 11,925	$ (81)
Obligations of states and political subdivisions	14,834	(391)	-	-	14,834	(391)
Mortgage-backed securities in government-sponsored entities	15,768	(165)	-	-	15,768	(165)
Total	$ 42,527	$ (637)	$ -	$ -	$ 42,527	$ (637)

	December 31, 2012					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 9,938	$ (91)	$ -	$ -	$ 9,938	$ (91)
Obligations of states and political subdivisions	9,240	(104)	-	-	9,240	(104)
Mortgage-backed securities in government-sponsored entities	12,353	(65)	-	-	12,353	(65)
Total	$ 31,531	$ (260)	$ -	$ -	$ 31,531	$ (260)

There were 49 securities considered temporarily impaired at March 31, 2013.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment ("OTTI"). A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The Company assesses whether the unrealized loss is other-than-temporary.

OTTI losses are recognized in earnings when the Company has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Company does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

An unrealized loss is generally deemed to be other than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result the credit loss component of an OTTI is recorded as a component of investment securities gains (losses) in the accompanying Consolidated Statement of Income, while the remaining portion of the impairment loss is recognized in other comprehensive income, provided the Company does not intend to sell the underlying debt security and it is "more likely than not" that the Company will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and state and political subdivisions accounted for more than 97% of the total available-for-sale portfolio as of March 31, 2013 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government and the lack of significant unrealized loss positions within the obligations of state and political subdivisions security portfolio. The Company's assessment was concentrated mainly on private-label collateralized mortgage obligations of approximately $4.2 million for which the Company evaluates credit losses on a quarterly basis. The gross unrealized gain position related to these private-label collateralized mortgage obligations amounted to $481,000 on March 31, 2013. The Company considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis.

- Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;

- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate.

For the three months ended March 31, 2013 and 2012, there were no available-for-sale debt securities with an unrealized loss that suffered OTTI.

NOTE 7 - LOANS AND RELATED ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are summarized as follows (in thousands):

	March 31, 2013	December 31, 2012
Commercial and industrial	$ 55,401	$ 62,188
Real estate - construction	22,817	22,522
Real estate - mortgage:		
Residential	199,063	203,872
Commercial	125,799	115,734
Consumer installment	3,974	4,117
	407,054	408,433
Less allowance for loan losses	7,732	7,779
Net loans	$ 399,322	$ 400,654

The Company's primary business activity is with customers located within its local trade area, eastern Geauga County, and contiguous counties to the north, east, and south. The Company also serves the central Ohio market with offices in Dublin and Westerville, Ohio. Commercial, residential, consumer, and agricultural loans are granted. Although the Company has a diversified loan portfolio, loans outstanding to individuals and businesses are dependent upon the local economic conditions in the Company's immediate trade area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances net of the allowance for loan losses. Interest income is recognized as income when earned on the accrual method. The accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of interest is doubtful. Interest received on nonaccrual loans is recorded as income or applied against principal according to management's judgment as to the collectability of such principal.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

The following tables summarize the primary segments of the loan portfolio and allowance for loan losses (in thousands):

			Real Estate- Mortgage			
March 31, 2013	Commercial and industrial	Real estate- construction	Residential	Commercial	Consumer installment	Total
Loans:						
Individually evaluated for impairment	$ 2,975	$ 3,772	$ 5,794	$ 6,832	$ 18	$ 19,391
Collectively evaluated for impairment	52,426	19,045	193,269	118,967	3,956	387,663
Total loans	$ 55,401	$ 22,817	$ 199,063	$ 125,799	$ 3,974	$ 407,054

			Real estate- Mortgage			
December 31, 2012	Commercial and industrial	Real estate- construction	Residential	Commercial	Consumer installment	Total
Loans:						
Individually evaluated for impairment	$ 4,592	$ 3,993	$ 5,761	$ 6,914	$ 28	$ 21,288
Collectively evaluated for impairment	57,596	18,529	198,111	108,820	4,089	387,145
Total loans	$ 62,188	$ 22,522	$ 203,872	$ 115,734	$ 4,117	$ 408,433

			Real Estate- Mortgage			
March 31, 2013	Commercial and industrial	Real estate- construction	Residential	Commercial	Consumer installment	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 700	$ 790	$ 703	$ 682	$ 1	$ 2,876
Collectively evaluated for impairment	530	258	2,503	1,519	46	4,856
Total ending allowance balance	$ 1,230	$ 1,048	$ 3,206	$ 2,201	$ 47	$ 7,732

			Real Estate- Mortgage			
December 31, 2012	Commercial and industrial	Real estate- construction	Residential	Commercial	Consumer installment	Total
Allowance for loan losses:						
Ending allowance balance attributable to						

loans:						
Individually evaluated for impairment	$ 1,189	$ 933	$ 600	$ 960	$ 6	$ 3,688
Collectively evaluated for impairment	543	190	2,272	1,031	55	4,091
Total ending allowance balance	$ 1,732	$ 1,123	$ 2,872	$ 1,991	$ 61	$ 7,779

The Company's loan portfolio is segmented to a level that allows management to monitor risk and performance. The portfolio is segmented into Commercial and Industrial ("C&I"), Real Estate Construction, Real Estate - Mortgage which is further segmented into Residential and Commercial real estate, and Consumer Installment Loans. The C&I loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment consists of loans made for the purpose of financing the activities of residential homeowners. The commercial mortgage loan segment consists of loans made for the purposed of financing the activities of commercial real estate owners and operators. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $150,000 and if the loan either is in nonaccrual status, or is risk rated Special Mention or Substandard and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands):

March 31, 2013

	Impaired Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and industrial	$ 1,271	$ 1,271	$ -
Real estate - construction	322	322	-
Real estate - mortgage:			
Residential	2,617	2,730	-
Commercial	3,772	3,772	-
Consumer installment	10	10	-
Total	$ 7,992	$ 8,105	$ -
With an allowance recorded:			
Commercial and industrial	$ 1,704	$ 1,704	$ 700
Real estate - construction	3,450	3,450	790
Real estate - mortgage:		-	-
Residential	3,025	3,064	703
Commercial	3,060	3,060	682
Consumer installment	8	8	1
Total	$ 11,247	$ 11,286	$ 2,876
Total:			
Commercial and industrial	$ 2,975	$ 2,975	$ 700
Real estate - construction	3,772	3,772	790
Real estate - mortgage:			
Residential	5,642	5,794	703
Commercial	6,832	6,832	682
Consumer installment	18	18	1
Total	$ 19,239	$ 19,391	$ 2,876

December 31, 2012

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and industrial	$ 1,230	$ 1,229	$ -
Real estate - construction	308	308	-
Real estate - mortgage:			
Residential	2,716	2,729	-
Commercial	4,143	4,164	-
Consumer installment	11	11	-
Total	$ 8,408	$ 8,441	$ -
With an allowance recorded:			
Commercial and industrial	$ 3,362	$ 3,367	$ 1,189
Real estate - construction	3,685	3,685	933
Real estate - mortgage:			
Residential	3,045	3,054	600
Commercial	2,771	2,776	960
Consumer installment	17	17	6
Total	$ 12,880	$ 12,899	$ 3,688
Total:			
Commercial and industrial	$ 4,592	$ 4,596	$ 1,189
Real estate - construction	3,993	3,993	933
Real estate - mortgage:			
Residential	5,761	5,783	600
Commercial	6,914	6,940	960
Consumer installment	28	28	6
Total	$ 21,288	$ 21,340	$ 3,688

The following table presents interest income by class, recognized on impaired loans:

	As of March 31, 2013		As of March 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Total:				
Commercial and industrial	$2,975	$55	$1,781	$12
Real estate - construction	3,772	37	471	1
Real estate - mortgage:				
Residential	5,642	74	2,809	27
Commercial	6,832	110	1,884	26
Consumer installment	18	-	28	1

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories used by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Assets classified as “doubtful” have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses make collection of principal in full — on the basis of currently existing facts, conditions, and values — highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Company’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Credit Department performs an annual review of all commercial relationships $200,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Company has an experienced Loan Review Department that continually reviews and assesses loans within the portfolio. The Company engages an external consultant to conduct loan reviews on a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than $250,000 and/or criticized relationships greater than $125,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The primary risk of commercial and industrial loans is the current economic uncertainties. C & I loans are, by nature, secured by less substantial collateral than real estate secured loans. The primary risk of real estate construction loans is potential delays and /or disputes during the completion process. The primary risk of residential real estate loans is current economic uncertainties along with the slow recovery in the housing market. The primary risk of commercial real estate loans is loss of income of the owner or occupier of the property and the inability of the market to sustain rent levels. Consumer installment loans historically have experienced higher delinquency rates. Consumer installments are typically secured by less substantial collateral than other types of credits.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system (in thousands):

March 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total Loans
Commercial and industrial	$ 51,789	$ 929	$ 2,640	$ 43	$ 55,401
Real estate - construction	18,105	923	3,790	-	22,817
Real estate - mortgage:					
Residential	185,856	967	12,240	-	199,063
Commercial	117,462	3,149	5,189	-	125,799
	3,953	-	21	-	3,974

Consumer installment					
Total	$ 377,165	$ 5,967	$ 23,880	$ 43	$ 407,054

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December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total Loans
Commercial and industrial	$ 59,390	$ 678	$ 2,061	$ 59	$ 62,188
Real estate - construction	17,601	-	4,921	-	22,522
Real estate - mortgage:					
Residential	190,967	758	12,147	-	203,872
Commercial	106,509	1,928	7,297	-	115,734
Consumer installment	4,084	-	33	-	4,117
Total	$ 378,551	$ 3,364	$ 26,459	$ 59	$ 408,433

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due.

Non-performing assets includes non-accrual loans, troubled debt restructurings (TDRs), loans 90 days or more past due, assets purchased by EMORECO from EB, OREO, and repossessed assets. A loan is classified as non-accrual when, in the opinion of management, there are serious doubts about collectability of interest and principal. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of principal and interest is doubtful. Payments received on nonaccrual loans are applied against principal according to management's shadow accounting system.

The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans (in thousands):

		Still Accruing					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	Non-Accrual	Total Loans
March 31, 2013							
Commercial and industrial	$ 53,319	$ 1,545	$ 156	$ -	$ 1,701	$ 381	$ 55,401
Real estate - construction	22,669	-	-	-	-	148	22,817
Real estate - mortgage:							
Residential	185,879	3,976	613	361	4,950	8,234	199,063
Commercial	123,720	650	115	-	765	1,314	125,799
Consumer installment	3,890	66	4	-	70	14	3,974
Total	$ 389,477	$ 6,237	$ 888	$ 361	$ 7,486	$ 10,091	$ 407,054

	Still Accruing	Total	Non-	Total
Current				

December 31, 2012		30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Past Due	Accrual	Loans
Commercial and industrial	$ 60,428	$ 441	$ 63	$ 348	$ 852	$ 908	$ 62,188
Real estate - construction	22,158	-	-	-	-	364	22,522
Real estate - mortgage:							
Residential	191,349	2,614	1,401	90	4,105	8,418	203,872
Commercial	113,023	509	97	-	606	2,105	115,734
Consumer installment	4,074	25	-	-	25	18	4,117
Total	$ 391,032	$ 3,589	$ 1,561	$ 438	$ 5,588	$ 11,813	$ 408,433

An allowance for loan losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of nonperforming loans.

The Company's methodology for determining the ALLL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Company's ALLL. Management also performs impairment analyses on TDRs, which may result in specific reserve.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above, which are based on the purpose code assigned to each loan, provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity at the purpose code level. A historical charge-off factor is calculated using the last four consecutive historical quarters.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and nonaccrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL.

The following table summarizes the primary segments of the loan portfolio (in thousands):

	Commercial and industrial	Real estate-construction	Real estate-residential mortgage	Real estate-commercial mortgage	Consumer installment	Total
ALL balance at December 31, 2012	$ 1,732	$ 1,123	$ 2,872	$ 1,991	$ 61	$ 7,779
Charge-offs	(325)	(61)	(67)	-	(17)	(470)
Recoveries	1	33	24	46	6	110
Provision	(178)	(47)	377	164	(3)	313
ALL balance at March 31, 2013	$ 1,230	$ 1,048	$ 3,206	$ 2,201	$ 47	$ 7,732

	Commercial and industrial	Real estate-construction	Real estate-residential mortgage	Real estate-commercial mortgage	Consumer installment	Total
ALL balance at December 31, 2011	$ 1,296	$ 438	$ 3,731	$ 1,306	$ 48	$ 6,819
Charge-offs	(1)	-	(98)	(53)	(14)	(166)
Recoveries	3	-	3	-	8	14
Provision	114	39	328	115	4	600
ALL balance at March 31, 2012	$ 1,412	$ 477	$ 3,964	$ 1,368	$ 46	$ 7,267

A provision in any loan portfolio is not necessarily related to current charge-offs, but is a result of the evaluation of the loans in that category.

The following tables summarize troubled debt restructurings and subsequent defaults (in thousands):

Modifications
As of March 31, 2013

Troubled Debt Restructurings	Number of Contracts			Pre-Modification Outstanding Recorded Investment
	Term Modification	Other	Total	
Commercial and industrial	4	-	4	$ 735
Real estate- mortgage:				
Residential	2	1	3	383
Commercial	1	-	1	644

Troubled Debt Restructurings subsequently defaulted	Number of Contracts	Recorded Investment
Commercial and industrial	6	$ 248
Real estate- mortgage:		
Residential	1	68
Consumer Installment	1	5

Modifications
As of March 31, 2012

Troubled Debt Restructurings	Number of Contracts			Pre-Modification Outstanding Recorded Investment
	Term Modification	Other	Total	
Commercial and industrial	3	3	6	$ 178
Real estate- mortgage:				
Residential	2	2	4	94
Consumer Installment	1	-	1	5

Troubled Debt Restructurings subsequently defaulted	Number of Contracts	Recorded Investment
Commercial and industrial	2	$ 90
Consumer Installment	2	28

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides further detail to the financial condition and results of operations of the Company. The MD&A should be read in conjunction with the notes and financial statements presented in this report.

CHANGES IN FINANCIAL CONDITION

General. The Company's total assets ended the March 31, 2013 quarter at $667.0 million, a decrease of $3.3 million or 0.5% from December 31, 2012. Investment securities available for sale decreased $3.8 million and net loans

decreased $1.3 million. The decrease in total assets reflected a corresponding decrease in total liabilities of $3.8 million or 0.6% and an increase in stockholders' equity of $413,000 or 0.7%. The decrease in total liabilities was the result of decreases in deposits, borrowings, and accrued interest and other liabilities of $1.8 million, or 0.3%, $1.5 million, or 7.6%, and $400,000, or 19.9% respectively, for the quarter. The increase in stockholders' equity resulted mostly from an increase in retained earnings and common stock of $1.1 million and $402,000, respectively. A partial offset resulted from a decrease in accumulated other comprehensive income of $1.1 million, or 20.9%.

Cash on hand and due from banks. Cash on hand and due from banks and Federal funds sold represent cash and cash equivalents. Cash and cash equivalents increased $284,000 or 0.6% to $45.6 million at March 31, 2013 from $45.3 million at December 31, 2012. Deposits from customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds typically increase these accounts. Decreases result from customer withdrawals, new loan originations, security purchases and repayments of borrowed funds.

Investment securities. Investment securities available for sale on March 31, 2013 totaled $190.7 million, a decrease of $3.8 million or 1.9% from $194.5 million at December 31, 2012. During this period the Company recorded purchases of available for sale securities of $12.5 million, consisting of mortgage-backed securities and municipal bonds. Offsetting the purchases of securities were repayments, calls, and maturities of $6.8 million. Sales of securities were $7.4 million with gross realized gains of $204,000 being partially offset by gross realized losses of $19,000.

Loans receivable. The loans receivable category consists primarily of single-family mortgage loans used to purchase or refinance personal residences located within the Company's market area and commercial real estate loans used to finance properties that are used in the borrowers' businesses or to finance investor-owned rental properties, and to a lesser extent, construction and consumer loans. Net loans receivable decreased $1.3 million or 0.3% to $399.0 million as of March 31, 2013 from $400.7 million at December 31, 2012. Included in this amount was a decrease in the commercial and industrial loan portfolio of $6.8 million, or 10.9%, and the residential real estate mortgage segment of $4.8 million or 2.4%. These amounts were partially offset by an increase in the commercial real estate portfolio of $10.1 million, or 8.7%. A reclassification was responsible for $6.5 million of the changes between the two commercial categories. The Company's lending philosophy centers around the growth of the commercial loan portfolio. The Company has taken a proactive approach in servicing the needs of both new and current clients. These relationships generally offer more attractive returns than residential loans and also offer opportunities for attracting larger balance deposit relationships. However, the shift in loan portfolio mix from residential real estate to commercial-oriented loans may increase credit risk.

Allowance for Loan Losses and Asset Quality. The Company decreased the allowance for loan losses to $7.7 million, or 1.9% of total loans, at March 31, 2013, compared to $7.8 million, or 1.9%, at December 31, 2012. The decrease in the allowance for loan losses is a result of the Company's approach to accurately measure credits identified as troubled in quarters past. First quarter 2013 net loan charge-offs totaled $360,000, or 0.09% of average loans, compared to $152,000, or 0.04%, for the first quarter of 2012. To maintain the adequacy of the allowance for loan losses, the Company recorded a first quarter provision for loan losses of $313,000, versus $600,000 for the first quarter of 2012.

Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values and changes in the amount and composition of the loan portfolio. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term. Such evaluation, which includes a review of all loans for which full collectability may not be reasonably assured, considers among other matters, historical loan loss experience, the estimated fair value of the underlying collateral, economic conditions, current interest rates, trends in the borrower's industry and other factors that management believes warrant recognition in providing for an appropriate allowance for loan losses. Future additions to the allowance for loan losses will be dependent on these factors. Additionally, the Company uses an outside party to conduct an independent review of commercial and commercial real estate loans. The Company uses the results of this review to help determine the effectiveness of the existing policies and procedures, and to provide an independent assessment of the allowance for loan losses allocated to these types of loans. Management believes the allowance for loan losses is appropriately stated at March 31, 2013. Based on the variables involved and management's judgments about uncertain outcomes, the determination of the allowance for loan losses is considered a critical accounting policy.

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Nonperforming assets. Nonperforming assets includes nonaccrual loans, troubled debt restructurings (TDRs), loans 90 days or more past due, assets purchased by EMORECO from EB, other real estate, and repossessed assets. Real estate owned is written down to fair value at its initial recording and continually monitored for changes in fair value. A loan is classified as nonaccrual when, in the opinion of management, there are serious doubts about collectability of interest and principal. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of principal and interest is doubtful. Payments received on nonaccrual loans are applied against principal according to management's shadow accounting system. The shadow accounting system tracks interest on nonaccrual loan payments as though current. The shadow account splits principal and interest on payments while the actual account undergoes only a principal reduction. TDRs are those loans which the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The Company has 53 TDRs with a total balance of $6.2 million as of March 31, 2013. Nonperforming loans amounted to $13.9 million, or 3.4% of total loans, and $14.2 million, or 3.5% of total loans, at March 31, 2013 and December 31, 2012, respectively. A TDR that yields market interest rate at the time of restructuring and is in compliance with its modified terms is no longer reported as TDR in calendar years after the year in which the restructuring took place. To be in compliance with its modified terms, a loan that is a TDR must not be in nonaccrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms. Nonperforming loans secured by real estate totaled $13.1 million as of March 31, 2013, up $300,000 from $12.8 million at December 31, 2012.

(Dollar amounts in thousands)

(Dollar amounts in thousands)	3/31/2013	12/31/2012	9/30/2012	6/30/2012	3/31/2012
Nonperforming loans	$ 13,899	$ 14,194	$ 15,404	$ 17,177	$ 17,677
Real estate owned	2,155	1,846	2,332	1,986	2,125
Nonperforming assets	16,054	16,040	17,736	19,163	19,802
Allowance for loan losses	7,732	7,779	7,173	7,752	7,267
Ratios					
Nonperforming loans to total loans	3.41 %	3.48 %	3.76 %	4.18 %	4.37 %
Nonperforming assets to total assets	2.41 %	2.39 %	2.67 %	2.95 %	3.01 %
Allowance for loan losses to total loans	1.90 %	1.90 %	1.75 %	1.89 %	1.80 %
Allowance for loan losses to nonperforming loans	55.63 %	54.80 %	46.57 %	45.13 %	41.11 %

A major factor in determining the appropriateness of the allowance for loan losses is the type of collateral which secures the loans. Of the total nonperforming loans at March 31, 2013, 94.2% were secured by real estate. Although this does not insure against all losses, the real estate typically provides for at least partial recovery, even in a

distressed-sale and declining-value environment. In response to the poor economic conditions which have eroded the performance of the Company's loan portfolio, additional resources have been allocated to the loan workout process. The Company's objective is to minimize the future loss exposure to the Company.

Deposits. The Company considers various sources when evaluating funding needs, including but not limited to deposits, which are a significant source of funds totaling $591.5 million or 97.0% of the Company's total funding sources at March 31, 2013. Total deposits decreased $1.8 million or 0.3% to $591.5 million at March 31, 2013 from $593.3 million at December 31, 2012. The decrease in deposits is primarily related to the reduction of time deposits, noninterest-bearing demand deposits, and money market accounts of $8.6 million or 4.4%, $2.6 million or 3.4%, and $1.3 million or 1.6%, respectively, at March 31, 2013. These decreases were partially offset by an increase in savings and interest-bearing demand deposits of $6.5 million, or 3.7%, and $4.1 million, or 6.5%, respectively, during the three months ended March 31, 2013.

Borrowed funds. The Company uses short and long-term borrowings as another source of funding used for asset growth and liquidity needs. These borrowings primarily include FHLB advances, junior subordinated debt, short-term borrowings from other banks and repurchase agreements. Short-term borrowings decreased $1.3 million, or 19.9%, to $5.2 million as of March 31, 2013. Other borrowings, representing advances from the Federal Home Loan Bank of Cincinnati, declined $191,000 for the quarter as a result of scheduled principal payments.

Stockholders' equity. Stockholders' equity increased $413,000, or 0.7%, to $55.9 million at March 31, 2013 from $55.4 million at December 31, 2012. This increase was the result of increases in retained earnings and common stock of $1.1 million, or 5.1%, and $402,000, or 1.2%, respectively. The increase in common stock was the result of issuing 23,051 shares at a weighted average price of $22.25 since December 31, 2012. A partial offset resulted from a reduction in accumulated other comprehensive income of $1.1 million, or 20.9%, as a result of available for sale securities market valuation adjustments.

RESULTS OF OPERATIONS

General. Net income for the three months ended March 31, 2013, was $1.7 million, a $134,000, or 8.8% increase from the $1.5 million earned during the same period in 2012. Diluted earnings per share for the first quarter of 2013 was $0.82 compared to $0.86 for the same period in 2012.

The Company's annualized return on average assets (ROA) and return on average equity (ROE) for the first quarter were 1.01% and 12.18%, respectively, compared with 0.94% and 12.81% for the first quarter of 2012.

The Company's year-to-date earnings were positively impacted by decreases in the provision for loan losses and deposit interest expense along with an increase in noninterest income. This was partially offset by an increase in noninterest expense coupled with a decrease in investment interest income.

Net interest income. Net interest income, the primary source of revenue for the Company, is determined by the Company's interest rate spread, which is defined as the difference between income on earning assets and the cost of funds supporting those assets, and the relative amounts of interest-earning assets and interest-bearing liabilities. Management periodically adjusts the mix of assets and liabilities, as well as the rates earned or paid on those assets and liabilities in order to manage and improve net interest income. The level of interest rates and changes in the amount and composition of interest-earning assets and liabilities affect the Company's net interest income. Historically from an interest rate risk perspective, it has been management's goal to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations.

Net interest income for the three-months ended March 31, 2013 totaled $5.6 million, an increase of 0.7% from the $5.5 million reported for the comparable period of 2012. The net interest margin was 3.92% for the first quarter of 2013, up from the 3.89% reported for the same quarter of 2012. The increase is primarily attributable to lower interest-bearing liability costs, which decreased 17 basis points to 1.09%. Deposit growth at the Banks has primarily been non-maturing products which generally carry lower interest costs than other deposit alternatives.

Interest income. Interest income decreased $218,000, or 3.0%, for the three months ended March 31, 2013, compared to the same period in the prior year. This can be attributed to a decrease in interest earned on taxable investment securities of $241,000.

Interest earned on loans receivable increased $35,000, or 0.6%, for the three months ended March 31, 2013, compared to the same period in the prior year. This increase was attributable to a $6.2 million, or 1.54%, increase in the average balance of loans receivable from March 31, 2012.

Interest earned on securities decreased $255,000, or 15.3%, for the three months ended March 31, 2013, compared to the same period in the prior year. This was the result of an increase in the average balance of the securities portfolio of $1.2 million, or 0.6%, to $190.5 million at March 31, 2013 from $189.3 million for the same period in the prior year. Interest income on investment securities was adversely affected by a decrease in the portfolio yield. The total investment securities portfolio yield of 3.80% for the three months ended March 31, 2013 decreased by 55 basis points from 4.35% for the same period in the prior year.

Interest expense. Interest expense decreased $257,000, or 15.2%, for the three months ended March 31, 2013, compared to the same period in the prior year. This can be mostly attributed to a decrease in interest incurred on deposits of $200,000. The reduction was exacerbated by the reduction of the rate paid on interest-bearing liabilities of 17 basis points when compared to the three-months ended March 31, 2012.

Interest incurred on deposits, the largest component of the Company's interest-bearing liabilities, declined $200,000, or 13.4%, for the three months ended March 31, 2013, compared to the same period in the prior year. This decrease was attributed to a decline in average rate paid on deposits of 1.03% for the three months ended March 31, 2013 from 1.17% for the same period in the prior year. This improvement was exacerbated by a decrease in the average balance of interest-bearing deposits of $2.0 million, or 0.4%, to $513.4 million for the three months ended March 31, 2013, when compared to $515.4 million for the same period in the prior year. This increase is reflected in the quarterly rate volume report presented below depicting the cost decrease associated with interest-bearing liabilities. The Company diligently monitors the interest rates on its products as well as the rates being offered by its competition and utilizing rate surveys to minimize total interest expense.

Interest incurred on borrowing declined $57,000, or 30.2%, for the three months ended March 31, 2013, compared to the same period in the prior year. This decrease is attributed to declines in FHLB loan expense and trust preferred expense of $38,000, or 45.5%, and $12,000, or 25.7%, respectively.

Provision for loan losses. The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable incurred credit losses inherent in the loan portfolio. Each quarter management performs a review of estimated probable incurred credit losses in the loan portfolio. Based on this review, a provision for loan losses of $313,000 was recorded for the quarter ended March 31, 2013 compared to $600,000 for the quarter ended March 31, 2012. The provision for loan losses was lower for the current quarter due to decreases in nonperforming loans. Nonperforming loans were $13.9 million, or 3.41% of total loans at March 31, 2013 compared with $17.7 million, or 4.37% at March 31, 2012. Net charge-offs were $360,000 for the quarter ended March 31, 2013 compared with $152,000 for the quarter ended March 31, 2012. Total loans were $407.0 million at March 31, 2013 compared with $401.9 million at March 31, 2012.

Noninterest income. Noninterest income increased $74,000 for the year-ended March 31, 2013 over the comparable 2012 period. This increase was largely the result of net investment security gains of $185,000, partially offset by decreases in gain on sale of loans and other income of $85,000 and $42,000, respectively.

Noninterest expense. Noninterest expense of $4.0 million for the first quarter of 2013 was 5.8%, or $219,000 higher than the first quarter of 2012. Salaries and employee benefits, other real estate expense, and advertising expense increased $121,000, $96,000, and $92,000, respectively, year over year. The growth in salary-related expenses is commensurate with the continued growth of the Company. This growth was partially offset by a reduction in other expense of $107,000, or 13.7%, as well as a decline in FDIC assessments of 36.6%, from $243,000 to $154,000 at March 31, 2013 and 2012, respectively.

Provision for income taxes. The Company recognized $482,000 in income tax expense, which reflected an effective tax rate of 22.5% for the three months ended March 31, 2013, as compared to $435,000 with an effective tax rate of 22.2% for the respective 2012 period. The increase in the tax provision can be attributed to an increase in income before taxes of $181,000 or 9.2% when compared to the same quarter in the prior year.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of March 31, 2013, have remained unchanged from December

31, 2012.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resultant average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average balances are calculated using monthly averages and the average loan balances include nonaccrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt securities (tax-exempt for federal income tax purposes) are shown on a fully tax-equivalent basis utilizing a federal tax rate of 34%. Yields and rates have been calculated on an annualized basis utilizing monthly interest amounts.

	For the Three Months Ended March 31,					
	2013			2012		
(Dollars in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable	$ 407,236	$ 5,572	5.55 %	$ 401,047	$ 5,537	5.55 %
Investment securities (3)	190,457	1,407	3.80 %	189,280	1,662	4.35 %
Interest-bearing deposits with other banks	18,642	35	0.76 %	23,049	33	0.58 %
Total interest-earning assets	616,335	7,014	4.86 %	613,376	7,232	4.99 %
Noninterest-earning assets	47,713			39,916		
Total assets	$ 664,048			$ 653,292		
Interest-bearing liabilities:						
Interest - bearing demand deposits	$ 63,647	$ 58	0.37 %	$ 57,976	$ 60	0.42 %
Money market deposits	78,659	81	0.42 %	72,390	74	0.41 %
Savings deposits	177,649	158	0.36 %	168,575	166	0.40 %
Certificates of deposit	193,476	1,000	2.10 %	216,503	1,197	2.22 %
Borrowings	18,839	132	2.84 %	24,107	189	3.15 %
Total interest-bearing liabilities	532,270	1,429	1.09 %	539,551	1,686	1.26 %
Noninterest-bearing liabilities						
Other liabilities	76,600		0.23 %	65,926		0.28 %
Stockholders' equity	55,178			47,815		
Total liabilities and stockholders' equity	$ 664,048			$ 653,292		
Net interest income		$ 5,585			$ 5,546	
Interest rate spread (1)			3.78 %			3.74 %
Net yield on interest-earning assets			3.92 %			3.89 %

(2)		
Ratio of average interest-earning assets to average interest-bearing liabilities	115.79 %	113.68 %

(1) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities
(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.
(3) Tax equivalent adjustments to interest income for tax-exempt securities was $378 and $385 for 2013 and 2012, respectively.

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense, between the three month periods ended March 31, 2013 and 2012, in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Company’s interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior period volume), changes in volume (changes in volume multiplied by prior period rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on securities reflects the changes in interest income on a fully tax-equivalent basis

(Dollars in thousands)	For the Three Months ended March 31, 2013 versus 2012		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest-earning assets:			
Loans receivable	$ 85	$ (50)	$ 35
Investment securities	13	(268)	(255)
Interest-bearing deposits with other banks	(6)	8	2
Total interest-earning assets	91	(309)	(218)
Interest-bearing liabilities:			
Interest - bearing demand deposits	6	(8)	(2)
Money market deposits	6	1	7
Savings deposits	9	(17)	(8)
Certificates of deposit	(126)	(71)	(197)
Borrowings	(41)	(16)	(57)
Total interest-bearing liabilities	(146)	(111)	(257)
Net interest income	$ 237	$ (198)	$ 39

LIQUIDITY

Management's objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of its customers, such as borrowings or deposit withdrawals, as well as its own financial commitments. The principal sources of liquidity are net income, loan payments, maturing and principal reductions on securities and sales of securities available for sale, federal funds sold and cash and deposits with banks. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, and the ability to borrow funds under line of credit agreements with correspondent banks and a borrowing agreement with the Federal Home Loan Bank of Cincinnati, Ohio and the adjustment of interest rates to obtain depositors. Management believes the Company has the capital adequacy, profitability and reputation to meet the current and projected needs of its customers.

For the three months ended March 31, 2013, the adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment, the provision for loan losses, net amortization of securities and net changes in other assets and liabilities. For a more detailed illustration of sources and uses of cash, refer to the condensed consolidated statements of cash flows.

INFLATION

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, impaired loans and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

REGULATORY MATTERS

The Company is subject to the regulatory requirements of The Federal Reserve System as a multi-bank holding company. The affiliate banks are subject to regulations of the Federal Deposit Insurance Corporation ("FDIC") and the State of Ohio, Division of Financial Institutions.

The Federal Reserve Board and the FDIC have extensive authority to prevent and to remedy unsafe and unsound practices and violations of applicable laws and regulations by institutions and holding companies. The agencies may assess civil money penalties, issue cease-and-desist or removal orders, seek injunctions, and publicly disclose those actions. In addition, the Ohio Division of Financial Institutions possesses enforcement powers to address violations of Ohio banking law by Ohio-chartered banks.

In February of 2011, Emerald Bank agreed with the FDIC and the Ohio Division of Financial Institutions that Emerald Bank will take specified actions to correct weaknesses in the bank's condition and operations. The actions that Emerald Bank agreed to take include reducing the bank's concentration of credit in non-owner occupied 1 - 4 family residential mortgage loans, reducing delinquent and classified loans, enhancing credit administration for non-owner occupied residential real estate, developing plans for the reduction of borrower indebtedness on classified and delinquent credits, implementing an earnings improvement plan, maintaining leverage capital of at least 9%, revising the bank's methodology for calculating and determining the adequacy of the allowance for loan losses, and providing to the FDIC and the ODFI notice of proposed dividend payments at least 30 days in advance.

The following table sets forth the capital requirements for EB under the FDIC regulations and EB's capital ratios:

FDIC Regulations

Capital Ratio	Adequately Capitalized	Well Capitalized	March 31, 2013	December 31, 2012	March 31, 2012
Tier I Leverage Capital	4.00 %	5.00 % (1)	10.86 %	10.61 %	9.77 %
Risk-Based Capital:					
Tier I	4.00	6.00	14.51	14.16	13.57 %
Total	8.00	10.00	15.80	15.45	14.85 %

(1) EB has agreed to maintain leverage capital of at least 9%

REGULATORY CAPITAL REQUIREMENTS

The Company is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors and the

regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the company's operations.

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

The following tables illustrates the Company's and Banks' capital ratios:

	Middlefield Banc Corp. March 31, 2013			The Middlefield Banking Co. March 31, 2013			Emerald Bank March 31, 2013		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-weighted Assets)									
Actual	$ 59,454	14.11	%	$ 49,162	13.47	%	$ 8,620	15.80	%
For Capital Adequacy Purposes	33,703	8.00		29,187	8.00		4,365	8.00	
To Be Well Capitalized	42,129	10.00		36,484	10.00		5,457	10.00	
Tier I Capital (to Risk-weighted Assets)									
Actual	$ 54,157	12.86	%	$ 44,590	12.22	%	$ 7,919	14.51	%
For Capital Adequacy Purposes	16,852	4.00		14,594	4.00		2,183	4.00	
To Be Well Capitalized	25,277	6.00		21,891	6.00		3,274	6.00	
Tier I Capital (to Average Assets)									
Actual	$ 54,157	8.22	%	$ 44,590	7.64	%	$ 7,919	10.86	%
For Capital Adequacy Purposes	26,345	4.00		23,331	4.00		2,917	4.00	
To Be Well Capitalized	32,931	5.00		29,163	5.00		3,646	5.00	

	Middlefield Banc Corp. December 31, 2012			The Middlefield Banking Co. December 31, 2012			Emerald Bank December 31, 2012		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-weighted Assets)									
Actual	$ 57,784	13.86	%	$ 47,887	13.29	%	$ 8,440	15.45	%
For Capital Adequacy Purposes	33,344	8.00		28,822	8.00		4,370	8.00	
To Be Well Capitalized	41,680	10.00		36,027	10.00		5,463	10.00	

Tier I Capital (to Risk-weighted Assets)													
Actual	$	52,543	12.61	%	$	43,371	12.04	%	$	7,737	14.16	%
For Capital Adequacy Purposes		16,672	4.00			14,411	4.00			2,185	4.00	
To Be Well Capitalized		25,008	6.00			21,616	6.00			3,278	6.00	
Tier I Capital (to Average Assets)												
Actual	$	52,543	7.88	%	$	43,371	7.32	%	$	7,737	10.61	%
For Capital Adequacy Purposes		26,675	4.00			23,684	4.00			2,916	4.00	
To Be Well Capitalized		33,344	5.00			29,605	5.00			3,646	5.00	

Supplementing these capital requirements of applicable banking regulations, Emerald Bank has agreed with the FDIC and the Ohio Division of Financial Institutions to maintain tier 1 leverage capital of at least 9%, The Middlefield Banking Company committed to the FDIC that The Middlefield Banking Company will maintain capital ratios at levels no lower than its June 30, 2010 ratios (i.e., no lower than 6.25% tier 1 leverage capital and 11.29% total risk-based capital), and Middlefield Banc Corp. committed to the Federal Reserve that Middlefield Banc Corp. will maintain tier 1 leverage capital of at least 7.25% and total risk-based capital of at least 12%, both at the level of the holding company and at the level of The Middlefield Banking Company, the lead bank. We expect that these elevated minimum capital levels will apply for the foreseeable future, while the banks and the holding company continue their efforts to manage more serious asset quality challenges than they have been accustomed to, while also managing the impact of those challenges on earnings and the strains that general economic downturns in the banks' markets and across the region and nation are placing not only on Emerald Bank and The Middlefield Banking Company but on all local banks.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

ASSET AND LIABILITY MANAGEMENT

The primary objective of the Company's asset and liability management function is to maximize the Company's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Company's operating environment, capital and liquidity requirements, performance objectives and overall business focus. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing and maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities. The Company's asset and liability management policies are designed to decrease interest rate sensitivity primarily by shortening the maturities of interest-earning assets while at the same time extending the maturities of interest-bearing liabilities. The Board of Directors of the Company continues to believe in strong asset/liability management in order to insulate the Company from material losses as a result of prolonged increases in interest rates. As a result of this policy, the Company emphasizes a larger, more diversified portfolio of residential mortgage loans in the form of mortgage-backed securities. Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company.

MB's Board of Directors have established an Asset and Liability Management Committee consisting of four outside directors, the President and Chief Executive Officer, Executive/Vice President/ Chief Operating Officer, Senior Vice President/Chief Financial Officer and Senior Vice President/Commercial Lending. This committee, which meets quarterly, generally monitors various asset and liability management policies and strategies, which were implemented by the Company over the past few years. These strategies have included: (i) an emphasis on the investment in adjustable-rate and shorter duration mortgage-backed securities; (ii) an emphasis on the origination of single-family residential adjustable-rate mortgages (ARMs), residential construction loans and commercial real estate loans, which generally have adjustable or floating interest rates and/or shorter maturities than traditional single-family residential loans, and consumer loans, which generally have shorter terms and higher interest rates than mortgage loans; (iii) increase the duration of the liability base of the Company by extending the maturities of savings deposits, borrowed funds and repurchase agreements.

MB and EB have established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point parallel and gradual increase or decrease in market interest rates, net interest income may not change by more than 10% for a one-year period.

Portfolio equity simulation. Portfolio equity is the net present value of the Company's existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 20% of stockholders' equity.

The following table presents the simulated impact of a 200 basis point upward and a 200 basis point downward shift of market interest rates on net interest income and the change in portfolio equity. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at March 31, 2013 remained constant. The impact of the market rate movements was developed by simulating the effects of rates changing gradually over a one-year period from the March 31, 2012 levels for net interest income. The impact of market rate movements was developed by simulating the effects of an immediate and permanent change in rates at March 31, 2013 for portfolio equity:

		Increase 200 Basis Points	Decrease 200 Basis Points
Net interest income - increase (decrease)	&nbs		