OHIO VALLEY BANC CORP
Form 10-Q
November 12, 2013

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

Form 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from ____________ to ____________

Commission file number 0-20914

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

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

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

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

____

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

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

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

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

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

The number of common shares of the registrant outstanding as of November 8, 2013 was 4,062,204.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2013 UNAUDITED	December 31, 2012
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 9,950	$ 10,617
Interest-bearing deposits with banks	22,947	35,034
Total cash and cash equivalents	32,897	45,651
Securities available for sale	88,850	94,965
Securities held to maturity (estimated fair value: 2013 - $23,480; 2012 - $24,624)	23,327	23,511
Federal Home Loan Bank and Federal Reserve Bank stock	7,776	6,281
Total loans	556,213	558,288
Less: Allowance for loan losses	(7,266)	(6,905)
Net loans	548,947	551,383
Premises and equipment, net	9,007	8,680
Other real estate owned	2,798	3,667
Accrued interest receivable	2,051	2,057
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	24,802	25,056
Other assets	5,784	6,705
Total assets	$ 747,506	$ 769,223
LIABILITIES		
Noninterest-bearing deposits	$ 133,411	$ 139,526
Interest-bearing deposits	495,422	515,538
Total deposits	628,833	655,064
Other borrowed funds	18,986	14,285
Subordinated debentures	8,500	13,500
Accrued liabilities	12,141	10,554
Total liabilities	668,460	693,403
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 4,721,943 shares issued)	4,722	4,722

Additional paid-in capital	34,109	34,109
Retained earnings	55,208	51,094
Accumulated other comprehensive income	719	1,607
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders’ equity	79,046	75,820
Total liabilities and shareholders’ equity	$ 747,506	$ 769,223

See accompanying notes to consolidated financial statements

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Interest and dividend income:				
Loans, including fees	$8,174	$8,781	$25,260	$27,678
Securities				
Taxable	330	369	945	1,241
Tax exempt	140	152	429	445
Dividends	88	66	236	204
Other Interest	16	37	122	159
	8,748	9,405	26,992	29,727
Interest expense:				
Deposits	666	1,235	2,294	3,911
Other borrowed funds	110	124	283	372
Subordinated debentures	42	179	223	612
	818	1,538	2,800	4,895
Net interest income	7,930	7,867	24,192	24,832
Provision for loan losses	833	1,183	675	3,023
Net interest income after provision for loan losses	7,097	6,684	23,517	21,809
Noninterest income:				
Service charges on deposit accounts	472	471	1,340	1,381
Trust fees	56	51	158	151
Income from bank owned life insurance and annuity assets	171	198	974	592
Mortgage banking income	85	166	331	398
Electronic refund check / deposit fees	21	15	2,532	2,279
Debit / credit card interchange income	502	422	1,447	1,238
Gain (loss) on other real estate owned	(6)	30	(46)	181
Other	273	321	743	907
	1,574	1,674	7,479	7,127
Noninterest expense:				
Salaries and employee benefits	4,326	4,118	13,132	12,571
Occupancy	418	397	1,199	1,182
Furniture and equipment	230	238	664	710
FDIC insurance	114	63	375	629
Data processing	276	278	838	786
Foreclosed assets	51	69	390	244
Other	1,905	1,794	5,987	5,329
	7,320	6,957	22,585	21,451
Income before income taxes	1,351	1,401	8,411	7,485
Provision for income taxes	290	294	2,185	2,037

NET INCOME	$1,061	$1,107	$6,226	$5,448
Earnings per share	$.26	$.27	$1.53	$1.35

See accompanying notes to consolidated financial statements

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net Income	$1,061	$1,107	$6,226	$5,448
Other comprehensive income (loss):				
Change in unrealized gain on available for sale securities	1,056	858	(1,345)	1,502
Related tax (expense) benefit	(359)	(292)	457	(511)
Total other comprehensive income (loss), net of tax	697	566	(888)	991
Total comprehensive income	$1,758	$1,673	$5,338	$6,439

See accompanying notes to consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	$78,141	$74,811	$75,820	$71,843
Net income	1,061	1,107	6,226	5,448
Other comprehensive income (loss), net of tax	697	566	(888)	991
Proceeds from issuance of common stock through dividend reinvestment plan	----	----	----	55
Cash dividends	(853)	(846)	(2,112)	(2,699)
Balance at end of period	$79,046	$75,638	$79,046	$75,638
Cash dividends per share	$.21	$.21	$.52	$.67

See accompanying notes to consolidated financial statements

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

	Nine months ended September 30, 2013	2012
Net cash provided by operating activities:	$10,706	$9,277
Investing activities:		
Proceeds from maturities of securities available for sale	20,745	26,121
Purchases of securities available for sale	(17,105)	(43,436)
Proceeds from maturities of securities held to maturity	1,329	1,562
Purchases of securities held to maturity	(1,196)	(2,435)
Purchase of Federal Reserve Bank stock	(1,495)	----
Net change in loans	1,522	33,088
Proceeds from sale of other real estate owned	1,062	1,706
Purchases of premises and equipment	(929)	(368)
Purchases of bank owned life insurance	----	(1,269)
Proceeds from bank owned life insurance	1,249	----
Net cash provided by investing activities	5,182	14,969
Financing activities:		
Change in deposits	(26,231)	(11,187)
Proceeds from common stock through dividend reinvestment plan	----	55
Cash dividends	(2,112)	(2,699)
Repayment of subordinated debentures	(5,000)	----
Proceeds from Federal Home Loan Bank borrowings	5,853	2,000
Repayment of Federal Home Loan Bank borrowings	(1,155)	(1,899)
Change in other short-term borrowings	3	(299)
Net cash used in financing activities	(28,642)	(14,029)
Change in cash and cash equivalents	(12,754)	10,217
Cash and cash equivalents at beginning of period	45,651	51,630
Cash and cash equivalents at end of period	$32,897	$61,847
Supplemental disclosure:		
Cash paid for interest	$3,316	$5,432
Cash paid for income taxes	2,475	3,630
Transfers from loans to other real estate owned	239	503
Other real estate owned sales financed by the Bank	416	1,133

See accompanying notes to consolidated financial statements

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These interim financial statements are prepared by the Company without audit and reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2013, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2013 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2013. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by U.S. generally accepted accounting principles ("US GAAP") that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2012 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2012 have been reclassified to conform to the presentation for 2013. These reclassifications had no effect on the net results of operations or shareholders' equity.

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

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

EARNINGS PER SHARE: Earnings per share are computed based on net income divided by the weighted average number of common shares outstanding during the period. The weighted average common shares outstanding were 4,062,204 and 4,029,439 for the three months ended September 30, 2013 and 2012, respectively. Weighted average common shares outstanding were 4,062,204 and 4,028,944 for the nine months ended September 30, 2013 and 2012, respectively. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS:

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02). ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The effect of adopting ASU 2013-02 did not have a material effect on the Company's financial statements.

In July 2013, the FASB issued Accounting Standards Update 2013-10, “Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes” (ASU 2013-10). ASU 2013-10 was issued to permit the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to direct Treasury obligations of the U.S. Government and the London Interbank Offered Rate (LIBOR) swap rate. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material effect on the Company’s financial statements.

In July 2013, the FASB issued Accounting Standards Update 2013-11, “Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (ASU 2013-11). ASU 2013-11 was issued to clarify the financial presentation of unrecognized tax benefits in the instances described. ASU 2013-11 is effective for reporting periods beginning after December 15, 2013. The effect of adopting ASU 2013-11 is not expected to have a material effect on the Company’s financial statements.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

	Fair Value Measurements at September 30, 2013, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 8,855	----
Agency mortgage-backed securities, residential	----	79,995	----

	Fair Value Measurements at December 31, 2012, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 1,012	----
Agency mortgage-backed securities, residential	----	93,953	----

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

Assets and Liabilities Measured on a Nonrecurring Basis

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

	Fair Value Measurements at September 30, 2013, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Residential real estate	----	----	$ 234
Commercial and industrial	----	----	1,888
Other real estate owned:			
Commercial and industrial	----	----	982

	Fair Value Measurements at December 31, 2012, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Other real estate owned:			
Commercial real estate:			
Construction	----	----	$ 1,562
Commercial and industrial	----	----	1,055

At September 30, 2013, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $3,616, with a corresponding valuation allowance of $1,494 resulting in an increase of $616 and $1,494 in additional provision expense during both the three and nine months ended September 30, 2013, respectively, with no additional charge-offs recognized. At December 31, 2012, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $1,979, with a corresponding valuation of $1,979. A net increase of $2,479 in fair value was recognized for partial charge-offs of loans and impairment reserves on loans during the year ended December 31, 2012.

Other real estate owned that was measured at fair value less costs to sell at September 30, 2013 had a net carrying amount of $982, which is made up of the outstanding balance of $1,997, net of a valuation allowance of $1,015 at

September 30, 2013. There were no corresponding write-downs during the three months ended September 30, 2013 and $73 in corresponding write-down during the nine months ended September 30, 2013. Other real estate owned that was measured at fair value less costs to sell at December 31, 2012 had a net carrying amount of $2,617, which is made up of the outstanding balance of $4,214, net of a valuation allowance of $1,597 at December 31, 2012, which resulted in a corresponding write-down of $331 for the year ended December 31, 2012.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2013 and December 31, 2012:

September 30, 2013	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Residential real estate	$ 234	Sales approach	Adjustment to comparables	From 10% to 30%	28%
Commercial and industrial	1,888	Sales approach	Adjustment to comparables	From 10% to 80%	35%
Other real estate owned:					
Commercial and industrial	982	Sales approach	Adjustment to comparables	10%	10%

December 31, 2012	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Other real estate owned:					
Commercial real estate:					
Construction	$ 1,562	Sales approach	Adjustment to comparables	15%	15%
Commercial and industrial	1,055	Sales approach	Adjustment to comparables	15%	15%

The carrying amounts and estimated fair values of financial instruments at September 30, 2013 and December 31, 2012 are as follows:

		Fair Value Measurements at September 30, 2013 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 32,897	$ 32,897	$ ----	$ ----	$ 32,897
Securities available for sale	88,850	----	88,850	----	88,850
Securities held to maturity	23,327	----	13,294	10,186	23,480
Federal Home Loan Bank and Federal Reserve Bank stock	7,776	N/A	N/A	N/A	N/A
Loans, net	548,947	----	----	555,574	555,574
Accrued interest receivable	2,051	----	393	1,658	2,051
Financial liabilities:					