OHIO VALLEY BANC CORP
Form 10-Q
November 09, 2007

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, 2007

OR

|_| 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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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.
|X| Yes |_| No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

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

The number of common shares of the registrant outstanding as of November 8, 2007 was 4,085,387.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OHIO VALLEY BANC CORP.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(dollars in thousands, except share and per share data)

	September 30, 2007
ASSETS	
Cash and noninterest-bearing deposits with banks	$ 16,800
Federal funds sold	11,756
Total cash and cash equivalents	28,556
Interest-bearing deposits in other financial institutions	620
Securities available-for-sale	69,536
Securities held-to-maturity (estimated fair value: 2007 - $15,976; 2006 - $13,586)	15,937
Federal Home Loan Bank stock	6,036
Total loans	627,616
Less: Allowance for loan losses	(6,727)
Net loans	620,889
Premises and equipment, net	9,937
Accrued income receivable	3,288
Goodwill	1,267
Bank owned life insurance	16,464
Other assets	6,916
Total assets	$ 779,446
LIABILITIES	
Noninterest-bearing deposits	$ 76,476
Interest-bearing deposits	519,464
Total deposits	595,940
Securities sold under agreements to repurchase	34,168
Other borrowed funds	61,398
Subordinated debentures	13,500
Accrued liabilities	13,421
Total liabilities	718,427
SHAREHOLDERS' EQUITY	
Common stock ($1.00 par value per share, 10,000,000 shares authorized; 2007 - 4,639,724 shares issued; 2006 - 4,626,340 shares issued)	4,640
Additional paid-in capital	32,615
Retained earnings	37,495
Accumulated other comprehensive loss	(627)
Treasury stock, at cost (2007 - 553,830 shares; 2006 - 432,852 shares)	(13,104)
Total shareholders' equity	61,019
Total liabilities and shareholders' equity	$ 779,446

See notes to consolidated financial statements

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

	Three months ended September 30, 2007	Three months ended September 30, 2006
Interest and dividend income:		
Loans, including fees	$ 12,731	$ 12,410
Securities		
Taxable	766	714
Tax exempt	145	117
Dividends	99	85
Other Interest	43	81
	13,784	13,407
Interest expense:		
Deposits	5,386	4,964
Securities sold under agreements to repurchase	307	244
Other borrowed funds	814	761
Subordinated debentures	272	330
	6,779	6,299
Net interest income	7,005	7,108
Provision for loan losses	332	474
Net interest income after provision for loan losses	6,673	6,634
Noninterest income:		
Service charges on deposit accounts	776	806
Trust fees	58	56
Income from bank owned life insurance	173	270
Gain on sale of loans	23	21
Other	526	403
	1,556	1,556
Noninterest expense:		
Salaries and employee benefits	3,247	3,278
Occupancy	378	347
Furniture and equipment	276	268
Data processing	221	197
Other	1,470	1,513
	5,592	5,603
Income before income taxes	2,637	2,587
Provision for income taxes	804	770
NET INCOME	$ 1,833	$ 1,817
Earnings per share	$ .45	$ .43

See 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, 2007	2006
Balance at beginning of period	$ 60,544	$ 60,064
Comprehensive income:		
Net income	1,833	1,817
Change in unrealized loss on available-for-sale securities	623	948
Income tax effect	(212)	(322)
Total comprehensive income	2,244	2,443
Proceeds from issuance of common stock through dividend reinvestment plan	----	----
Cash dividends	(738)	(719)
Shares acquired for treasury	(1,031)	(610)
Balance at end of period	$ 61,019	$ 61,178
Cash dividends per share	$ 0.18	$ 0.17
Shares from common stock issued through dividend reinvestment plan	1	1
Shares acquired for treasury	40,969	24,191

See notes to consolidated financial statements

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

		2007
Net cash provided by operating activities:	$	10,133
Investing activities:		
Proceeds from maturities of securities available-for-sale		5,236
Purchases of securities available-for-sale		(4,009)
Proceeds from maturities of securities held-to-maturity		234
Purchases of securities held-to-maturity		(2,828)
Change in interest-bearing deposits in other financial institutions		(112)
Net change in loans		(8,103)
Proceeds from sale of other real estate owned		1,394
Purchases of premises and equipment		(861)
Proceeds from bank owned life insurance		----
Net cash (used in) investing activities		(9,049)
Financing activities:		
Change in deposits		2,154
Cash dividends		(2,203)
Proceeds from issuance of common stock through dividend reinvestment plan		347
Purchases of treasury stock		(3,055)
Change in securities sold under agreements to repurchase		11,612
Proceeds of Federal Home Loan Bank borrowings		15,000
Repayment of Federal Home Loan Bank borrowings		(10,047)
Change in other short-term borrowings		(7,101)
Proceeds from subordinated debentures		8,500
Repayment of subordinated debentures		(8,500)
Net cash provided by financing activities		6,707
Change in cash and cash equivalents		7,791
Cash and cash equivalents at beginning of period		20,765
Cash and cash equivalents at end of period	$	28,556
Supplemental disclosure:		
Cash paid for interest	$	19,490
Cash paid for income taxes		373
Non-cash transfers from loans to other real estate owned		1,632

See 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, 2007, and its results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2007. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by accounting principles generally accepted in the United States of America ("US GAAP") that might otherwise be necessary in the circumstances. The Annual Report of the Company for the year ended December 31, 2006 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated 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. The allowance for loan losses is particularly subject to change.

The majority of the Company's income is derived from commercial and retail lending activities. Management considers the Company to operate in one segment, banking.

INCOME TAX: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

CASH FLOW: For consolidated financial statement classification and cash flow reporting purposes, cash and cash equivalents include cash on hand, noninterest-bearing deposits with banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. The Company reports net cash flows for customer loan transactions, deposit transactions, short-term borrowings and interest-bearing deposits with other financial institutions.

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 4,101,908 and 4,228,798 for the three months ended September 30, 2007 and 2006, respectively. Weighted average shares outstanding were 4,149,040 and 4,239,291 for the nine months ended September 30, 2007 and 2006, respectively. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

LOANS: Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income on loans is reported on an accrual basis using the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days.

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. Impaired loans are carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

NEW ACCOUNTING PRONOUNCEMENTS: The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN48"), on January 1, 2007. The adoption of FIN 48 had no affect on the Company's financial statements. At January 1, 2007 and September 30, 2007, the Company had no unrecognized tax benefits and does not anticipate any significant change to unrecognized tax benefits during the next 12 months. It is the Company's policy to account for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. As of September 30, 2007, no such accruals exist. The Company and its subsidiaries file a consolidated U.S. federal income tax return as well as tax returns in the states of Ohio and West Virginia. These returns are subject to examination by taxing authorities for tax years 2003 - 2006.

In February 2007, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard ("FAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with FASB's long-term measurement objectives for accounting for financial instruments. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted provided, among other things, an entity elects to adopt within the first 120 days of that fiscal year. The

Company plans on adopting FAS 159 on January 1, 2008 and does not expect that the adoption of this standard will have a material impact on its financial statements.

In September 2006, FASB issued FAS No. 157, Fair Value Measurements. FAS No. 157 defines fair value, establishes a framework for measuring fair value in United States generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently in the process of evaluating the impact of adopting this Statement and does not expect any material impact on its financial statements upon adoption.

RECLASSIFICATIONS: Certain items related to the consolidated financial statements for 2006 have been reclassified to conform to the presentation for 2007. These reclassifications had no effect on the net results of operations.

NOTE 2 - LOANS

Total loans as presented on the balance sheet are comprised of the following classifications:

	September 30, 2007	December 31, 2006
Commercial real estate	$ 190,399	$ 193,359
Commercial and industrial	51,866	47,389
Residential real estate	246,883	238,549
Consumer	131,186	139,961
All other	7,282	5,906
	$ 627,616	$ 625,164

At September 30, 2007 and December 31, 2006, loans on nonaccrual status were approximately $4,344 and $12,017, respectively. Loans past due more than 90 days and still accruing at September 30, 2007 and December 31, 2006 were $964 and $1,375, respectively.

NOTE 3 - ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Following is an analysis of changes in the allowance for loan losses for the years ended September 30:

	2007	2006
Balance - January 1,	$ 9,412	$ 7,133
Loans charged off:		
Commercial (1)	3,378	524
Residential real estate	432	139
Consumer	1,202	1,645
Total loans charged off	5,012	2,308
Recoveries of loans:		
Commercial (1)	210	402
Residential real estate	168	203
Consumer	615	924

Total recoveries of loans	993	1,529
Net loan charge-offs	(4,019)	(779)
Provision charged to operations	1,334	1,931
Balance - September 30,	$ 6,727	$ 8,285

(1) Includes commercial and industrial and commercial real estate loans.

Information regarding impaired loans is as follows:

	September 30, 2007	Decemb 20
Balance of impaired loans	$ 9,245	$ 17,
Less portion for which no specific allowance is allocated	2,969	2,
Portion of impaired loan balance for which a specific allowance for credit losses is allocated	$ 6,276	$ 14,
Portion of allowance for loan losses specifically allocated for the impaired loan balance	$ 2,072	$ 4,
Average investment in impaired loans year-to-date	$ 9,509	$ 18,

Interest recorded on impaired loans was $313 and $495 for the nine-month periods ended September 30, 2007 and 2006, respectively. Accrual basis income was not materially different from cash basis income for the periods presented.

NOTE 4 - CONCENTRATIONS OF CREDIT RISK AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company, through its subsidiaries, grants residential, consumer, and commercial loans to customers located primarily in the central and southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 4.02% of total loans were unsecured at September 30, 2007 as compared to 3.51% at December 31, 2006.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The contract amounts of these instruments are not included in the consolidated financial statements. At September 30, 2007, the contract amounts of these instruments totaled approximately $76,224, compared to $73,502 at December 31, 2006. Since many of these instruments are expected to expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTE 5 - OTHER BORROWED FUNDS

Other borrowed funds at September 30, 2007 and December 31, 2006 are comprised of advances from the Federal Home Loan Bank (FHLB) of Cincinnati, promissory notes and Federal Reserve Bank (FRB) Notes.

	FHLB Borrowings	Promissory Notes	FRB Notes
September 30, 2007...........	$ 50,192	$ 5,706	$ 5,500
December 31, 2006............	$ 55,690	$ 5,393	$ 2,463

Pursuant to collateral agreements with the FHLB, advances are secured by $217,583 in qualifying mortgage loans and $6,036 in FHLB stock at September 30, 2007. Fixed-rate FHLB advances of $50,192 mature through 2010 and have interest rates ranging from 3.25% to 6.62%.

At September 30, 2007, the Company had a cash management line of credit enabling it to borrow up to $60,000 from the FHLB. All cash management advances have an original maturity of 90 days.

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The line of credit must be renewed on an annual basis. There was $60,000 available on this line of credit at September 30, 2007.

Based on the Company's current FHLB stock ownership, total assets and pledgeable residential first mortgage loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of $161,173 at September 30, 2007.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 4.55% to 6.19% and are due at various dates through a final maturity date of September 30, 2008. As of September 30, 2007, a total of $3,708 represented promissory notes payable by Ohio Valley to related parties.

FRB notes consist of the collection of tax payments from Bank customers under the Treasury Tax and Loan program. These funds have a variable interest rate and are callable on demand by the U.S. Treasury. At September 30, 2007, the interest rate for the Company's FRB notes was 4.58%. Various investment securities from the Bank used to collateralize the FRB notes totaled $6,000 at September 30, 2007 and $6,070 at December 31, 2006.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled $42,450 at September 30, 2007 and $41,950 at December 31, 2006.

Scheduled principal payments over the next five years:

Periods Ended December 31:	FHLB Borrowings	Promissory Notes	FRB Notes

Three Months Ended 2007	$ 4,018	$ 2,604	$ 5,500
Year Ended 2008	16,010	3,102	----
Year Ended 2009	11,005	----	----
Year Ended 2010	19,006	----	----
Year Ended 2011	6	----	----
Thereafter	147	----	----
	$ 50,192	$ 5,706	$ 5,500

NOTE 6 - SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

On March 22, 2007, a trust formed by Ohio Valley issued $8,500 of adjustable-rate trust preferred securities as part of a pooled offering of such securities. The rate on these trust preferred securities will be fixed at 6.58% for five years, and then convert to a floating-rate term on March 15, 2012, based on a rate equal to the 3-month LIBOR plus 1.68%. There were no debt issuance costs incurred with these trust preferred securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering. The subordinated debentures must be redeemed no later than June 15, 2037. On March 26, 2007, the proceeds from these new trust preferred securities were used to pay off $8,500 in higher cost trust preferred security debt, with a floating rate of 8.97%. This repayment of $8,500 in trust preferred securities was the result of an early call feature that allowed the Company to redeem the entire amount of these subordinated debentures at par value. For additional discussion, please refer to the caption titled "Subordinated Debentures and Trust Preferred Securities" within Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to, the risk factors discussed in Part I, Item 1A of Ohio Valley's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and Ohio Valley's other securities filings. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements as a result of unanticipated future events.

Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial, consumer and agricultural banking services within central and southeastern Ohio as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; and the making and servicing of personal, commercial, floor plan, construction, real estate and student loans. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. As part of its lending function, the Bank also offers credit card services. Loan Central engages in consumer finance, offering smaller balance personal and mortgage loans to individuals with higher credit risk history. Loan Central's line of business also includes seasonal tax refund loan services during the January through April periods. Ohio Valley Financial Services sells life insurance.

For the three months ended September 30, 2007, net income increased by $16, or 0.9%, compared to the same period in 2006, to finish at $1,833. Earnings per share for the third quarter of 2007 increased $.02, or 4.7%, compared to the same period in 2006, to finish at $.45 per share. For the first nine months of 2007, net income decreased $88, or 1.6%, compared to the same period in 2006, to finish at $5,294. Earnings per share for the first nine months of 2007 increased $.01, or 0.8%, compared to the same period in 2006, to finish at $1.28 per share. The annualized net income to average asset ratio, or return on assets (ROA), and net income to average equity ratio, or return on equity (ROE), both decreased to .92% and 11.72% during the first nine months of 2007, as compared to .95% and 12.07% for the same period in 2006, respectively. The Company's minimal change in earnings during the third quarter and nine-month periods of 2007 were caused mostly by: 1) a challenged net interest income due to higher funding costs and increased average nonaccrual loans, and 2) decreases in noninterest income due to the recognition of tax-free life insurance proceeds received in the prior year that were not repeated in the current period. These negative factors to revenues were counteracted by the benefits of 1) lower loan loss provision expense experienced in both the third quarter and nine-month periods of 2007, as compared to the same periods in 2006, as a result of improvements to the Company's nonperforming credits from year-end 2006, and 2) stable noninterest expense due to effective overhead management.

The consolidated total assets of the Company increased $15,085, or 2.0%, during the first nine months of 2007 to finish at $779,446, primarily due to excess

federal funds sold and higher loan balances, which increased $9,956 and $2,452, respectively, from year-end 2006. Loan growth continues to be relatively stable (up 0.4%), with a growing real estate loan portfolio being completely offset by a declining volume of consumer loans due to lower demand and interest rate competition. The Company's securities sold under agreements to repurchase ("repurchase agreements") and interest-bearing money market deposits both increased $11,612 and $7,690, respectively, from year-end 2006. The excess funds available from both repurchase agreements and money market deposits were used to fund the net growth in loans, as well as reduce other borrowed funds, which were down $2,148 from year-end 2006.

Comparison of
Financial Condition
at September 30, 2007 and December 31, 2006

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at September 30, 2007 compared to December 31, 2006. The purpose of this discussion is to provide the reader a more thorough understanding of the consolidated financial statements. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist of cash and balances due from banks and federal funds sold. The amounts of cash and cash equivalents fluctuate on a daily basis due to customer activity and liquidity needs. At September 30, 2007, cash and cash equivalents had increased $7,791, or 37.5%, to $28,556 as compared to $20,765 at December 31, 2006. The increased levels of cash and cash equivalents, (mostly federal funds sold) came primarily from growth in repurchase agreements. With loan balances up slightly from year-end 2006, the Company used its cash and cash equivalents primarily to satisfy maturing time deposits as well as to fund quarterly dividend disbursements and treasury stock repurchases. As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. Management believes that the current balance of cash and cash equivalents remains at a level that will meet cash obligations and provide adequate liquidity. Further information regarding the Company's liquidity can be found under the caption "Liquidity" in this Management's Discussion and Analysis.

Securities

The Company's investment securities portfolio consists of mortgage-backed securities, U.S. government agency and sponsored entity securities and obligations of states and political subdivisions. During the first nine months of 2007, investment securities increased $1,856, or 2.2%, driven by increases in U.S. government agency and sponsored entity securities of $4,320, or 17.2%, and obligations of states and political subdivisions of $2,594, or 19.5%, as compared to year-end 2006. The growth in these two segments of investments was the result of attractive yield opportunities and a desire to increase diversification within the Company's securities portfolio. This growth was partially offset by a decrease in mortgage-backed securities of $5,058, or 11.2%, from year-end 2006. The Company continues to benefit from the advantages of investment grade mortgage-backed securities, which make up the largest portion of the Company's investment portfolio, totaling $40,083, or 46.9% of total investments at September 30, 2007. The primary advantage of mortgage-backed securities has been the increased cash flows due to the more rapid (monthly) repayment of principal as compared to other types of investment securities, which deliver proceeds upon maturity or call date. Principal repayments from mortgage-backed securities totaled $5,243 from January 1, 2007 through September 30, 2007. For the remainder of 2007, the Company's focus will be to generate interest revenue primarily through loan growth due to higher asset yields on loans.

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Loans

During the first nine months of 2007, total loans, the Company's primary category of earning assets, were up $2,452, or 0.4%, from year-end 2006. Higher loan balances were largely due to growth in residential real estate loans, which were up $8,334, or 3.5%, from year-end 2006 to total $246,883. Generating residential real estate loans remains a key focus of the Company's lending efforts. The Company's residential real estate loans consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. There continues to be a significant amount of movement between variable-rate and fixed-rate mortgage refinancings during the first nine months of 2007. Since year-end 2006, the Company's one-year adjustable-rate mortgage balances have decreased $21,273, or 31.4%, to finish at $46,518. During 2006, consumer demand for fixed-rate real estate loans steadily increased due to the continuation of lower, more affordable, mortgage rates that had not responded as much to the rise in short-term interest rates of 2004, 2005 and part of 2006. As long-term interest rates continue to remain relatively stable from a year ago, consumers continue to pay off and refinance their variable rate mortgages, resulting in lower one-year adjustable-rate mortgage balances at the end of September 30, 2007 as compared to year-end 2006. As a result, completely offsetting the decreases in variable-rate real estate balances were the continued consumer preference of fixed-rate real estate loans, which were up $28,043, or 19.6%, from year-end 2006 to finish at $171,183. To help further satisfy this increasing demand for fixed-rate real estate loans, the Company continues to originate and sell some fixed-rate mortgages to the secondary market, and has sold $3,322 in loans during the first nine months of 2007, which represent an increase of $591, or 21.6%, over the volume in the first nine months of 2006. The remaining real estate loan portfolio balances increased $1,564, primarily from a mix of the Company's other variable-rate real estate loan products.

The Company's increasing real estate loan portfolio was enhanced by net growth in its commercial loan balances, which were up $1,517, or 0.6%, from year-end 2006. This growth is consistent with the Company's continued emphasis on commercial lending, which generally yields a higher return on investment as compared to other types of loans. The Company's commercial loan portfolio consists of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, stock, commercial real estate and rental property. Commercial and industrial loans increased $4,477, or 9.4%, from year-end 2006, partially offset by a decrease in commercial real estate loan balances, which decreased $2,960, or 1.5%, from year-end 2006. Commercial real estate, the Company's largest segment of commercial loans, is largely driven by loan participations with other banks outside the Company's primary market area. Although the Company is not actively marketing participation loans outside its primary market area, it is taking advantage of the relationships it has with certain lenders in those areas where the Company believes it can profitably participate with an acceptable level of risk. The commercial loan portfolio, including participation loans, consists primarily of rental property loans (20.6% of portfolio), medical industry loans (13.9% of portfolio), land development loans (11.4% of portfolio), and hotel and motel loans (10.3% of portfolio). During the first nine months of 2007, the primary market areas for the Company's commercial loan originations, excluding loan participations, were in the areas of Gallia, Jackson, Logan, Vinton and Franklin counties of Ohio, which accounted for 58.8% of total originations, and the growing West Virginia markets, which accounted for 11.7% of total originations for the same time period. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company and normal underwriting considerations. Additionally, the potential for larger than normal commercial loan payoffs may limit loan growth during the remainder of 2007.

Increases in the Company's real estate and commercial loan balances were partially offset by a decreasing consumer loan portfolio. During the first nine months of 2007, consumer loans decreased $8,775, or 6.3%, from year-end 2006 to finish at $131,186. The Company's consumer loans are secured by automobiles,

mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The decrease in consumer volume was mostly attributable to the automobile lending segment, which decreased $6,558, or 10.4%, from year-end 2006. While the automobile lending segment continues to represent the largest portion of the Company's consumer loan portfolio, management's emphasis on profitable loan growth with higher returns (i.e. commercial and real estate loans) has contributed most to the reduction in loan volume within this area. Indirect automobile loans bear additional costs from dealers that partially offset interest revenue and lower the rate of return. Furthermore, economic factors and the rising rate environment from previous years have caused a decline in automobile loan volume. As rates have aggressively moved up, continued competition with local banks and alternative methods of financing, such as captive finance companies offering loans at below-market interest rates, have continued to challenge automobile loan growth during the first nine months of 2007. Also contributing to the decreasing consumer portfolio were all-terrain vehicle loans, which were down $864, or 14.2%, from year-end 2006, and the Company's capital line balances, primarily home equity loans, which decreased $597, or 2.9%, from year-end 2006.

The Company also recognized an increase of $1,376, or 23.3%, in other loans from year-end 2006. Other loans consist primarily of state and municipal loans and overdrafts.

The Company will continue to monitor the relatively stable pace of its loan portfolio growth during the remainder of 2007, and try to expand upon the first half successes of its commercial loan opportunities. The Company's lending markets remain challenging and have impacted loan growth due to loan payoffs and a lower level of loan originations during the nine-month period of 2007. Furthermore, the Company continues to view consumer loans as a decreasing portfolio, due to higher loan costs, increased competition in automobile loans and a lower return on investment as compared to the other loan portfolios. As a result, the Company anticipates total loan growth to be marginal, with volume to continue at a flat to moderate pace throughout the remainder of the year. The Company remains committed to sound underwriting practices without sacrificing asset quality and avoiding exposure to unnecessary risk that could weaken the credit quality of the portfolio.

Allowance for Loan Losses

Management continually monitors the loan portfolio to identify potential portfolio risks and to detect potential credit deterioration in the early stages, and then establishes reserves based upon its evaluation of these inherent risks. During the first nine months of 2007, the Company experienced a $2,685, or 28.5% decrease in its allowance for loan losses, in large part due to a decrease in nonperforming loan balances since year-end 2006. During 2006, the level of nonperforming loans, which consist of nonaccruing loans and accruing loans past due 90 days or more, had significantly increased from $2,557 at year-end 2005 to $13,392 at year-end 2006. The nonperforming loan balances increased primarily from three commercial loan relationships secured by liens on commercial real estate and equipment, personal guarantees and life insurance. During this time in 2006, specific allocations were made on behalf of the portfolio risks and credit deterioration of these nonperforming relationships, which required corresponding increases in the provision for loan losses to adequately fund the allowance for loan losses. During the first nine months of 2007, net charge-offs totaled $4,019, which were up $3,240 from the same period in 2006, in large part due to commercial charge-offs of the specific allocations that were already reflected in the allowance for loan losses from 2006. As part of management's strategy to liquidate and resolve its nonperforming relationships, the Company experienced improvements in the ratio of nonperforming loans as a percentage of total loans, which finished September 30, 2007 at 0.85%, down from 2.14% at year-end 2006. The Company's ratio of nonperforming assets, which includes real estate acquired through foreclosure and referred to as other real estate owned ("OREO"), as a percentage of total assets also improved from 2.00% at year-end 2006 to 0.96% at September 30, 2007. At September 30, 2007, nonperforming loans consisted of two large commercial relationships that represent 0.46% of total loans and 0.37% of total assets. These nonperforming credits continue to be at various stages of resolution.

Management believes that the allowance for loan losses was adequate as of September 30, 2007, and reflects probable incurred losses in the loan portfolio as of that date. Asset quality remains a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits, both interest-bearing and noninterest bearing, continue to be the most significant source of funds used by the Company to support earning assets. Deposits are influenced by changes in interest rates, economic conditions and competition from other banks. During the first nine months of 2007, total deposits were up slightly by $2,154, or 0.4%, from year-end 2006, resulting from a funding mix shift from borrowings to deposits as well as minimal growth in loan balances that eased pressure off funding requirements. The change in deposits from year-end 2006 came primarily from an increase in the Company's interest-bearing money market deposits, which increased $7,690, or 13.0%, during the first nine months of 2007. This growth was largely driven by the Company's Market Watch product, which generated $6,075 in additional deposit balances from year-end 2006. Introduced in August 2005, the Market Watch product is a limited transaction investment account with tiered rates that compete with current market rate offerings.

Partially offsetting the growth in money market deposits were lower time deposit balances. Time deposits, particularly certificates of deposit ("CD's"), remain the most significant source of funding for the Company's earning assets, making up 57.3% of total deposits. During the first nine months of 2007, time deposits decreased $4,503, or 1.3%, from year-end 2006. This decrease was primarily due to maturity runoff of the Company's retail CD balances, decreasing $4,394, or 1.4%, from year-end 2006 as compared to stable IRA and wholesale CD balances (i.e. brokered CD's). Furthermore, with loan balances at a relatively stable pace, increasing just 0.4% from year-end 2006, there has not been an aggressive need to deploy time deposits as a funding source. As market rates have steadied since June 2006, the Company has seen the cost of its retail CD balances aggressively reprice upward to reflect current deposit rates. This lagging effect has caused the Company's retail CD portfolio to become more costly to fund earning assets, producing an average cost of 4.85% during the first nine months of 2007 as compared to 4.13% during the same period of 2006. Furthermore, during the first half of 2007, the economy experienced increases in its wholesale funding rates, both short- and long-term indices, creating a costly funding source comparible to that of the Company's retail CD balances. At September 30, 2007, the average cost of the Company's wholesale CD portfolio was 4.85%, equal to the cost its retail CD portfolio. As a result, management will continue to utilize both retail and wholesale deposits as funding sources for future earning asset growth.

Additionally, the Company's interest-free funding source, noninterest bearing demand deposits, decreased $1,484, or 1.9%, from year-end 2006.

The Company will continue to experience increased competition for deposits in its market areas, which should challenge net growth in its deposit balances. The Company will continue to evaluate its deposit portfolio mix to properly utilize both retail and wholesale funds to support earning assets and minimize interest costs.

Securities Sold Under Agreements to Repurchase

Repurchase agreements, which are financing arrangements that have overnight maturity terms, were up $11,612, or 51.5%, from year-end 2006. This increase was mostly due to the fluctuation of various commercial accounts during the third quarter of 2007.

Other Borrowed Funds

The Company also accesses other funding sources, including short-term and long-term borrowings, to fund asset growth and satisfy short-term liquidity needs. Other borrowed funds consist primarily of Federal Home Loan Bank (FHLB) advances and promissory notes. During the first nine months of 2007, other borrowed funds were down $2,148, or 3.4%, from year-end 2006. The excess funds available from both repurchase agreements and interest-bearing deposits were used to reduce other borrowed funds, as well as fund the net growth in loans from year-end 2006. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize various wholesale borrowings to help manage interest rate sensitivity and liquidity.

Subordinated Debentures and Trust Preferred Securities

On March 22, 2007, a trust formed by Ohio Valley issued $8,500 of adjustable-rate trust preferred securities as part of a pooled offering of such securities. The Company used the proceeds from these trust preferred securities to pay off $8,500 in higher cost trust preferred security debt on March 26, 2007. The replacement of the higher cost trust preferred security debt was a strategy by management to lower interest rate pressures that were impacting interest expense and help improve the Company's net interest margin. The early extinguishment and replacement of this higher cost debt improved earnings by nearly $51 pre-tax ($33 after taxes) in both the second and third quarters of 2007. This quarterly savings that contributed to margin improvement will continue throughout the fourth quarter of 2007. For additional discussion on the terms and conditions of this new trust preferred security issuance, please refer to "Note 6 - Subordinated Debentures and Trust Preferred Securities" within Item 1, Notes to the Consolidated Financial Statements of this Form 10-Q.

Shareholders' Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. Total shareholders' equity at September 30, 2007 of $61,019 was up $737, or 1.2%, as compared to the balance of $60,282 on December 31, 2006. Contributing most to this increase was year-to-date net income of $5,294 and $347 in proceeds from the issuance of common stock. Partially offsetting the growth in capital were cash dividends paid of $2,203, or $.53 per share, year-to-date, and an increase in the amount of treasury share repurchases. The Company had treasury stock totaling $13,104 at September 30, 2007, an increase of $3,055, or 30.4%, as compared to the total at year-end 2006. The Company anticipates repurchasing additional common shares from time to time as authorized by its stock repurchase program. In February 2007, the Board of Directors authorized the repurchase of up to 175,000 of its common shares between February 16, 2007 and February 15, 2008. As of September 30, 2007, 119,010 shares had been repurchased pursuant to that authorization.

Comparison of
Results of Operations
for the Quarter and Year-To-Date Periods
Ended September 30, 2007 and 2006

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the quarterly and year-to-date periods ended September 30, 2007 compared to the same period in 2006. The purpose of this discussion is to provide the reader a more thorough understanding of the consolidated financial statements. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense on interest-bearing liabilities. The Company earns interest and dividend income from loans, investment securities and short-term investments while incurring interest expense on interest-bearing deposits and repurchase agreements, as well as short-term and long-term borrowings. For the third quarter of 2007, net interest income decreased $103, or 1.4%, as compared to the same quarter in 2006. Through the first nine months of 2007, net interest income decreased $443, or 2.0%, as compared to the same period in 2006. The decrease in quarterly and year-to-date net interest income is primarily due to a compressed net interest margin caused by higher funding costs as well as average increases in nonaccrual loan balances.

Total interest income increased $377, or 2.8%, for the third quarter of 2007 and increased $1,925, or 4.9%, during the first nine months of 2007 as compared to the same periods in 2006. Growth in 2007's year-to-date average earning assets of $7,858, or 1.1%, as compared to the same period in 2006 was complemented with a 29 basis point increase in asset yields, growing from 7.36% to 7.65% for the same time periods. The growth in average earning assets was largely comprised of residential real estate loans, investment securities and short-term federal funds sold since September 2006. Outpacing interest income was interest expense, increasing $480, or 7.6%, during the third quarter of 2007 and $2,368, or 13.6%, during the first nine months of 2007 as compared to the same periods in 2006, as a result of higher funding costs, competitive factors to retain deposits, and larger average earning asset balances which required additional funding. In a changing interest rate environment, rates on loans reprice more rapidly than interest rates paid on deposits. In 2005 and the first half of 2006, net interest margins were exceeding previous periods in relation to the actions by the Federal Reserve to increase market rates of interest. As a result, interest rates on deposits have increased (as a lagging impact of earlier Federal Reserve action), increasing funding costs and decreasing the net interest margin. Increases in funding costs came mostly from the Bank's retail CD accounts, which have been most responsive to the rising rate environment. The year-to-date weighted average cost of the Bank's retail CD balances grew 76 basis points from 4.09% at September 30, 2006 to 4.85% at September 30, 2007. The change in interest expense was further impacted by the Company's growth in average money market accounts largely due to its Market Watch product with tiered market rates. The Market Watch product competes with other such rate offerings in the Company's existing market areas. As a result of the rise in rates from previous periods, the Bank's total weighted average funding costs have increased 45 basis points from September 30, 2006 to September 30, 2007.

Putting additional pressure on net interest income was an increase in the Company's year-to-date average nonaccrual loan balances, which have grown from an average of $4,823 for the nine months ended September 30, 2006 to an average of $6,983 for the nine months ended September 30, 2007. While this segment of nonperforming loans continues to improve, with actual nonaccrual balances decreasing $7,673 from year-end 2006, and decreasing $2,907 from September 30, 2006, the interest income that has not been recorded on these nonaccrual balances over the past 12 months has limited the increase to earning asset income and has contributed to net interest margin compression.

As a result of increased funding costs and higher average nonaccrual balances, the Company's net interest margin decreased 7 basis points from 3.97% to 3.90%

for the third quarter of 2007 and decreased 11 basis points from 4.10% to 3.99% during the first nine months of 2007 as compared to the same periods in 2006. It is difficult to speculate on future changes in net interest margin and the frequency and size of changes in market interest rates as these changes are dependent upon a variety of factors that are beyond the Company's control. Despite the recent actions by the Federal Reserve to begin lowering rates for the first time since June 2003, rates have primarily been steady since June 2006. With market rates having been stable and now heading for what appears to be future reductions, management believes this will continue to present opportunities for net interest margin improvement. This is in large part due to

repricing rates of the Company's retail CD balances continuing to slow down and benefit from the lower market rates initiated by the Federal Reserve. This trend is anticipated to continue throughout the remainder of 2007 and into 2008. For additional discussion on the Company's rate sensitive assets and liabilities, please see Item 3, Quantitative and Qualitative Disclosure About Market Risk, of this Form 10-Q.

Provision for Loan Losses

Management performs, on a quarterly basis, a detailed analysis of the allowance for loan losses that encompasses loan portfolio composition, loan quality, loan loss experience and other relevant economic factors. During the first nine months of 2007, provision expense decreased $597, or 30.9%, compared to the same time period in 2006. This decrease is primarily a result of the Company's decrease in nonperforming loan balances since year-end 2006 combined with significant commercial loan allocations that were made to the allowance for loan losses during 2006. At September 30, 2007, the Company's nonperforming loan balances had decreased to $5,308, compared to $13,392 at year-end 2006, as a result of charge-offs of some of the troubled commercial loan relationships already discussed under the caption "Allowance for Loan Losses" within this management's discussion and analysis. As a result, through the first nine months of 2007, the ratio of the Company's nonperforming loans to total loans decreased to 0.85%, compared to 2.14% at December 31, 2006, while nonperforming assets to total assets also decreased to 0.96%, compared to 2.00% for the same time period. Management believes that the allowance for loan losses is adequate and reflective of probable losses in the portfolio. The allowance for loan losses was 1.07% of total loans at September 30, 2007, down from 1.51% at December 31, 2006. Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed further in detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" of this Form 10-Q.

Noninterest Income

Noninterest income for the three months ended September 30, 2007 was $1,556, unchanged from the same quarterly period in 2006. Noninterest income for the nine months ended September 30, 2007 was $4,315, a decrease of $78, or 1.8%, from the same period in 2006. These results were impacted most by decreases in the Company's tax-free bank owned life insurance ("BOLI") investment proceeds partially offset by increases in OREO rental income, tax processing fees and debit card interchange fees.

BOLI income was down $97, or 35.9%, during the third quarter of 2007, and down $212, or 29.2%, during the first nine months of 2007, as compared to the same periods of 2006, driven mostly by tax-free life insurance proceeds of $87 that were recorded in the third quarter of 2006 that were not repeated in 2007. Furthermore, the Company also realized $86 of tax-free life insurance proceeds in the second quarter of 2006. As a result of these non-recurring timing differences, management anticipates revenues from BOLI investments to be lower during the remainder of 2007 as compared to 2006. Noninterest income was also negatively impacted by lower monthly service charges on deposit accounts, decreasing $30, or 3.7%, during the third quarter of 2007, and $53, or 2.4%, during the nine-month period of 2007 as compared to the same periods in 2006, primarily due to a lower volume of overdraft fees.

Partially offsetting the decreases in noninterest income were increases in other noninterest income, which include rental income from OREO properties, improvements in the Company's tax refund processing fees and debit card interchange fees. Rental income from OREO properties totaled $97 and $126 for the third quarter and nine-month periods of 2007, primarily from one large commercial facility located in Kanawha County, West Virginia. Also, in 2006, the Company began its participation in a new tax refund loan service where it served as a facilitator for the clearing of tax refunds for a tax software provider. As a result, the Company's tax refund processing fees during the first nine months of 2007 totaled $110, a $64 increase over the same period in 2006. Further

enhancing the growth to other noninterest income was debit card interchange income, increasing $16, or 13.0%, during the third quarter of 2007, and $48, or 13.4%, during the nine-month period of 2007 as compared to the same periods in 2006. The volume of transactions utilizing the Company's Jeanie(R) Plus debit card continue to increase over a year ago and are comprised mostly of gasoline and restaurant purchases.

Noninterest Expense

During the third quarter of 2007, total noninterest expense was down $11, or 0.2%, as compared to the same period in 2006. During the nine months ended September 30, 2007, noninterest expense reflects a minimal increase of $21, or 0.1%, as compared to the same period in 2006. Contributing to the quarterly and year-to-date noninterest expense changes were the costs associated with resolving nonperforming loans. These loan expenses caused other noninterest expenses to grow $64, or 1.5%, during the first nine months of 2007, as compared to the same period in 2006. Loan expenses were realized at a lower pace during the third quarter of 2007, causing other noninterest expense to decrease $43, or 2.8%, as compared to the same quarterly period in 2006. Loan expenses (i.e., foreclosure costs) that have been incurred as part of resolving nonperforming credits during 2007 have been necessary to improve asset quality and lower portfolio risk.

Further increases to noninterest expense were recorded within the Company's occupancy expense, which was up $31, or .3%, during the third quarter of 2007, and $100, or 10.0%, during the first nine months of 2007, as compared to the same periods in 2006. The increases were in large part due to the Company's expansion of its Jackson, Ohio facility. In late 2006, the Company invested over $2,000 to replace its Jackson, Ohio facility and, during that time, ceased operations in its Jackson superbank facility. The facility was placed in service and depreciation commenced during the fourth quarter of 2006. Occupancy costs during 2007 will continue to outpace the occupancy costs of 2006 as a result of this new facility.

Partially offsetting occupancy and other noninterest expense were lower salary and employee benefit costs. Salaries and employee benefits, the Company's largest noninterest expense item, decreased $31, or 0.9%, for the third quarter of 2007, and $155, or 1.6%, during the first nine months of 2007, as compared to the same periods in 2006. The decrease was largely due to lower accrued incentive costs as well as a lower number of full-time equivalent ("FTE") employees. At September 30, 2007, the Company had 253 FTE employees on staff as compared to 258 FTE employees at September 30, 2006. The total of all remaining noninterest expense categories was relatively unchanged. The stable level of noninterest expenses during 2007 largely reflects the continued efforts by management to improve efficiency by placing strong emphasis on overhead expense control.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. While the Company has experienced good cost containment in its overhead expenses, decreases to both quarterly and year-to-date net interest income have negatively affected the Company's efficiency. The efficiency ratio for the three months ended September 30, 2007 was 64.47%, up from 64.09% for the same period in 2006. The efficiency ratio for the nine months ended September 30, 2007 was 64.16%, up from 63.02% for the same period in 2006.

Capital Resources

All of the Company's capital ratios exceeded the regulatory minimum guidelines as identified in the following table:

	Coompany Ratios		Regulatory	We
	9/30/07	12/31/06	Minimum	Capita
Tier 1 risk-based capital	12.2%	12.2%	4.00%	6.0
Total risk-based capital ratio	13.3%	13.4%	8.00%	10.0
Leverage ratio	9.6%	9.6%	4.00%	5.0

Cash dividends paid of $2,203 for the first nine months of 2007 represent a 3.9% increase over the cash dividends paid during the same period in 2006. The quarterly dividend rate increased from $0.17 per share in 2006 to $0.18 per share in 2007. The dividend rate has increased in proportion to the consistent growth in retained earnings. At September 30, 2007, approximately 81% of the Company's shareholders were enrolled in the Company's dividend reinvestment plan. As part of the Company's stock purchase program, management will continue to utilize reinvested dividends and voluntary cash, if necessary, to purchase shares on the open market to be redistributed through the dividend reinvestment plan.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, interest-bearing deposits with other financial institutions, held-to-maturity securities maturing within one year and available-for-sale securities of $99,839 represented 12.8% of total assets at September 30, 2007. In addition, the FHLB offers advances to the Bank which further enhances the Bank's ability to meet liquidity demands. At September 30, 2007, the Bank could borrow an additional $68,000 from the FHLB. The Bank also has the ability to purchase federal funds from several of its correspondent banks. For further cash flow information, see the condensed consolidated statement of cash flows contained in this Form 10-Q. Management does not rely on any single source of liquidity and monitors the level of liquidity based on many factors affecting the Company's financial condition.

Off-Balance Sheet Arrangements

As discussed in Note 4 - Concentrations of Credit Risk and Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective

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

Allowance for loan losses: To arrive at the total dollars necessary to maintain an allowance level sufficient to absorb probable losses incurred at a specific financial statement date, management has developed procedures to establish and then evaluate the allowance once determined. The allowance consists of the following components: specific allocation, general allocation and other estimated general allocation.

To arrive at the amount required for the specific allocation component, the Company evaluates loans for which a loss may be incurred either in part or in whole. To achieve this task, the Company has created a quarterly report ("Watchlist") which lists the loans from each loan portfolio that management deems to be potential credit risks. The loans placed on this report are: loans past due 60 or more days, nonaccrual loans and loans management has determined to be potential problem loans. These loans are reviewed and analyzed for potential loss by the Large Loan Review Committee, which consists of the President of the Company and members of senior management with lending authority. The function of the Committee is to review and analyze large borrowers for credit risk, scrutinize the Watchlist and evaluate the adequacy of the allowance for loan losses and other credit related issues. The Committee has established a grading system to evaluate the credit risk of each commercial borrower on a scale of 1 (least risk) to 10 (greatest risk). After the Committee evaluates each relationship listed in the report, a specific loss allocation may be assessed. The specific allocation is currently made up of amounts allocated to the commercial and real estate loan portfolios.

Included in the specific allocation analysis are impaired loans, which consist of loans with balances of $200 or more on nonaccrual status or non-performing in nature. These loans are also individually analyzed and a specific allocation may be assessed based on expected credit loss. Collateral dependent loans will be evaluated to determine a fair value of the collateral securing the loan. Any changes in the impaired allocation will be reflected in the total specific allocation.

The second component (general allowance) is based upon total loan portfolio balances minus loan balances already reviewed (specific allocation). The Large Loan Review Committee evaluates credit analysis reports that provide management with a "snapshot" of information on borrowers with larger-balance loans (aggregate balances of $1,000 or greater), including loan grades, collateral values, and other factors. A list is prepared and updated quarterly that allows management to monitor this group of borrowers. Therefore, only small balance commercial loans and homogeneous loans (consumer and real estate loans) are not specifically reviewed to determine minor delinquencies, current collateral values and present credit risk. The Company utilizes actual historic loss experience as a factor to calculate the probable losses for this component of the allowance for loan losses. This risk factor reflects a 3 year performance evaluation of credit losses per loan portfolio. The risk factor is achieved by taking the average net charge-off per loan portfolio for the last 36 consecutive months and dividing it by the average loan balance for each loan portfolio over the same time period. The Company believes that by using the 36 month average loss risk factor, the estimated allowance will more accurately reflect current probable losses.

The final component used to evaluate the adequacy of the allowance includes five additional areas that management believes can have an impact on collecting all principal due. These areas are: 1) delinquency trends, 2) current local economic conditions, 3) non-performing loan trends, 4) recovery vs. charge-off, and 5) personnel changes. Each of these areas is given a percentage factor, from a low of 10% to a high of 30%, determined by the degree of impact it may have on the allowance. To calculate the impact of other economic conditions on the allowance, the total general allowance is multiplied by this factor. These dollars are then added to the other two components to provide for economic

conditions in the Company's assessment area. The Company's assessment area takes in a total of ten counties in Ohio and West Virginia. Each assessment area has its individual economic conditions; however, the Company has chosen to average the risk factors for compiling the economic risk factor.

The adequacy of the allowance may be determined by certain specific and nonspecific allocations; however, the total allocation is available for any credit losses that may impact the loan portfolios.

Concentration of Credit Risk

The Company maintains a diversified credit portfolio, with commercial loans currently comprising the most significant portion. Credit risk is primarily subject to loans made to businesses and individuals in central and southeastern Ohio as well as western West Virginia. Management believes this risk to be general in nature, as there are no material concentrations of loans to any industry or consumer group. To the extent possible, the Company diversifies its loan portfolio to limit credit risk by avoiding industry concentrations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company's goal for interest rate sensitivity management is to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations. Interest rate risk ("IRR") is the exposure of the

Company's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability, but excessive levels of IRR can threaten the Company's earnings and capital.

The Company evaluates IRR through the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The modeling process starts with a base case simulation, which assumes a flat interest rate scenario. The base case scenario is compared to rising and falling interest rate scenarios assuming a parallel shift in all interest rates. Comparisons of net interest income and net income fluctuations from the flat rate scenario illustrate the risks associated with the projected balance sheet structure.

The Company's Asset/Liability Committee monitors and manages IRR within Board approved policy limits. The current IRR policy limits anticipated changes in net interest income over a 12 month horizon to plus or minus 10% of the base net interest income assuming a parallel rate shock of up 100, 200 and 300 basis points and down 100, 200 and 300 basis points.

The following table presents the Company's estimated net interest income sensitivity:

Change in Interest Rates in Basis Points	September 30, 2007 Percentage Change in Net Interest Income	December 31, 2 Percentage Chang Net Interest In
+300	(6.75%)	(5.95%)
+200	(3.82%)	(3.26%)
+100	(1.71%)	(1.37%)
-100	1.50%	1.10%
-200	2.92%	1.74%
-300	5.14%	2.65%

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. At September 30, 2007, the Company's analysis of net interest income reflects a modest liability sensitive position. Based on current assumptions, an instantaneous increase in interest rates would negatively impact net interest income primarily due to the duration of earning assets exceeding the duration of

interest-bearing liabilities in conjuction with variable rate loans reaching their annual interest rate cap or potentially their lifetime interest rate cap. Furthermore, in a rising rate environment, the prepayment amounts on loans and mortgage-backed securities slow down producing less cash flow to reinvest at higher interest rates. During an instantaneous decrease in interest rates, the opposite occurs producing an increase in net interest income. With the recent action taken by the Federal Reserve to reduce short-term interest rates, management anticipates this to have a positive impact on net interest income. As compared to December 31, 2006, the Company's interest rate risk profile has become more liability sensitive due to the growth in fixed-rate residential mortgages.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the President and Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, Ohio Valley's President and Chief Executive Officer and Vice President and Chief Financial Officer have concluded that Ohio Valley's disclosure controls and procedures are effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Ohio Valley or any of its subsidiaries is a party, other than ordinary, routine litigation incidental to their respective businesses. In the opinion of Ohio Valley's management, these proceedings should not, individually or in the aggregate, have a material effect on Ohio Valley's results of operations or financial condition.

ITEM 1A. RISK FACTORS

In addition to other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the U.S. Securities and Exchange Commission on March 16, 2007 and available at www.sec.gov. These risk factors could materially affect the Company's business, financial condition or future results. The risk

factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not Applicable.
(b) Not Applicable.
(c) The following table provides information regarding Ohio

Valley's repurchases of its common shares during the fiscal quarter ended September 30, 2007:

ISSUER REPURCHASES OF EQUITY SECURITIES(1)

Period	Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
July 1 - 31, 2007	24,631	$25.25	24,631
August 1 - 31, 2007	5,806	$25.00	5,806
September 1 - 30, 2007	10,532	$25.06	10,532
TOTAL	40,969	$25.17	40,969

(1) On July 21,2006, Ohio Valley's Board of Directors announced its plan to repurchase up to 175,000 of its common shares between August 16, 2006 and February 16, 2007. On February 9, 2007, Ohio Valley's Board of Directors announced its plan to repurchase up to 175,000 of its common shares between February 16, 2007 and February 15, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

(a) Exhibits:

Reference is made to the Exhibit Index set forth immediately following the signature page of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OHIO VALLEY BANC CORP.

Date: November 8, 2007	By:	/s/ Jeffrey E. Smith
		Jeffrey E. Smith President and Chief Executive Officer
Date: November 8, 2007	By:	/s/ Scott W. Shockey
		Scott W. Shockey Vice President and Chief Financial Officer

EXHIBIT INDEX

The following exhibits are included in this Form 10-Q or are incorporated by reference as noted in the following table:

Exhibit Number	Exhibit Description
3(a)	Amended Articles of Incorporation of Ohio Valley. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year nded December 31, 1997 (SEC File No. 0-20914).
3(b)	Code of Regulations of Ohio Valley. Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's current report on Form 8-K (SEC File No.0-20914) filed November 6, 1992.
4	Agreement to furnish instruments and agreements defining rights of holders of long-term debt. Filed herewith.
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer).Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer). Filed herewith.
32	Section 1350 Certification (Principal Executive Officer and Principal Financial Officer). Filed herewith.