OHIO VALLEY BANC CORP
Form 10-Q
May 12, 2014
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 March 31, 2014

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 May 9, 2014 was 4,098,753.

OHIO VALLEY BANC CORP.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2014 UNAUDITED	December 31, 2013
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 11,048	$ 9,841
Interest-bearing deposits with banks	84,556	18,503
Total cash and cash equivalents	95,604	28,344
Securities available for sale	88,858	84,068
Securities held to maturity (estimated fair value: 2014 - $22,892; 2013 - $22,984)	22,620	22,826
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	7,776
Total loans	574,327	566,319
Less: Allowance for loan losses	(6,462)	(6,155)
Net loans	567,865	560,164
Premises and equipment, net	9,478	9,005
Other real estate owned	1,422	1,354
Accrued interest receivable	1,933	1,901
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	25,099	24,940
Other assets	4,813	5,723
Total assets	$ 825,535	$ 747,368
LIABILITIES		
Noninterest-bearing deposits	$ 219,202	$ 149,823
Interest-bearing deposits	482,758	479,054
Total deposits	701,960	628,877
Other borrowed funds	20,161	18,748
Subordinated debentures	8,500	8,500
Accrued liabilities	11,497	10,824
Total liabilities	742,118	666,949
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 4,758,492 shares issued)	4,758	4,758

Additional paid-in capital	34,883	34,883
Retained earnings	58,944	56,241
Accumulated other comprehensive income	544	249
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders’ equity	83,417	80,419
Total liabilities and shareholders’ equity	$ 825,535	$747,368

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 March 31, 2014	Three months ended March 31, 2013
Interest and dividend income:		
Loans, including fees	$8,814	$8,917
Securities:		
Taxable	406	300
Tax exempt	136	144
Dividends	86	67
Other Interest	66	52
	9,508	9,480
Interest expense:		
Deposits	573	839
Other borrowed funds	112	81
Subordinated debentures	41	139
	726	1,059
Net interest income	8,782	8,421
Provision for loan losses	494	31
Net interest income after provision for loan losses	8,288	8,390
Noninterest income:		
Service charges on deposit accounts	391	424
Trust fees	55	51
Income from bank owned life insurance and annuity assets	159	631
Mortgage banking income	58	137
Electronic refund check / deposit fees	2,648	2,105
Debit / credit card interchange income	504	452
Loss on other real estate owned	(12)	(65)
Gain on sale of ProAlliance Corporation	135	----
Other	180	205
	4,118	3,940
Noninterest expense:		
Salaries and employee benefits	4,377	4,439
Occupancy	398	394
Furniture and equipment	180	226
FDIC insurance	127	144
Data processing	321	281
Foreclosed assets	61	295
Other	1,831	2,169
	7,295	7,948
Income before income taxes	5,111	4,382

Provision for income taxes	1,547	1,159
NET INCOME	$3,564	$3,223
Earnings per share	$.87	$.79

See accompanying notes to consolidated financial statements

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net Income	$3,564	$3,223
Other comprehensive income (loss):		
Change in unrealized gain on available for sale securities	446	(126)
Related tax (expense) benefit	(151)	43
Total other comprehensive income (loss), net of tax	295	(83)
Total comprehensive income	$3,859	$3,140

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 March 31, 2014	Three months ended March 31, 2013
Balance at beginning of period	$ 80,419	$ 75,820
Net income	3,564	3,223
Other comprehensive income (loss), net of tax	295	(83)
Cash dividends	(861)	(406)
Balance at end of period	$ 83,417	$ 78,554
Cash dividends per share	$ .21	$ .10

See accompanying notes to consolidated financial statements

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net cash provided by operating activities:	$5,705	$4,759
Investing activities:		
Proceeds from maturities of securities available for sale	3,497	7,989
Purchases of securities available for sale	(8,040)	(13,089)
Proceeds from maturities of securities held to maturity	355	351
Purchases of securities held to maturity	(165)	(353)
Redemptions of Federal Home Loan Bank stock	1,200	----
Net change in loans	(8,337)	6,560
Proceeds from sale of other real estate owned	62	421
Purchases of premises and equipment	(652)	(87)
Purchases of bank owned life insurance	----	(149)
Proceeds from bank owned life insurance	----	1,249
Net cash provided by (used in) investing activities	(12,080)	2,892
Financing activities:		
Change in deposits	73,083	67,308
Cash dividends	(861)	(406)
Repayment of subordinated debentures	----	(5,000)
Proceeds from Federal Home Loan Bank borrowings	1,653	353
Repayment of Federal Home Loan Bank borrowings	(240)	(185)
Net cash provided by financing activities	73,635	62,070
Change in cash and cash equivalents	67,260	69,721
Cash and cash equivalents at beginning of period	28,344	45,651
Cash and cash equivalents at end of period	$95,604	$115,372
Supplemental disclosure:		
Cash paid for interest	$768	$1,440
Cash paid for income taxes	----	----
Transfers from loans to other real estate owned	142	190
Other real estate owned sales financed by the Bank	40	67

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 March 31, 2014, and its results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2014. 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, 2013 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2013 have been reclassified to conform to the presentation for 2014. 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 4,098,753 for the three months ended March 31, 2014 and 4,062,204 for the three months ended March 31, 2013. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

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 March 31, 2014, 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	----	$8,869	----
Agency mortgage-backed securities, residential	----	79,989	----

	Fair Value Measurements at December 31, 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	----	$8,852	----
Agency mortgage-backed securities, residential	----	75,216	----

There were no transfers between Level 1 and Level 2 during 2014 or 2013.

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 March 31, 2014, 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	----	----	$ 443

Commercial real estate:			
Owner-occupied	----	----	133
Nonowner-occupied	----	----	1,970
Commercial and industrial	----	----	2,809
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,058

	Fair Value Measurements at December 31, 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 real estate:			
Owner-occupied	----	----	133
Nonowner-occupied	----	----	1,973
Commercial and industrial	----	----	2,863
Other real estate owned:			
Commercial real estate:			
Construction	----	----	1,058

At March 31, 2014, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $7,680, with a corresponding valuation allowance of $2,325, resulting in a decrease of $173 in provision expense during the three months ended March 31, 2014, with $157 in charge-offs recognized. At December 31, 2013, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $7,701, with a corresponding valuation allowance of $2,498, resulting in an increase of $519 in additional provision expense during the year ended December 31, 2013, with no additional charge-offs recognized.

Other real estate owned that was measured at fair value less costs to sell at March 31, 2014 and December 31, 2013 had a net carrying amount of $1,058, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,159 at December 31, 2013. There was $504 in corresponding write-downs during 2013.

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 March 31, 2014 and December 31, 2013:

March 31, 2014	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Nonowner-occupied	$1,970	Sales approach	Adjustment to comparables	5% to 10%	8%
Commercial and industrial	2,809	Sales approach	Adjustment to comparables	0% to 20%	16%
Other real estate owned:					
Commercial real estate:					
Construction	1,058				