

OHIO VALLEY BANC CORP  
Form 10-Q  
May 12, 2014  
United States  
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

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  
(State of Incorporation)

31-1359191  
(I.R.S. Employer Identification No.)

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

45631  
(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  No

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  No

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

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|                         |                       |                           |                                  |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer         | <input checked="" type="radio"/> |
| Non-accelerated filer   | <input type="radio"/> | Smaller reporting company | <input type="radio"/>            |

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

The number of common shares of the registrant outstanding as of May 9, 2014 was 4,098,753.

---

OHIO VALLEY BANC CORP.  
Index

|                 |   | Page Number |
|-----------------|---|-------------|
| <b>PART I.</b>  | <b>FINANCIAL INFORMATION</b>  |             |
| Item 1.         | Financial Statements (Unaudited)  |             |
|                 | Consolidated Balance Sheets   | 3           |
|                 | Condensed Consolidated Statements of Income   | 4           |
|                 | Consolidated Statements of Comprehensive Income                                       | 5           |
|                 | Condensed Consolidated Statements of Changes in Shareholders' Equity                  | 6           |
|                 | Condensed Consolidated Statements of Cash Flows                                       | 7           |
|                 | Notes to the Consolidated Financial Statements  | 8           |
| Item 2.         | Management's Discussion and Analysis of Financial Condition and Results of Operations | 24          |
| Item 3.         | Quantitative and Qualitative Disclosures About Market Risk                            | 34          |
| Item 4.         | Controls and Procedures   | 35          |
| <b>PART II.</b> | <b>OTHER INFORMATION</b>  |             |
| Item 1.         | Legal Proceedings   | 35          |
| Item 1A.        | Risk Factors  | 35          |
| Item 2.         | Unregistered Sales of Equity Securities and Use of Proceeds                           | 35          |
| Item 3.         | Defaults Upon Senior Securities   | 36          |
| Item 4.         | Mine Safety Disclosures   | 36          |
| Item 5.         | Other Information   | 36          |
| Item 6.         | Exhibits  | 36          |
|                 | Signatures  | 37          |
|                 | Exhibit Index   | 38          |

## 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,<br>2014<br>UNAUDITED | December<br>31,<br>2013 |
|---|--------------------------------|-------------------------|
| <b>ASSETS</b>   |                                |                         |
| 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<br>(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               |
| <b>LIABILITIES</b>  |                                |                         |
| 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)   | ----                           | ----                    |
| <b>SHAREHOLDERS' EQUITY</b>   |                                |                         |
| Common stock (\$1.00 stated value per share, 10,000,000 shares authorized; 4,758,492 shares issued) | 4,758                          | 4,758                   |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|  |            |           |
|--|------------|-----------|
| 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<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2014                            | 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   |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|                            |         |         |
|----------------------------|---------|---------|
| 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

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

|  | Three months ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2014                            | 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<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 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<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2014                            | 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.

8

---

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,<br>2014, Using                                 |   |  |
|--|---|---|--|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:  |   |   |  |
| U.S. Government sponsored entity securities    | ----  | \$8,869   | ----   |
| Agency mortgage-backed securities, residential | ----  | 79,989  | ----   |

|  | Fair Value Measurements at December<br>31, 2013, Using                              |   |  |
|--|---|---|--|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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,<br>2014, Using                                 |   |  |
|-------------------------|---|---|--|
|                         | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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      | Sales approach         | Adjustment to comparables | 5% to 35% | 19%                |
| December 31, 2013         |            |                        |                           |           |                    |
| December 31, 2013         | Fair Value | Valuation Technique(s) | Unobservable Input(s)     | Range     | (Weighted Average) |
| Impaired loans:           |            |                        |                           |           |                    |
| Commercial real estate:   |            |                        |                           |           |                    |
| Nonowner-occupied         | \$ 1,973   | Sales approach         | Adjustment to comparables | 5% to 10% | 8%                 |
| Commercial and industrial | 2,863      | Sales approach         | Adjustment to comparables | 0% to 20% | 16%                |
| Other real estate owned:  |            |                        |                           |           |                    |
| Commercial real estate:   |            |                        |                           |           |                    |
| Construction              | 1,058      | Sales approach         | Adjustment to comparables | 5% to 35% | 19%                |



The carrying amounts and estimated fair values of financial instruments at March 31, 2014 and December 31, 2013 are as follows:

|                                   | Carrying Value | Fair Value Measurements at March 31, 2014 Using: |         |         |          |
|-----------------------------------|----------------|--|---------|---------|----------|
|                                   |                | Level 1  | Level 2 | Level 3 | Total    |
| <b>Financial Assets:</b>          |                |  |         |         |          |
| Cash and cash equivalents         | \$95,604       | \$95,604   | \$----  | \$----  | \$95,604 |
| Securities available for sale     | 88,858         | ----   | 88,858  | ----    | 88,858   |
| Securities held to maturity       | 22,620         | ----   | 11,741  | 11,151  | 22,892   |
| <b>Federal Home Loan Bank and</b> |                |  |         |         |          |
| Federal Reserve Bank stock        | 6,576          | N/A  | N/A     | N/A     | N/A      |
| Loans, net                        | 567,865        | ----   | ----    | 572,175 | 572,175  |
| Accrued interest receivable       | 1,933          | ----   | 387     | 1,546   | 1,933    |
| <b>Financial liabilities:</b>     |                |  |         |         |          |
| Deposits                          | 701,960        | 218,514  | 483,491 | ----    | 702,005  |
| Other borrowed funds              | 20,161         | ----   | 19,324  | ----    | 19,324   |
| Subordinated debentures           | 8,500          | ----   | 4,905   | ----    | 4,905    |
| Accrued interest payable          | 751            | 3  | 748     | ----    | 751      |

|                                   | Carrying Value | Fair Value Measurements at December 31, 2013 Using: |         |         |           |
|-----------------------------------|----------------|---|---------|---------|-----------|
|                                   |                | Level 1   | Level 2 | Level 3 | Total     |
| <b>Financial Assets:</b>          |                |   |         |         |           |
| Cash and cash equivalents         | \$ 28,344      | \$ 28,344   | \$ ---- | \$ ---- | \$ 28,344 |
| Securities available for sale     | 84,068         | ----  | 84,068  | ----    | 84,068    |
| Securities held to maturity       | 22,826         | ----  | 11,502  | 11,482  | 22,984    |
| <b>Federal Home Loan Bank and</b> |                |   |         |         |           |
| Federal Reserve Bank stock        | 7,776          | N/A   | N/A     | N/A     | N/A       |
| Loans, net                        | 560,164        | ----  | ----    | 564,589 | 564,589   |
| Accrued interest receivable       | 1,901          | ----  | 241     | 1,660   | 1,901     |
| <b>Financial liabilities:</b>     |                |   |         |         |           |
| Deposits                          | 628,877        | 148,847   | 479,962 | ----    | 628,809   |
| Other borrowed funds              | 18,748         | ----  | 17,453  | ----    | 17,453    |
| Subordinated debentures           | 8,500          | ----  | 4,896   | ----    | 4,896     |
| Accrued interest payable          | 792            | 3   | 789     | ----    | 792       |

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

**Cash and Cash Equivalents:** The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

**Securities Held to Maturity:** The fair values for securities held to maturity are determined in the same manner as securities held for sale and discussed earlier in this note. Level 3 securities consist of nonrated municipal bonds and tax credit ("QZAB") bonds.

Federal Home Loan Bank and Federal Reserve Bank stock: It is not practical to determine the fair value of both Federal Home Loan Bank and Federal Reserve Bank stock due to restrictions placed on its transferability.

Loans: Fair values of loans are estimated as follows: The fair value of fixed rate loans is estimated by discounting future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

**Deposit Liabilities:** The fair values disclosed for noninterest-bearing deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 1 classification. The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

**Other Borrowed Funds:** The carrying values of the Company's short-term borrowings, generally maturing within ninety days, approximate their fair values, resulting in a Level 2 classification. The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements, resulting in a Level 2 classification.

**Subordinated Debentures:** The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements, resulting in a Level 2 classification.

**Accrued Interest Receivable and Payable:** The carrying amount of accrued interest approximates fair value, resulting in a classification that is consistent with the earning assets and interest-bearing liabilities with which it is associated.

**Off-balance Sheet Instruments:** Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### NOTE 3 – SECURITIES

The following table summarizes the amortized cost and estimated fair value of the available for sale and held to maturity securities portfolios at March 31, 2014 and December 31, 2013 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income for available for sale securities and gross unrecognized gains and losses for held to maturity securities:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
| <b>Securities Available for Sale</b>           |                   |                              |                               |                         |
| <b>March 31, 2014</b>                          |                   |                              |                               |                         |
| U.S. Government sponsored entity securities    | \$9,025           | \$4                          | \$(160)                       | \$8,869                 |
| Agency mortgage-backed securities, residential | 79,009            | 1,401                        | (421)                         | 79,989                  |
| <b>Total securities</b>                        | <b>\$88,034</b>   | <b>\$1,405</b>               | <b>\$(581)</b>                | <b>\$88,858</b>         |
| <b>December 31, 2013</b>                       |                   |                              |                               |                         |
| U.S. Government sponsored entity securities    | \$9,028           | \$4                          | \$(180)                       | \$8,852                 |

|  |          |         |        |   |          |
|--|----------|---------|--------|---|----------|
| Agency mortgage-backed securities, residential | 74,661   | 1,257   | (702   | ) | 75,216   |
| Total securities                               | \$83,689 | \$1,261 | \$(882 | ) | \$84,068 |

| Securities Held to Maturity                      | Amortized<br>Cost | Gross<br>Unrecognized<br>Gains | Gross<br>Unrecognized<br>Losses | Estimated<br>Fair Value |
|--|-------------------|--------------------------------|---------------------------------|-------------------------|
| <b>March 31, 2014</b>                            |                   |                                |                                 |                         |
| Obligations of states and political subdivisions | \$22,609          | \$ 615                         | \$ (343 )                       | \$22,881                |
| Agency mortgage-backed securities, residential   | 11                | ----                           | ----                            | 11                      |
| Total securities                                 | \$22,620          | \$ 615                         | \$ (343 )                       | \$22,892                |
| <b>December 31, 2013</b>                         |                   |                                |                                 |                         |
| Obligations of states and political subdivisions | \$22,814          | \$ 579                         | \$ (421 )                       | \$22,972                |
| Agency mortgage-backed securities, residential   | 12                | ----                           | ----                            | 12                      |
| Total securities                                 | \$22,826          | \$ 579                         | \$ (421 )                       | \$22,984                |

The amortized cost and estimated fair value of the securities portfolio at March 31, 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay the debt obligations prior to their contractual maturities. Securities not due at a single maturity are shown separately.

| Debt Securities:                               | Available for Sale |                         | Held to Maturity  |                         |
|--|--------------------|-------------------------|-------------------|-------------------------|
|  | Amortized<br>Cost  | Estimated<br>Fair Value | Amortized<br>Cost | Estimated<br>Fair Value |
| Due in one year or less                        | \$----             | \$----                  | \$----            | \$----                  |
| Due in over one to five years                  | 9,025              | 8,869                   | 6,670             | 7,007                   |
| Due in over five to ten years                  | ----               | ----                    | 9,703             | 9,696                   |
| Due after ten years                            | ----               | ----                    | 6,236             | 6,178                   |
| Agency mortgage-backed securities, residential | 79,009             | 79,989                  | 11                | 11                      |
| Total debt securities                          | \$88,034           | \$88,858                | \$22,620          | \$22,892                |

The following table summarizes the investment securities with unrealized losses at March 31, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized loss position:

| March 31, 2014                                 | Less Than 12 Months |                      | 12 Months or More |                      | Total         |                      |
|--|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|  | Fair<br>Value       | Unrealized<br>Loss   | Fair<br>Value     | Unrealized<br>Loss   | Fair<br>Value | Unrealized Loss      |
| <b>Securities Available for Sale</b>           |                     |                      |                   |                      |               |                      |
| U.S. Government sponsored                      |                     |                      |                   |                      |               |                      |
| entity securities                              | \$ 7,860            | \$ (160 )            | \$ ----           | \$ ----              | \$ 7,860      | \$ (160 )            |
| Agency mortgage-backed securities, residential | 28,111              | (421 )               | ----              | ----                 | 28,111        | (421 )               |
| Total available for sale                       | \$ 35,971           | \$ (581 )            | \$ ----           | \$ ----              | \$ 35,971     | \$ (581 )            |
| <b>Securities Held to Maturity</b>             |                     |                      |                   |                      |               |                      |
|  | Fair<br>Value       | Unrecognized<br>Loss | Fair<br>Value     | Unrecognized<br>Loss | Fair<br>Value | Unrecognized<br>Loss |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|  |         |           |       |          |         |           |
|--|---------|-----------|-------|----------|---------|-----------|
| Obligations of states and political subdivisions | \$5,980 | \$ (311 ) | \$224 | \$ (32 ) | \$6,204 | \$ (343 ) |
| Total held to maturity                           | \$5,980 | \$ (311 ) | \$224 | \$ (32 ) | \$6,204 | \$ (343 ) |

|  | Less Than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|--|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|  | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| December 31, 2013                              |                     |                 |                   |                 |            |                 |
| Securities Available for Sale                  |                     |                 |                   |                 |            |                 |
| U.S. Government sponsored                      |                     |                 |                   |                 |            |                 |
| entity securities                              | \$ 7,841            | \$ (180 )       | \$ ----           | \$ ----         | \$ 7,841   | \$ (180 )       |
| Agency mortgage-backed securities, residential | 25,775              | (702 )          | ----              | ----            | 25,775     | (702 )          |
| Total available for sale                       | \$ 33,616           | \$ (882 )       | \$ ----           | \$ ----         | \$ 33,616  | \$ (882 )       |



|  | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrecognized Loss | Fair Value        | Unrecognized Loss | Fair Value | Unrecognized Loss |
| Securities Held to Maturity                      |                     |                   |                   |                   |            |                   |
| Obligations of states and political subdivisions | \$6,743             | \$ (307 )         | \$1,142           | \$ (114 )         | \$7,885    | \$ (421 )         |
| Total held to maturity                           | \$6,743             | \$ (307 )         | \$1,142           | \$ (114 )         | \$7,885    | \$ (421 )         |

Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality and management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at March 31, 2014 and December 31, 2013 represents an other-than-temporary impairment.

#### NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

| Loans are comprised of the following: | March 31,<br>2014 | December<br>31,<br>2013 |
|---------------------------------------|-------------------|-------------------------|
| Residential real estate               | \$213,824         | \$214,008               |
| Commercial real estate:               |                   |                         |
| Owner-occupied                        | 94,172            | 94,586                  |
| Nonowner-occupied                     | 62,661            | 62,108                  |
| Construction                          | 30,106            | 28,972                  |
| Commercial and industrial             | 72,925            | 64,365                  |
| Consumer:                             |                   |                         |
| Automobile                            | 39,623            | 38,811                  |
| Home equity                           | 17,527            | 17,748                  |
| Other                                 | 43,489            | 45,721                  |
|                                       | 574,327           | 566,319                 |
| Less: Allowance for loan losses       | 6,462             | 6,155                   |
| Loans, net                            | \$567,865         | \$560,164               |

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2014 and 2013:

| March 31, 2014                 | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial<br>and<br>Industrial | Consumer | Total   |
|--------------------------------|----------------------------|---------------------------|---------------------------------|----------|---------|
| Allowance for loan losses:     |                            |                           |                                 |          |         |
| Beginning balance              | \$1,250                    | \$2,807                   | \$1,305                         | \$793    | \$6,155 |
| Provision for loan losses      | 307                        | 68                        | (28 )                           | 147      | 494     |
| Loans charged off              | (54 )                      | (157 )                    | ----                            | (255 )   | (466 )  |
| Recoveries                     | 13                         | 22                        | 80                              | 164      | 279     |
| Total ending allowance balance | \$1,516                    | \$2,740                   | \$1,357                         | \$849    | \$6,462 |

| March 31, 2013 | Residential | Commercial | Commercial | Consumer | Total |
|----------------|-------------|------------|------------|----------|-------|
|----------------|-------------|------------|------------|----------|-------|

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|                                | Real Estate | Real Estate | and        |        |         |
|--------------------------------|-------------|-------------|------------|--------|---------|
|                                |             |             | Industrial |        |         |
| Allowance for loan losses:     |             |             |            |        |         |
| Beginning balance              | \$1,329     | \$3,946     | \$783      | \$847  | \$6,905 |
| Provision for loan losses      | 327         | (478 )      | (33 )      | 215    | 31      |
| Loans charged-off              | (357 )      | (2 )        | ----       | (437 ) | (796 )  |
| Recoveries                     | 15          | 278         | 11         | 228    | 532     |
| Total ending allowance balance | \$1,314     | \$3,744     | \$761      | \$853  | \$6,672 |

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of March 31, 2014 and December 31, 2013:

|   | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial<br>and<br>Industrial | Consumer   | Total      |
|---|----------------------------|---------------------------|---------------------------------|------------|------------|
| March 31, 2014                                  |                            |                           |                                 |            |            |
| Allowance for loan losses:                      |                            |                           |                                 |            |            |
| Ending allowance balance attributable to loans: |                            |                           |                                 |            |            |
| Individually evaluated for impairment           | \$ 232                     | \$ 1,361                  | \$ 850                          | \$ 6       | \$ 2,449   |
| Collectively evaluated for impairment           | 1,284                      | 1,379                     | 507                             | 843        | 4,013      |
| Total ending allowance balance                  | \$ 1,516                   | \$ 2,740                  | \$ 1,357                        | \$ 849     | \$ 6,462   |
| Loans:  |                            |                           |                                 |            |            |
| Loans individually evaluated for impairment     | \$ 1,427                   | \$ 10,147                 | \$ 2,594                        | \$ 218     | \$ 14,386  |
| Loans collectively evaluated for impairment     | 212,397                    | 176,792                   | 70,331                          | 100,421    | 559,941    |
| Total ending loans balance                      | \$ 213,824                 | \$ 186,939                | \$ 72,925                       | \$ 100,639 | \$ 574,327 |
| December 31, 2013                               |                            |                           |                                 |            |            |
| Allowance for loan losses:                      |                            |                           |                                 |            |            |
| Ending allowance balance attributable to loans: |                            |                           |                                 |            |            |
| Individually evaluated for impairment           | \$ 213                     | \$ 1,541                  | \$ 864                          | \$ 7       | \$ 2,625   |
| Collectively evaluated for impairment           | 1,037                      | 1,266                     | 441                             | 786        | 3,530      |
| Total ending allowance balance                  | \$ 1,250                   | \$ 2,807                  | \$ 1,305                        | \$ 793     | \$ 6,155   |
| Loans:  |                            |                           |                                 |            |            |
| Loans individually evaluated for impairment     | \$ 1,438                   | \$ 10,382                 | \$ 2,658                        | \$ 218     | \$ 14,696  |
| Loans collectively evaluated for impairment     | 212,570                    | 175,284                   | 61,707                          | 102,062    | 551,623    |
| Total ending loans balance                      | \$ 214,008                 | \$ 185,666                | \$ 64,365                       | \$ 102,280 | \$ 566,319 |

The following table presents information related to loans individually evaluated for impairment by class of loans:

| Three months ended March 31, 2014   | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Recognized |
|-------------------------------------|--------------------------------|------------------------|--|------------------------------|----------------------------------|--------------------------------------|
| With no related allowance recorded: |                                |                        |  |                              |                                  |                                      |
| Residential real estate             | \$ 526                         | \$ 526                 | \$ ----                                      | \$ 527                       | \$ 7                             | \$ 7                                 |
| Commercial real estate:             |                                |                        |  |                              |                                  |                                      |
| Owner-occupied                      | 1,827                          | 1,124                  | ----   | 1,203                        | 9                                | 9                                    |
| Nonowner-occupied                   | 6,292                          | 5,692                  | ----   | 5,717                        | 75                               | 75                                   |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|                             |          |          |         |          |       |       |
|-----------------------------|----------|----------|---------|----------|-------|-------|
| Commercial and industrial   | 2,066    | 1,657    | ----    | 1,734    | 20    | 20    |
| With an allowance recorded: |          |          |         |          |       |       |
| Residential real estate     | 901      | 901      | 232     | 906      | 9     | 9     |
| Commercial real estate:     |          |          |         |          |       |       |
| Nonowner-occupied           | 3,331    | 3,331    | 1,361   | 3,344    | 34    | 34    |
| Commercial and industrial   | 937      | 937      | 850     | 892      | 10    | 10    |
| Consumer:                   |          |          |         |          |       |       |
| Home equity                 | 218      | 218      | 6       | 218      | 2     | 2     |
| Total                       | \$16,098 | \$14,386 | \$2,449 | \$14,541 | \$166 | \$166 |

| Three months ended March 31,<br>2013 | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Recognized |
|--------------------------------------|--------------------------------|------------------------|--|------------------------------|----------------------------------|--------------------------------------|
| With no related allowance recorded:  |                                |                        |  |                              |                                  |                                      |
| Residential real estate              | \$830                          | \$686                  | \$----                                       | \$703                        | \$3                              | \$3                                  |
| Commercial real estate:              |                                |                        |  |                              |                                  |                                      |
| Owner-occupied                       | 5,644                          | 5,098                  | ----   | 5,313                        | 72                               | 72                                   |
| Nonowner-occupied                    | 7,849                          | 7,049                  | ----   | 7,052                        | 93                               | 93                                   |
| Commercial and industrial            | 422                            | ----                   | ----   | ----                         | ----                             | ----                                 |
| Consumer:                            |                                |                        |  |                              |                                  |                                      |
| Home equity                          | 219                            | 219                    | ----   | 220                          | 3                                | 3                                    |
| With an allowance recorded:          |                                |                        |  |                              |                                  |                                      |
| Residential real estate              | 426                            | 426                    | 133  | 423                          | 4                                | 4                                    |
| Commercial real estate:              |                                |                        |  |                              |                                  |                                      |
| Nonowner-occupied                    | 3,441                          | 3,441                  | 1,979  | 3,456                        | 41                               | 41                                   |
| Total                                | \$18,831                       | \$16,919               | \$2,112                                      | \$17,167                     | \$216                            | \$216                                |
|                                      |                                |                        |  |                              |                                  |                                      |
| Year ended December 31, 2013         | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Recognized |
| With no related allowance recorded:  |                                |                        |  |                              |                                  |                                      |
| Residential real estate              | \$766                          | \$766                  | \$----                                       | \$539                        | \$41                             | \$41                                 |
| Commercial real estate:              |                                |                        |  |                              |                                  |                                      |
| Owner-occupied                       | 1,539                          | 992                    | ----   | 809                          | 39                               | 39                                   |
| Nonowner-occupied                    | 6,343                          | 5,743                  | ----   | 6,359                        | 345                              | 345                                  |
| Commercial and industrial            | 2,223                          | 1,811                  | ----   | 1,234                        | 96                               | 96                                   |
| With an allowance recorded:          |                                |                        |  |                              |                                  |                                      |
| Residential real estate              | 672                            | 672                    | 213  | 524                          | 35                               | 35                                   |
| Commercial real estate:              |                                |                        |  |                              |                                  |                                      |
| Owner-occupied                       | 290                            | 290                    | 157  | 116                          | ----                             | ----                                 |
| Nonowner-occupied                    | 3,357                          | 3,357                  | 1,384  | 3,423                        | 164                              | 164                                  |
| Commercial and industrial            | 847                            | 847                    | 864  | 602                          | 46                               | 46                                   |
| Consumer:                            |                                |                        |  |                              |                                  |                                      |
| Home equity                          | 218                            | 218                    | 7  | 87                           | 9                                | 9                                    |
| Total                                | \$16,255                       | \$14,696               | \$2,625                                      | \$13,693                     | \$775                            | \$775                                |

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees.

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified as impaired loans.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of March 31, 2014 and December 31, 2013:

| March 31, 2014            | Loans Past<br>Due<br>90 Days<br>And<br>Still<br>Accruing | Nonaccrual |
|---------------------------|--|------------|
| Residential real estate   | \$38   | \$3,189    |
| Commercial real estate:   |  |            |
| Owner-occupied            | ----   | 465        |
| Nonowner-occupied         | ----   | ----       |
| Commercial and industrial | ----   | 2          |
| Consumer:                 |  |            |
| Automobile                | 12   | 4          |
| Home equity               | ----   | 38         |
| Other                     | ----   | ----       |
| Total                     | \$50   | \$3,698    |

| December 31, 2013         | Loans Past<br>Due<br>90 Days<br>And<br>Still<br>Accruing | Nonaccrual |
|---------------------------|--|------------|
| Residential real estate   | \$72   | \$2,662    |
| Commercial real estate:   |  |            |
| Owner-occupied            | ----   | 799        |
| Nonowner-occupied         | ----   | 52         |
| Commercial and industrial | ----   | 21         |
| Consumer:                 |  |            |
| Automobile                | 5  | 8          |
| Home equity               | ----   | 38         |
| Other                     | 1  | ----       |
| Total                     | \$78   | \$3,580    |

The following table presents the aging of the recorded investment of past due loans by class of loans as of March 31, 2014 and December 31, 2013:

| March 31, 2014            | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>Or More<br>Past Due | Total<br>Past Due | Loans Not<br>Past Due | Total     |
|---------------------------|---------------------------|---------------------------|--------------------------------|-------------------|-----------------------|-----------|
| Residential real estate   | \$2,241                   | \$508                     | \$2,994                        | \$5,743           | \$208,081             | \$213,824 |
| Commercial real estate:   |                           |                           |                                |                   |                       |           |
| Owner-occupied            | 117                       | ----                      | 465                            | 582               | 93,590                | 94,172    |
| Nonowner-occupied         | ----                      | ----                      | ----                           | ----              | 62,661                | 62,661    |
| Construction              | ----                      | ----                      | ----                           | ----              | 30,106                | 30,106    |
| Commercial and industrial | 66                        | ----                      | 2                              | 68                | 72,857                | 72,925    |
| Consumer:                 |                           |                           |                                |                   |                       |           |
| Automobile                | 435                       | 83                        | 12                             | 530               | 39,093                | 39,623    |
| Home equity               | ----                      | ----                      | 38                             | 38                | 17,489                | 17,527    |
| Other                     | 532                       | 34                        | ----                           | 566               | 42,923                | 43,489    |
| Total                     | \$3,391                   | \$625                     | \$3,511                        | \$7,527           | \$566,800             | \$574,327 |
| December 31, 2013         | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>Or More<br>Past Due | Total<br>Past Due | Loans Not<br>Past Due | Total     |
| Residential real estate   | \$3,922                   | \$1,324                   | \$2,620                        | \$7,866           | \$206,142             | \$214,008 |
| Commercial real estate:   |                           |                           |                                |                   |                       |           |
| Owner-occupied            | 206                       | 34                        | 683                            | 923               | 93,663                | 94,586    |
| Nonowner-occupied         | ----                      | ----                      | 52                             | 52                | 62,056                | 62,108    |
| Construction              | 60                        | ----                      | ----                           | 60                | 28,912                | 28,972    |
| Commercial and industrial | 193                       | 115                       | 21                             | 329               | 64,036                | 64,365    |
| Consumer:                 |                           |                           |                                |                   |                       |           |
| Automobile                | 638                       | 123                       | 13                             | 774               | 38,037                | 38,811    |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|             |         |         |         |          |           |           |
|-------------|---------|---------|---------|----------|-----------|-----------|
| Home equity | ---     | ---     | 38      | 38       | 17,710    | 17,748    |
| Other       | 651     | 38      | 1       | 690      | 45,031    | 45,721    |
| Total       | \$5,670 | \$1,634 | \$3,428 | \$10,732 | \$555,587 | \$566,319 |

Troubled Debt Restructurings:

A troubled debt restructuring (“TDR”) occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. All TDR's are considered to be impaired. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a reduction in the contractual principal and interest payments of the loan; or short-term interest-only payment terms.

The Company has allocated reserves for a portion of its TDR's to reflect the fair values of the underlying collateral or the present value of the concessionary terms granted to the customer.



The following table presents the types of TDR loan modifications by class of loans as of March 31, 2014 and December 31, 2013:

|   | TDR's<br>Performing<br>to Modified<br>Terms | TDR's Not<br>Performing<br>to Modified<br>Terms | Total<br>TDR's |
|---|---|---|----------------|
| March 31, 2014  |   |   |                |
| Residential real estate                                     |   |   |                |
| Interest only payments                                      | \$526                                       | \$----  | \$526          |
| Rate reduction  | 417   | ----  | 417            |
| Commercial real estate:                                     |   |   |                |
| Owner-occupied  |   |   |                |
| Rate reduction  | ----  | 258   | 258            |
| Maturity extension at lower stated rate<br>than market rate | 271   | ----  | 271            |
| Nonowner-occupied   |   |   |                |
| Interest only payments                                      | 8,380                                       | ----  | 8,380          |
| Reduction of principal and interest payments                | 644   | ----  | 644            |
| Commercial and industrial                                   |   |   |                |
| Interest only payments                                      | 1,657                                       | ----  | 1,657          |
| Consumer:   |   |   |                |
| Home equity   |   |   |                |
| Maturity extension at lower stated rate<br>than market rate | 218   | ----  | 218            |
| Total TDR's   | \$12,113                                    | \$258   | \$12,371       |
|   | TDR's<br>Performing<br>to Modified<br>Terms | TDR's Not<br>Performing<br>to Modified<br>Terms | Total<br>TDR's |
| December 31, 2013   |   |   |                |
| Residential real estate                                     |   |   |                |
| Interest only payments                                      | \$527                                       | \$----  | \$527          |
| Rate reduction  | 420   | ----  | 420            |
| Commercial real estate:                                     |   |   |                |
| Owner-occupied  |   |   |                |
| Rate reduction  | ----  | 259   | 259            |
| Maturity extension at lower stated rate<br>than market rate | 271   | ----  | 271            |
| Nonowner-occupied   |   |   |                |
| Interest only payments                                      | 8,450                                       | ----  | 8,450          |
| Reduction of principal and interest payments                | 650   | ----  | 650            |
| Commercial and industrial                                   |   |   |                |
| Interest only payments                                      | 1,811                                       | ----  | 1,811          |
| Consumer:   |   |   |                |
| Home equity   |   |   |                |
| Maturity extension at lower stated rate<br>than market rate | 218   | ----  | 218            |

|             |          |       |          |
|-------------|----------|-------|----------|
| Total TDR's | \$12,347 | \$259 | \$12,606 |
|-------------|----------|-------|----------|

During the three months ended March 31, 2014, the TDR's described above decreased the provision expense and the allowance for loan losses by \$26 with no corresponding charge-offs. During the year ended December 31, 2013, the TDR's described above decreased the allowance for loan losses by \$321 with no corresponding charge-offs. This resulted in a decrease to provision expense of \$871 during the year ended December 31, 2013.

At March 31, 2014, the balance in TDR loans decreased \$235, or 1.9%, from year-end 2013. The decrease was largely due to principal payments of \$154 received on one commercial and industrial loan during the first quarter of 2014. At March 31, 2014 and December 31, 2013, a total of 98% of the Company's TDR's were performing according to their modified terms. The Company allocated \$1,485 and \$1,511 in reserves to customers whose loan terms have been modified in TDR's as of March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the Company had \$872 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to \$718 at December 31, 2013.

There were no TDR loan modifications that occurred during the three months ended March 31, 2014. The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended March 31, 2013:

|                                   | TDR's<br>Performing to Modified<br>Terms   |   | TDR's Not<br>Performing to Modified<br>Terms |   |
|-----------------------------------|--|---|--|---|
|                                   | Pre-Modification<br>Recorded<br>Investment | Post-Modification<br>Recorded<br>Investment | Pre-Modification<br>Recorded<br>Investment   | Post-Modification<br>Recorded<br>Investment |
| Three months ended March 31, 2013 |  |   |  |   |
| Residential real estate           |  |   |  |   |
| Interest only payments            | \$249                                      | \$ 249                                      | \$----                                       | \$ ----                                     |
| Total TDR's                       | \$249                                      | \$ 249                                      | \$----                                       | \$ ----                                     |

As of March 31, 2013, all of the Company's loans that were restructured during the three months ended March 31, 2013 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at March 31, 2013 that experienced any payment defaults within twelve months following their loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. TDR loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The loans modified during the three months ended March 31, 2013 had no impact on the provision expense or the allowance for loan losses. As of March 31, 2013, the Company had no allocation of reserves to customers whose loan terms were modified during the first three months of 2013.

#### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. These risk categories are represented by a loan grading scale from 1 through 10. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called "criticized" and "classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 or 10. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed \$500.

The Company uses the following definitions for its criticized loan risk ratings:

**Special Mention (Loan Grade 8).** Loans classified as special mention indicate considerable risk due to deterioration of repayment (in the earliest stages) due to potential weak primary repayment source, or payment delinquency. These loans will be under constant supervision, are not classified and do not expose the institution to sufficient risks to warrant classification.

These deficiencies should be correctable within the normal course of business, although significant changes in company structure or policy may be necessary to correct the deficiencies. These loans are considered bankable assets with no apparent loss of principal or interest envisioned. The perceived risk in continued lending is considered to have increased beyond the level where such loans would normally be granted. Credits that are defined as a troubled debt restructuring should be graded no higher than special mention until they have been reported as performing over one year after restructuring.

The Company uses the following definitions for its classified loan risk ratings:

**Substandard (Loan Grade 9).** Loans classified as substandard represent very high risk, serious delinquency, nonaccrual, or unacceptable credit. Repayment through the primary source of repayment is in jeopardy due to the existence of one or more well defined weaknesses, and the collateral pledged may inadequately protect collection of the loans. Loss of principal is not likely if weaknesses are corrected, although financial statements normally reveal significant weakness. Loans are still considered collectible, although loss of principal is more likely than with special mention loan grade 8 loans. Collateral liquidation is considered likely to satisfy debt.

**Doubtful (Loan Grade 10).** Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification. These loans exhibit all substandard characteristics with the addition that weaknesses make collection or liquidation in full highly questionable and improbable. This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonable specific pending factors which may strengthen the credit can be more accurately determined. These factors may include proposed acquisitions, liquidation procedures, capital injection, receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of March 31, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of commercial loans by class of loans was as follows:

| March 31, 2014            | Pass      | Criticized | Classified | Total     |
|---------------------------|-----------|------------|------------|-----------|
| Commercial real estate:   |           |            |            |           |
| Owner-occupied            | \$86,389  | \$5,210    | \$2,573    | \$94,172  |
| Nonowner-occupied         | 51,814    | 7,049      | 3,798      | 62,661    |
| Construction              | 29,169    | ----       | 937        | 30,106    |
| Commercial and industrial | 64,893    | 4,281      | 3,751      | 72,925    |
| Total                     | \$232,265 | \$16,540   | \$11,059   | \$259,864 |

| December 31, 2013         | Pass      | Criticized | Classified | Total     |
|---------------------------|-----------|------------|------------|-----------|
| Commercial real estate:   |           |            |            |           |
| Owner-occupied            | \$86,497  | \$5,310    | \$2,779    | \$94,586  |
| Nonowner-occupied         | 51,119    | 7,107      | 3,882      | 62,108    |
| Construction              | 27,998    | ----       | 974        | 28,972    |
| Commercial and industrial | 56,962    | 4,081      | 3,322      | 64,365    |
| Total                     | \$222,576 | \$16,498   | \$10,957   | \$250,031 |

The Company also obtains the credit scores of its borrowers upon origination (if available by the credit bureau), but the scores are not updated. The Company focuses mostly on the performance and repayment ability of the borrower as

an indicator of credit risk and does not consider a borrower's credit score to be a significant influence in the determination of a loan's credit risk grading.

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of March 31, 2014 and December 31, 2013:

| March 31, 2014 | Automobile | Consumer Home Equity | Other    | Residential Real Estate | Total     |
|----------------|------------|----------------------|----------|-------------------------|-----------|
| Performing     | \$39,607   | \$17,489             | \$43,489 | \$210,597               | \$311,182 |
| Nonperforming  | 16         | 38                   | ---      | 3,227                   | 3,281     |
| Total          | \$39,623   | \$17,527             | \$43,489 | \$213,824               | \$314,463 |

| December 31, 2013 | Automobile | Consumer Home Equity | Other    | Residential Real Estate | Total     |
|-------------------|------------|----------------------|----------|-------------------------|-----------|
| Performing        | \$38,798   | \$17,710             | \$45,720 | \$211,274               | \$313,502 |
| Nonperforming     | 13         | 38                   | 1        | 2,734                   | 2,786     |
| Total             | \$38,811   | \$17,748             | \$45,721 | \$214,008               | \$316,288 |

The Company, through its subsidiaries, originates residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 5.42% of total loans were unsecured at March 31, 2014, up from 5.13% at December 31, 2013.

#### NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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 Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At March 31, 2014, the contract amounts of these instruments totaled approximately \$60,204, compared to \$67,465 at December 31, 2013. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. 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 6 - OTHER BORROWED FUNDS

Other borrowed funds at March 31, 2014 and December 31, 2013 were comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes.

|                   | FHLB Borrowings | Promissory Notes | Totals   |
|-------------------|-----------------|------------------|----------|
| March 31, 2014    | \$ 16,632       | \$3,529          | \$20,161 |
| December 31, 2013 | \$ 15,219       | \$3,529          | \$18,748 |

Pursuant to collateral agreements with the FHLB, advances were secured by \$192,263 in qualifying mortgage loans, \$87,369 in commercial loans and \$5,081 in FHLB stock at March 31, 2014. Fixed-rate FHLB advances of \$16,632 mature through 2042 and have interest rates ranging from 1.53% to 3.31% and a year-to-date weighted average cost of 2.26%. There were no variable-rate FHLB borrowings at March 31, 2014.

At March 31, 2014, the Company had a cash management line of credit enabling it to borrow up to \$75,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was \$75,000 available on this line of credit at March 31, 2014.



Based on the Company's current FHLB stock ownership, total assets and pledgeable loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of \$187,067 at March 31, 2014. Of this maximum borrowing capacity, the Company had \$187,067 available to use as additional borrowings, of which \$75,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.15% to 5.00% and are due at various dates through a final maturity date of December 3, 2015. At March 31, 2014, there were no promissory notes payable by Ohio Valley to related parties.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled \$30,000 at March 31, 2014 and \$25,000 at December 31, 2013.

Scheduled principal payments as of March 31, 2014:

|            | FHLB<br>Borrowings | Promissory<br>Notes | Totals    |
|------------|--------------------|---------------------|-----------|
| 2014       | \$ 1,365           | \$ 2,411            | \$ 3,776  |
| 2015       | 1,462              | 1,118               | 2,580     |
| 2016       | 1,386              | ----                | 1,386     |
| 2017       | 1,321              | ----                | 1,321     |
| 2018       | 1,267              | ----                | 1,267     |
| Thereafter | 9,831              | ----                | 9,831     |
|            | \$ 16,632          | \$ 3,529            | \$ 20,161 |

#### NOTE 7 – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and consumer finance. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments, and deposits provide the majority of the net revenues from the banking operation, while loans provide the majority of the net revenues for the consumer finance segment. All Company segments are domestic.

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 85.7% and 86.8% of total consolidated revenues for the quarters ended March 31, 2014 and 2013, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note 1 - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Information for the Company's reportable segments is as follows:

|                     | Three Months Ended March 31, 2014 |                     |                  |
|---------------------|-----------------------------------|---------------------|------------------|
|                     | Banking                           | Consumer<br>Finance | Total<br>Company |
| Net interest income | \$ 7,421                          | \$ 1,361            | \$ 8,782         |
| Provision expense   | \$ 375                            | \$ 119              | \$ 494           |

Edgar Filing: OHIO VALLEY BANC CORP - Form 10-Q

|                     |           |          |           |
|---------------------|-----------|----------|-----------|
| Noninterest income  | \$3,573   | \$545    | \$4,118   |
| Noninterest expense | \$6,611   | \$684    | \$7,295   |
| Tax expense         | \$1,173   | \$374    | \$1,547   |
| Net income          | \$2,835   | \$729    | \$3,564   |
| Assets              | \$812,584 | \$12,951 | \$825,535 |

|                     | Three Months Ended March 31, 2013 |                  |               |
|---------------------|-----------------------------------|------------------|---------------|
|                     | Banking                           | Consumer Finance | Total Company |
| Net interest income | \$7,149                           | \$1,272          | \$8,421       |
| Provision expense   | \$(65 )                           | \$96             | \$31          |
| Noninterest income  | \$3,493                           | \$447            | \$3,940       |
| Noninterest expense | \$7,296                           | \$652            | \$7,948       |
| Tax expense         | \$830                             | \$329            | \$1,159       |
| Net income          | \$2,581                           | \$642            | \$3,223       |
| Assets              | \$821,720                         | \$13,188         | \$834,908     |

## 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 that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, taxes, the effects of implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 and the continuing economic uncertainty in various parts of the world; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in management's discussion and analysis is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading "Item 1A. Risk Factors" of Part 1 of the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2013. 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, whether as a result of new information, unanticipated future events or otherwise.

### Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial and consumer banking services within 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; the making and servicing of personal, commercial, floor plan and student loans; the making of construction and real estate loans; and credit card services. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. In addition, the Bank is one of a limited number of financial institutions that

facilitates the payment of tax refunds through a third-party tax software provider. The Bank has facilitated the payment of these tax refunds through electronic refund check/deposit (“ERC/ERD”) transactions. ERC/ERD transactions involve the payment of a tax refund to the taxpayer after the Bank has received the refund from the federal/state government. ERC/ERD transactions occur primarily during the tax refund season, typically during the first quarter of each year. Loan Central also provides refund anticipation loans (“RALs”) to its customers. RALs are short-term cash advances against a customer’s anticipated income tax refund.

Net income totaled \$3,564 during the first quarter of 2014, an increase of \$341, or 10.6%, compared to \$3,223 during the first quarter of 2013. Earnings per share for the first quarter of 2014 also increased by \$.08, or 10.1%, compared to the first quarter of 2013, to finish at \$.87 per share. The annualized net income to average asset ratio, or return on assets ("ROA"), improved to 1.70% at March 31, 2014, compared to 1.56% at March 31, 2013. The Company's net income to average equity ratio, or return on equity ("ROE"), improved to 17.84% at March 31, 2014, compared to 17.13% at March 31, 2013. The increase in earnings compared to the first quarter of 2013 was largely attributable to higher net interest income and lower noninterest expenses in 2014 than experienced in 2013.

The Company's net interest income and margin were \$8,782 and 4.51%, respectively, for the first quarter of 2014, an increase of 4.3% in net interest income and 2.5% in the margin. The primary reasons for net interest income and margin improvement include increasing average earning assets, a decrease in premium expense on mortgage-backed securities and declines in higher-costing time deposits and subordinated debentures. These positive impacts completely offset the downward pressure on asset yields due to long-term interest rates remaining at historically low levels.

In 2014, provision expense increased \$463 over the prior year's first quarter. While the Company experienced a 29.2% decrease in net charge-offs and an 18.1% decrease in nonperforming loans from a year ago, management determined an increase of general allocations was necessary related to specific loan portfolio risks.

Total noninterest income was \$4,118 for the quarter ended March 31, 2014, which was 4.5% higher than the prior year's first quarter. Year-over-year increases were largely due to tax processing fees through ERC/ERD transactions and a \$135 fee as part of an agreement to sell its pro rata share of ProAlliance, a specialty property and casualty insurance company. These increases were partially offset by a 74.8% decrease in bank owned life insurance and annuity asset income compared to the first quarter of 2013.

Total noninterest expense was \$7,295 for the quarter ended March 31, 2014, a decrease of 8.2% from the prior year's first quarter, largely due to a decrease of \$234 in foreclosure expenses. The Company also incurred a fee of \$212 during the first quarter of 2013 associated with the redemption of higher-costing, trust preferred securities, which was not repeated during the first quarter of 2014.

At March 31, 2014, total assets were \$825,535, compared to \$747,368 at year-end 2013, with the increase due mostly to temporary interest-bearing deposits into the Company's Federal Reserve Clearing account that were generated from seasonal tax clearing activities during the first quarter of 2014. Gross loan balances were up 1.4% from year-end 2013. Total investment securities increased 4.3% to \$111,478 at March 31, 2014, compared to \$106,894 at year-end 2013, mostly from purchases of mortgage-backed securities.

Total liabilities were \$742,118 at March 31, 2014, up \$75,169 since December 31, 2013. Total deposit balances experienced continued growth during 2014, increasing \$73,083 compared to year-end 2013. Noninterest-bearing deposits accounted for \$69,379 of the increase and were the result of normal seasonal increases in tax refund processing activities and municipal public fund deposit balances. At March 31, 2014, other borrowed funds were \$20,161, up 7.5% compared to year-end 2013.

At March 31, 2014, total shareholders' equity was \$83,417, up \$2,998 since December 31, 2013. Regulatory capital ratios remained significantly higher than the "well capitalized" minimums.

Comparison of  
Financial Condition  
at March 31, 2014 and December 31, 2013

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at March 31, 2014 compared to December 31, 2013. 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

At March 31, 2014, cash and cash equivalents increased \$67,260, to finish at \$95,604, compared to \$28,344 at December 31, 2013. The increase in cash and cash equivalents was largely due to deposit liability growth from year-end 2013, mostly from seasonal increases in ERC/ERD transactions. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain these excess funds, which are expected to decrease during the remainder of 2014. The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee, which currently is 0.25%. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently in a range of less than 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. Carrying excess cash has a negative impact on interest income since the Company currently only earns 0.25% on its deposits with the Federal Reserve. As a result, the Company's focus will be to re-invest these excess funds back into longer-term, higher-yielding assets, primarily loans, when the opportunities arise.

## Securities

The balance of total securities increased \$4,584, or 4.3%, compared to year-end 2013. The increase came mostly from U.S. Government agency ("Agency") mortgage-backed securities, which increased \$4,772, or 6.3%, from year-end 2013. The Company's investment securities portfolio is made up mostly of agency mortgage-backed securities, representing 71.8% of total investments at March 31, 2014. During the first quarter of 2014, the Company invested \$8,040 in new Agency mortgage-backed securities, while receiving principal repayments of \$3,497. The monthly repayment of principal has been the primary advantage of Agency mortgage-backed securities as compared to other types of investment securities, which deliver proceeds upon maturity or call date. However, with the current low interest rate environment, the cash flow is being reinvested at lower rates.

## Loans

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. At March 31, 2014, gross loan balances finished at \$574,327, an increase of \$8,008, or 1.4%, from year-end 2013. Higher loan balances were mostly impacted by increased origination volume within the commercial and industrial loan portfolio, which grew \$8,560, or 13.3%, from year-end 2013. Commercial and industrial loans consist 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, and stock. Commercial real estate loans comprise the largest portion of the Company's total commercial loan portfolio, representing 71.9% at March 31, 2014. Commercial real estate loans experienced an increase of \$1,273, or 0.69%, from year-end 2013, largely within construction loans. 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, the effects of competitive pressure and normal underwriting considerations. Management will continue to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Residential real estate loan balances comprise the largest portion of the Company's loan portfolio at 37.2% and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. Residential real estate loan balances were relatively flat during the three months ended March 31, 2014, decreasing just \$184, or 0.1%, from year-end 2013. Movement within the real estate portfolio consists of decreasing long-term fixed-rate mortgages partially offset by increasing short-term adjustable-rate

mortgage balances. Long-term interest rates continue to remain at historic low levels and prompted periods of increased refinancing demand for long-term, fixed-rate real estate loans, most recently during the second half of 2012. As part of management's interest rate risk strategy, the Company continues to sell most of its long-term fixed-rate residential mortgages to the Federal Home Loan Mortgage Corporation, while maintaining the servicing rights for those mortgages. Since 2012, the refinancing volume for long-term fixed-rate real estate loans has trended down, which contributed to a 75.0% decrease in real estate loans sold during the three months ended March 31, 2014 compared to the first quarter of 2013. A customer that does not qualify for a long-term, secondary market loan may choose from one of the Company's other adjustable-rate mortgage products, which contributed to higher balances of adjustable-rate mortgages from year-end 2013.



Consumer loan balances decreased \$1,641, or 1.6%, from year-end 2013. This consumer loan decrease was impacted most by a 1.2% decrease in home equity lines of credit balances and a 4.9% decrease in other consumer loan balances that include mobile homes, recreational vehicles, consumer real estate and unsecured loans. The Company has historically experienced declining trends within its automobile loan segment due to competitive pressures with below-market interest rate offerings and alternative methods of refinancing. However, during the first three months of 2014, auto loan balances increased \$812, or 2.1%, from year-end 2013, due to loan origination volume increases. The Company will continue to monitor its auto lending segment while maintaining strict loan underwriting processes to limit future loss exposure.

#### Allowance for Loan Losses

The Company established a \$6,462 allowance for loan losses at March 31, 2014, an increase of \$307, or 5.0%, from year-end 2013. These additional reserves were impacted mostly from general allocation increases the Company felt were necessary to maintain the allowance for loans losses at an adequate level. As part of the Company's quarterly analysis of the allowance for loan losses, management reviewed various factors that directly impact the general allocation need of the allowance, which include: historical loan losses, loan delinquency levels, local economic conditions and unemployment rates, criticized/classified asset coverage levels and loan loss recoveries. During the first quarter of 2014, adjustments were made to the commercial loan loss factor, extending the range of loan loss period from a 3-year rolling average to a 5-year rolling average. This update was due to the significant decline in net charge-offs that have been experienced since the first quarter of 2012 that were contributing to a lower historical loan loss factor for commercial loans. By extending the historical loss period to five years, management feels the historical factor is more representative of the expected losses to be incurred on commercial loans. Management also increased its economic risk factor by adjusting its criticized/classified asset thresholds to incorporate more risk potential within the Company's special mention and substandard loan portfolios. As a result, the general allocation component of the allowance for loan losses increased \$483, or 13.7%, from year-end 2013.

Specific allocations of the allowance for loan losses that identified collateral impairment of certain impaired loans decreased \$176, or 6.7%, from year-end 2013. The Company also benefited from minimal change in its troubled assets, with nonperforming loans to total loans finishing at 0.65% at March 31, 2014, unchanged from year-end 2013, while nonperforming assets to total assets were 0.63% at March 31, 2014, a decrease of 4 basis points from year-end 2013. Impaired loans at March 31, 2014 also decreased \$310, or 2.1%, from year-end 2013.

The ratio of the allowance for loan losses to total loans increased to 1.13% at March 31, 2014, compared to 1.09% at December 31, 2013. Management believes that the allowance for loan losses at March 31, 2014 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

#### Deposits

Deposits continue to be the most significant source of funds used by the Company to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Total deposits at March 31, 2014 increased \$73,083, or 11.6%, from year-end 2013 primarily from noninterest-bearing deposit balances. During the first quarter of 2014, the Company experienced a significant increase in its business checking account balances, which increased \$69,596, or 77.4%, from year-end 2013. This increase was largely the result of ERC/ERD tax refund items processed during the first quarter of 2014. During 2014, the Company benefited from the successful volume increase in ERC/ERD transactions. As a result of the tax processing activity being seasonal, the

elevated first quarter balances within the Company's business checking accounts should decrease during the remainder of 2014.

Deposit growth also came from interest-bearing NOW account balances, which increased \$10,894, or 24.1%, during the first three months of 2014 as compared to year-end 2013. This increase was largely driven by growth in municipal NOW products due to seasonality of tax collections received, which typically decrease in the second quarter.

In the first quarter of 2014, time deposits decreased \$4,979, or 2.9%, from year-end 2013. As certificates of deposit (“CD”) market rates continue to adjust downward, the spread between a short-term CD rate and a statement savings rate has become small enough that many customers choose to invest balances into a more liquid product, perhaps hoping for rising rates in the near future. This change in time deposits from year-end 2013 fits within management’s strategy of focusing on more “core” deposit balances that include interest-bearing demand, savings, money market and noninterest-bearing deposit balances.

While facing increased competition for deposits in its market areas, the Company will continue to emphasize growth and retention in its core deposit relationships during the remainder of 2014, reflecting the Company’s efforts to reduce its reliance on higher cost funding and improving net interest income.

#### Other Borrowed Funds

Other borrowed funds were \$20,161 at March 31, 2014, an increase of \$1,413, or 7.5%, from year-end 2013. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize Federal Home Loan Bank advances and promissory notes to help manage interest rate sensitivity and liquidity.

#### Shareholders’ Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At March 31, 2014, the Bank’s capital exceeded the minimum requirements to be deemed “well capitalized” under applicable prompt corrective action regulations. Total shareholders' equity at March 31, 2014 of \$83,417 increased \$2,998, or 3.7%, as compared to \$80,419 at December 31, 2013. Contributing most to this increase was year-to-date net income of \$3,564, partially offset by cash dividends paid of \$861, or \$.21 per share.

#### Comparison of Results of Operations for the Three Months Ended March 31, 2014 and 2013

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three months ended March 31, 2014 compared to the same period in 2013. 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 incurred on interest-bearing liabilities. During the first quarter of 2014, net interest income increased \$361, or 4.3%, as compared to the first quarter of 2013. The improvement was largely due to a higher net interest margin impacted by increased average loans, lower premium expenses on investment securities and lower funding costs.

Total interest and fee income recognized on the Company's earning assets increased \$28, or 0.3%, during the first quarter of 2014, as compared to the same period in 2013. Asset yields on the Company's earning assets have been negatively impacted by lower market rates and higher average balances within the Company's lower-yielding Federal Reserve Bank clearing account. As a result, the earning asset yield at March 31, 2014 was 4.87% compared to 4.95% at March 31, 2013. Lower asset yields were offset by growth in average loans during the first quarter of 2014, increasing \$16,655, or 3.0%, over the first quarter of 2013, driven mostly by the commercial loan portfolio. The Company further benefited from increased earnings within investment securities, which increased \$98, or 22.1%, from year-end 2013, coming primarily from Agency mortgage-backed securities. The effect of slower refinancing volume evident during the first quarter of 2014 has resulted in less principal repayments from Agency mortgage-backed securities, which has caused monthly premium expense to amortize more slowly. While interest revenues from Agency mortgage-backed securities have decreased \$133 from a year ago, amortization expenses have lowered by \$227 to completely offset the decline in interest and generate a 34.3% net increase in earnings during the first quarter of 2014, as compared to the same period in 2013.

Total interest expense incurred on the Company's interest-bearing liabilities during the first quarter of 2014 decreased \$333, or 31.4%, from the same period in 2013. The decrease was primarily due to a sustained low-rate environment that has impacted the repricings of various Bank deposit products, especially time deposit balances, which continued to reprice at lower rates during 2014. As a result, the Company's weighted average costs for time deposits decreased from 1.26% at March 31, 2013 to 0.87% at March 31, 2014. The Company also continues to experience a deposit composition shift away from higher costing average time deposits to lower costing average interest- and non-interest bearing core deposit balances. As a result, the Company's average time deposit balances decreased \$29,502, or 14.8%, while average interest- and non-interest bearing core deposits increased \$35,130, or 6.7%, during the first three months of 2014 when compared to the same period in 2013. As a result of decreases in the average market interest rates and the continued deposit composition shift to lower costing deposit balances, the Company's total weighted average costs on interest-bearing deposits have lowered 19 basis points from 0.68% at March 31, 2013 to 0.49% at March 31, 2014.

Further impacting lower funding costs was a decrease of \$98, or 70.5%, in interest expense incurred on the Company's subordinated debentures during the first quarter of 2014 compared to 2013. The Company redeemed one \$5,000 trust preferred security classified as subordinated debentures during the first quarter of 2013. The redemption relieved the Company of incurring expenses on \$5,000 at a fixed-rate of 10.6%.

During 2014, the decline in asset yields was completely offset by a larger decline in funding costs. As a result, the Company's net interest margin improved 11 basis points to 4.51% during the first quarter of 2014, as compared to the same period in 2013. The Company will continue to focus on re-deploying the excess liquidity retained within the Federal Reserve account earning 0.25% into higher yielding assets as opportunities arise. The Company will continue to face pressure on its net interest income and margin improvement unless loan balances continue to expand and remain a larger component of overall earning assets.

#### Provision for Loan Losses

During the first quarter of 2014, provision expense charges totaled \$494, as compared to provision expense charges of \$31 during the first quarter of 2013. Provision expense was largely impacted by increases in the general allocations of the allowance for loan losses. During the first quarter of 2014, several general allocation metrics were re-evaluated and adjusted, as previously discussed within the caption "Allowance for Loan Losses", contributing to higher general allocations within the residential real estate and commercial loan portfolios from year-end 2013. Losses related to net charge-offs totaled \$187 during the first quarter of 2014, as compared to \$264 during the first quarter of 2013.

Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

## Noninterest Income

Noninterest income for the three months ended March 31, 2014 was \$4,118, an increase of \$178, or 4.5%, over the three months ended March 31, 2013. Noninterest income improvement during 2014 was largely affected by increased seasonal tax refund processing fees classified as ERC/ERD fees. During the first quarter of 2014, the Company's ERC/ERD fees increased by \$543, or 25.8%, as compared to the same period in 2013 due to an increase in the number of ERC/ERD transactions that were processed. As a result of ERC/ERD fee activity being mostly seasonal, the majority of income will be recorded during the first half of 2014, with only minimal income expected during the second half of 2014.

The Company also recorded a gain on sale of its ownership interest in ProAlliance Corporation ("ProAlliance") of \$135 during the first quarter of 2014, which represents the first of two installments the Company expects to receive during 2014. The Company owns 9% of ProAlliance. The first installment of \$135 was received on February 5, 2014, when the Company received its pro rata share of a non-refundable fee giving the buyers an option to purchase the outstanding shares of ProAlliance. Assuming the transaction receives regulatory approval and the buyer exercises its option to purchase the shares, the Company anticipates receiving \$675 for its ownership interest in ProAlliance, which should occur by June 2014. Should the second installment be paid, the sum of the two payments will total \$810, which will be reported as a gain on sale. The after-tax impact to the Company's 2014 net income from the gain would be \$535. Offsetting the gain would be a reduction in dividend income each year following the closing.

Partially offsetting this noninterest revenue growth from tax processing fees and gain on sale of ProAlliance was a decrease in the Company's earnings from tax-free bank owned life insurance ("BOLI") investments. During the first quarter of 2013, the Company received \$1,249 in cash proceeds from the settlement of two BOLI policies, which yielded net BOLI proceeds of \$452 that was recorded to income. This income from the first quarter of 2013 was not repeated in 2014. As a result, BOLI and annuity asset earnings were down \$472, or 74.8%, during the first quarter of 2014.

The Company's remaining noninterest income categories were collectively down \$28, or 2.3%, during the first quarter of 2014, when compared to the same period in 2013. These changes were primarily due to decreases in service charges on deposits and mortgage banking income.

## Noninterest Expense

Noninterest expense during the first quarter of 2014 decreased \$653, or 8.2%, from the first quarter in 2013. Contributing to the decline in net overhead expense were lower salaries and employee benefits, decreased foreclosed asset costs, the lack of a one-time trust preferred security redemption fee in 2013 and lower state taxes.

The Company's largest noninterest expense item, salaries and employee benefits, decreased \$62, or 1.4%, during the three months ended March 31, 2014, when compared to the same period in 2013. The decrease was largely due to lower retirement benefit costs, which more than offset increased salary expenses related to annual merit adjustments.

Foreclosed asset costs also declined \$234, or 79.3%, from the first quarter of 2013. Foreclosure asset expenses include legal fees, taxes, utilities and general maintenance costs related to the properties.

Further impacting noninterest expense was a \$212 fee to redeem one of the Company's trust preferred securities during the first quarter of 2013 that was not repeated in 2014.

The Company also benefited from a reduction in state taxes disbursed during the first quarter of 2014. As a result of the new Ohio state tax methodology for financial institutions, the Company's tax expense decreased \$82, or 36.1%,

during the first quarter of 2014 versus the same period in 2013. This lower tax is anticipated to continue for the rest of 2014.

The net change in remaining noninterest expense categories during the first quarter of 2014 decreased \$63, or 2.3%, as compared to the same period in 2013, related to decreases in various categories such as furniture and equipment, FDIC insurance, supplies and postage.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. During the first quarter of 2014, the Company was successful in generating higher net revenues due to increased average earning assets, strong net interest margin and growth in tax processing fees. Furthermore, overhead expenses decreased during the first quarter of 2014 impacted by foreclosure costs, subordinated debenture redemption fee and salaries and employee benefits. As a result, net revenue levels for 2014 have outpaced overhead expense, causing the efficiency ratio to improve from the prior quarter. The first quarter 2014 efficiency ratio finished at 55.9%, as compared to 63.7% during the first quarter of 2013.

### Capital Resources

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

|                                | Company Ratios |          | Regulatory Minimum |
|--------------------------------|----------------|----------|--------------------|
|                                | 3/31/14        | 12/31/13 |                    |
| Tier 1 risk-based capital      | 15.9%          | 15.7%    | 4.00%              |
| Total risk-based capital ratio | 17.1%          | 16.8%    | 8.00%              |
| Leverage ratio                 | 10.6%          | 11.7%    | 4.00%              |

Cash dividends paid of \$861 during the first three months of 2014 represents a 112.1% increase compared to the cash dividends paid during the same period in 2013. The year-to-date dividend rate in 2014 was \$0.21 per share, up from \$0.10 per share paid in 2013. The Company declared and paid in December 2012 a \$0.21 per share dividend that normally would have been paid during the first quarter of 2013, as a result of potential changes in tax rates affecting shareholders in 2013. The Company proceeded to pay a "special" \$0.10 per share dividend during the first quarter of 2013 due to the Company's stable capital position and financial performance.

### 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, held to maturity securities maturing within one year and available for sale securities, totaling \$184,462, represented 22.3% of total assets at March 31, 2014. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At March 31, 2014, the Bank could borrow an additional \$140,436 from the FHLB, of which \$75,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At March 31, 2014, this line had total availability of \$39,701. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank.

### Off-Balance Sheet Arrangements

As discussed in Note 5 – 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 A to the financial statements in the Company's 2013 Annual Report to Shareholders. 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 which 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.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance 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. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of \$200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years for the consumer and real estate portfolio segment and 5 years for the commercial portfolio segment. Prior to 2013, the commercial portfolio's historical loss factor was based on a period of 3 years. During the first quarter of 2014, management extended the loan loss history to 5 years due to the significant decline in net charge-offs that have been experienced since the first quarter of 2012. By extending the historical loan loss period to 5 years, management feels the historical factor is more representative of the expected losses to be incurred on commercial

loans. The total loan portfolio's actual loss experience is supplemented

with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

Commercial and industrial loans consist of borrowings for commercial purposes by individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial and industrial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. The Company's risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure, which may require the Company to write down the value significantly to sell.

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop raw land into one- to four-family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

Residential real estate loans consist of loans to individuals for the purchase of one- to four-family primary residences with repayment primarily through wage or other income sources of the individual borrower. The Company's loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 5 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most significant portions of the Company's net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

## Concentration of Credit Risk

The Company maintains a diversified credit portfolio, with residential real estate loans currently comprising the most significant portion. Credit risk is primarily subject to loans made to businesses and individuals in southeastern Ohio and 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 static balance sheet and flat interest rates. 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 current 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 to an instantaneous increase or decrease in market interest rates over a 12 month horizon to +/- 5% for a 100 basis point rate shock, +/- 7.5% for a 200 basis point rate shock and +/- 10% for a 300 basis point rate shock. Based on the level of interest rates, management did not test interest rates down 200 or 300 basis points.

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

|  | March 31,<br>2014                                    | December<br>31, 2013                                 |
|--|--|--|
| Change in<br>Interest<br>Rates<br>in Basis<br>Points | Percentage<br>Change in<br>Net<br>Interest<br>Income | Percentage<br>Change in<br>Net<br>Interest<br>Income |
| +300   | 2.60%  | (3.04%)  |
| +200   | 1.91%  | (1.84%)  |
| +100   | 1.03%  | (.82%)   |
| -100   | (3.13%)  | (2.55%)  |

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. With the historical low interest rate environment, management generally has been focused on limiting the duration of assets, while trying to extend the duration of our funding sources to the extent customer preferences will permit us to do so. At March 31, 2014, the interest rate risk profile reflects an asset sensitive position, which produces higher net interest income due to an increase in interest rates. This is a change from the liability sensitive position at year end. Contributing to the change in interest rate risk profile was the significant increase in liquidity due to tax refund processing. The additional liquidity is maintained in an interest-bearing account at the Federal Reserve and the interest rate is highly correlated to any rate change

implemented by the Federal Reserve as part of its monetary policy. Since the deposit balance associated with tax refund processing is seasonal, management expects a portion of the balance maintained at the Federal Reserve to decline in subsequent quarters, which will reduce or eliminate our asset sensitive position. In a declining rate environment, net interest income is impacted by the interest rate on many deposit accounts not being able to adjust downward. With interest rates so low, deposit accounts are perceived to be at or near an interest rate floor. As a result, net interest income decreases in a declining interest rate environment. Overall, management is comfortable with the current interest rate risk profile which reflects minimal exposure to interest rate changes.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

With the participation of the 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 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 SEC'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 March 31, 2014, 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

Not applicable.

##### ITEM 1A. RISK FACTORS

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, 2013, as filed with the Securities and Exchange Commission on March 17, 2014 and available at [www.sec.gov](http://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. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

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

Ohio Valley did not purchase any of its shares during the three months ended March 31, 2014.

Ohio Valley did not sell any unregistered equity securities during the three months ended March 31, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

35

---



ITEM 4. MINE SAFETY DISCLOSURES

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: May 12, 2014

By: /s/Thomas E. Wiseman  
Thomas E. Wiseman  
President and Chief Executive Officer

Date: May 12, 2014

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 (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914). |
| 3(b)           | Code of Regulations of Ohio Valley (as amended by the shareholders on May 12, 2010); Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (SEC File No. 0-20914).   |
| 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 Certifications (Principal Executive Officer and Principal Accounting Officer): Filed herewith.   |
| 101.INS*       | XBRL Instance Document: Filed herewith.*  |
| 101.SCH*       | XBRL Taxonomy Extension Schema: Filed herewith.*  |
| 101.CAL*       | XBRL Taxonomy Extension Calculation Linkbase: Filed herewith.*  |
| 101.DEF*       | XBRL Taxonomy Extension Definition Linkbase: Filed herewith.*   |
| 101.LAB*       | XBRL Taxonomy Extension Label Linkbase: Filed herewith.*  |
| 101.PRE*       | XBRL Taxonomy Extension Presentation Linkbase: Filed herewith.*   |

# Attached as Exhibit 101 are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Unaudited Consolidated Balance Sheets; (ii) Unaudited Condensed Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Comprehensive Income; (iv) Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity; (v) Unaudited Condensed Consolidated Statements of Cash Flows; and (vi) Notes to the Consolidated Financial Statements.