OHIO VALLEY BANC CORP
Form 10-Q
August 09, 2016

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 June 30, 2016

OR

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

For the transition period from ____________ to ____________

Commission file number 0-20914

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

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

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

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

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

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

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

The number of common shares of the registrant outstanding as of August 9, 2016 was 4,142,247.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016 UNAUDITED	December 31, 2015
ASSETS		
Cash and noninterest-bearing deposits with banks	$ 9,965	$ 9,475
Interest-bearing deposits with banks	47,502	36,055
Total cash and cash equivalents	57,467	45,530
Certificates of deposit in financial institutions	1,715	1,715
Securities available for sale	94,406	91,651
Securities held to maturity (estimated fair value: 2016 - $20,491; 2015 - $20,790)	19,310	19,903
Federal Home Loan Bank and Federal Reserve Bank stock	6,576	6,576
Total loans	602,936	585,752
Less: Allowance for loan losses	(6,934)	(6,648)
Net loans	596,002	579,104
Premises and equipment, net	10,348	10,404
Other real estate owned	2,046	2,358
Accrued interest receivable	1,853	1,819
Goodwill	1,267	1,267
Bank owned life insurance and annuity assets	28,752	28,352
Other assets	6,707	7,606
Total assets	$ 826,449	$ 796,285
LIABILITIES		
Noninterest-bearing deposits	$ 184,359	$ 176,499
Interest-bearing deposits	493,956	484,247
Total deposits	678,315	660,746
Other borrowed funds	31,411	23,946
Subordinated debentures	8,500	8,500
Accrued liabilities	13,427	12,623
Total liabilities	731,653	705,815
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 2016 - 4,801,986 shares issued; 2015 - 4,777,414 shares issued)	4,802	4,777
Additional paid-in capital	35,867	35,318
Retained earnings	68,585	65,782

Accumulated other comprehensive income	1,254	305
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	94,796	90,470
Total liabilities and shareholders' equity	$ 826,449	$ 796,285

See accompanying notes to consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$8,135	$8,150	$17,062	$17,049
Securities				
Taxable	491	453	979	902
Tax exempt	112	134	226	273
Dividends	73	72	147	146
Other Interest	102	57	269	123
	8,913	8,866	18,683	18,493
Interest expense:				
Deposits	510	555	1,008	1,090
Other borrowed funds	147	120	272	241
Subordinated debentures	50	42	97	83
	707	717	1,377	1,414
Net interest income	8,206	8,149	17,306	17,079
Provision for loan losses	141	799	620	721
Net interest income after provision for loan losses	8,065	7,350	16,686	16,358
Noninterest income:				
Service charges on deposit accounts	434	393	839	746
Trust fees	56	57	116	115
Income from bank owned life insurance and annuity assets	191	138	400	314
Mortgage banking income	61	55	118	114
Electronic refund check / deposit fees	270	255	2,024	2,350
Debit / credit card interchange income	625	627	1,211	1,165
Gain (loss) on other real estate owned	13	45	8	60
Gain on sale of securities	----	135	----	135
Other	211	212	380	407
	1,861	1,917	5,096	5,406
Noninterest expense:				
Salaries and employee benefits	4,528	4,426	9,098	8,826
Occupancy	405	388	834	790
Furniture and equipment	201	194	386	372
Professional fees	341	353	678	709
Marketing expense	248	234	495	469
FDIC insurance	148	132	297	298
Data processing	336	362	689	730
Software	302	262	594	509
Foreclosed assets	121	62	186	97
Merger related expenses	134	----	361	----
Other	1,009	1,141	2,124	2,181
	7,773	7,554	15,742	14,981

Income before income taxes	2,153	1,713	6,040	6,783
Provision for income taxes	447	303	1,502	1,749
NET INCOME	$1,706	$1,410	$4,538	$5,034
Earnings per share	$.41	$.34	$1.10	$1.22

See accompanying notes to consolidated financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net Income	$1,706	$1,410	$4,538	$5,034
Other comprehensive income:				
Change in unrealized gain on available for sale securities	499	(971)	1,437	(516)
Reclassification adjustment for realized (gains)	----	(135)	----	(135)
	499	(1,106)	1,437	(651)
Related tax (expense) benefit	(170)	376	(489)	222
Total other comprehensive income, net of tax	329	(730)	948	(429)
Total comprehensive income	$2,035	$680	$5,486	$4,605

See accompanying notes to consolidated financial statements
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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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$93,631	$89,276	$90,470	$86,216
Net income	1,706	1,410	4,538	5,034
Other comprehensive income, net of tax	329	(730)	948	(429)
Common stock issued to ESOP, 24,572 shares	----	----	575	----
Cash dividends	(870)	(1,071)	(1,735)	(1,936)
Balance at end of period	$94,796	$88,885	$94,796	$88,885
Cash dividends per share	$.21	$.26	$.42	$.47

See accompanying notes to consolidated financial statements
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OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Six months ended June 30, 2016	2015
Net cash provided by operating activities:	$7,176	$4,760
Investing activities:		
Proceeds from maturities of securities available for sale	8,805	7,783
Purchases of securities available for sale	(10,278)	(17,035)
Proceeds from maturities of securities held to maturity	981	1,501
Purchases of securities held to maturity	(412)	(625)
Proceeds from sale of available for sale securities	----	8,792
Net change in loans	(17,583)	(234)
Proceeds from sale of other real estate owned	386	487
Purchases of premises and equipment	(438)	(1,198)
Net cash (used in) investing activities	(18,539)	(529)
Financing activities:		
Change in deposits	17,569	19,458
Cash dividends	(1,735)	(1,936)
Proceeds from Federal Home Loan Bank borrowings	8,203	----
Repayment of Federal Home Loan Bank borrowings	(715)	(650)
Change in other short-term borrowings	(22)	----
Net cash provided by financing activities	23,300	16,872
Change in cash and cash equivalents	11,937	21,103
Cash and cash equivalents at beginning of period	45,530	30,977
Cash and cash equivalents at end of period	$57,467	$52,080
Supplemental disclosure:		
Cash paid for interest	$1,330	$1,352
Cash paid for income taxes	1,675	2,450
Transfers from loans to other real estate owned	65	492
Other real estate owned sales financed by the Bank	274	135

See accompanying notes to consolidated financial statements
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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, Ohio Valley Financial Services Agency, LLC ("Ohio Valley Financial Services"), an insurance agency, and OVBC Captive, Inc. ("the Captive"), a limited purpose property and casualty insurance company. 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 June 30, 2016, and its results of operations and cash flows for the periods presented. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2016. 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, 2015 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.
The consolidated financial statements for 2015 have been reclassified to conform to the presentation for 2016. 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 established by the Financial Accounting Standards Board ("FASB"). 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 4,134,956 for the six months ended June 30, 2016 and 4,117,675 for the six months ended June 30, 2015. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

NEW ACCOUNTING PRONOUNCEMENTS: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018, with early adoption permitted on January 1, 2017. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The update provides updated accounting and reporting requirements for both public and non-public entities. The most significant provisions that will impact the Company are: 1) equity securities available for sale will be measured at fair value, with the changes in fair value recognized in the income statement; 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments at amortized cost on the balance sheet; 3) utilization of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) require separate presentation of both financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The update will be effective for interim and annual periods beginning after December 15, 2017, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. Early adoption is not permitted. Management is currently evaluating the impact of this update on its Consolidated Financial Statements.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which will require lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of this update on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses". ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted, for annual periods and interim periods within those annual periods, beginning after December 15, 2018. Management is currently evaluating the impact this update will have on the Company's financial statements and results of operations.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

	Fair Value Measurements at June 30, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 8,025	----
Agency mortgage-backed securities, residential	----	86,381	----

	Fair Value Measurements at December 31, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 8,965	----
Agency mortgage-backed securities, residential	----	82,686	----

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

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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 June 30, 2016, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial real estate:			
Owner-occupied	----	----	$ 3,318