

OHIO VALLEY BANC CORP
Form 10-Q
May 10, 2017

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, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange

Act. (Check one):

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Accelerated filer
Emerging growth company Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 10, 2017 was 4,680,883.

OHIO VALLEY BANC CORP.

Index

	<u>Page Number</u>
PART I. FINANCIAL INFORMATION	
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	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	36
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	37
Item 4. Mine Safety Disclosures	37
Item 5. Other Information	37
Item 6. Exhibits	37
Signatures	38
Exhibit Index	39

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, 2017 UNAUDITED	December 31, 2016
ASSETS		
Cash and noninterest-bearing deposits with banks	\$ 11,498	\$ 12,512
Interest-bearing deposits with banks	100,419	27,654
Total cash and cash equivalents	111,917	40,166
Certificates of deposit in financial institutions	1,425	1,670
Securities available for sale	103,172	96,490
Securities held to maturity (estimated fair value: 2017 - \$19,376; 2016 - \$19,171)	18,827	18,665
Restricted investments in bank stocks	7,506	7,506
Total loans	738,861	734,901
Less: Allowance for loan losses	(7,315)	(7,699)
Net loans	731,546	727,202
Premises and equipment, net	13,468	12,783
Other real estate owned	2,049	2,129
Accrued interest receivable	2,299	2,315
Goodwill	7,371	7,801
Other intangible assets, net	629	670
Bank owned life insurance and annuity assets	29,347	29,349
Other assets	7,176	7,894
Total assets	\$ 1,036,732	\$ 954,640
LIABILITIES		
Noninterest-bearing deposits	\$ 287,130	\$ 209,576
Interest-bearing deposits	580,773	580,876
Total deposits	867,903	790,452
Other borrowed funds	39,285	37,085
Subordinated debentures	8,500	8,500
Accrued liabilities	13,393	14,075
Total liabilities	929,081	850,112
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock (\$1.00 stated value per share, 10,000,000 shares authorized; 2017 - 5,340,622 shares issued; 2016 - 5,325,504 shares issued)	5,341	5,326

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Additional paid-in capital	47,201	46,788
Retained earnings	71,354	69,117
Accumulated other comprehensive loss	(533)	(991)
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	107,651	104,528
Total liabilities and shareholders' equity	\$ 1,036,732	\$954,640

See accompanying notes to consolidated financial statements

3

OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(dollars in thousands, except per share data)

	Three months ended March 31,	
	2017	2016
Interest and dividend income:		
Loans, including fees	\$10,790	\$8,927
Securities		
Taxable	488	488
Tax exempt	103	114
Dividends	92	74
Other Interest	265	167
	11,738	9,770
Interest expense:		
Deposits	600	498
Other borrowed funds	216	125
Subordinated debentures	57	47
	873	670
Net interest income	10,865	9,100
Provision for loan losses	145	479
Net interest income after provision for loan losses	10,720	8,621
Noninterest income:		
Service charges on deposit accounts	504	405
Trust fees	58	60
Income from bank owned life insurance and annuity assets	222	209
Mortgage banking income	55	57
Electronic refund check / deposit fees	1,376	1,754
Debit / credit card interchange income	780	586
Loss on other real estate owned	(50)	(5)
Other	168	169
	3,113	3,235
Noninterest expense:		
Salaries and employee benefits	5,364	4,570
Occupancy	434	429
Furniture and equipment	260	185
Professional fees	453	337
Marketing expense	255	247
FDIC insurance	158	149
Data processing	535	353
Software	359	292
Foreclosed assets	192	65
Amortization of intangibles	41	----
Merger related expenses	27	227
Other	1,297	1,115
	9,375	7,969

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Income before income taxes	4,458	3,887
Provision for income taxes	1,241	1,055
NET INCOME	\$3,217	\$2,832
Earnings per share	\$.69	\$.69

See accompanying notes to consolidated financial statements

4

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

	Three months ended March 31,	
	2017	2016
Net Income	\$3,217	\$2,832
Other comprehensive income:		
Change in unrealized loss on available for sale securities	694	938
Related tax benefit	(236)	(319)
Total other comprehensive income, net of tax	458	619
Total comprehensive income	\$3,675	\$3,451

See accompanying notes to consolidated financial statements

5

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

	Three months ended March 31,	
	2017	2016
Balance at beginning of period	\$104,528	\$90,470
Net income	3,217	2,832
Other comprehensive income (loss), net of tax	458	619
Common stock issued to ESOP (2017 - 15,118 shares issued; 2016 - 24,572 shares issued)	428	575
Cash dividends	(980)	(865)
Balance at end of period	\$107,651	\$93,631
Cash dividends per share	\$.21	\$.21

See accompanying notes to consolidated financial statements

6

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

	Three months ended March 31,	
	2017	2016
Net cash provided by operating activities:	\$4,137	\$5,344
Investing activities:		
Proceeds from maturities of securities available for sale	3,935	4,538
Purchases of securities available for sale	(10,010)	----
Proceeds from maturities of securities held to maturity	214	466
Purchases of securities held to maturity	(389)	(80)
Proceeds from maturities of certificates of deposit in financial institutions	245	245
Net change in loans	(4,951)	(304)
Proceeds from sale of other real estate owned	580	205
Purchases of premises and equipment	(959)	(221)
Proceeds from bank owned life insurance	224	----
Net cash provided by (used in) investing activities	(11,111)	4,849
Financing activities:		
Change in deposits	77,505	80,259
Cash dividends	(980)	(865)
Proceeds from Federal Home Loan Bank borrowings	2,785	4,527
Repayment of Federal Home Loan Bank borrowings	(462)	(329)
Change in other long-term borrowings	(112)	----
Change in other short-term borrowings	(11)	(11)
Net cash provided by financing activities	78,725	83,581
Change in cash and cash equivalents	71,751	93,774
Cash and cash equivalents at beginning of period	40,166	45,530
Cash and cash equivalents at end of period	\$111,917	\$139,304
Supplemental disclosure:		
Cash paid for interest	\$845	\$649
Cash paid for income taxes	511	----
Transfers from loans to other real estate owned	635	30
Other real estate owned sales financed by The Ohio Valley Bank Company	85	274

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, 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 March 31, 2017, and its results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2017. 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, 2016 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.

The consolidated financial statements for 2016 have been reclassified to conform to the presentation for 2017. 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 amounts reported in the financial statements and the disclosures provided, and actual results could differ.

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 4,672,316 for the three months ended March 31, 2017 and 4,127,666 for the three months ended March 31, 2016. 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 Financial Accounting Standards Board ("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, 2017, with early adoption permitted on January 1, 2017. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

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 and related disclosures.

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 and related disclosures.

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 in the developmental stages, collecting available historical information, in order to assess the expected credit losses. However, the impact to the financial statements are still yet to be determined.

In August 2016, FASB issued an update (ASU 2016-15, "Statement of Cash Flows") (Topic 230), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update apply to all entities, including business entities and not-for-profit entities that are required to present a statement of cash flows, and are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued an update (ASU 2017-04, Intangibles – Goodwill and Other) which is intended to simplify the measurement of goodwill in periods following the date on which the goodwill is initially recorded. Under the amendments in this update, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. A public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

Assets and Liabilities Measured on a Recurring Basis

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

Fair Value Measurements at
March 31, 2017 Using

	Quoted Prices in Active Markets for Significant Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>			
U.S. Government sponsored entity securities	----	\$ 10,576	----
Agency mortgage-backed securities, residential	----	92,596	----

	Fair Value Measurements at December 31, 2016 Using		
	Quoted Prices in Active Markets for Significant Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>			
U.S. Government sponsored entity securities	----	\$ 10,544	----
Agency mortgage-backed securities, residential	----	85,946	----

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

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, 2017, Using Quoted Prices in Active Markets for Significant Identical Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>					
Impaired loans:					
Commercial real estate:					
Owner-occupied	----	----			\$ 290
Nonowner-occupied	----	----			2,462
Commercial and industrial	----	----			375
Other real estate owned:					
Commercial real estate:					
Construction	----	----			754

	Fair Value Measurements at December 31, 2016, Using Quoted Prices in Active Markets for Significant Identical Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>					
Impaired loans:					
Commercial real estate:					
Owner-occupied	----	----			\$ 3,536
Nonowner-occupied	----	----			1,985
Commercial and industrial	----	----			298
Other real estate owned:					
Commercial real estate:					
Construction	----	----			754

At March 31, 2017, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled \$3,581, with a corresponding valuation allowance of \$454, resulting in a decrease of \$221 in provision expense during the three months ended March 31, 2017, with \$558 in additional charge-offs recognized. This is compared to an increase of \$89 in provision expense during the three month ended March 31, 2016, with no additional charge-offs recognized. At December 31, 2016, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled \$8,732, with a corresponding valuation allowance of \$2,913, resulting in an increase of \$2,509 in provision expense during the year ended December 31, 2016, with no additional charge-offs recognized.

Other real estate owned that was measured at fair value less costs to sell at March 31, 2017 and December 31, 2016 had a net carrying amount of \$754, which is made up of the outstanding balance of \$2,217, net of a valuation allowance of \$1,463 at December 31, 2016. There were no corresponding write downs during the three months ended March 31, 2017 and 2016.

11

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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, 2017 and December 31, 2016:

<u>March 31, 2017</u>	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Owner-occupied	\$290	Sales approach	Adjustment to comparables	15.7% to 52%	31.7%
Nonowner-occupied	2,462	Sales approach	Adjustment to comparables	0% to 250%	58.6%
Commercial and industrial	375	Sales approach	Adjustment to comparables	2% to 14.2%	8.1%
Other real estate owned:					
Commercial real estate:					
Construction	754	Sales approach	Adjustment to comparables	0% to 30%	11.7%
<u>December 31, 2016</u>	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Owner-occupied	\$3,536	Sales approach	Adjustment to comparables	0% to 65%	13.7%
		Cost approach	Adjustment to comparables	0% to 29.5%	14.8%
Nonowner-occupied	1,985	Sales approach	Adjustment to comparables	0% to 250%	58.6%
Commercial and industrial	298	Sales approach	Adjustment to comparables	0.9% to 9.7%	5.2%
Other real estate owned:					
Commercial real estate:					
Construction	754	Sales approach	Adjustment to comparables	0% to 30%	11.7%

The carrying amounts and estimated fair values of financial instruments at March 31, 2017 and December 31, 2016 are as follows:

	Carrying Value	Fair Value Measurements at March 31, 2017 Using:			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$ 111,917	\$ 111,917	\$ ---	\$ ---	\$ 111,917
Certificates of deposit in financial institutions	1,425	---	1,425	---	1,425
Securities available for sale	103,172	---	103,172	---	103,172
Securities held to maturity	18,827	---	9,964	9,411	19,375
Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	731,546	---	---	732,323	732,323
Accrued interest receivable	2,299	---	365	1,934	2,299
Financial liabilities:					
Deposits	867,903	287,130	581,065	---	868,195
Other borrowed funds	39,285	---	37,977	---	37,977

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Subordinated debentures	8,500	----	6,141	----	6,141
Accrued interest payable	543	1	542	----	543

12

Fair Value Measurements at December 31,
2016 Using:

	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	\$40,166	\$40,166	\$----	\$----	\$40,166
Certificates of deposit in financial institutions	1,670	----	1,670	----	1,670
Securities available for sale	96,490	----	96,490	----	96,490
Securities held to maturity	18,665	----	9,541	9,630	19,171
Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	727,202	----	----	727,079	727,079
Accrued interest receivable	2,315	----	224	2,091	2,315
Financial liabilities:					
Deposits	790,452	209,576	581,340	----	790,916
Other borrowed funds	37,085	----	35,948	----	35,948
Subordinated debentures	8,500	----	5,821	----	5,821
Accrued interest payable	513	4	509	----	513

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.

Certificates of Deposit in Financial Institutions: The carrying amounts of certificates of deposit in financial institutions approximate fair values and are classified as Level 2.

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.

Restricted Investments in Bank Stocks: It is not practical to determine the fair value of Federal Home Loan Bank, Federal Reserve Bank and United Bankers Bank stock due to restrictions placed on their 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.

Deposits: 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.

13

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 fair value of securities available for sale and securities held to maturity at March 31, 2017 and December 31, 2016 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale				
<u>March 31, 2017</u>				
U.S. Government sponsored entity securities	\$ 10,622	\$ ----	\$ (46)	\$ 10,576
Agency mortgage-backed securities, residential	93,357	607	(1,368)	92,596
Total securities	\$ 103,979	\$ 607	\$ (1,414)	\$ 103,172
<u>December 31, 2016</u>				
U.S. Government sponsored entity securities	\$ 10,624	\$ ----	\$ (80)	\$ 10,544
Agency mortgage-backed securities, residential	87,367	495	(1,916)	85,946
Total securities	\$ 97,991	\$ 495	\$ (1,996)	\$ 96,490
Securities Held to Maturity				
<u>March 31, 2017</u>				
Obligations of states and political subdivisions	\$ 18,822	\$ 654	\$ (105)	\$ 19,371
Agency mortgage-backed securities, residential	5	----	----	5
Total securities	\$ 18,827	\$ 654	\$ (105)	\$ 19,376
<u>December 31, 2016</u>				
Obligations of states and political subdivisions	\$ 18,661	\$ 654	\$ (148)	\$ 19,167
Agency mortgage-backed securities, residential	4	----	----	4
Total securities	\$ 18,665	\$ 654	\$ (148)	\$ 19,171

The amortized cost and estimated fair value of debt securities at March 31, 2017, 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.

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Debt Securities:	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$4,000	\$ 3,999	\$271	\$ 272
Due in over one to five years	6,621	6,576	6,850	7,109
Due in over five to ten years	----	----		