

OHIO VALLEY BANC CORP
Form 10-K
March 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

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 Small Business Issuer 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
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, Without Par Value	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Non-accelerated filer

Accelerated filer

Smaller reporting
company

(Do not check if a 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

Based on the closing sales price of \$16.47 per share on June 30, 2010, the aggregate market value of the issuer's shares held by non-affiliates on such date was \$60,727,295. For this purpose, shares held by non-affiliates are all outstanding shares except those held by the directors and executive officers of the issuer and those held by The Ohio Valley Bank Company as trustee with respect to which The Ohio Valley Bank Company has sole or shared voting or dispositive power.

The number of common shares of the registrant outstanding as of March 11, 2011 was 4,000,056.

Documents Incorporated By Reference:

- (1) Portions of the 2010 Annual Report to Shareholders of Ohio Valley Banc Corp. (Exhibit 13) are incorporated by reference into Part I, Item 1 and Part II, Items 5, 6, 7, 7A, 8 and 9A.
- (2) Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 11, 2011 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14.

PART I

ITEM 1 - BUSINESS

Organizational History and Subsidiaries

Ohio Valley Banc Corp. (“Ohio Valley” or the “Company”) is an Ohio corporation registered as a financial holding company pursuant to the Bank Holding Company Act of 1956, as amended (“BHC Act”). Ohio Valley was incorporated under the laws of the State of Ohio on January 8, 1992 and began conducting business on October 23, 1992. The principal executive offices of Ohio Valley are located at 420 Third Avenue, Gallipolis, Ohio 45631. Ohio Valley’s common shares are listed on The NASDAQ Global Market under the symbol “OVBC”. Ohio Valley has one banking subsidiary, The Ohio Valley Bank Company (the “Bank”). Ohio Valley also owns two nonbank subsidiaries, Loan Central, Inc. (“Loan Central”) and Ohio Valley Financial Services Agency, LLC (“Ohio Valley Financial Services”), which engage in lending and insurance agency services, and two wholly-owned subsidiary trusts formed solely to issue trust preferred securities. Ohio Valley also owns a minority interest in an insurance company. Ohio Valley and its subsidiaries are collectively referred to as the “Company.” Ohio Valley’s financial service operations are considered by management to be aggregated in two reportable segments: banking and consumer finance. Total revenues from the banking segment, which accounted for the majority of the Company’s total revenues, totaled 92.9%, 93.4%, and 94.0% of total consolidated revenues for the years ended December 31, 2010, 2009 and 2008, respectively.

Interested readers can access Ohio Valley’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through Ohio Valley’s Internet website at www.ovbc.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate the information contained on Ohio Valley’s website into this Annual Report on Form 10-K). These reports can be accessed free of charge through a link to The NASDAQ Stock Market’s website from Ohio Valley’s website as soon as reasonably practicable after Ohio Valley electronically files such materials with, or furnishes them to, the Securities and Exchange Commission (“SEC”).

Business of Ohio Valley

As a financial holding company registered under the BHC Act, Ohio Valley’s primary business is community banking. As of December 31, 2010, Ohio Valley’s consolidated assets approximated to \$851,514,000, and total shareholders’ equity approximated to \$68,128,000.

Ohio Valley is also permitted to engage in certain non-banking activities under the provisions of the Gramm-Leach-Bliley Act (“GLB Act”), such as securities underwriting and dealing activities, insurance agency and underwriting activities and merchant banking/equity investment activities. The Company presently engages in insurance underwriting activities through a minority interest in ProAlliance Corp. The Company also has an insurance agency in Ohio Valley Financial Services that is used to facilitate the commission receipts on insurance sold by the Bank and Loan Central. Management will consider opportunities to engage in additional nonbanking activities as they arise.

Business of Bank Subsidiary

A substantial portion of Ohio Valley’s revenue is derived from cash dividends paid by the Bank. The Bank presently has fifteen offices located in Ohio and West Virginia, all of which offer automatic teller machines (ATMs). Seven of these offices also offer drive-up services. The Bank accounted for substantially all of Ohio Valley’s consolidated assets at December 31, 2010.

The Bank is primarily engaged in commercial and retail banking. The Bank is a full-service financial institution offering a blend of commercial and consumer banking services within central and southeastern Ohio as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; and the making of construction and real estate loans. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. As part of its lending function, the Bank offers credit card services. The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). In addition to originating loans, the Bank invests in U.S. government and agency obligations, interest-bearing deposits in other financial institutions, and other investments permitted by applicable law.

The Bank began offering trust services in 1981. The trust department acts as trustee under wills, trusts and profit sharing plans, as executor and administrator of estates, and as guardian for estates of minors and incompetents. In addition, the trust department performs a variety of investment and security services where the Bank acts as an agent on behalf of the client. Trust services are available to all customers of the Bank.

Bank customers may conveniently establish new deposit accounts at their own home. In addition, the Bank offers an automated telephone banking system, OVB Line, which allows customers to access their personal account or business account information, make loan payments or fund transfers and obtain current rate information, all from a touch-tone telephone. The Bank also offers Internet banking to its customers, which allows customers to perform various transactions using a computer from any location as long as they have access to the Internet and a secure browser. Specifically, customers can check personal account balances, receive information about transactions within their accounts, make transfers between accounts, stop payment on a check, and reorder checks. Customers may also pay bills online and can make payments to virtually any business or individual. Furthermore, the Bank offers other financial management online services, such as cash management and news updates related to repossession auctions, current rates and general bank news.

Business of Loan Central

Loan Central is engaged in consumer finance, offering smaller balance personal and mortgage loans to individuals with higher credit risk history. Loan Central's line of business also includes seasonal tax refund loan services. Loan Central presently has six offices, all located within southeastern Ohio.

Business of Financial Services Subsidiaries

Ohio Valley Financial Services is a licensed insurance agency that is used to facilitate the receipt of commissions on insurance sold by the Bank and Loan Central. Ohio Valley Financial Services is licensed by the State of Ohio Department of Insurance.

Ohio Valley also holds a non-majority equity interest in ProAlliance Corp., an insurance company. ProAlliance Corp. is engaged primarily in specialty property and casualty insurance coverage and has been approved under the guidelines of the State of Ohio Department of Insurance.

Variable Interest Entities

Ohio Valley owns two special purpose entities, Ohio Valley Statutory Trust I and Ohio Valley Statutory Trust III. Together, these Trusts have issued an aggregate \$13,500,000 in trust preferred securities. Ohio Valley has issued a like amount of subordinated debentures to the Trusts in exchange for the proceeds of the issuance of the trust preferred securities. Ohio Valley used the proceeds to provide additional capital to the Bank to support growth. Further detail on Ohio Valley Statutory Trusts I and III is located in Ohio Valley's 2010 Annual Report to Shareholders under "Note H – Subordinated Debentures and Trust Preferred Securities," in the notes to the Company's consolidated financial statements for the fiscal year ended December 31, 2010.

Financial Information

Financial information regarding the Company as of December 31, 2010 and 2009 and results of operations for the past three fiscal years is contained in the Company's consolidated financial statements for the fiscal year ended December 31, 2010.

Lending Activities

The Company's loan portfolio decreased \$10,034,000 to finish at \$641,322,000 in 2010. The loan portfolio is comprised of commercial (commercial real estate and commercial and industrial), residential real estate and consumer loans, including credit card and home equity loans. Commercial loans increased \$3,966,000, or 1.4%, while consumer loans and residential real estate loans decreased \$7,903,000, or 6.1%, and \$6,097,000, or 2.5%, respectively, as compared to 2009. Consolidated interest and fee revenue from loans accounted for 82.52%, 79.82%, and 82.10% of total consolidated revenues in 2010, 2009 and 2008, respectively. The Company's market area for lending is primarily located in southeastern Ohio and portions of western West Virginia. The Company believes that there is no significant concentration of loans to borrowers engaged in the same or similar industries and does not have any loans to foreign entities.

Residential Real Estate Loans

The Company's residential real estate loans consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. Real estate loans to consumers are secured primarily by a first lien deed of trust with evidence of title in favor of the Bank. The Company also requires proof of hazard insurance, required at the time of closing, with the Bank or Loan Central named as the mortgagee and as loss payee. The Company generally requires the amount of a residential real estate loan be no more than 80% of the purchase price or the appraisal value of the real estate securing the loan, unless private mortgage insurance is obtained by the borrower for the percentage exceeding 80%. These loans generally range from one-year adjustable to thirty-year fixed-rate mortgages. The Company's market area for real estate lending is primarily located in southeastern Ohio and portions of western West Virginia. The Bank continues to sell a portion of its new fixed-rate real estate loan originations to the Federal Home Loan Mortgage Corporation ("Freddie Mac") to enhance customer service and loan pricing. Secondary market sales of these real estate loans, which have fixed rates with fifteen- to thirty-year terms, have assisted in meeting the consumer preference for long-term fixed-rate loans as well as minimized the Bank's exposure to interest rate risk.

Commercial Loans

The Company's commercial loan portfolio consists of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these

loans includes equipment, inventory, stock, commercial real estate and rental property. Commercial loans are considered to have a higher level of risk compared to other types of loans (i.e., single-family residential mortgages, installment loans and credit card loans), although care is taken to minimize these risks. Numerous risk factors impact this portfolio, such as the economy, new technology, labor rates, cash flow, financial structure and asset quality. The payment experience on commercial loans is dependent on adequate cash flows from the business to service both interest and principal due. Thus, commercial loans may be more sensitive to adverse conditions in the economy generally or adverse conditions in a specific industry. The Company diversifies risk within this portfolio by closely monitoring industry concentrations and portfolios to ensure that it does not exceed established lending guidelines. Underwriting standards require a comprehensive credit analysis and independent evaluation of virtually all larger balance commercial loans by the Bank's loan committee prior to approval. New commercial loan originations greater than \$750,000 are reviewed and approved by the Executive Committee of the Bank's Board of Directors.

Consumer Loans

Consumer loans are secured by automobiles, mobile homes, recreational vehicles and other personal property. Personal loans and unsecured credit card receivables are also included as consumer loans. The Company makes installment credit available to customers in their primary market area of southeastern Ohio and portions of western West Virginia. Credit approval for consumer loans requires demonstration of sufficient income to repay principal and interest due, stability of employment, a positive credit record and sufficient collateral for secured loans. The Company monitors the risk associated with these types of loans by monitoring factors such as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors. A qualified compliance officer is responsible for monitoring the performance of his or her respective consumer portfolio and updating loan personnel. The Company makes credit life insurance and health and accident insurance available to all qualified borrowers, thus reducing their risk of loss when their income is terminated or interrupted. The Company reviews its respective consumer loan portfolios monthly to charge off loans which do not meet applicable standards. Credit card accounts are administered in accordance with the same standards as those applied to other consumer loans. Consumer loans generally involve more risk as to collectibility than mortgage loans because of the type and nature of collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower's continued financial stability and are adversely affected by job loss, divorce or personal bankruptcy and by adverse economic conditions. Also included in the category of consumer loans are home equity loans. Home equity lines of credit are generally made as second mortgages and charged a variable interest rate. Home equity lines are written with ten-year terms but are reviewed annually.

Underwriting Standards

The Company's underwriting guidelines and standards are updated periodically and are presented to the Board of Directors of the holding company for approval. The purpose of the standards and guidelines is to grant loans on a sound and collectible basis; to invest available funds in a safe, profitable manner; to serve the legitimate credit needs of the Company's primary market areas; and to ensure that all loan applicants receive fair and equal treatment in the lending process. It is the intent of the underwriting guidelines and standards to: minimize losses by carefully investigating the credit history of each applicant, verify the source of repayment and the ability of the applicant to repay, collateralize those loans in which collateral is deemed to be required, exercise care in the documentation of the application, review, approval, and origination process, and administer a comprehensive loan collection program. The above guidelines are adhered to and subject to the experience, background and personal judgment of the loan officer assigned to the loan application. A loan officer may grant, with justification, a loan with variances from the underwriting guidelines and standards. However, a loan officer may not exceed his or her respective lending authority without obtaining the prior, proper approval from a superior.

Investment Activities

The Company's investment policy stresses the management of the investment securities portfolio, which includes both securities held to maturity and securities available for sale, to maximize the return over the long-term in a manner that is consistent with good banking practices and relative safety of principal. The Company's investment portfolio is comprised of U.S. Treasury, U.S. government sponsored entity and mortgage-backed securities as well as obligations of state and political subdivisions. Revenues from interest and dividends on securities accounted for 5.62%, 6.32%, and 6.89% of total consolidated revenues in 2010, 2009 and 2008, respectively. The Company currently does not engage in trading account activity.

Funding Activities

Sources of funds for loan and investment activities include "core deposits." Core deposits include demand deposits, savings and NOW accounts, and certificates of deposit less than \$100,000. The Company will also utilize certificates of deposit from wholesale markets, when necessary, to support growth in assets. Borrowings have also been a significant source of funding. These include advances from the Federal Home Loan Bank, Federal Reserve Bank Notes and securities sold under agreements to repurchase. Repurchase agreements are financing arrangements with various customers that have overnight maturity terms. Further funding has come from two trust preferred securities offerings through Ohio Valley Statutory Trust I and Ohio Valley Statutory Trust III, totaling \$13,500,000. Ohio Valley used the proceeds to provide additional capital to the Bank to support growth.

Competition

Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The market area for the Bank is concentrated primarily in the Gallia, Jackson, Pike, Lawrence, Meigs and Franklin Counties of Ohio as well as the Mason and Cabell Counties of West Virginia. Some additional business originates from the surrounding Ohio counties of Vinton, Scioto and Ross. Competition for deposits and loans comes primarily from local banks and savings associations, although some competition is also experienced from local credit unions and insurance companies. The Company also competes with non-financial institutions that offer financial products and services. Some of the Company's competitors are not subject to the same level of regulation and oversight that is required of banks and bank holding companies. As a result, some of these competitors may have lower cost structures.

Loan Central's market presence further strengthens Ohio Valley's ability to compete in the Gallia, Jackson, Lawrence and Pike Counties by serving a consumer base which may not meet the Bank's credit standards. Loan Central also operates in Scioto county of Ohio, which is outside the Bank's primary market area. The Company's business is not seasonal, nor is it dependent upon a single or small group of customers.

To continue the expansion of the Bank's market presence and further enhance customer service, the Bank began a phase of SuperBank branch openings in December 1996. From 1996 to 2001, the Bank opened eight SuperBank facilities within supermarkets and Wal-Mart stores. The Bank currently has five SuperBank branches in operation that currently service the market areas of Gallia, Meigs and Lawrence Counties of Ohio as well as Cabell County of West Virginia.

Historically, larger regional institutions, with substantially greater resources, have been generating a growing market presence. Yet, in recent years, the financial industry continues to consolidate, which affects competition by eliminating some regional and local institutions, while strengthening the acquiring companies. Many financial institutions are experiencing significant challenges as a result of the economic crisis, resulting in bank failures and significant intervention from the U.S. Government.

Overall, the Company believes it is able to compete effectively in both current and newer markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate yield on our loans will not be impacted by the nature of the competition that now exists or may later develop.

Supervision and Regulation

The following is a summary of certain statutes and regulations affecting Ohio Valley as well as the Bank and Loan Central. The summary is qualified in its entirety by reference to such statutes and regulations.

Regulation of Bank Holding Company

Ohio Valley is subject to the requirements of the BHC Act and to the reporting requirements of, and examination and regulation by, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to:

- assess civil money penalties;
- issue cease and desist or removal orders; and
- require that a bank holding company divest subsidiaries (including its banking subsidiaries).

In general, the Federal Reserve Board may initiate enforcement action for violations of laws and regulations and unsafe or unsound practices.

Under Federal Reserve Board policy, a bank holding company is expected to serve as a source of financial strength to each subsidiary bank and to commit resources to support those subsidiary banks. Under this policy, the Federal Reserve Board may require a bank holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to the shareholders of the bank holding company if the Federal Reserve Board believes the payment would be an unsafe or unsound practice. In 2009, the Federal Reserve Board issued guidance and regulations which require bank holding companies to provide advance notification of planned dividends under certain circumstances.

The BHC Act requires the prior approval of the Federal Reserve Board in any case where a bank holding company proposes to:

- acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by it;
 - acquire all or substantially all of the assets of another bank or bank holding company; or
- merge or consolidate with any other bank holding company.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). This new law will significantly change the regulation of financial institutions and the financial services industry. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, many of the details of the new law and the effects they will have on our company will not be known for months and even years.

Many of the provisions of the Dodd-Frank Act apply directly to institutions much larger than ours, and some will affect only institutions with different charters than ours or institutions that engage in activities in which we do not engage. Among the changes to occur pursuant to the Dodd-Frank Act that can be expected to have an effect on our business are the following:

- the Dodd-Frank Act creates a Consumer Financial Protection Bureau with broad powers to adopt and enforce consumer protection regulations;
 - new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities will no longer count toward Tier I capital;
- the federal law prohibition on the payment of interest on commercial demand deposit accounts will be eliminated effective in July 2011;
- the standard maximum amount of deposit insurance per customer is permanently increased to \$250,000, and non-interest bearing transaction accounts will have unlimited insurance through December 31, 2012;
- the assessment base for determining deposit insurance premiums has been expanded effective April 1, 2011, to include liabilities other than just deposits; and
- new corporate governance requirements applicable generally to all public companies in all industries will require new compensation practices, including requiring companies to "claw back" incentive compensation under certain circumstances, to provide shareholders the opportunity to cast a non-binding vote on executive compensation, and to consider the independence of compensation advisers, and new executive compensation disclosure requirements.

In addition, revenue on interchange fees may decrease as a result of the level of fees the Federal Reserve deems "reasonable and proportional" when it establishes regulations on the amount of interchange fees that can be charged to merchants for electronic debit card transactions. The Federal Reserve has proposed two alternative fee standards and rules prohibiting network exclusivity arrangements and routing restrictions. Although the fee standards would not apply to any company that, together with its affiliates, has assets of less than \$10 billion, such as Ohio Valley, competition and other market forces may result in a loss of revenue to us from these fees.

Although it is impossible for us to predict at this time all the effects the Dodd-Frank Act will have on us and the rest of our industry, it is possible that our revenue could decrease, our interest expense could increase and deposit insurance premiums could change, and steps may need to be taken to increase qualifying capital. We expect that our operating and compliance costs will increase and could adversely affect our financial condition and results of operations.

We cannot predict what other legislation or economic policies of the various regulatory authorities might be enacted or adopted or what other regulations might be adopted or the effects thereof. Future legislation and policies and the effects thereof might have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid on time and savings deposits. Such legislation and policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Transactions with Affiliates, Directors, Executive Officers and Shareholders

Section 23A and 23B of the Federal Reserve Act and Regulation W restrict transactions by banks and their subsidiaries with their affiliates. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank.

Generally, Sections 23A and 23B and Regulation W:

- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of that bank’s capital stock and surplus (i.e., tangible capital);
- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with all affiliates to 20% of that bank’s capital stock and surplus; and
- require that all such transactions be on terms substantially the same, or at least as favorable to the bank subsidiary, as those provided to a non-affiliate.

The term “covered transaction” includes the making of loans to the affiliate, the purchase of assets from the affiliate, issuance of a guarantee on behalf of the affiliate, the purchase of securities issued by the affiliate, and other similar types of transactions.

A bank’s authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve Board. Among other things, these loans must be made on terms substantially the same as those offered to unaffiliated individuals or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank’s capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

Regulation of Ohio State Chartered Banks

As an Ohio state-chartered bank that is not a member of the Federal Reserve Bank (“FRB”), the Bank is supervised and regulated by the Ohio Division of Financial Institutions and the FDIC.

The Bank’s deposits are insured up to applicable limits by the FDIC, and the Bank is subject to the applicable provisions of the Federal Deposit Insurance Act and the regulations of the FDIC.

Various requirements and restrictions under the laws of the United States and the State of Ohio and the State of West Virginia affect the operations of the Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, and limitations on branching.

Holding Company Activities

Ohio Valley became a financial holding company during 2000, permitting it to engage in activities beyond those permitted for traditional bank holding companies. In order to become a financial holding company, a bank holding company and all of its depository institutions must be well capitalized and well managed under federal banking regulations, and the depository institutions must have received a Community Investment Act rating of at least satisfactory.

Financial holding companies may engage in a wide variety of financial activities, including any activity that the Federal Reserve Board and the Treasury Department consider financial in nature or incidental to financial activities, and any activity that the Federal Reserve Board determines complementary to a financial activity and which does not pose a substantial safety and soundness risk. These activities include securities underwriting and dealing activities, insurance and underwriting activities and merchant banking/equity investment activities. Because it has authority to engage in a broad array of financial activities, a financial holding company may have several affiliates that are functionally regulated by financial regulators other than the Federal Reserve Board, such as the SEC and state insurance regulators.

Loan Central is supervised and regulated by the State of Ohio Department of Financial Institutions, Division of Consumer Finance. Ohio Valley’s insurance business investments, Ohio Valley Financial Services and ProAlliance Corp., are both supervised and regulated by the State of Ohio Department of Insurance. The insurance laws and regulations applicable to insurance agencies, including Ohio Valley Financial Services, require education and licensing of individual agents and agencies, require reports and impose business conduct rules.

The GLB Act provides that if a subsidiary bank of a financial holding company fails to be both well capitalized and well managed, the financial holding company must enter into a written agreement with the Federal Reserve Board within 45 days to comply with all applicable capital and management requirements. Until the Federal Reserve Board determines that the bank is again well capitalized and well managed, the Federal Reserve Board may impose additional limitations or conditions on the conduct or activities of the financial holding company or any affiliate that the Federal Reserve Board finds to be appropriate or consistent with federal banking laws. If the financial holding company does not correct the capital or management deficiencies within 180 days, the financial holding company may be required to divest ownership or control of all banks, including state-chartered non-member banks and other well-capitalized institutions owned by the financial holding company. If an insured bank subsidiary fails to maintain a satisfactory rating under the Community Reinvestment Act, the financial holding company may not engage in activities permitted only to financial holding companies until such time as the bank receives a satisfactory rating.

Capital Requirements

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition of capital and a framework for calculating weighted risk assets by assigning assets and off-balance sheet items to broad risk categories. The minimum ratio of capital to risk weighted assets (including certain off-balance sheet items, such as standby letters of credit) to be considered adequately capitalized is 8%. At least 4.0 percentage points is to be comprised of common shareholders' equity (including retained earnings but excluding treasury stock), noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ("Tier 1 Capital"). The remainder ("Tier 2 Capital") may consist of certain amounts of hybrid capital instruments, mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 Capital and a limited amount of allowance for loan and lease losses. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 Capital to total assets) of 3% for bank holding companies that meet certain specified conditions, including no operational, financial or supervisory deficiencies, and including having the highest regulatory rating. The minimum leverage ratio is 100-200 basis points higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and those experiencing or anticipating significant growth.

State non-member banks, such as the Bank, are subject to similar capital requirements adopted by the FDIC. Ohio Valley and the Bank currently satisfy all applicable capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC.

Federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. Under these regulations, institutions which become undercapitalized become subject to mandatory regulatory scrutiny and limitations, which increase as capital continues to decrease. Such institutions are also required to file capital plans with their primary federal regulator, and their holding companies must guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

The current capital requirements are based on the 1998 capital accord of the Basel Committee on Banking Supervision (the "Basel Committee"). In December 2010, the Basel Committee released a new framework, referred to as "Basel III." The banking regulators are considering the extent to which they will apply the Basel III principles to smaller financial institutions, such as Ohio Valley and the Bank.

Limits on Dividends

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary banks and other subsidiaries. However, the Federal Reserve Board expects Ohio Valley to serve as a source of strength to the Bank, which may require it to retain capital for further investments in the Bank, rather than for dividends for shareholders of Ohio Valley. The Bank may not pay dividends to Ohio Valley if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval of its regulatory authorities if a dividend in any year would cause the total dividends for that year to exceed the sum of its current year's net profits and retained net profits for the preceding two years, less required transfers to surplus. Payment of dividends by the Bank may be restricted at any time at the discretion of its regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice or if necessary to maintain adequate capital for the Bank. These provisions could have the effect of limiting Ohio Valley's ability to pay dividends on its outstanding common shares.

In addition, FRB policy requires Ohio Valley to provide notice to the FRB in advance of the payment of a dividend to Ohio Valley's shareholders under certain circumstances, and the FRB may disapprove of such dividend payment if the FRB determines the payment would be an unsafe or unsound practice.

Dividend restrictions are also listed within the provisions of Ohio Valley's trust preferred security arrangements. Under the provisions of these agreements, the interest payable on the trust preferred securities is deferral for up to five years and any such deferral would not be considered a default. During any period of deferral, Ohio Valley would be precluded from declaring or paying dividends to its shareholders or repurchasing any of its common stock.

Deposit Insurance Assessments

The FDIC is an independent federal agency which insures deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry.

The deposits of the Bank are insured up to statutorily prescribed limits by the FDIC, generally up to a maximum of \$250,000 per separately insured depositor and, until December 31, 2012, with no limit for non-interest bearing transactional accounts. Insurance premiums for insured institutions are determined based upon the member's capital level and supervisory rating provided to the FDIC by the bank's primary federal regulatory and other information the FDIC determines to be relevant to the risk posed to the deposit insurance fund ("DIF"). Until a change in regulations adopted by the FDIC in February 2011, the assessment rate determined by considering such factors was then applied to the amount of the bank's deposits to determine the bank's insurance premium. Effective April 1, 2011, the assessment base will be changed from total domestic deposits to average total assets minus average tangible equity. The new regulations also change the assessment for larger institutions and the assessment rate schedules. The effect of these changes on Ohio Valley has not yet been determined.

Insurance of deposits may be terminated by the FDIC upon a finding that the insured institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the bank's regulatory agency. Notice would be given to all depositors before the deposit insurance was terminated.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment was paid on September 30, 2009 and totaled \$373,000.

On November 12, 2009, the FDIC adopted a final rule requiring insured depository institutions to prepay their estimated quarterly risk-based assessments for all of 2010, 2011, and 2012. The Bank paid a total of \$3,567,000 on December 30, 2009 that was recorded as a prepaid asset and will be charged to expense during the periods to which it relates.

The FDIC may impose an additional special assessment if the FDIC estimates that the DIF reserve will fall to a level that would adversely affect public confidence or to a level that will be close to or below zero. Any future special assessments will increase insurance premium expense on deposits if and when they become effective. We cannot provide any assurance as to the ultimate amount or timing of any future special assessments.

Monetary Policy and Economic Conditions

The business of commercial banks is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. The Federal Reserve Board regulates the money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These policies and regulations significantly influence the amount of bank loans and deposits and the interest rates charged and paid thereon, and thus have an effect on earnings.

Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorist Act of 2001 (the "Patriot Act") gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Title III of the Patriot Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions. Among other requirements, Title III and related regulations require regulated financial institutions to establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts and establish enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity. The Company has established policies and procedures to comply with the requirements of the Patriot Act.

Employees

As of December 31, 2010, Ohio Valley and its subsidiaries had approximately 279 full-time equivalent employees and officers. Management considers its relationship with its employees and officers to be good.

Other Information

Management anticipates no material effect upon the capital expenditures, earnings and competitive position of the Company by reason of any laws regulating or protecting the environment. Ohio Valley believes that the nature of the operations of its subsidiaries has little, if any, environmental impact. Ohio Valley, therefore, anticipates no material capital expenditures for environmental control facilities in its current fiscal year or for the foreseeable future.

The Bank and Loan Central may be required to make capital expenditures related to properties which they may acquire through foreclosure proceedings in the future. However, the amount of such capital expenditures, if any, is not currently determinable.

Neither Ohio Valley nor its subsidiaries have any material patents, trademarks, licenses, franchises or concessions. No material amounts have been spent on research activities, and no employees are engaged full-time in research activities.

Financial Information About Foreign and Domestic Operations and Export Sales

Ohio Valley's subsidiaries do not have any offices located in a foreign country, and they have no foreign assets, liabilities, or related income and expense.

Statistical Disclosure

The following section contains certain financial disclosures relating to Ohio Valley as required under the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," or a specific reference as to the location of the required disclosures in Ohio Valley's 2010 Annual Report to Shareholders, which are incorporated herein by reference.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A.&B. The average balance sheet information and the related analysis of net interest earnings for the years ended December 31, 2010, 2009 and 2008 are incorporated herein by reference to the information appearing under the caption "Table I – Consolidated Average Balance Sheet & Analysis of Net Interest Income," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

C. Tables setting forth the effect of volume and rate changes on interest income and expense for the years ended December 31, 2010 and 2009 is incorporated herein by reference to the information appearing under the caption "Table II - Rate Volume Analysis of Changes in Interest Income & Expense," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

II. INVESTMENT PORTFOLIO

A. Types of Securities - Total securities on the balance sheet were comprised of the following classifications at December 31:

(dollars in thousands)	2010	2009	2008
Securities Available for Sale			
U.S. Treasury securities	\$ 17,079	\$ 10,557	\$ ----
U.S. Government sponsored entity securities	7,731	34,122	31,866
Agency mortgage-backed securities, residential	61,029	39,189	43,474
Total securities available for sale	\$ 85,839	\$ 83,868	\$ 75,340
Securities Held to Maturity			
Obligations of states of the U.S. and political subdivisions	\$ 22,149	\$ 16,553	\$ 16,946
Agency mortgage-backed securities, residential	29	36	40
Total securities held to maturity	\$ 22,178	\$ 16,589	\$ 16,986

B. Information required by this item is incorporated herein by reference to the information appearing under the caption "Table III - Securities," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

C. Excluding obligations of the U.S. Government and its agencies, no concentration of securities exists of any issuer that is greater than 10% of shareholders' equity of Ohio Valley.

III. LOAN PORTFOLIO

A. Types of Loans - Total loans on the balance sheet were comprised of the following classifications at December 31:

(dollars in thousands)	2010	2009	2008	2007	2006
Residential real estate	\$236,878	\$242,975	\$252,693	\$250,483	\$238,549
Commercial real estate	226,622	211,004	198,559	196,523	193,359
Commercial and industrial	55,306	66,958	52,022	62,039	53,080
Consumer	122,516	130,419	127,117	128,058	140,176
	\$641,322	\$651,356	\$630,391	\$637,103	\$625,164

B. Maturities and Sensitivities of Loans to Changes in Interest Rates - Information required by this item is incorporated herein by reference to the information appearing under the caption "Table VI - Maturity and Repricing Data of Loans", within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

C. Risk Elements - Gross interest income that would have been recorded on loans that were classified as nonaccrual or troubled debt restructurings if the loans had been in accordance with their original terms is estimated to be \$1,255,000 for the fiscal year ended December 31, 2010. The amount of interest income that was included in net income recorded on such loans was \$717,000. Additional information required by this item is incorporated herein by reference to the information appearing under the caption "Table V - Summary of Nonperforming and Past Due Loans," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

2. Potential Problem Loans - At December 31, 2010, there were no loans that are not already included in "Table V - Summary of Nonperforming and Past Due Loans" within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders, for which management has some doubt as to the borrower's ability to comply with the present repayment terms. These loans and their loss exposure have been considered in management's analysis of the adequacy of the allowance for loan losses.

3. Foreign Outstandings - There were no foreign outstandings at December 31, 2010, 2009 or 2008.

4. Loan Concentrations - As of December 31, 2010, there were no concentrations of loans greater than 10% of total loans which are not otherwise disclosed as a category of loans pursuant to Item III.A. above. Also refer to the Consolidated Financial Statements regarding concentrations of credit risk found within "Note A-Summary of Significant Accounting Policies" of the notes to the Company's consolidated financial statements for the fiscal year ended December 31, 2010, located in Ohio Valley's 2010 Annual Report to Shareholders which note is incorporated herein by reference.

D. Other Interest-Bearing Assets - As of December 31, 2010, there were no other interest-bearing assets that would be required to be disclosed under Item III.C. if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. The following schedule presents an analysis of the allowance for loan losses for the fiscal years ended December 31:

(dollars in thousands)	2010	2009	2008	2007	2006	
Balance, beginning of year	\$8,198	\$7,799	\$6,737	\$9,412	\$7,133	
Loans charged off:						
Residential real estate	971	1,172	225	422	432	
Commercial	2,957	627	1,164	4,002	3,079	
Consumer	1,951	2,532	2,140	1,617	2,120	
Total loans charged off	5,879	4,331	3,529	6,041	5,631	
Recoveries of loans:						
Residential real estate	40	41	61	166	204	
Commercial	95	730	95	248	946	
Consumer	1,061	747	719	700	1,097	
Total recoveries of loans	1,196	1,518	875	1,114	2,247	
Net loan charge-offs	(4,683)	(2,813)	(2,654)	(4,927)	(3,384)	
Provision charged to operations	5,871	3,212	3,716	2,252	5,663	
Balance, end of year	\$9,386	\$8,198	\$7,799	\$6,737	\$9,412	
Ratio of net charge-offs to average loans outstanding	.72	% .44	% .42	% .78	% .54	%
Ratio of allowance for loan losses to non-performing assets	99.72	% 76.98	% 78.25	% 171.77	% 61.54	%

Discussion of factors that influenced management in determining the amount of additions charged to provision expense is incorporated herein by reference to the information appearing under the caption "Allowance for Loan Losses and Provision Expense" within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

B. Allocation of the Allowance for Loan Losses - Information required by this item is incorporated herein by reference to the information appearing under the caption "Table IV - Allocation of the Allowance for Loan Losses," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

V. DEPOSITS

A. Deposit Summary - Information required by this item is incorporated herein by reference to the information appearing under the caption "Table I - Consolidated Average Balance Sheet & Analysis of Net Interest Income," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2010 Annual Report to Shareholders.

C.&E. Foreign Deposits - There were no foreign deposits outstanding at December 31, 2010, 2009, or 2008.

D. Schedule of Maturities - The following table provides a summary of total time deposits by remaining maturities for the fiscal year ended December 31, 2010: