OHIO VALLEY BANC CORP
Form 10-Q
May 10, 2018

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, 2018

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		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth 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, 2018 was 4,719,783.

OHIO VALLEY BANC CORP.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2018	December 31, 2017
ASSETS		
Cash and noninterest-bearing deposits with banks	$12,881	$12,664
Interest-bearing deposits with banks	131,281	61,909
Total cash and cash equivalents	144,162	74,573
Certificates of deposit in financial institutions	1,820	1,820
Securities available for sale	105,457	101,125
Securities held to maturity (estimated fair value: 2018 - $17,809; 2017 - $18,079)	17,353	17,581
Restricted investments in bank stocks	7,506	7,506
Total loans	768,065	769,319
Less: Allowance for loan losses	(7,996)	(7,499)
Net loans	760,069	761,820
Premises and equipment, net	13,475	13,281
Other real estate owned	1,343	1,574
Accrued interest receivable	2,552	2,503
Goodwill	7,371	7,371
Other intangible assets, net	478	514
Bank owned life insurance and annuity assets	28,851	28,675
Other assets	5,984	7,947
Total assets	$1,096,421	$1,026,290
LIABILITIES		
Noninterest-bearing deposits	$314,413	$253,655
Interest-bearing deposits	605,095	603,069
Total deposits	919,508	856,724
Other borrowed funds	42,603	35,949
Subordinated debentures	8,500	8,500
Accrued liabilities	14,599	15,756
Total liabilities	985,210	916,929
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 5)	----	----
SHAREHOLDERS' EQUITY		
Common stock ($1.00 stated value per share, 10,000,000 shares authorized; 2018 - 5,379,522 shares issued; 2017 - 5,362,005 shares issued)	5,379	5,362

Additional paid-in capital	48,586	47,895
Retained earnings	75,073	72,694
Accumulated other comprehensive loss	(2,115)	(878)
Treasury stock, at cost (659,739 shares)	(15,712)	(15,712)
Total shareholders' equity	111,211	109,361
Total liabilities and shareholders' equity	$1,096,421	$1,026,290

See accompanying notes to consolidated financial statements

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

	Three months ended March 31, 2018	2017
Interest and dividend income:		
Loans, including fees	$11,249	$10,790
Securities		
Taxable	566	488
Tax exempt	93	103
Dividends	109	92
Interest-bearing deposits with banks	685	260
Other Interest	7	5
	12,709	11,738
Interest expense:		
Deposits	892	600
Other borrowed funds	235	216
Subordinated debentures	72	57
	1,199	873
Net interest income	11,510	10,865
Provision for loan losses	756	145
Net interest income after provision for loan losses	10,754	10,720
Noninterest income:		
Service charges on deposit accounts	502	504
Trust fees	60	58
Income from bank owned life insurance and annuity assets	176	222
Mortgage banking income	64	55
Electronic refund check / deposit fees	1,228	1,376
Debit / credit card interchange income	861	780
Gain (loss) on other real estate owned	(13)	(50)
Other	198	168
	3,076	3,113
Noninterest expense:		
Salaries and employee benefits	5,702	5,364
Occupancy	441	434
Furniture and equipment	254	260
Professional fees	508	453
Marketing expense	262	255
FDIC insurance	143	158
Data processing	714	535
Software	396	359
Foreclosed assets	55	192
Amortization of intangibles	36	41
Other	1,297	1,324
	9,808	9,375

Income before income taxes	4,022	4,458
Provision for income taxes	656	1,241
NET INCOME	$3,366	$3,217
Earnings per share	$.71	$.69

See accompanying notes to consolidated financial statements

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

	Three months ended March 31, 2018	2017
Net Income	$3,366	$3,217
Other comprehensive income:		
Change in unrealized loss on available for sale securities	(1,566)	694
Related tax expense	329	(236)
Total other comprehensive income, net of tax	(1,237)	458
Total comprehensive income	$2,129	$3,675

See accompanying notes to consolidated financial statements
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OHIO VALLEY BANC CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (UNAUDITED)
(dollars in thousands, except share and per share data)

	Three months ended March 31, 2018	2017
Balance at beginning of period	$109,361	$104,528
Net income	3,366	3,217
Other comprehensive income, net of tax	(1,237)	458
Common stock issued through DRIP (2018 – 10,223 shares issued)	413	----
Common stock issued to ESOP (2018 – 7,294 shares issued; 2017 – 15,118 shares issued)	295	428
Cash dividends	(987)	(980)
Balance at end of period	$111,211	$107,651
Cash dividends per share	$.21	$.21

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

	Three months ended March 31, 2018	2017
Net cash provided by operating activities:	$5,668	$4,137
Investing activities:		
Proceeds from maturities of securities available for sale	3,958	3,935
Purchases of securities available for sale	(9,921)	(10,010)
Proceeds from maturities of securities held to maturity	214	214
Purchases of securities held to maturity	----	(389)
Proceeds from maturities of certificates of deposit in financial institutions	----	245
Net change in loans	902	(4,951)
Proceeds from sale of other real estate owned	349	580
Purchases of premises and equipment	(473)	(959)
Proceeds from bank owned life insurance	----	224
Net cash used in investing activities	(4,971)	(11,111)
Financing activities:		
Change in deposits	62,812	77,505
Proceeds from common stock through dividend reinvestment	413	----
Cash dividends	(987)	(980)
Proceeds from Federal Home Loan Bank borrowings	8,000	2,785
Repayment of Federal Home Loan Bank borrowings	(896)	(462)
Change in other long-term borrowings	(118)	(112)
Change in other short-term borrowings	(332)	(11)
Net cash provided by financing activities	68,892	78,725
Change in cash and cash equivalents	69,589	71,751
Cash and cash equivalents at beginning of period	74,573	40,166
Cash and cash equivalents at end of period	$144,162	$111,917
Supplemental disclosure:		
Cash paid for interest	$1,061	$845
Cash paid for income taxes	----	511
Transfers from loans to other real estate owned	131	635
Other real estate owned sales financed by The Ohio Valley Bank Company	----	85

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. The Bank has one wholly-owned subsidiary, Ohio Valley REO, LLC ("Ohio Valley REO"), an Ohio limited liability company, to which the Bank transfers certain real estate acquired by the Bank through foreclosure for sale by Ohio Valley REO. 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, 2018, and its results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results to be anticipated for the full fiscal year ending December 31, 2018. 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, 2017 contains consolidated financial statements and related notes which should be read in conjunction with the accompanying consolidated financial statements.
The consolidated financial statements for 2017 have been reclassified to conform to the presentation for 2018. These reclassifications had no effect on the net income 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 4,711,608 and 4,672,316 for the three months ended March 31, 2018 and 2017, respectively. Ohio Valley had no dilutive effect and no potential common shares issuable under stock options or other agreements for any period presented.

ADOPTION OF NEW ACCOUNTING STANDARD UPDATES ("ASU"): In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, which was then adopted by the Company as of January 1, 2018 and all subsequent amendments to the ASU (collectively, "ASC 606"). ASC 606 (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The guidance establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. Additional disclosures providing information about contracts with customers are required. Adoption did not have a material impact on the Company's results of operations or financial position. The

Company adopted ASC 606 using the modified retrospective transition method. As of December 31, 2017, the Company had no uncompleted customer contracts and as a result, no cumulative transition adjustment was posted to the Company's accumulated deficit during 2018.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The update provided updated accounting and reporting requirements for both public and non-public entities 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. The most significant provisions that impacted the Company were: 1) measurement of equity securities at fair value, with the changes in fair value recognized in the income statement; 2) elimination of 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) requirement of 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 Company adopted ASU No. 2016-01 effective January 1, 2018 and determined the impact to be not material to the Company's financial statements. The amendments did change the method utilized to disclose the fair value of the loan portfolio to reflect an exit price notion as opposed to an entry price. For additional information on fair value of assets and liabilities, see Note 2.

In August 2016, FASB issued an update (ASU 2016-15, "Statement of Cash Flows") (Topic 230), which addressed 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 applied to all entities, including business entities and not-for-profit entities that were required to present a statement of cash flows, and were effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2016-15 effective January 1, 2018, which had no impact to the consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The purpose of this Update is to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act that was enacted on December, 22, 2017. The Update is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company has elected to early adopt this accounting guidance effective April 1, 2018. This will result in the reclassification of $173 in stranded tax effects from accumulated other comprehensive income to retained earnings beginning with the June 30, 2018 Form 10-Q.

Revenue Recognition

ASU No. 2014-09, "Revenue from Contracts with Customers" ASC 606 provides 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. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, such as interest and dividends on loans and investment securities, are not included in the scope of ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of the Company's revenue streams that are within the scope of the amendments. The Company's services that fall within the scope of ASC 606 are recognized as revenue as the Company satisfies its obligation to the customer. All of the Company's revenue from contracts with customers within the scope of ASC 606 are presented in the Company's consolidated statements of income as components of non-interest income. The list below describes the specific revenue stream under ASC 606, which corresponds directly to the line item within the statement of income it is being included:

· Service charges on deposit accounts – these include general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer, or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

· Trust fees - this includes periodic fees due from trust customers for managing the customers' financial assets. Fees are generally charged on a quarterly or annual basis and are recognized ratably throughout the period, as the services are provided on an ongoing basis.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

· Electronic refund check/deposit fees – A tax refund clearing agreement between the Bank and a tax refund product provider requires the Bank to process electronic refund checks and electronic refund deposits presented for payment on behalf of taxpayers through accounts containing taxpayer refunds. The Bank, in turn, receives a fee paid by the third-party tax software provider for each transaction that is processed. The amount of fees received are tiered based on the tax refund product selected. Since the Bank acts as a sub servicer in the tax process relationship, a portion of the fee collected is passed on to the tax refund product provider.
· Debit/credit card interchange income – includes interchange income from cardholder transactions conducted with merchants, throughout various interchange networks with which the Company participates. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, as transaction processing services are provided to the deposit customer. Gross fees from interchange are recorded in operating income separately from gross network costs, which are recorded in operating expense.
· Gain (loss) on other real estate owned – the Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

ACCOUNTING GUIDANCE TO BE ADOPTED IN FUTURE PERIODS: 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 of implementing the ASU. A steering committee has been established, models are being evaluated, and available historical information is being collected, in order to assess the expected credit losses. However, the impact to the financial statements is still yet to be determined.

All of the Company's revenue from contracts with customers within the scope of ASC 606 listed above pertained to the banking segment, with no revenue impact recognized from the consumer finance segment during the periods presented.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2018 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 15,303	----
Agency mortgage-backed securities, residential	----	90,154	----

	Fair Value Measurements at December 31, 2017 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
U.S. Government sponsored entity securities	----	$ 13,473	----
Agency mortgage-backed securities, residential	----	87,652	----

There were no transfers between Level 1 and Level 2 during 2018 or 2017.

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 December 31, 2017, Using		
Quoted Prices in	Significant Other Observable	Significant Unobservable

	Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets:			
Other real estate owned:			
Commercial real estate:			
Construction	----	----	$ 822

	Fair Value Measurements at December 31, 2017, Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial real estate:			
Nonowner-occupied	----	----	$ 216
Construction	----	----	756
Other real estate owned:			
Commercial real estate:			
Construction	----	----	822

At March 31, 2018, the Company had no recorded investment in impaired loans that were measured for impairment using the fair value of collateral for collateral-dependent loans. As a result, there was no impact to provision expense on such loans during the three months ended March 31, 2018, and no additional charge-offs recognized. This is compared to a decrease of $221 in provision expense during the three months ended March 31, 2017, with $558 in additional charge-offs recognized. At December 31, 2017, the recorded investment of impaired loans measured for impairment using the fair value of collateral for collateral-dependent loans totaled $972, with no corresponding valuation allowance, resulting in no impact to provision expense and no charge-offs during the year ended December 31, 2017.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other real estate owned that was measured at fair value less costs to sell at March 31, 2018 and December 31, 2017 had a net carrying amount of $822, which is made up of the outstanding balance of $2,217, net of a valuation allowance of $1,395. There were no corresponding write downs during the three months ended March 31, 2018 and 2017.

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, 2018 and December 31, 2017:

March 31, 2018	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Other real estate owned:					
Commercial real estate:					
Construction	$ 822	Sales approach	Adjustment to comparables	5% to 40%	18.1%

December 31, 2017	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range	(Weighted Average)
Impaired loans:					
Commercial real estate:					
Nonowner-occupied	$ 216	Sales approach	Adjustment to comparables	1.6% to 50%	26.7%
Construction	756	Sales approach	Adjustment to comparables	1.3% to 56%	32.9%
Other real estate owned:					
Commercial real estate:					
Construction	822	Sales approach	Adjustment to comparables	5% to 40%	18.1%

The carrying amounts and estimated fair values of financial instruments at March 31, 2018 and December 31, 2017 are as follows:

		Fair Value Measurements at March 31, 2018 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$144,162	$144,162	$----	$----	$144,162
Certificates of deposit in financial institutions	1,820	----	1,820	----	1,820
Securities available for sale	105,457	----	105,457	----	105,457
Securities held to maturity	17,353	----	8,888	8,921	17,809

Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	760,069	----	----	759,830	759,830
Accrued interest receivable	2,552	----	396	2,156	2,552
Financial liabilities:					
Deposits	919,508	314,413	603,594	----	918,007
Other borrowed funds	42,603	----	40,618	----	40,618
Subordinated debentures	8,500	----	6,376	----	6,376
Accrued interest payable	930	3	927	----	930

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Carrying Value	Fair Value Measurements at December 31, 2017 Using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$74,573	$74,573	$----	$----	$74,573
Certificates of deposit in financial institutions	1,820	----	1,820	----	1,820
Securities available for sale	101,125	----	101,125	----	101,125
Securities held to maturity	17,581	----	9,020	9,059	18,079
Restricted investments in bank stocks	7,506	N/A	N/A	N/A	N/A
Loans, net	761,820	----	----	760,746	760,746
Accrued interest receivable	2,503	----	268	2,235	2,503
Financial liabilities:					
Deposits	856,724	253,655	602,268	----	855,923
Other borrowed funds	35,949	----	34,810	----	34,810
Subordinated debentures	8,500	----	6,678	----	6,678
Accrued interest payable	792	4	788	----	792

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

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

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: The estimated fair value of loans as of March 31, 2018 follows the guidance in ASU 2016-01, which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments. The fair value calculation at that date discounted estimated future cash flows using rates that incorporated discounts for credit, liquidity, and marketability factors. The fair value estimate shown as of December 31, 2017 used an "entry price" approach. The fair value calculation for that date discounted estimated future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Consequently, the fair value disclosures for March 31, 2018 and December 31, 2017 are not directly comparable.

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.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at March 31, 2018 and December 31, 2017 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2018				
U.S. Government sponsored entity securities	$ 15,531	$ 8	$ (236)	$ 15,303
Agency mortgage-backed securities, residential	92,822	149	(2,817)	90,154
Total securities	$ 108,353	$ 157	$ (3,053)	$ 105,457
December 31, 2017				
U.S. Government sponsored entity securities	$ 13,622	$ ----	$ (149)	$ 13,473
Agency mortgage-backed securities, residential	88,833	300	(1,481)	87,652
Total securities	$ 102,455	$ 300	$ (1,630)	$ 101,125

Securities Held to Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
March 31, 2018				
Obligations of states and political subdivisions	$ 17,350	$ 558	$ (102)	$ 17,806
Agency mortgage-backed securities, residential	3	----	----	3
Total securities	$ 17,353	$ 558	$ (102)	$ 17,809
December 31, 2017				
Obligations of states and political subdivisions	$ 17,577	$ 533	$ (35)	$ 18,075

Agency mortgage-backed securities, residential	4	----	----	4
Total securities	$ 17,581	$ 533	$ (35)	$ 18,079

NOTE 3 – SECURITIES (Continued)

The amortized cost and estimated fair value of debt securities at March 31 2018, 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.

	Available for Sale		Held to Maturity	
Debt Securities:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$4,600	$4,597	$1,206	$ 1,213
Due in over one to five years	10,931	10,706	6,748	6,955
Due in over five to ten years	----	----	7,137	7,456
Due after ten years	----	----	2,259	2,182
Agency mortgage-backed securities, residential	92,822	90,154	3	3
Total debt securities	$108,353	$105,457	$17,353	$ 17,809

The following table summarizes securities with unrealized losses at March 31, 2018 and December 31, 2017, aggregated by major security type and length of time in a continuous unrealized loss position:

March 31, 2018	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$3,882	$ (126)	$9,434	$ (110)	$13,316	$ (236)
Agency mortgage-backed securities, residential	50,766	(1,212)	30,110	(1,605)	80,876	(2,817)
Total available for sale	$54,648	$ (1,338)	$39,544	$ (1,715)	$94,192	$ (3,053)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
Securities Held to Maturity						
Obligations of states and political subdivisions	$1,792	$ (7)	$1,437	$ (95)	$3,229	$ (102)
Total held to maturity	$1,792	$ (7)	$1,437	$ (95)	$3,229	$ (102)

December 31, 2017	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities Available for Sale						
U.S. Government sponsored entity securities	$6,910	$ (97)	$6,563	$ (52)	$13,473	$ (149)
Agency mortgage-backed						

securities, residential	37,421	(434)	31,763	(1,047)	69,184	(1,481)
Total available for sale	$44,331	$ (531)	$38,326	$ (1,099)	$82,657	$ (1,630)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
<u>Securities Held to Maturity</u>						
Obligations of states and political subdivisions	$362	$ (2)	$1,502	$ (33)	$1,864	$ (35)
Total held to maturity	$362	$ (2)	$1,502	$ (33)	$1,864	$ (35)

There were no sales of investment securities during the three months ended March 31, 2018 and 2017. Unrealized losses on the Company's debt securities have not been recognized into income because the issuers' securities are of high credit quality as of March 31, 2018, and management does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery. Management does not believe any individual unrealized loss at March 31, 2018 and December 31, 2017 represents an other-than-temporary impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are comprised of the following:	March 31, 2018	December 31, 2017
Residential real estate	$305,193	$309,163
Commercial real estate:		
Owner-occupied	69,649	73,573
Nonowner-occupied	104,683	101,571
Construction	37,355	38,302
Commercial and industrial	113,564	107,089
Consumer:		
Automobile	67,752	68,626
Home equity	21,598	21,431
Other	48,271	49,564
	768,065	769,319
Less: Allowance for loan losses	(7,996)	(7,499)
Loans, net	$760,069	$761,820

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018 and 2017:

March 31, 2018	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 1,470	$ 2,978	$ 1,024	$ 2,027	$7,499
Provision for loan losses	594	(581)	316	427	756
Loans charged off	(60)	(1)	(4)	(522)	(587)
Recoveries	55	27	37	209	328
Total ending allowance balance	$ 2,059	$ 2,423	$ 1,373	$ 2,141	$7,996

March 31, 2017	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 939	$ 4,315	$ 907	$ 1,538	$7,699
Provision for loan losses	445	(1,087)	385	402	145
Loans charged-off	(73)	(559)	(4)	(321)	(957)
Recoveries	81	60	72	215	428
Total ending allowance balance	$ 1,392	$ 2,729	$ 1,360	$ 1,834	$7,315

The following table presents the balance in the allowance for loan losses and the recorded investment of loans by portfolio segment and based on impairment method as of March 31, 2018 and December 31, 2017:

March 31, 2018	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					

Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ ----	$ 92	$ ----	$ ----	$ 92
Collectively evaluated for impairment	2,059	2,331	1,373	2,141	7,904
Total ending allowance balance	$ 2,059	$ 2,423	$ 1,373	$ 2,141	$ 7,996
Loans:					
Loans individually evaluated for impairment	$ 1,679	$ 6,356	$ 8,192	$ ----	$ 16,227
Loans collectively evaluated for impairment	303,514	205,331	105,372	137,621	751,838
Total ending loans balance	$ 305,193	$ 211,687	$ 113,564	$ 137,621	$ 768,065

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NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2017	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ ----	$ 94	$ ----	$ ----	$ 94
Collectively evaluated for impairment	1,470	2,884	1,024	2,027	7,405
Total ending allowance balance	$ 1,470	$ 2,978	$ 1,024	$ 2,027	$ 7,499
Loans:					
Loans individually evaluated for impairment	$ 1,420	$ 7,333	$ 9,154	$ 201	$ 18,108
Loans collectively evaluated for impairment	307,743	206,113	97,935	139,420	751,211
Total ending loans balance	$ 309,163	$ 213,446	$ 107,089	$ 139,621	$ 769,319

The following tables present information related to loans individually evaluated for impairment by class of loans as of March 31, 2018 and December 31, 2017:

March 31, 2018	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial real estate:			
Nonowner-occupied	$ 371	$ 371	$ 92
With no related allowance recorded:			
Residential real estate	1,695	1,679	----
Commercial real estate:			
Owner-occupied	2,478	2,478	----
Nonowner-occupied	4,966	3,507	----
Construction	348	----	----
Commercial and industrial	8,192	8,192	----
Total	$ 18,050	$ 16,227	$ 92

December 31, 2017	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial real estate:			
Nonowner-occupied	$ 372	$ 372	$ 94
With no related allowance recorded:			
Residential real estate	1,420	1,420	----
Commercial real estate:			
Owner-occupied	3,427	3,427	----
Nonowner-occupied	4,989	3,534	----
Construction	352	----	----
Commercial and industrial	9,154	9,154	----

Consumer:			----
Home equity	203	201	----
Total	$ 19,917	$ 18,108	$ 94

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present information related to loans individually evaluated for impairment by class of loans for the three months ended March 31, 2018 and 2017:

	Three months ended March 31, 2018		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial real estate:			
Nonowner-occupied	$371	$ 1	$ 1
With no related allowance recorded:			
Residential real estate	1,550	20	20
Commercial real estate:			
Owner-occupied	2,491	34	34
Nonowner-occupied	3,521	20	20
Construction	----	5	5
Commercial and industrial	8,673	124	124
Total	$16,606	$ 204	$ 204

	Three months ended March 31, 2017		
	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial real estate:			
Nonowner-occupied	$382	$ 5	$ 5
Construction	345	----	----
Commercial and industrial	392	----	----
Consumer:			
Home equity	211	2	2
With no related allowance recorded:			
Residential real estate	918	12	12
Commercial real estate:			
Owner-occupied	3,547	36	36
Nonowner-occupied	3,822	21	21
Construction	182	4	4
Commercial and industrial	8,292	100	100
Total	$18,091	$ 180	$ 180

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

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

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of March 31, 2018 and December 31, 2017, other real estate owned for residential real estate properties totaled $331 and $262, respectively. In addition, nonaccrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $864 and $2,410 as of March 31, 2018 and December 31, 2017, respectively.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of March 31, 2018 and December 31, 2017:

March 31, 2018	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$ 121	$ 7,794
Commercial real estate:		
Owner-occupied	----	652
Nonowner-occupied	----	2,432
Construction	----	424
Commercial and industrial	31	396
Consumer:		
Automobile	154	59
Home equity	----	260
Other	89	113
Total	$ 395	$ 12,130

December 31, 2017	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$ 131	$ 5,906
Commercial real estate:		
Owner-occupied	----	476
Nonowner-occupied	----	2,454
Construction	----	444
Commercial and industrial	----	337
Consumer:		
Automobile	127	86
Home equity	----	283
Other	76	126
Total	$ 334	$ 10,112

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the aging of the recorded investment of past due loans by class of loans as of March 31, 2018 and December 31, 2017:

March 31, 2018	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$5,625	$987	$1,864	$8,476	$296,717	$305,193
Commercial real estate:						
Owner-occupied	723	186	289	1,198	68,451	69,649
Nonowner-occupied	417	371	2,223	3,011	101,672	104,683
Construction	----	134	157	291	37,064	37,355
Commercial and industrial	181	83	214	478	113,086	113,564
Consumer:						
Automobile	1,203	184	167	1,554	66,198	67,752
Home equity	325	328	27	680	20,918	21,598
Other	728	175	99	1,002	47,269	48,271
Total	$9,202	$2,448	$5,040	$16,690	$751,375	$768,065

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$5,383	$671	$1,673	$7,727	$301,436	$309,163
Commercial real estate:						
Owner-occupied	194	161	160	515	73,058	73,573
Nonowner-occupied	140	----	2,238	2,378	99,193	101,571
Construction	----	----	169	169	38,133	38,302
Commercial and industrial	303	243	191	737	106,352	107,089
Consumer:						
Automobile	1,257	346	151	1,754	66,872	68,626
Home equity	90	272	27	389	21,042	21,431
Other	865	218	76	1,159	48,405	49,564
Total	$8,232	$1,911	$4,685	$14,828	$754,491	$769,319

Troubled Debt Restructurings:

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

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

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the types of TDR loan modifications by class of loans as of March 31, 2018 and December 31, 2017:

March 31, 2018	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
Residential real estate:			
Interest only payments	$ 690	$ ----	$690
Commercial real estate:			
Owner-occupied			
Interest only payments	997	----	997
Reduction of principal and interest payments	548	----	548
Maturity extension at lower stated rate than market rate	525	----	525
Credit extension at lower stated rate than market rate	408	----	408
Nonowner-occupied			
Interest only payments	560	1,945	2,505
Rate reduction	371	----	371
Credit extension at lower stated rate than market rate	566	----	566
Commercial and industrial:			
Interest only payments	8,192	----	8,192
Total TDR's	$ 12,857	$ 1,945	$14,802

December 31, 2017	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
Residential real estate:			
Interest only payments	$ 697	$ ----	$697
Commercial real estate:			
Owner-occupied			
Interest only payments	997	----	997
Reduction of principal and interest payments	554	----	554
Maturity extension at lower stated rate than market rate	1,466	----	1,466
Credit extension at lower stated rate than market rate	410	----	410
Nonowner-occupied			
Interest only payments	560	1,961	2,521
Rate reduction	372	----	372
Credit extension at lower stated rate than market rate	570	----	570
Commercial and industrial:			
Interest only payments	9,154	----	9,154
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	----	201	201

Total TDR's	$ 14,780	$ 2,162	$16,942