

OHIO VALLEY BANC CORP
Form 10-K
March 18, 2019
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, 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
(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 every Interactive Data file required to be submitted 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 such files).

YES NO

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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.

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 | Smaller reporting company |
| (Do not check if a 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

Based on the closing sales price of \$52.45 per share on June 30, 2018, the aggregate market value of the issuer's shares held by non-affiliates on such date was \$214,018,658. 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 February 28, 2019 was 4,758,659.

Documents Incorporated By Reference:

- (1) Portions of the 2018 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 on May 15, 2019 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”). The Bank has one wholly-owned subsidiary, Ohio Valley REO, LLC, an Ohio limited liability company (“Ohio Valley REO”), to which the Bank transfers certain real estate acquired by the Bank through foreclosure for sale by Ohio Valley REO. Ohio Valley also owns three nonbank subsidiaries, Loan Central, Inc., which engages in lending (“Loan Central”), Ohio Valley Financial Services Agency, LLC, which is used to facilitate the receipt of commissions on insurance sold by the Bank and Loan Central (“Ohio Valley Financial Services”), and OVBC Captive, Inc., a limited purpose property and casualty insurance company (“OVBC Captive”). Ohio Valley also owns one wholly-owned subsidiary trust formed solely to issue a trust preferred security. 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%, 92.7% and 91.6% of total consolidated revenues for the years ended December 31, 2018, 2017 and 2016, 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, LLC’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, 2018, Ohio Valley’s consolidated assets approximated to \$1,030,493,000, and total shareholders’ equity approximated to \$117,874,000.

Ohio Valley is also permitted to engage in certain non-banking activities, such as securities underwriting and dealing activities, insurance agency and underwriting activities and merchant banking/equity investment activities. Ohio Valley presently has an insurance agency, Ohio Valley Financial Services, which is used to facilitate the receipt of commissions on insurance sold by the Bank and Loan Central. Ohio Valley also has a captive insurance company, OVBC Captive, that is engaged in the business of providing commercial property and various liability insurance to the Company and related entities. Management will consider opportunities to engage in additional nonbanking activities as they arise.

Information about the Company’s business segments is set forth in Note R to the Company’s Financial Statements located in Ohio Valley’s 2018 Annual Report to Shareholders.

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 nineteen offices located in Ohio and West Virginia, all but two offering automatic teller machines ("ATMs"). Twelve of these offices also offer drive-up services. The Bank accounted for substantially all of Ohio Valley's consolidated assets at December 31, 2018.

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 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.

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 generally 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.

OVBC Captive is a pure captive insurance company engaged in providing commercial property and various liability insurance to the Company and affiliates. OVBC Captive has been approved under the guidelines of the State of Nevada Division of Insurance.

Variable Interest Entities

Ohio Valley owns one special purpose entity, Ohio Valley Statutory Trust III, which has issued \$8,500,000 in trust preferred securities. Ohio Valley has issued a like amount of subordinated debentures to the Trust 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 Trust III is located in Ohio Valley's 2018 Annual Report to Shareholders under "Note J – Subordinated Debentures and Trust Preferred Securities," in the notes to the Company's consolidated financial statements for the fiscal year ended December 31, 2018.

Financial Information

Financial information regarding the Company as of December 31, 2018 and 2017 and results of operations for the last three fiscal years is contained in the Company's consolidated financial statements for the fiscal year ended December 31, 2018.

Business Combinations

As of the close of business on August 5, 2016, Ohio Valley completed its merger with Milton Bancorp, Inc. ("Milton Bancorp") pursuant to the terms of the Agreement and Plan of Merger dated as of January 7, 2016, by and between Ohio Valley and Milton Bancorp, as amended (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, Milton Bancorp was merged with and into Ohio Valley. Immediately following the Merger, The Milton Banking Company ("Milton Bank") was merged with and into the Bank. The consideration paid for Milton Bancorp totaled \$18.875 million, of which \$11.444 million was the market value of the Company's common shares and \$7.431 million was cash. The fair value of the common shares issued as part of the consideration paid for Milton Bancorp was determined on the basis of the closing price of the Company's common shares on the acquisition date. After the merger, the Company's assets totaled approximately \$950 million and branches increased to 19 locations. Further detail on the merger is located in Ohio Valley's 2018 Annual Report to Shareholders under "Note B – Business Combinations" in the notes to the Company's consolidated financial statements for the fiscal year ended December 31, 2018.

Lending Activities

The Company's loan portfolio increased \$7,733,000 to finish at \$777,052,000 in 2018. The increase in total loans was primarily due to growth within the Company's Athens, Ohio and West Virginia locations. 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. During 2018, residential real estate loans decreased \$5,084,000, or 1.6%, while commercial loans increased \$9,068,000, or 2.8%, and consumer loans increased \$3,749,000, or 2.7%, as compared to 2017. Consolidated interest and fee revenue from loans accounted for 76.31%, 76.50%, and 76.21% of total consolidated revenues in 2018, 2017 and 2016, 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 mortgage or 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 (whichever is the lesser) 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 prior to approval. The Bank's loan committee will review and approve all new commercial loan originations that exceed the originating loan officer's lending limits according to the following thresholds: up to \$750,000 unsecured, up to \$3,000,000 secured, and up to \$3,000,000 aggregate. The Executive Committee of the Bank's Board of Directors will review and approve all new commercial loan originations up to the legal lending limit of the Bank.

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. The Company's consumer loans also consist of seasonal refund anticipation loans ("RAL's") offered by Loan Central during the tax season. RAL's are short-term cash advances against a customer's anticipated income tax refund.

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 purposes of the standards and guidelines are 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. 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 5.48%, 5.29% and 5.69% of total consolidated revenues in 2018, 2017 and 2016, 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, money market, NOW accounts, and certificates of deposit less than \$100,000. The Company will also utilize certificates of deposit and money market deposits from wholesale markets, when necessary, to support growth in assets. Short- and long-term advances from the Federal Home Loan Bank have also been a significant source of funding. Further funding has come from one trust preferred securities offering through Ohio Valley Statutory Trust III, totaling \$8,500,000. Ohio Valley used the proceeds to provide additional capital to the Bank to support growth.

Electronic Refund Check / Electronic Refund Deposit Activities

The Company began its participation in a tax refund service in 2006, in which it served as a facilitator for the clearing of tax refunds for a single tax refund product provider. An agreement between the Bank and the original provider required the Bank to process electronic refund checks ("ERC's") and electronic refund deposits ("ERD's") presented for payment on behalf of taxpayers containing taxpayer refunds. The Bank, in turn, received a fee paid by the provider for each transaction that was processed by the Bank. As a result of ERC/ERD fee activity being mostly seasonal, the majority of income was generally recorded during the first half of the fiscal year, with only minimal income recorded thereafter. During the year ended 2018, the Company's ERC/ERD fees totaled \$1,579,000 and the Company recorded \$894,000 of interest income on the temporary maintenance of tax refunds by the Bank. In 2015 the agreement between the Bank and the original provider, which had a term ending at December 31, 2019, was assumed by MetaBank. MetaBank ceased utilizing the services of the Bank at the end of 2018. The Bank has not yet established a relationship with a different third-party provider of such tax refund products.

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 principal factors of competition for the Company's banking business are the rates of interest charged for loans, the rates of interest paid for deposits, the fees charged for services and the availability and quality of services. The market area for the Bank is concentrated primarily in the Gallia, Jackson, Pike and Meigs Counties of Ohio as well as the Mason and Cabell Counties of West Virginia. Some additional business originates from the surrounding Ohio counties of Lawrence, Vinton, Scioto, Athens, Ross, Pickaway and Madison. 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 the Company's ability to compete in the Gallia, Jackson, Lawrence and Pike Counties by serving a consumer base that may not meet the Bank's credit standards. Loan Central also operates in Scioto and Ross counties of Ohio, which are outside the Bank's primary market area. With the exception of Loan Central's tax refund loan activities and the Bank's ERC/ERD activities, the Company's business is not seasonal, nor is it dependent upon a single or small group of customers.

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 have experienced significant challenges as a result of the economic crisis, which resulted 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. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the Federal Deposit Insurance Fund and the banking system as a whole, and not for the protection of shareholders. Applicable laws and regulations restrict permissible activities and investments, and require actions to protect loan, deposit, brokerage, fiduciary and other customers, as well as the Federal Deposit Insurance Fund. They also may restrict Ohio Valley's ability to repurchase its common shares or to receive dividends from the Bank, and impose capital adequacy and liquidity requirements.

Regulation of Financial 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.

A bank holding company is required to serve as a source of financial strength to each subsidiary bank and to commit resources to support those subsidiary banks. 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. The Federal Reserve Board also requires 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.

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, all of a bank holding company's depository institutions must be well capitalized and well managed under federal banking regulations, and the depository institutions must have received a Community Reinvestment Act rating of at least satisfactory. In addition, the holding company must be well managed and, unless it is a small bank holding company under the Federal Reserve Board's Small Bank Holding Company and Small Savings and Loan Holding Company Policy, must be well capitalized.

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.

If a financial holding company or a subsidiary bank fails to meet the requirements for the holding company to remain a financial holding company, 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 holding company and its subsidiary banks meet the requirements, 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 deficiencies are not corrected within 180 days, the financial holding company may be required to divest ownership or control of all banks. If restrictions are imposed on the activities of the holding company, such restrictions may not be made publicly available pursuant to confidentiality regulations of the banking regulators.

Loan Central is supervised and regulated by the State of Ohio Department of Financial Institutions, Division of Consumer Finance ("ODFI"). Ohio Valley Financial Services is supervised and regulated by the State of Ohio Department of Insurance. OVBC Captive is supervised and regulated by the State of Nevada Division of Insurance. The insurance laws and regulations applicable to insurance agencies, including Ohio Valley Financial Services and OVBC Captive, require education and licensing of individual agents and agencies, require reports and impose business conduct rules.

Economic Growth, Regulatory Relief and Consumer Protection Act

On May 25, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was signed into law. The Regulatory Relief Act was designed to provide regulatory relief for banking organizations, particularly for all but the very largest, those with assets in excess of \$250 billion. Bank holding companies with assets of less than \$100 billion are no longer subject to enhanced prudential standards, and those with assets between \$100 billion and \$250 billion will be relieved of those requirements in 18 months, unless the Federal Reserve Board

takes action to maintain those standards. Certain regulatory requirements applied only to banks with assets in excess of \$50 billion and so did not apply to Ohio Valley even before the enactment of the Regulatory Relief Act.

The Regulatory Relief Act also provides that the banking regulators must adopt regulations implementing the provision that banking organizations with assets of less than \$10 billion are permitted to satisfy capital standards and be considered “well capitalized” under the prompt corrective action framework if their leverage ratios of tangible assets to average consolidated assets is between 8% and 10%, unless the bank’s federal banking agency determines that the organization’s risk profile warrants a more stringent leverage ratio. The Office of the Comptroller of the Currency (“OCC”), the Federal Reserve Board and the FDIC have proposed for comment the leverage ratio framework for any banking organization with total consolidated assets of less than \$10 billion, limited amounts of certain types of assets and off-balance sheet exposures, and a community bank leverage ratio greater than 9%. The community bank leverage ratio would be calculated as the ratio of tangible equity capital divided by average total consolidated assets. Tangible equity capital would be defined as total bank equity capital or total holding company equity capital, as applicable, prior to including minority interests, and excluding accumulated other comprehensive income, deferred tax assets arising from net operating loss and tax credit carry forwards, goodwill and other intangible assets (other than mortgage servicing assets). Average total assets would be calculated in a manner similar to the current tier 1 leverage ratio denominator in that amounts deducted from the community bank leverage ratio numerator would also be excluded from the community bank leverage ratio denominator.

The OCC, the Federal Reserve Board and the FDIC also adopted a rule providing banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of new current expected credit loss methodology accounting under U. S. generally accepted accounting principles (“GAAP”).

The Regulatory Relief Act also relieves bank holding companies and banks with assets of less than \$100 billion in assets from certain record-keeping, reporting and disclosure requirements.

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, the 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 a member of the Federal Reserve Bank of Cleveland ("FRB"), the Bank is supervised and regulated primarily by the ODFI and the Federal Reserve Board. The Bank is also subject to the regulations of the Consumer Financial Protection Bureau (the "CFPB"), which has broad authority to adopt and enforce consumer protection regulations.

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 certain regulations of the FDIC.

Various requirements and restrictions under the laws of the United States, 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, limitations on branching and increasingly extensive consumer protection laws and regulations.

In 2017, the State of Ohio completed a substantial re-writing of Ohio's banking laws that became effective on January 1, 2018. One of the primary purposes of the revision of the law was to adopt one universal bank charter for depository institutions chartered by the state, rather than having separate types of state depository institution charters with different powers and limitations for banks, savings banks and savings and loan associations. The result is that all Ohio-chartered depository institutions are now considered to have full commercial bank powers, unless an institution elects to continue to be governed by federal restrictions applicable to federal savings and loan associations and federal savings banks. While the most substantial changes in the law affect institutions chartered by Ohio as savings banks or savings and loan associations prior to the effectiveness of the new law, some changes also apply to institutions, like the Bank, that were chartered as commercial banks prior to the change in the law. The changes for all Ohio-chartered banks include provisions allowing Ohio-chartered banks to exercise the same powers, perform all acts, and provide all services that are permitted for federally chartered depository institutions, with the exception of laws and regulations dealing with interest rates, thereby enhancing opportunities for Ohio-chartered banks to compete with other financial institutions. Other provisions clarify previous laws addressing, or allow more flexibility with respect to, corporate governance matters, mergers and acquisitions and additional reliance on Ohio corporate law generally.

Consumer Protection Laws and Regulations

Banks are subject to regular examination to ensure compliance with federal statutes and regulations applicable to their business, including consumer protection statutes and implementing regulations. Potential penalties under these laws include, but are not limited to, fines. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") established the CFPB, which has extensive regulatory and enforcement powers over consumer financial products and services. The CFPB has adopted numerous rules with respect to consumer protection laws, amending some existing regulations and adopting new ones, and has commenced enforcement actions. The following are just some of the consumer protection laws applicable to the Bank:

Community Reinvestment Act of 1977: imposes a continuing and affirmative obligation to fulfill the credit needs of its entire community, including low- and moderate-income neighborhoods.

Equal Credit Opportunity Act: prohibits discrimination in any credit transaction on the basis of any of various criteria.

Truth in Lending Act: requires that credit terms are disclosed in a manner that permits a consumer to understand and compare credit terms more readily and knowledgeably.

Fair Housing Act: makes it unlawful for a lender to discriminate in its housing-related lending activities against any person on the basis of any of certain criteria.

Home Mortgage Disclosure Act: requires financial institutions to collect data that enables regulatory agencies to determine whether the financial institutions are serving the housing credit needs of the communities in which they are located.

Real Estate Settlement Procedures Act: requires that lenders provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits abusive practices that increase borrowers' costs.

Privacy provisions of the Gramm-Leach-Bliley Act: requires financial institutions to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties and to protect customer information from unauthorized access.

The banking regulators also use their authority under the Federal Trade Commission Act to take supervisory or enforcement action with respect to unfair or deceptive acts or practices by banks that may not necessarily fall within the scope of specific banking or consumer finance law.

In October 2017, the CFPB issued a final rule with respect to certain consumer loans to be effective on January 16, 2018, although compliance with most sections is required starting on August 19, 2019. The first major part of the rule makes it an unfair and abusive practice for a lender to make short-term and longer-term loans with balloon payments (with certain exceptions) without reasonably determining that the borrower has the ability to repay the loan. The second major part of the rule applies to the same types of loans as well as certain other longer-term loans that are repaid directly from the borrower's account. The rule states that it is an unfair and abusive practice for the lender to withdraw payment from the borrower's account after two consecutive payment attempts have failed, unless the lender obtains the consumer's new and specific authorization to make further withdrawals from the account. The rule also requires lenders to provide certain notices to the borrower before attempting to withdraw payment on a covered loan from the borrower's account.

On February 6, 2019, the CFPB issued two proposals with respect to the Payday Rule. First, the CFPB proposed to delay the compliance date for the mandatory underwriting provisions of the Payday Rule to November 19, 2020. It has requested comments on the proposed delay to be made within 30 days. Second, the CFPB proposed to rescind provisions of the Payday Rule that (1) provide that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon-payment loan without reasonably determining that the consumer has the ability to repay the loan according to its terms; (2) prescribe mandatory underwriting requirements for making the ability-to-repay determination; (3) provide exemptions of certain loans from the mandatory underwriting requirements; and (4) provide related definitions, reporting and recordkeeping requirements. The CFPB has requested comments to be made within 90 days on this proposal. These proposals do not change the provisions of the Payday Rule that address lender payment practices with respect to covered loans. The CFPB also stated that it will be considering other changes to the Payday Rule in response to requests received for exemptions of certain types of lenders or loan products and may commence separate additional rulemaking initiatives.

The impact of this rule on the Bank, both with and without the proposed amendments, is estimated to be minimal. The Bank originates very few, if any, loans covered by the rule as written or amended. The law's effect on Ohio Valley's consumer finance subsidiary, Loan Central, would be more burdensome under the rule as written in 2017. The 2017 version of the rule would have a material effect on several Loan Central loan products, including tax refund related loans. The 2019 amended rule would have substantially less of an impact on Loan Central's loan products.

Ohio law requires that lenders in Ohio, with exemptions for banks, savings associations, credit unions and certain other financial institutions, obtain licenses and comply with numerous restrictions on various types of consumer lending. The regulations address maximum permissible interest rates, duration, amounts, permissible collateral, underwriting, renewals, collection and various other aspects of such loans. On July 30, 2018, Ohio adopted a law ("HB 123") placing much greater restrictions on such loans originated after April 26, 2019. While the Bank is exempt from such laws, Ohio Valley's consumer finance subsidiary, Loan Central, is not. Loan Central may need to cease making most of its loans, consisting of tax refund related loans, when HB 123 becomes applicable. Because most of Loan Central's lending each year occurs before the end of April, the new law should not have a material effect on Loan Central and Ohio Valley for 2019. Ohio Valley and Loan Central will continue to analyze the law and pursue potential ways to reduce the effect of the law on Loan Central before Loan Central's 2020 tax season related lending commences in late 2019.

Capital Requirements

Financial institutions and their holding companies are required to maintain capital as a way of absorbing losses that can, as well as losses that cannot, be predicted. The Federal Reserve Board has adopted risk-based capital guidelines for financial holding companies as well as state banks that are members of a Federal Reserve Bank. The OCC and the FDIC have adopted risk-based capital guidelines for national banks and state non-member banks, respectively. The guidelines provide a systematic analytical framework which makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures expressly into account in evaluating capital adequacy and minimizes disincentives to holding liquid, low-risk assets. Capital levels as measured by these standards are also used to categorize financial institutions for purposes of certain prompt corrective action regulatory provisions.

The risk-based capital guidelines adopted by the federal banking agencies are based on the "International Convergence of Capital Measurement and Capital Standard" (Basel I), published by the Basel Committee on Banking Supervision (the "Basel Committee"). New capital rules applicable to smaller banking organizations (the "Basel III Capital Rules"), which also implement certain of the provisions of the Dodd-Frank Act, became effective commencing on January 1, 2015. Compliance with the new minimum capital requirements was required effective on January 1, 2015, whereas a new capital conservation buffer and deductions from common equity capital phase in from January 1, 2016, through January 1, 2019, and most deductions from common equity tier 1 capital will phase in from January 1, 2015, through January 1, 2019.

The rules include (a) a minimum common equity tier 1 capital ratio of 4.5 percent, (b) a minimum Tier 1 capital ratio of 6.0 percent, (c) a minimum total risk-based capital ratio of 8.0 percent, and (d) a minimum leverage ratio (Tier 1 capital to average assets) of 4%.

Common equity for the common equity tier 1 capital ratio includes common stock (plus related surplus) and retained earnings, plus limited amounts of minority interests in the form of common stock, less the majority of certain regulatory deductions.

Tier 1 capital includes common equity as defined for the common equity tier 1 capital ratio, plus certain non-cumulative preferred stock and related surplus, cumulative preferred stock and related surplus and trust preferred

securities that have been grandfathered (but which are not permitted going forward), and limited amounts of minority interests in the form of additional Tier 1 capital instruments, less certain deductions.

Tier 2 capital, which can be included in the total capital ratio, includes certain capital instruments (such as subordinated debt) and limited amounts of the allowance for loan and lease losses, subject to new eligibility criteria, less applicable deductions.

The deductions from common equity tier 1 capital include goodwill and other intangibles, certain deferred tax assets, mortgage-servicing assets above certain levels, gains on sale in connection with a securitization, investments in a banking organization's own capital instruments and investments in the capital of unconsolidated financial institutions (above certain levels).

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of several risk weights is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Some of the risk weightings were changed effective January 1, 2015.

The rules also place restrictions on the payment of capital distributions, including dividends, and certain discretionary bonus payments to executive officers if the company does not hold a capital conservation buffer of greater than 2.5 percent composed of common equity tier 1 capital above its minimum risk-based capital requirements, or if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The capital conservation buffer phases in starting on January 1, 2016, at .625% and effective January 1, 2019, is fully phased in at 2.5%.

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.

Effective January 1, 2015, in order to be "well-capitalized," a bank must have a common equity tier 1 capital ratio of at least 6.5%, a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8% and a leverage ratio of at least 5%, and the bank must not be subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level or any capital measure. Ohio Valley's management believes that the Bank meets the ratio requirements to be deemed "well-capitalized" under the prompt corrective action regulations.

A bank with a capital level that might qualify for well capitalized or adequately capitalized status may nevertheless be treated as though the bank is in the next lower capital category if the bank's primary federal banking supervisory authority determines that an unsafe or unsound condition or practice warrants that treatment. A bank's operations can be significantly affected by its capital classification under the prompt corrective action rules. For example, a bank that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market without advance regulatory approval. These deposit-funding limitations can have an adverse effect on the bank's liquidity. At each successively lower capital category, an insured depository institution is subject to additional restrictions. Undercapitalized banks are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance fund. Bank regulatory agencies generally are required to appoint a receiver or conservator within 90 days after a bank becomes critically undercapitalized, with a leverage ratio of less than 2%. The Federal Deposit Insurance Act provides that a federal bank regulatory authority may require a bank holding company to divest itself of an undercapitalized bank subsidiary if the agency determines that divestiture will improve the bank's financial condition and prospects.

In September 2017, the Federal Reserve Board, along with other bank regulatory agencies, proposed amendments to its capital requirements to simplify various aspects of the capital rules for community banks, including the Bank, in an attempt to reduce the regulatory burden for such smaller financial institutions. In November 2017, the federal banking agencies extended, for the community banks, the existing capital requirements for certain items that were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered. As described above, the bank regulatory agencies have proposed revised capital requirements under the Regulatory Relief Act.

Regulations of the Federal Reserve Board generally require a financial holding company to maintain total risk-based capital of 10.0% and Tier 1 risk-based capital of 6.0%. If, however, a bank holding company satisfies the requirements of the Federal Reserve Board's Small Bank Holding Company and Small Savings and Loan Holding Company Policy Statement (the "SBHCP"), the holding company is not required to meet the consolidated capital requirements. As amended effective in September 2018, the SBHCP requires that the holding company have assets of less than \$3 billion, that it meet certain qualitative requirements, and that all of the holding company's bank subsidiaries meet all bank capital requirements. As of December 31, 2018, Ohio Valley was deemed to meet the SBHCP requirements and so was not required to meet consolidated capital requirements at the holding company level.

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 capital levels. Dividends are also subject to limitations if the Company or the Bank fails to hold the required capital conservation buffer. 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. Under Ohio law, the Bank may pay a dividend from surplus only with the approval of its shareholders and the approval of the Superintendent of Financial Institutions. 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, Federal Reserve Board 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.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by insured institutions, including the Bank, to prohibit any insured institution from engaging in any activity the FDIC determines to pose a threat to the deposit insurance fund, and to take enforcement actions against insured institutions. The FDIC may terminate insurance of deposits of any institution if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or other regulatory agency.

The FDIC assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. The premiums fund the Deposit Insurance Fund (“DIF”). Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio (“DRR”), which is the amount in the DIF as a percentage of all DIF insured deposits. In March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets of less than \$10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. Although the FDIC’s new rules reduced assessment rates on all banks, they imposed a surcharge on banks with assets of \$10 billion or more to be paid until the DRR reaches 1.35%. The DRR reached 1.36% at September 30, 2018. The rules also provide assessment credits to banks with assets of less than \$10 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. Such credits will be applied when the reserve ratio is at least 1.38%. The rules further changed the method of determining risk-based assessment rates for established banks with less than \$10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in September of 2019. The Financing Corporation has projected that the last assessment will be collected on the March 29, 2019, FDIC invoice.

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.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (the “CRA”) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit or other financial assistance to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA. As of its most recent evaluation, the Bank was assigned an overall CRA rating of “Satisfactory.”

Customer Privacy Protections

The Bank is subject to regulations limiting the ability of financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated party.

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.

Executive and Incentive Compensation

In June 2010, the Federal Reserve Board, the OCC and the FDIC issued joint interagency guidance on incentive compensation policies (the “Joint Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to affect materially the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should: (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks; (ii) be compatible with effective internal controls and risk management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. The Joint Guidance made incentive compensation part of the regulatory agencies’ examination process, with the findings of the supervisory initiatives included in reports of examination and enforcement actions possible.

In 2011, federal bank regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the “First Proposed Joint Rules”). The First Proposed Joint Rules generally would have applied to financial institutions with \$1 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees.

In May 2016, the federal bank regulatory agencies approved a second joint notice of proposed rules (“the Second Proposed Joint Rules”) designed to prohibit incentive-based compensation arrangements that encourage inappropriate risks at financial institutions. The Second Proposed Joint Rules would apply to covered financial institutions with total assets of \$1 billion or more. The requirements of the Second Proposed Joint Rules would differ for each of three categories of financial institutions:

- Level 1 consists of institutions with assets of \$250 billion or more;
- Level 2 consists of institutions with assets of at least \$50 billion and less than \$250 billion; and
- Level 3 consists of institutions with assets of at least \$1 billion and less than \$50 billion.

Some of the requirements would apply only to Level 1 and Level 2 institutions. For all covered institutions, including Level 3 institutions, the Second Proposed Joint Rules would:

- prohibit incentive-based compensation arrangements that are “excessive” or “could lead to material financial loss;”
- require incentive based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and
- require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

Level 1 and Level 2 institutions would have additional requirements, including deferrals of awards to certain covered persons; potential downward adjustments, forfeitures or clawbacks; and additional risk-management and control standards, policies and procedures. In addition, certain practices and types of incentive compensation would be prohibited.

Employees

As of December 31, 2018, Ohio Valley and its subsidiaries had approximately 300 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 2018 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, 2018, 2017 and 2016 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 2018 Annual Report to Shareholders.

Tables setting forth the effect of volume and rate changes on interest income and expense for the years ended December 31, 2018 and 2017 are incorporated herein by reference to the information appearing under the caption C. "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 2018 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) | 2018 | 2017 | 2016 |
|--|-----------|-----------|----------|
| Securities Available for Sale | | | |
| U.S. Government sponsored entity securities | \$16,630 | \$13,473 | \$10,544 |
| Agency mortgage-backed securities, residential | 85,534 | 87,652 | 85,946 |
| Total securities available for sale | \$102,164 | \$101,125 | \$96,490 |
| Securities Held to Maturity | | | |
| Obligations of states of the U.S. and political subdivisions | \$15,813 | \$17,577 | \$18,661 |
| Agency mortgage-backed securities, residential | 3 | 4 | 4 |
| Total securities held to maturity | \$15,816 | \$17,581 | \$18,665 |

Information required by this item is incorporated herein by reference to the information appearing under the caption B. "Table III - Securities," within "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Ohio Valley's 2018 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) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Residential real estate | \$304,079 | \$309,163 | \$286,022 | \$223,875 | \$223,628 |
| Commercial real estate | 216,360 | 213,446 | 214,007 | 169,312 | 177,612 |
| Commercial and industrial | 113,243 | 107,089 | 100,589 | 81,936 | 83,998 |
| Consumer | 143,370 | 139,621 | 134,283 | 110,629 | 109,530 |
| | \$777,052 | \$769,319 | \$734,901 | \$585,752 | \$594,768 |

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 2018 Annual Report to Shareholders.

C. 1. 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 \$1,173,000, \$1,377,000 and \$1,235,000 for the fiscal years ended December 31, 2018, 2017 and

2016, respectively. The amount of interest income that was included in net income recorded on such loans was \$908,000, \$920,000 and \$779,000 for the fiscal years ended December 31, 2018, 2017 and 2016, respectively. Additional information required by this item is incorporated herein by reference to the information appearing under the caption “Table V - Summary of Nonperforming, Past Due and Restructured Loans,” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

Potential Problem Loans - At December 31, 2018 and 2017, there were no loans that are not already included in “Table V - Summary of Nonperforming, Past Due and Restructured Loans” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 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, 2018, 2017 or 2016.

Loan Concentrations - As of December 31, 2018 and 2017, 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, 2018, located in Ohio Valley’s 2018 Annual Report to Shareholders which is incorporated herein by reference.

D. Other Interest-Bearing Assets - As of December 31, 2018 and 2017, 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) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------|---------|---------|---------|---------|
| Balance, beginning of year | \$7,499 | \$7,699 | \$6,648 | \$8,334 | \$6,155 |
| Loans charged off: | | | | | |
| Residential real estate | 874 | 745 | 384 | 828 | 487 |
| Commercial real estate | 4 | 1,067 | 63 | 1,971 | 235 |
| Commercial and industrial | 208 | 627 | 586 | 24 | 41 |
| Consumer | 2,514 | 1,642 | 2,170 | 1,428 | 1,216 |
| Total loans charged off | 3,600 | 4,081 | 3,203 | 4,251 | 1,979 |
| Recoveries of loans: | | | | | |
| Residential real estate | 215 | 260 | 299 | 386 | 286 |
| Commercial real estate | 523 | 362 | 132 | 204 | 108 |
| Commercial and industrial | 327 | 86 | 16 | 234 | 392 |
| Consumer | 725 | 609 | 981 | 651 | 585 |
| Total recoveries of loans | 1,790 | 1,317 | 1,428 | 1,475 | 1,371 |
| Net loan charge-offs | (1,810) | (2,764) | (1,775) | (2,776) | (608) |
| Provision charged to operations | 1,039 | 2,564 | 2,826 | 1,090 | 2,787 |
| Balance, end of year | \$6,728 | \$7,499 | \$7,699 | \$6,648 | \$8,334 |
| Ratio of net charge-offs to average loans outstanding | .23 % | .37 % | .28 % | .47 % | .10 % |
| Ratio of allowance for loan losses to non-performing assets | 66.13 % | 62.39 % | 67.43 % | 69.01 % | 74.76 % |

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 captions “Provision Expense” and “Allowance for Loan Losses” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

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 B. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

V. DEPOSITS

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 A. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

C.&E. Foreign Deposits - There were no foreign deposits outstanding at December 31, 2018, 2017, or 2016.

D. Schedule of Maturities - The following table provides a summary of total time deposits of \$100,000 or greater by remaining maturities for the fiscal year ended December 31, 2018 and 2017:

| | | | | |
|---|----------|----------|----------|----------|
| December 31, 2018 | | Over | Over | |
| (dollars in thousands) | 3 | 3 | 6 | Over |
| | months | through | through | 12 |
| | | 6 | 12 | 12 |
| | or less | months | months | months |
| Total time deposits of \$100,000 or greater | \$20,107 | \$11,371 | \$28,927 | \$66,558 |
| December 31, 2017 | | Over | Over | |
| (dollars in thousands) | 3 | 3 | 6 | Over |
| | months | through | through | 12 |
| | | 6 | 12 | 12 |
| | or less | months | months | months |
| Total time deposits of \$100,000 or greater | \$14,450 | \$9,463 | \$32,998 | \$55,950 |

VI. RETURN ON EQUITY AND ASSETS

Information required by this section is incorporated herein by reference to the information appearing under the caption “Table IX - Key Ratios” within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

VII. SHORT-TERM BORROWINGS

During each of the last three fiscal years, the Company’s average amount of short-term borrowings was less than 30% of shareholders’ equity at the end of the period.

ITEM 1A – RISK FACTORS

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report on Form 10-K which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, the statements specifically identified as forward-looking statements within this document. In addition, certain statements in future filings by Ohio Valley with the SEC, in press releases, and in oral and written statements made by or with the approval of Ohio Valley which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Examples of forward-looking statements include: (i) projections of income or expense, earnings per share, the payment or non-payment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Ohio Valley or our management or Board of Directors, including those relating to products or services and strategic plans, such as mergers; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “expects,” “intends,” “targeted,” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

The Private Securities Litigation Reform Act provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the “safe harbor” provisions of that Act.

Forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those factors identified below. There is also the risk that Ohio Valley’s management or Board of Directors incorrectly analyzes these risks and forces, or that the strategies Ohio Valley develops to address them are unsuccessful.

Forward-looking statements speak only as of the date on which they are made, and, except as may be required by law, Ohio Valley undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made to reflect unanticipated events. All subsequent written and oral forward-looking statements attributable to Ohio Valley or any person acting on our behalf are qualified in their entirety by the following cautionary statements.

The following are certain risks that management believes are specific to our business. This should not be viewed as an all-inclusive list of risks or presenting the risk factors listed in any particular order.

Risks Related to Economic, Political and Market Conditions

Economic, political and market risks could adversely affect our earnings and capital through declines in loan demand, our borrowers’ ability to repay loans, the value of the collateral securing our loans, and deposits.

Our success depends, to a certain extent, upon economic and political conditions, local, national and even international, as well as governmental fiscal and monetary policies. Inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our financial condition and results of operations. The election of a new United States President in 2016 has resulted in substantial changes in economic and political conditions for the United States and the remainder of the world. Economic turmoil in Europe and Asia and changes in oil production in the Middle East affect the economy and stock prices in the United States. The timing and circumstances of the United Kingdom leaving the European Union (Brexit) and their effects on the United States are unknown. Because a significant amount of our loans are secured by real estate, additional decreases in real estate values likely would adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and cash flows.

In addition, consistent with our community banking philosophy, substantially all of our loans are to individuals and businesses in Ohio and West Virginia. Therefore, our local and regional economies have a direct impact on our ability to generate deposits to support loan growth, the demand for loans, the ability of borrowers to repay loans, the value of collateral securing our loans (particularly loans secured by real estate), and our ability to collect, liquidate and restructure problem loans. Consequently, any decline in the economy of this market area could have a material adverse effect on our financial condition and results of operations. We are less able than larger financial institutions to spread risks of unfavorable local economic conditions across a large number of diversified economies.

Our earnings are significantly affected by the fiscal and monetary policies of the U.S. Government and its agencies, sometimes adversely.

The policies of the Federal Reserve Board impact us significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold. Those policies determine to a significant extent our cost of funds for lending and investing. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve Board policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve Board could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay its loan, which could have a material adverse effect on our financial condition and results of operations.

Changes in interest rates could have a material adverse effect on our financial condition and results of operations.

Our earnings depend substantially on our interest rate spread, which is the difference between (i) the rates we earn on loans, securities and other earning assets and (ii) the interest rates we pay on deposits and other borrowings. These rates are highly sensitive to many factors beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities (in particular, the Board of Governors of the Federal Reserve System). While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that such measures will be effective in avoiding undue interest rate risk. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which will result in a decrease of our net interest income and could have a material adverse effect on our financial condition and results of operations.

In addition to the effect of changes in interest rates on our interest rate spread, changes in interest rates may negatively affect the ability of our borrowers to repay their loans, particularly as interest rates have been rising and adjustable-rate debt becomes more expensive. Increased defaults on loans could have a material adverse effect on our financial condition, results of operations and cash flows.

A transition away from LIBOR as a reference rate for financial contracts could negatively affect our income and expenses and the value of various financial contracts.

LIBOR is used extensively in the U.S. and globally as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks, which may stop reporting such information after 2021. It is uncertain at this time whether LIBOR will change or cease to exist or the extent to which those entering into financial contracts will transition to any other particular benchmark. Other benchmarks may perform differently than LIBOR or alternative benchmarks have performed in the past or have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist. Ohio Valley's primary exposure to LIBOR relates to its LIBOR-based floating rate loans with borrowers, swap contracts with customers, offsetting swap contracts with a third

party related to the swap contracts with customers and LIBOR-based floating rate borrowings. Ohio Valley's contracts generally include a LIBOR term plus an incremental margin rate. The manner and impact of this transition, as well as the effect on our loan revenue and funding costs, is uncertain at this time.

Adverse changes in the financial markets may adversely impact our results of operations.

The capital and credit markets have been experiencing unprecedented levels of volatility since 2008. While we generally invest in securities with limited credit risk, certain investment securities we hold possess higher credit risk since they represent beneficial interests in structured investments collateralized by residential mortgages. Regardless of the level of credit risk, all investment securities are subject to changes in market value due to changing interest rates and implied credit spreads.

Structured investments have at times been subject to significant market volatility due to the uncertainty of credit ratings, deterioration in credit losses occurring within certain types of residential mortgages, changes in prepayments of the underlying collateral and the lack of transparency related to the investment structures and the collateral underlying the structured investment vehicles.

A default by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This “systemic risk” may adversely affect our business.

Risks Related to Our Business

We operate in an extremely competitive market, and our business will suffer if we are unable to compete effectively.

In our market area, we encounter significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. Many of our competitors have substantially greater resources and lending limits than we do and may offer services that we do not or cannot provide. Technology and other changes are allowing parties to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, consumers can now pay bills and transfer funds directly without banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, technological advancements allow parties to better serve customers, increase efficiency, and reduce costs. Our ability to maintain our history of strong financial performance and return on investment to shareholders will depend, in part, on our ability to use technology to deliver products and services that provide convenience to customers and to create additional efficiencies in our operations.

Our small to medium-sized business target market may have fewer financial resources to weather a downturn in the economy.

We target our business development and marketing strategy largely to serve the banking and financial services needs of small to medium-sized businesses. These small to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger companies. If general economic conditions negatively impact our Ohio and West Virginia markets or the other geographic markets in which we operate, our results of operations and financial condition may be negatively affected.

Our business strategy includes growth plans. Our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a profitable growth strategy. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. We cannot assure you that we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy. Also, if we grow more slowly than anticipated, our operating results could be materially adversely affected.

Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas, our ability to raise sufficient capital and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed.

We may acquire other financial institutions or parts of institutions in the future and may open new branches. We also may consider and enter into new lines of business or offer new products or services. Expansions of our business involve a number of expenses and risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions or new products or services; the potential inaccuracy of estimates and judgments used to evaluate credit, operations, management and market risk with respect to the target institutions;
- the time and costs of evaluating new markets, hiring local management and opening new offices, and the delay between commencing these activities and the generation of profits from the expansion;
- our ability to finance an acquisition or other expansion and the possible dilution to our existing shareholders; the diversion of management's attention to the negotiation of a transaction and the integration of the operations and personnel of the combining businesses;
- entry into unfamiliar markets;
- the possible failure of the introduction of new products and services into our existing business; the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the risk of loss of key employees and customers.

We may incur substantial costs to expand, and we can give no assurance that such expansion will result in the levels of profits we expect. Neither can we assure that integration efforts for any future acquisitions will be successful. We may issue equity securities in connection with acquisitions, which could dilute the economic and voting interests of our existing shareholders. We may also lose customers as we close one or more branches as part of a plan to expand into other areas or become more productive from other branches.

Periodic regulatory reviews may affect our operations and financial condition.

We are subject to periodic reviews from state and federal regulators, which may impact our operations and our financial condition. As part of the regulatory review, the loan portfolio and the allowance for loan losses are evaluated. As a result, the incurred loss identified on loans or the assigned loan rating could change and may require us to increase our provision for loan losses or loan charge-offs. In addition, any downgrade in loan ratings could impact our level of impaired loans or classified assets. Any increase in our provision for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our financial condition and results of operations. Findings of deficiencies in compliance with regulations could result in restrictions on our activities or even a loss in our financial holding company status.

Our exposure to credit risk could adversely affect our earnings and financial condition.

Making loans carries inherent risks, including interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks that we will have inaccurate or incomplete information about borrowers, risks that borrowers will become unable to repay loans; and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial and commercial real estate loans comprise a significant portion of our loan portfolio. Commercial loans generally are viewed as having a higher credit risk than residential real estate or consumer loans because they usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Since our loan portfolio contains a significant number of commercial and commercial real estate loans, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, and ultimately could have a material adverse effect on our earnings and financial condition. We may also have concentrated credit exposure to a particular industry, resulting in a risk of a material adverse effect on our earnings or financial condition if there is an event adversely affecting that industry.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided to us by customers and counterparties, including financial statements and other financial information. We may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, we may assume that the customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We may also rely on the audit report covering those financial statements. Our financial condition, results of operations and cash flows could be negatively impacted to the extent that we rely on financial statements that do not comply with GAAP or on financial statements and other financial information that are materially misleading.

We may be required to repurchase loans we have sold or indemnify loan purchasers under the terms of the sale agreements, which could adversely affect our liquidity, results of operations and financial condition.

When the Bank sells a mortgage loan, it agrees to repurchase or substitute a mortgage loan if it is later found to have breached any representation or warranty the Bank made about the loan or if the borrower is later found to have committed fraud in connection with the origination of the loan. While we have underwriting policies and procedures designed to avoid breaches of representations and warranties as well as borrower fraud, we cannot assure that no breach or fraud will ever occur. Required repurchases, substitutions or indemnifications could have an adverse effect on our liquidity, results of operations and financial condition.

If our actual loan losses exceed our allowance for loan losses, our net income will decrease.

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. In accordance with GAAP, we maintain an allowance for loan losses to provide for loan defaults and non-performance, which when combined, we refer to as the allowance for loan losses. Our allowance for loan losses may not be adequate to cover actual credit losses, and future provisions for credit losses could have a material adverse effect on our operating results. Our allowance for loan losses is based upon a number of relevant factors, including, but not limited to, trends in the level of nonperforming assets and classified loans, current economic conditions in the primary lending area, prior experience, possible losses arising from specific problem loans, and our evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. Moreover, the Financial Accounting Standards Board (“FASB”) has changed its requirements for establishing the allowance, which will be effective for us in the first quarter of 2020. We cannot assure you that we will not further increase the allowance for loan losses or that regulators will not require us to increase this allowance. Either of these occurrences could have a material adverse effect on our financial condition and results of operations.

The discontinuance of the Bank’s tax refund services under a contract with a third-party tax refund product provider and the related litigation may have an adverse effect on our net income and liquidity.

Through its relationship with a third-party tax refund product provider, the Bank previously offered products to facilitate the payment of tax refunds for customers who electronically filed their tax returns. Under this program, the taxpayer received an ERC/ERD. In return, the Bank charged a fee for the service. For the 2018 tax season, the Company recorded ERC/ERD fee income of \$1,579. In addition, the Bank recorded interest income of \$894 on the temporary maintenance of tax refunds in the Bank’s Federal Reserve Bank clearing account pending disbursement of the refunds.

The Bank’s third-party tax refund product provider ceased utilizing the services of the Bank at the end of 2018. The termination of this relationship, unless and until replaced, will adversely affect the Company’s liquidity and net income. The Bank will be unable to replace the relationship for the 2019 tax season but will consider alternatives for future years. Further, the Bank has filed a lawsuit against the third-party tax refund provider alleging breach of contract. There can be no assurance of the timing and extent of damages recovered through such litigation, and the costs of the litigation will have an adverse effect on Ohio Valley’s liquidity and net income.

We may lose business due to declining use by consumers of banks to complete financial transactions or increased depositing of funds electronically with banks outside of our market area, which could negatively affect our net financial condition and results of operations.

Technology and other changes allow parties to complete financial transactions without banks. For example, consumers can pay bills and transfer funds directly without banks. Consumers can also shop for higher deposit interest rates at banks across the country, which may offer higher rates because they have few or no physical branches and open deposit accounts electronically. This process could result in the loss of fee income, as well as the loss of client deposits and the income generated from those deposits, in addition to increasing our funding costs.

Failures of, or material breaches in security of, our systems or those of third-party service providers may have a material adverse effect on our business.

Our business requires that we collect, process and store sensitive consumer data by utilizing computer systems and telecommunications networks operated by both us and third-party service providers. Our dependence upon automated systems to record and process the Bank’s transactions poses the risk that technical system flaws, employee errors,

tampering or manipulation of those systems, or attacks by third parties will result in losses and may be difficult to detect. Our inability to use these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. In recent years, some banks have experienced denial of service attacks in which individuals or organizations flood the bank's website with extraordinarily high volumes of traffic, with the goal and effect of disrupting the ability of the bank to process transactions. We could also be adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. We are further exposed to the risk that third-party service providers may be unable to fulfill their contractual obligations or will be affected by the same risks as the Bank has. These disruptions may interfere with service to the Bank's customers, cause additional regulatory scrutiny and result in a financial loss or liability. We are also at risk of the impact of natural disasters, terrorism and international hostilities on our systems or for the effects of outages or other failures involving power or communications systems operated by others.

Employees could engage in fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. We may not be able to prevent employee errors or misconduct, and the precautions we take to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject us to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on our business.

In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. The recent massive breach of the systems of a credit bureau presents additional threats as criminals now have more information about a larger portion of our country's population than past breaches have involved, which could be used by criminals to pose as customers initiating transfers of money from customer accounts. Although we have policies and procedures in place to verify the authenticity of our customers, we cannot assure that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to our reputation.

Management cannot be certain that the security controls we have adopted will prevent unauthorized access to our computer systems or those of our third-party service providers, whom we require to maintain similar controls. A security breach of the computer systems and loss of confidential information, such as customer account numbers or personal information, could result in a loss of customers' confidence and, thus, loss of business. In addition, unauthorized access to or use of sensitive data could subject us to litigation and liability and costs to prevent further such occurrences.

Further, we may be affected by data breaches at retailers and other third parties who participate in data interchanges with us and our customers that involve the theft of customer credit and debit card data, which may include the theft of our debit card PIN numbers and commercial card information used to make purchases at such retailers and other third parties. Such data breaches could result in us incurring significant expenses to reissue debit cards and cover losses, which could result in a material adverse effect on our results of operations.

Our assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. We use several third-party vendors who have access to our assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom, and theft. As cyber and other data security threats continue to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any security vulnerabilities.

Our ability to pay cash dividends is limited, and we may be unable to pay cash dividends in the future even if we would like to do so.

We are dependent primarily upon the earnings of our operating subsidiaries for funds to pay dividends on our common stock. The payment of dividends by us is also subject to certain regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and our subsidiaries' earnings, capital requirements, financial condition and other factors. Although our financial earnings and financial condition have allowed us to declare and pay periodic cash dividends to our shareholders, there can be no assurance that our dividend policy or the size of dividend distribution will continue in the future, even if we are able to pay dividends. Our failure to pay dividends on our common shares could have a material adverse effect on the market price of our common shares.

We may be compelled to seek additional capital in the future but may not be able to access capital when needed.

Ohio Valley and the Bank are required by regulatory authorities to maintain specified levels of capital. Federal banking agencies have adopted extensive changes to their capital requirements, including raising required amounts and eliminating inclusion of certain instruments from the calculation of capital. If we experience increased loan losses, we may need to obtain additional capital. In addition, we may elect to raise additional capital to support its business, to finance acquisitions, if any, or for other purposes. Our ability to raise additional capital, if needed, will depend on our financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside of our control. There can be no assurance, therefore, that we can raise additional capital at all or on terms acceptable to us. If we cannot raise additional capital when needed or desired, it may have a material adverse effect on our financial condition, results of operations and prospects.

The loss of key members of our senior management team could adversely affect our business.

We believe that our success depends largely on the efforts and abilities of our senior management. Their experience and industry contacts significantly benefit us. In addition, our success depends in part upon senior management's ability to implement our business strategy. The competition for qualified personnel in the financial services industry is intense, and the loss of services of any of our senior executive officers or an inability to continue to attract, retain and motivate key personnel could adversely affect our business. We cannot assure you that we will be able to retain our existing key personnel or attract additional qualified personnel.

Loss of key employees may disrupt relationships with certain customers.

Our business is primarily relationship-driven in that many of our key employees have extensive customer relationships. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe we have strong relationships with our key producers, we cannot guarantee that all of our key personnel will remain with our organization. Loss of such key personnel, should they enter into an employment relationship with one of our competitors, could result in the loss of some of our customers.

If we foreclose on collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenue.

We may have to foreclose on collateral property to protect our investment and may thereafter own and operate such property, in which case we will be exposed to the risks inherent in the ownership of real estate. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) supply of and demand for rental units or properties; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating a real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment, or we may be required to dispose of the real property at a loss. We may also acquire properties with hazardous substances that must be removed or remediated, the costs of which could be substantial, and we may not be able to recover such costs from the responsible parties. The foregoing expenditures and costs could adversely affect our ability to generate revenues, resulting in reduced levels of profitability.

The failure of our common shares to be included in the Russell 3000 Index could result in the market for our common shares to become limited and volatile and the price at which you can sell your shares to decrease.

Your ability to sell or purchase our common shares depends upon the existence of an active trading market for our common shares. Additionally, a fair valuation of the purchase or sales price of our common shares also depends upon an active trading market, and thus the price you receive for a thinly-traded stock may not reflect its true value. A limited trading market for common shares may cause fluctuations in the market value of those common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market.

Although our common shares are quoted on the NASDAQ Global Market, the volume of trades on any given day has historically been limited. As a result, shareholders might not have been able to sell or purchase our common shares at the volume, price or time desired. On June 26, 2017, our common shares were added to the Russell 3000® Index. The addition of our common shares to the Russell 3000® Index increased the volume of trading in our shares as well as the price at which our shares trade. There can be no assurance that our common shares will remain in that index. If our common shares are removed from the Russell 3000® Index, the volume of trading in our shares may decrease materially as well as the prices at which our shares trade.

Our organizational documents may have the effect of discouraging a third party from acquiring us by means of a tender offer, proxy contest or otherwise.

Our articles of incorporation contain provisions that make it more difficult for a third party to gain control or acquire us without the consent of our board of directors. These provisions also could discourage proxy contests and may make it more difficult for dissident shareholders to elect representatives as directors and take other corporate actions. These provisions of our governing documents may have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interests of our shareholders.

The extended disruption of vital infrastructure could negatively impact our results of operations and financial condition.

Our operations depend upon, among other things, our technological and physical infrastructure, including our equipment, facilities and access to the worldwide web via the internet. While disaster recovery procedures are in place, an extended disruption of our vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, denial of service attacks, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control, could have a material adverse impact either on the financial services industry as a whole, or on our business, results of operations, and financial condition.

We may be the subject of litigation, which would result in legal liability and damage our business and reputation.

From time to time, Ohio Valley and the Bank may be subject to claims or legal action from customers, employees or others. Financial institutions like Ohio Valley and the Bank are facing a growing number of significant class actions, including those based on the manner of calculation of interest on loans and the assessment of overdraft fees. Future litigation could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Ohio Valley and the Bank are also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and other agencies regarding their businesses. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Like other financial institutions, Ohio Valley and the Bank are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against Ohio Valley could materially adversely affect its business, financial condition or results of operations and/or cause significant reputational harm to its business.

Risks Related to Legal, Regulatory and Accounting Changes

New laws and increased regulatory oversight may significantly affect our business, financial condition and results of operations.

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors, borrowers, the FDIC's Deposit Insurance Fund and the banking system as a whole, and not to benefit our shareholders. Regulations affecting banks and financial services businesses are undergoing continuous changes, and management cannot predict the effect of these changes. Moreover, the current United States President and certain legislators have taken steps to make extensive changes to regulations affecting financial institutions. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us and our ability to increase the value of our business, possibly limiting the services we provide, increasing the potential for competition from non-banks, or requiring us to change the way we operate.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets held by an institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies against us could cause us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders. Even the reduction of regulatory restrictions could have an adverse effect on us and our shareholders if such lessening of restrictions increases competition within our industry or market area.

In light of events that have occurred in the global financial markets and the global economy since 2007, regulators have increased their focus on the regulation of the financial services industry. New statutes and regulations have subjected us to additional restrictions and requirements that have had an impact on our business and results of operations.

In 2013, the Federal Reserve Board published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U. S. banking organizations. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to financial holding companies and other bank holding companies as well as depository institutions. Although Ohio Valley and the Bank are in compliance with the Basel III Capital Rules, any future changes to capital requirements could have a material impact on Ohio Valley.

In addition to laws, regulations and actions directed at the operations of banks in general, the CFPB has adopted regulations directed at consumer lending in particular. In October 2017, the CFPB issued a final rule (the "Payday Rule") with respect to certain consumer loans to be effective on January 16, 2018, although compliance with most sections to be required starting on August 19, 2019. The first major part of the rule makes it an unfair and abusive practice for a lender to make short-term and longer-term loans with balloon payments (with certain exceptions) without reasonably determining that the borrower has the ability to repay the loan. The second major part of the rule applies to the same types of loans as well as longer-term loans with an annual percentage rate greater than 36 percent that are repaid directly from the borrower's account. The rule states that it is an unfair and abusive practice for the lender to withdraw payment from the borrower's account after two consecutive payment attempts have failed, unless the lender obtains the consumer's new and specific authorization to make further withdrawals from the account. The rule also requires lenders to provide certain notices to the borrower before attempting to withdraw payment on a covered loan from the borrower's account.

On February 6, 2019, the CFPB issued two proposals with respect to the Payday Rule. First, the CFPB proposed to delay the compliance date for the mandatory underwriting provisions of the Payday Rule to November 19, 2020. It has requested comments on the proposed delay to be made within 30 days. Second, the CFPB proposed to rescind provisions of the Payday Rule that (1) provide that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon-payment loan without reasonably determining that the consumer has the ability to repay the loan according to its terms; (2) prescribe mandatory underwriting requirements for making the ability-to-repay determination; (3) provide exemptions of certain loans from the mandatory underwriting requirements; and (4) provide related definitions, reporting and recordkeeping requirements. The CFPB has requested comments to be made within 90 days on this proposal. These proposals do not change the provisions of the Payday Rule that address lender payment practices with respect to covered loans. The CFPB also stated that it will be considering other changes to the Payday Rule in response to requests received for exemptions of certain types of lenders or loan products and may commence separate additional rulemaking initiatives.

We are currently assessing the expected effect of this new rule on the Bank's and Loan Central's lending businesses and on the Company's financial condition and results of operations. The costs of complying with this regulation or a determination to discontinue certain types of consumer lending in light of the expense of compliance could have an adverse effect on the financial conditions and results of operations of the Company. The impact of this rule on the Bank, both with and without the proposed amendments, is estimated to be minimal. The Bank originates very few, if any, loans covered by the rule as written or amended. The law's effect on Ohio Valley's consumer finance subsidiary, Loan Central, would be more burdensome under the rule as written in 2017. The 2017 version of the rule would have a material effect on several Loan Central loan products, including tax refund related loans. The 2019 amended rule would have substantially less of an impact on Loan Central's loan products.

In addition to laws, regulations and actions directed at the operations of banks, proposals to reform the housing finance market could negatively affect our ability to sell loans.

Although it is impossible for us to predict at this time what changes in laws and regulations will be implemented and the effect they 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. Our operating and compliance costs could increase and could adversely affect our financial condition and results of operations.

Changes in tax laws could adversely affect our financial condition and results of operations.

We are subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to our taxes could have a material adverse effect on our results of operations. In addition, our customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by our customers, including changes in the deductibility of mortgage loan related expenses, may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for our loans and deposit products. In addition, such negative effects on our customers could result in defaults on the loans we have made and decrease the value of mortgage-backed securities in which we have invested.

On December 22, 2017, H.R.1, formally known as the "Tax Cuts and Jobs Act," was enacted into law. This new tax legislation, among other changes, limits the amount of state, federal and local taxes that taxpayers are permitted to deduct on their individual tax returns and eliminates other deductions in their entirety. Such limits and eliminations may result in customer defaults on loans we have made and decrease the value of mortgage-backed securities in which we have invested.

A new Ohio law applicable to certain non-bank lenders may result in a reduction of income from Loan Central's operations, thus reducing Ohio Valley's net income.

Ohio Valley believes that it may experience a reduction in interest income as a result of a new state law, signed into law on July 30, 2018, which places numerous restrictions on short-term and small loans extended by certain non-bank lenders in Ohio. The new law, which will apply to loans made on and after April 27, 2019, may adversely affect almost all of the lending of Loan Central, Inc. ("Loan Central"), a wholly-owned consumer finance subsidiary of Ohio Valley, consisting of its tax refund related loans. Of Ohio Valley's \$11.9 million of net income for 2018, approximately up to \$0.8 million was contributed by such tax refund related lending. Because most of Loan Central's lending each year occurs before the end of April, the new law should not have a material effect on the net income of Ohio Valley for 2019. Ohio Valley and Loan Central will continue to analyze the law and pursue potential ways to reduce the effect of the law on Ohio Valley's income before Loan Central's 2020 tax season related lending commences in late 2019. If our efforts are not successful, which is a substantial likelihood, Loan Central's tax refund related lending could be rendered impossible, and Ohio Valley's income will, as a result, be adversely impacted by the loss of that source of income.

Increases in FDIC insurance premiums may have a material adverse effect on our earnings.

Increased bank failures for several years commencing in 2008 greatly increased resolution costs of the FDIC and depleted the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC took a number of actions, including increasing assessment rates of insured institutions, requiring riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels, changing the assessment base and requiring a prepayment of assessments for over three years.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional financial institution failures, we may be required to pay even higher FDIC premiums. Increases in FDIC insurance premiums may materially adversely affect our results of operations and our ability to continue to pay dividends on our common shares at the current rate or at all. The FDIC has recently adopted rules revising its assessments in a manner benefitting banks with assets totaling less than \$10 billion. There can be no assurance, though, that assessments will not be changed in the future.

Changes in accounting standards, policies, estimates or procedures could impact our reported financial condition or results of operations.

Entities that set generally applicable accounting standards, such as the FASB, the Securities and Exchange Commission, and other regulatory boards, periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be difficult to predict and can materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, which would result in the restatement of our financial statements for prior periods.

In June 2016, FASB issued a new accounting standard for recognizing current expected credit losses, commonly referred to as CECL. CECL will result in earlier recognition of credit losses and requires consideration of not only past and current events but also reasonable and supportable forecasts that affect collectability. Ohio Valley will be required to comply with the new standard in the first quarter of 2020. Upon adoption of CECL, credit loss allowances may increase, which would decrease retained earnings and regulatory capital. The federal banking regulators have adopted a regulation that will allow banks to phase in the day-one impact of CECL on regulatory capital over three years. CECL implementation poses operational risk, including the failure to properly transition internal processes or systems, which could lead to call report errors, financial misstatements, or operational losses.

Management's accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with GAAP and reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in reporting materially different amounts than would have been reported under a different alternative.

Management has identified several accounting policies that are considered significant (two as being "critical") to the presentation of our financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. Because of the inherent uncertainty of estimates about these matters, no assurance can be given that the application of alternative policies or methods might not result in our reporting materially different amounts.

ITEM 1B – UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2 - PROPERTIES

Ohio Valley does not own or lease any real or personal property.

The principal executive offices of Ohio Valley and the Bank are located at 420 Third Avenue, Gallipolis, Ohio. The Bank owns fourteen financial service centers located in Gallipolis (Gallia Co.), Jackson, Oak Hill and Wellston (Jackson Co.), Waverly (Pike Co.), New Holland (Pickaway Co.), and Mount Sterling (Madison Co.) in Ohio; and Point Pleasant (Mason Co.), and Milton and Barboursville (Cabell Co.) in West Virginia. The Bank leases five additional financial service centers located in Gallipolis (Gallia Co.), Pomeroy (Meigs Co.) and Athens (Athens Co.) in Ohio. The Bank also owns and operates thirty-seven ATMs, including twenty off-site ATMs. Furthermore, the Bank owns three facilities and leases one facility in Gallipolis (Gallia Co.), Ohio, which are used for additional office space. The Bank also owns a facility in Gallipolis (Gallia Co.), and a facility in Point Pleasant (Mason Co.), in West Virginia, which are all leased to third parties.

Loan Central conducts its consumer finance operations through six offices located in Gallipolis (Gallia Co.), Jackson (Jackson Co.), Waverly (Pike Co.), South Point (Lawrence Co.), Wheelersburg (Scioto Co.) and Chillicothe (Ross Co.), all in Ohio. All of these facilities are leased by Loan Central, except for the Jackson (Jackson Co.) and Wheelersburg (Scioto Co.) facilities. Loan Central leases a portion of its Wheelersburg (Scioto Co.) facility to a third party.

Management considers all of these properties to be satisfactory for the Company's current operations. The Bank and Loan Centrals' leased facilities are all subject to commercially standard leasing arrangements.

Information concerning the value of the Company's owned and leased real property and a summary of future lease payments is contained in "Note E – Premises and Equipment" of the notes to the Company's consolidated financial statements for the fiscal year ended December 31, 2018, located in Ohio Valley's 2018 Annual Report to Shareholders.

ITEM 3 – LEGAL PROCEEDINGS

Not applicable

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information required under this Item 5 by Item 201(d) of SEC Regulation S-K is incorporated herein by reference to the information presented under “Note J - Subordinated Debentures and Trust Preferred Securities” and “Note P - Regulatory Matters” of the notes to the Company’s consolidated financial statements for the fiscal year ended December 31, 2018 located in Ohio Valley’s 2018 Annual Report to Shareholders. Ohio Valley’s common shares are traded on The NASDAQ Stock Market under the symbol “OVBC,” and were held of record by approximately 2,150 shareholders as of February 28, 2019.

Ohio Valley did not sell any unregistered equity securities during the three months ended December 31, 2018.

Ohio Valley did not purchase any of its shares during the three months ended December 31, 2018.

ITEM 6 - SELECTED FINANCIAL DATA

The information required under this Item 6 by Item 301 of SEC Regulation S-K is incorporated herein by reference to the information presented under the caption “Selected Financial Data” located in Ohio Valley’s 2018 Annual Report to Shareholders. Comparisons for presented periods were impacted by factors that included the acquisition of Milton Bank in 2016 and the deferred tax asset expense adjustment in 2017. Information concerning the details of these factors are included in “Note B – Business Combinations” and “Note K – Income Taxes” of Ohio Valley’s 2018 Annual Report to Shareholders.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required under this Item 7 by Item 303 of SEC Regulation S-K is incorporated herein by reference to the information presented under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” located in Ohio Valley’s 2018 Annual Report to Shareholders.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Ohio Valley’s consolidated financial statements and related notes are listed below and incorporated herein by reference to Ohio Valley’s 2018 Annual Report to Shareholders. The supplementary data “Consolidated Quarterly Financial Information (unaudited)” and the “Report of Independent Registered Public Accounting Firm” located in Ohio Valley’s

2018 Annual Report to Shareholders is also incorporated herein by reference.

Consolidated Statements of Condition as of December 31, 2018 and 2017
Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016
Notes to the Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

ITEM 9A – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Senior Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Annual Report on Form 10-K.

Based on that evaluation, Ohio Valley's Chief Executive Officer and Vice President and Chief Financial Officer have concluded that:

information required to be disclosed by Ohio Valley in this Annual Report on Form 10-K and other reports that Ohio Valley files or submits under the Exchange Act would be accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

information required to be disclosed by Ohio Valley in this Annual Report on Form 10-K and other reports that Ohio Valley files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

Ohio Valley's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

Management's Report on Internal Control Over Financial Reporting

"Management's Report on Internal Control Over Financial Reporting" located in Ohio Valley's 2018 Annual Report to Shareholders is incorporated into this Item 9A by reference.

Report of Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm" located in Ohio Valley's 2018 Annual Report to Shareholders is incorporated into this Item 9A by reference.

Changes In Internal Control Over Financial Reporting

There were no changes in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during Ohio Valley's fiscal quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

ITEM 9B – OTHER INFORMATION

None

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this Item 10 by Items 401, 405, and 407(c)(3), (d)(4) and (d)(5) of SEC Regulation S-K is incorporated herein by reference to the information presented in Ohio Valley's definitive proxy statement relating to the annual meeting of shareholders of Ohio Valley to be held on May 15, 2019 (the "2019 Proxy Statement"), under the captions "Proxy Item 1: Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Compensation of Executive Officers and Directors" of the 2019 Proxy Statement.

The Board of Directors of Ohio Valley has adopted a Code of Ethics covering the directors, officers and employees of Ohio Valley and its affiliates, including, without limitation, the principal executive officer, the principal financial officer and the principal accounting officer of Ohio Valley. The Code of Ethics is posted on Ohio Valley's website at www.ovbc.com. Amendments to the Code of Ethics and waivers of the provisions of the Code of Ethics will also be posted on Ohio Valley's website. Interested persons may obtain copies of the Code of Ethics without charge by writing to Ohio Valley Banc Corp., Attention: Larry E. Miller, Secretary, 420 Third Avenue, Gallipolis, Ohio 45631.

ITEM 11 - EXECUTIVE COMPENSATION

The information required under this Item 11 by Items 402 and 407(e)(4) and (e)(5) of SEC Regulation S-K is incorporated herein by reference to the information presented under the caption "Compensation of Executive Officers and Directors" and "Proxy item 1: Election of Directors – Committees of the Board – Compensation and Management Succession Committee" of the 2019 Proxy Statement.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item 12 by Item 403 of SEC Regulation S-K is incorporated herein by reference to the information presented under the caption "Ownership of Certain Beneficial Owners and Management" of the 2019 Proxy Statement.

Ohio Valley does not maintain any equity compensation plans requiring disclosure pursuant to Item 201(d) of SEC Regulation S-K.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this Item 13 by Item 404 and Item 407(a) of SEC Regulation S-K is incorporated herein by reference to the information presented under the captions "Certain Relationships and Related Transactions" and "Proxy Item 1: Election of Directors" of the 2019 Proxy Statement.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this Item 14 by Item 9(e) of Schedule 14A is incorporated herein by reference to the information presented under the captions “Pre-Approval of Services Performed by Independent Registered Public Accounting Firm” and “Services Rendered by Independent Registered Public Accounting Firm” of the 2019 Proxy Statement.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

A. (1) Financial Statements

The following consolidated financial statements of Ohio Valley appear in the 2018 Annual Report to Shareholders, Exhibit 13, and are specifically incorporated herein by reference under Item 8 of this Form 10-K:

Consolidated Statements of Condition as of December 31, 2018 and 2017

Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Changes in Shareholders’ Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to the Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

(2) Financial Statement Schedules

Financial statement schedules are omitted as they are not required or are not applicable, or the required information is included in the financial statements.

(3) Exhibits

Reference is made to the Exhibit Index beginning on page 39 of this Form 10-K.

ITEM 16 – FORM 10-K SUMMARY

Not applicable.

EXHIBIT INDEX

The following exhibits are included in this Form 10-K or are incorporated by reference as noted in the following table:

| Exhibit Number | Exhibit Description |
|----------------|--|
| 2(a) | <u>Agreement and Plan of Merger between Ohio Valley Banc Corp. and Milton Bancorp, Inc. dated January 7, 2016: Incorporated herein by reference to Exhibit 2.1 to Ohio Valley's Current Report on Form 8-K filed on January 7, 2016 (SEC File No. 0-20914).</u> |
| 2(b) | <u>Amendment to Agreement and Plan of Merger by and between Ohio Valley Banc Corp. and Milton Bancorp, Inc., dated April 20, 2016: Incorporated herein by reference to Exhibit 2.1 to Ohio Valley's Current Report on Form 8-K filed on April 21, 2016 (SEC File No. 0-20914).</u> |
| 3(a) | <u>Amended Articles of Incorporation of Ohio Valley (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914).</u> |
| 3(b) | <u>Code of Regulations of Ohio Valley: Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's quarterly report on Form 10-Q for the quarter ended June 30, 2010 (SEC File No. 0-20914).</u> |
| 4 | <u>Agreement to furnish instruments and agreements defining rights of holders of long-term debt: Filed herewith.</u> |
| 10.1* | <u>The Ohio Valley Bank Company Executive Group Life Split Dollar Plan Agreement, dated December 31, 2011, between Thomas E. Wiseman and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.1 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2015 (SEC File No. 0-20914).</u> |
| 10.2* | <u>Schedule A to Exhibit 10.1 identifying other identical Executive Group Life Split Dollar Agreements between The Ohio Valley Bank Company and certain executive officers of Ohio Valley Banc Corp.: Filed herewith.</u> |
| 10.3(a)* | <u>The Ohio Valley Bank Company Third Amended and Restated Director Retirement Agreement, dated December 18, 2012, between Jeffrey E. Smith and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2012 (SEC File No. 0-20914).</u> |
| 10.3(b)* | <u>Schedule A to Exhibit 10.3(a) identifying other identical Third Amended and Restated Director Retirement Agreements between The Ohio Valley Bank Company and directors of Ohio Valley Banc Corp.: Incorporated herein by reference to Exhibit 10.3(b) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |

| Exhibit Number | Exhibit Description |
|----------------|--|
| 10.4* | <u>The Ohio Valley Bank Company Salary Continuation Agreement, dated January 26, 2016, by and between Larry E. Miller and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.4 to Ohio Valley's Current Report on Form 8-K filed on January 26, 2016 (SEC File No. 0-20914).</u> |
| 10.5* | <u>The Ohio Valley Bank Company Salary Continuation Agreement, dated December 18, 2012, between Jeffrey E. Smith and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.5 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2012 (SEC File No. 0-20914).</u> |
| 10.6(a)* | <u>The Ohio Valley Bank Company Second Amended and Restated Director Deferred Fee Agreement, dated December 18, 2012, between Thomas E. Wiseman and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.6(a) to Ohio Valley's Quarterly Report on Form 10-Q for quarterly period ended September 30, 2015 (SEC File No. 0-20914).</u> |
| 10.6(b)* | <u>Schedule A to Exhibit 10.6(a) identifying other identical Second Amended and Restated Director Deferred Fee Agreements between The Ohio Valley Bank Company and directors of Ohio Valley Banc Corp.: Filed herewith.</u> |
| 10.7(a)* | <u>The Ohio Valley Bank Company Executive Deferred Compensation Agreement, dated December 18, 2012, between Jeffrey E. Smith and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.6(b) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2012 (SEC File No. 0-20914).</u> |
| 10.7(b)* | <u>First Amendment to The Ohio Valley Bank Company Executive Deferred Compensation Agreement, dated January 26, 2016: Incorporated herein by reference to Exhibit 10.2 to Ohio Valley's Current Report on Form 8-K filed on January 26, 2016 (SEC File No. 0-20914).</u> |
| 10.7(c)* | <u>The Ohio Valley Bank Company Executive Deferred Compensation Agreement, dated January 26, 2016, between Larry E. Miller and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.1 to Ohio Valley's Current Report on Form 8-K filed on January 26, 2016 (SEC File No. 0-20914).</u> |
| 10.7(d)* | <u>Schedule A to Exhibit 10.7(a) identifying other identical Executive Deferred Compensation Agreements between The Ohio Valley Bank Company and executive officers of Ohio Valley Banc Corp.: Filed herewith.</u> |
| 10.7(e)* | <u>Schedule A to Exhibit 10.7(b) identifying the named executive officers of Ohio Valley Banc Corp. who executed with The Ohio Valley Bank Company the First Amendment to The Ohio Valley Bank Company Executive Deferred Compensation Agreement: Filed herewith.</u> |

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| Exhibit Number | Exhibit Description |
|----------------|---|
| 10.8* | <u>Summary of Compensation for Directors and Named Executive Officers of Ohio Valley Banc Corp.: Filed herewith.</u> |
| 10.9* | <u>Summary of Bonus Program of Ohio Valley Banc Corp.: Filed herewith.</u> |
| 10.10* | <u>The Ohio Valley Bank Company Supplemental Executive Retirement Plan agreement, dated March 6, 2012, between Thomas E. Wiseman and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.1 to Ohio Valley's Current Report on Form 8-K filed on March 9, 2012 (SEC File No. 0-20914).</u> |
| 10.11* | <u>The Ohio Valley Bank Company Fourth Amended and Restated Director Retirement Agreement, dated May 13, 2015, between Brent A. Saunders and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.11 to Ohio Valley's Quarterly Report on Form 10-Q for quarterly period ended September 30, 2015 (SEC File No. 0-20914).</u> |
| 10.12* | <u>Schedule A to Exhibit 10.11 identifying other identical Fourth Amended and Restated Director Retirement Agreements between The Ohio Valley Bank Company and directors of Ohio Valley Banc Corp.: Incorporated herein by reference to Exhibit 10.12 to Ohio Valley's Quarterly Report on Form 10-Q for quarterly period ended September 30, 2015 (SEC File No. 0-20914).</u> |
| 10.13* | <u>The Ohio Valley Bank Company Third Amended and Restated Director Deferred Fee Agreement, dated May 13, 2015, between Brent A. Saunders and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.13 to Ohio Valley's Quarterly Report on Form 10-Q for quarterly period ended September 30, 2015 (SEC File No. 0-20914).</u> |
| 10.14* | <u>Schedule A to Exhibit 10.13 identifying other identical Third Amended and Restated Director Deferred Fee Agreements between The Ohio Valley Bank Company and directors of Ohio Valley Banc Corp.: Incorporated herein by reference to Exhibit 10.14 to Ohio Valley's Quarterly Report on Form 10-Q for quarterly period ended September 30, 2015 (SEC File No. 0-20914).</u> |
| 10.15* | <u>The Ohio Valley Bank Company Director Retirement Agreement, dated December 14, 2016, between Brent R. Eastman and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.15 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2016 (SEC File No. 0-20914).</u> |
| 10.16* | <u>The Ohio Valley Bank Company Director Deferred Fee Agreement, dated December 14, 2016, between Brent R. Eastman and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.16 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2016 (SEC File No. 0-20914).</u> |
| 10.17* | <u>2016 Determination of Director's Fees Agreement for purposes of the Director Deferred Fee Agreements for Directors Thomas, Howe, Wiseman, Barnitz and Saunders: Incorporated herein by reference to Exhibit 10.17 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2016 (SEC File No. 0-20914).</u> |

| Exhibit Number | Exhibit Description |
|----------------|--|
| 10.18* | <u>2016 Determination of Director's Fees Agreement for purposes of the Director Deferred Fee Agreement for Director Smith: Incorporated herein by reference to Exhibit 10.18 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2016 (SEC File No. 0-20914).</u> |
| 10.19* | <u>2016 Determination of Director's Fees Agreement for purposes of the Director Retirement Agreement for Directors Thomas, Howe, Smith, and Wiseman: Incorporated herein by reference to Exhibit 10.19 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |
| 10.20* | <u>The Ohio Valley Bank Company Director Deferred Fee Agreements between Jeffrey E. Smith and The Ohio Valley Bank Company that include: Director Deferred Fee Agreement dated December 1, 1996, the First Amendment to the Director Deferred Fee Agreement, dated May 20, 2003, and the Second Amendment to the Director Deferred Fee Agreement dated March 29, 2018; Filed herewith.</u> |
| 10.21* | <u>2016 Determination of Director's Fees Agreement for purposes of the Director Retirement Agreement for Directors Barnitz and Saunders: Incorporated herein by reference to Exhibit 10.21 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2016 (SEC File No. 0-20914).</u> |
| 10.22* | <u>The Ohio Valley Bank Company Director Retirement Agreement, dated December 19, 2017, between Kimberly A. Canady and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.22 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |
| 10.22(a)* | <u>Schedule A to Exhibit 10.22 identifying other Director Retirement Agreements between The Ohio Valley Bank Company and directors of Ohio Valley Banc Corp.: Incorporated herein by reference to Exhibit 10.22(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |
| 10.23* | <u>The Ohio Valley Bank Company Director Retirement Agreement, dated December 20, 2017, between John G. Jones and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.23 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |
| 10.24* | <u>The Ohio Valley Bank Company Director Deferred Fee Agreement, dated December 19, 2017, between Kimberly A. Canady and The Ohio Valley Bank Company: Incorporated herein by reference to Exhibit 10.24 to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2017 (SEC File No. 0-20914).</u> |