WILSON BANK HOLDING CO
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o 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 0-20402

WILSON BANK HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Tennessee	62-1497076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
623 West Main Street, Lebanon, TN	37087
(Address of principal executive offices)	(Zip Code)

(615) 444-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock outstanding: 10,318,308 shares at August 9, 2016

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Part I. Financial Information
Item 1. Financial Statements
WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
June 30, 2016 and December 31, 2015
(Unaudited)

	June 30, 2016	December 31, 2015
	(Dollars in Thousands Except Share Amounts)	
Assets		
Loans	$1,578,234	$1,466,079
Less: Allowance for loan losses	(22,797)	(22,900)
Net loans	1,555,437	1,443,179
Securities:		
Held to maturity, at cost (market value $35,254 and $28,365, respectively)	34,870	28,195
Available-for-sale, at market (amortized cost $340,409 and $332,506, respectively)	343,245	331,128
Total securities	378,115	359,323
Loans held for sale	14,538	10,135
Restricted equity securities	3,012	3,012
Federal funds sold	26,440	35,220
Total earning assets	1,977,542	1,850,869
Cash and due from banks	58,395	74,033
Bank premises and equipment, net	42,262	42,100
Accrued interest receivable	5,163	5,244
Deferred income tax asset	7,076	8,039
Other real estate	4,907	5,410
Bank owned life insurance	18,205	17,733
Other assets	16,562	13,371
Goodwill	4,805	4,805
Total assets	$2,134,917	$2,021,604
Liabilities and Stockholders' Equity		
Deposits	$1,883,758	$1,789,850
Securities sold under repurchase agreements	1,002	2,035
Accrued interest and other liabilities	12,784	6,281
Total liabilities	1,897,544	1,798,166
Stockholders' equity:		
Common stock, $2.00 par value; authorized 50,000,000 and 15,000,000 shares, issued and outstanding 10,259,213 and 10,202,859 shares, respectively	20,518	20,406
Additional paid-in capital	58,225	56,237
Retained earnings	156,880	147,646
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $1,086 and $527, respectively	1,750	(851)
Total stockholders' equity	237,373	223,438
Total liabilities and stockholders' equity	$2,134,917	$2,021,604

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Months and Six Months Ended June 30, 2016 and 2015
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in Thousands Except Per Share Amounts)			
Interest income:				
Interest and fees on loans	$18,936	$ 17,753	$37,449	$ 34,861
Interest and dividends on securities:				
Taxable securities	1,445	1,525	2,856	3,136
Exempt from Federal income taxes	269	172	501	343
Interest on loans held for sale	85	95	159	165
Interest on Federal funds sold	111	41	188	78
Interest and dividends on restricted securities	31	31	61	61
Total interest income	20,877	19,617	41,214	38,644
Interest expense:				
Interest on negotiable order of withdrawal accounts	352	388	728	754
Interest on money market and savings accounts	514	493	999	998
Interest on certificates of deposit	1,238	1,307	2,487	2,650
Interest on federal funds purchased	2	1	2	1
Interest on securities sold under repurchase agreements	—	2	1	4
Total interest expense	2,106	2,191	4,217	4,407
Net interest income before provision for loan losses	18,771	17,426	36,997	34,237
Provision for loan losses	82	81	149	156
Net interest income after provision for loan losses	18,689	17,345	36,848	34,081
Non-interest income:				
Service charges on deposit accounts	1,398	1,255	2,734	2,354
Other fees and commissions	2,657	2,283	5,067	4,432
Income on BOLI and annuity contracts	161	166	285	558
Gain on sale of loans	1,230	1,133	1,897	1,996
Gain on sale of other real estate	324	28	373	46
Gain on sale of securities	126	166	243	166
Total non-interest income	5,896	5,031	10,599	9,552
Non-interest expense:				
Salaries and employee benefits	8,488	8,294	16,681	15,546
Occupancy expenses, net	856	832	1,694	1,598
Furniture and equipment expense	515	499	1,034	997
Data processing expense	688	557	1,361	1,088
Directors' fees	162	181	338	357
Other operating expenses	3,713	2,115	7,079	4,994
Loss on the sale of fixed assets	—	8	—	8
Loss on sale of other assets	1	1	1	2
Total non-interest expense	14,423	12,487	28,188	24,590
Earnings before income taxes	10,162	9,889	19,259	19,043
Income taxes	3,892	3,688	7,346	7,226

Net earnings	6,270	6,201	11,913	11,817
Weighted average number of common shares outstanding-basic	10,257,536	10,146,669	10,248,742	10,138,312
Weighted average number of common shares outstanding-diluted	10,262,316	10,151,157	10,253,596	10,142,913
Basic earnings per common share	$0.61	$ 0.61	$1.16	$ 1.17
Diluted earnings per common share	$0.61	$ 0.61	$1.16	$ 1.17
Dividends per share	$—	$ —	$0.35	$ 0.30

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Months and Six Months Ended June 30, 2016 and 2015
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In Thousands)			
Net earnings	$6,270	$6,201	$11,913	$11,817
Other comprehensive earnings (loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities arising during period, net of taxes of $603, $694, $1,706 and $37, respectively	971	(1,121)	2,751	58
Reclassification adjustment for net gains included in net earnings, net of taxes of $48, $64, $93 and $64, respectively	(78)	(102)	(150)	(102)
Other comprehensive earnings (loss)	893	(1,223)	2,601	(44)
Comprehensive earnings	$7,163	$4,978	$14,514	$11,773

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$42,510	$39,722
Fees and commissions received	7,801	7,344
Proceeds from sale of loans held for sale	76,372	76,152
Origination of loans held for sale	(78,878)	(74,766)
Interest paid	(4,250)	(4,660)
Cash paid to suppliers and employees	(22,953)	(19,956)
Income taxes paid	(6,744)	(7,966)
Net cash provided by operating activities	13,858	15,870
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	1,972	2,048
Proceeds from maturities, calls, and principal payments of available-for-sale securities	53,650	38,908
Proceeds from the sale of available-for-sale securities	41,433	32,326
Purchase of held-to-maturity securities	(8,786)	(249)
Purchase of available-for-sale securities	(103,819)	(54,017)
Loans made to customers, net of repayments	(112,069)	(81,448)
Purchase of bank owned life insurance	(1,916)	(7,654)
Purchase of premises and equipment	(1,554)	(1,449)
Proceeds from sale of other real estate	522	972
Proceeds from sale of other assets	15	11
Net cash used in investing activities	(130,552)	(70,552)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	96,930	67,945
Net decrease in time deposits	(3,022)	(15,867)
Net decrease in securities sold under repurchase agreements	(1,033)	(1,225)
Dividends paid	(2,678)	(2,272)
Proceeds from sale of common stock pursuant to dividend reinvestment	1,967	1,603
Proceeds from exercise of stock options	112	148
Net cash provided by financing activities	92,276	50,332
Net decrease in cash and cash equivalents	(24,418)	(4,350)
Cash and cash equivalents at beginning of period	109,253	68,007
Cash and cash equivalents at end of period	$84,835	$63,657

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Six Months Ended June 30, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	11,913	11,817
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	2,607	2,172
Provision for loan losses	149	156
Gain on sale other real estate	(373)	(46)
Security gains	(243)	(166)
Stock option compensation	20	21
Loss on the sale of other assets	1	2
Increase in loans held for sale	(4,403)	(610)
Increase in deferred tax assets	(650)	(271)
Increase in other assets, bank owned life insurance and annuity contract earnings	(1,747)	(1,409)
Decrease in interest receivable	81	144
Increase in other liabilities	5,284	4,782
Increase (decrease) in taxes payable	1,252	(469)
Decrease in interest payable	(33)	(253)
Total adjustments	1,945	4,053
Net cash provided by operating activities	$13,858	$15,870
Supplemental schedule of non-cash activities:		
Unrealized gain (loss) in values of securities available-for-sale, net of taxes of $1,613 and $27 for the six months ended June 30, 2016 and 2015, respectively	$2,601	$(44)
Non-cash transfers from loans to other real estate	$696	$105
Non-cash transfers from other real estate to loans	$1,050	$—
Non-cash transfers from loans to other assets	$16	$3

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Summary of Significant Accounting Policies
Nature of Business — Wilson Bank Holding Company (the “Company”) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Wilson Bank & Trust (the “Bank”). The Bank is a commercial bank headquartered in Lebanon, Tennessee. The Bank provides a full range of banking services in its primary market areas of Wilson, Davidson, Rutherford, Trousdale, Sumner, Dekalb, Putnam and Smith Counties, Tennessee.

Basis of Presentation — The accompanying unaudited, consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

On March 15, 2016, the Company's board of directors approved a four-for-three stock split payable on March 30, 2016 to shareholders of record as of the close of business on March 24, 2016. As a result, the Company issued 2,564,091 shares of the Company's common stock, $2.00 per share, to the shareholders of record as of March 24, 2016. Current and prior year earnings per share figures have been adjusted to reflect the stock split and the Company has elected to retroactively reclassify common stock and additional paid-in capital, which amounted to $5,102,000 at December 31, 2015.
These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and accounts are eliminated in consolidation.
Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes to the Company’s significant accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.
Loans — Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.
Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, a loan may be partially charged-off after a “confirming event” has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.
Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which often is determined when the principal or interest on the loan is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis. A nonaccrual loan is returned to accruing status once the loan has

been brought current and collection is reasonably assured or the loan has been “well-secured” through other techniques. Past due status is determined based on the contractual due date per the underlying loan agreement.

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2015 and at June 30, 2016, there were no loans classified as nonaccrual that were not also deemed to be impaired except for those loans not individually evaluated for impairment as described below. A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan. This determination is made using a variety of techniques, which include a review of the borrower's financial condition, debt-service coverage ratios, global cash flow analysis, guarantor support, other loan file information, meetings with borrowers, inspection or reappraisal of collateral and/or consultation with legal counsel as well as results of reviews of other similar industry credits (e.g. builder loans, development loans, church loans, etc). Prior to January 1, 2015, loans with an identified weakness and principal balance of $100,000 or more were subject to individual identification for impairment. During the first quarter of 2015, the Company increased the threshold for identification of individually impaired loans to $500,000, based on regulatory developments, continued improvement in loan quality trends and ratios and strengthening local economies in which the Company operates. Management believes that the increase to the threshold will not materially impact the calculation of the allowance for loan losses. Individually identified impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a specific valuation allowance is established as a component of the allowance for loan losses or, in the case of collateral dependent loans, the excess may be charged off. Changes to the valuation allowance are recorded as a component of the provision for loan losses. Any subsequent adjustments to present value calculations for impaired loan valuations as a result of the passage of time, such as changes in the anticipated payback period for repayment, are recorded as a component of the provision for loan losses. For loans less than $500,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for non-impaired loans of a similar type.

Allowance for Loan Losses — The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, loss experience of various loan segments, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses, and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. As a result of the amendment, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. We currently do not expect this ASU to have a material impact on our consolidated financial statements.

In March 2016, FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU simplifies several aspects of the accounting for share-based payment award transactions, including: (1) income tax consequences; (2) classification of awards as either equity or liabilities, and (3) classification on the statement of cash flows. For public companies, like the Company, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those

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annual periods. Early adoption is permitted for any organization in any interim or annual period; however, the Company chose not to adopt the pronouncement early. We currently do not expect this ASU to have a material impact on our consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements. We are also evaluating sufficiency of current systems and data needed to comply with this ASU.

Other than those previously discussed, there were no other recently issued accounting pronouncements that are expected to materially impact the Company.

Note 2. Loans and Allowance for Loan Losses

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the Federal Deposit Insurance Corporation ("FDIC").

The following schedule details the loans of the Company at June 30, 2016 and December 31, 2015:

	(In Thousands)	
	June 30, 2016	December 31, 2015
Mortgage loans on real estate		
Residential 1-4 family	$355,982	$349,631
Multifamily	82,246	49,564
Commercial	666,911	625,623
Construction and land development	294,176	275,319
Farmland	36,446	32,114
Second mortgages	8,033	7,551
Equity lines of credit	50,349	46,506
Total mortgage loans on real estate	1,494,143	1,386,308
Commercial loans	34,429	30,537
Agricultural loans	1,424	1,552
Consumer installment loans		
Personal	41,935	40,196
Credit cards	3,065	3,271
Total consumer installment loans	45,000	43,467
Other loans	9,035	9,250
	1,584,031	1,471,114
Net deferred loan fees	(5,797)	(5,035)
Total loans	1,578,234	1,466,079
Less: Allowance for loan losses	(22,797)	(22,900)
Net loans	$1,555,437	$1,443,179

Risk characteristics relevant to each portfolio segment are as follows:

Construction and land development: Loans for non-owner-occupied real estate construction or land development are generally repaid through cash flow related to the operation, sale or refinance of the property. The Company also finances construction loans for owner-occupied properties. A portion of the Company's construction and land portfolio segment is comprised of loans secured by residential product types (residential land and single-family construction). With respect to construction loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time,

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the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, market sales activity, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayments substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

1-4 family residential real estate: Residential real estate loans represent loans to consumers or investors to finance a residence. These loans are typically financed on 15 to 30 year amortization terms, but generally with shorter maturities of 5 to 15 years. Many of these loans are extended to borrowers to finance their primary or secondary residence. Loans to an investor secured by a 1-4 family residence will be repaid from either the rental income from the property or from the sale of the property. This loan segment also includes closed-end home equity loans that are secured by a first or second mortgage on the borrower’s residence. This allows customers to borrow against the equity in their home. Loans in this portfolio segment are underwritten and approved based on a number of credit quality criteria including limits on maximum Loan-to-Value ("LTV"), minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment.

1-4 family HELOC: This loan segment includes open-end home equity loans that are secured by a first or second mortgage on the borrower’s residence. This allows customers to borrow against the equity in their home utilizing a revolving line of credit. These loans are underwritten and approved based on a number of credit quality criteria including limits on maximum LTV, minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment. Because of the revolving nature of these loans, as well as the fact that many represent second mortgages, this portfolio segment can contain more risk than the amortizing 1-4 family residential real estate loans.

Multi-family and commercial real estate: Multi-family and commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate.

Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company’s exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting the market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Non-owner occupied commercial real estate loans are loans secured by multifamily and commercial properties where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail properties. Owner-occupied commercial real estate loans are loans where the primary source of repayment is the cash flow from the ongoing operations and business activities conducted by the party, or affiliate of the party, who owns the property.

Commercial and Industrial: The commercial and industrial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

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Consumer: The consumer loan portfolio segment includes non-real estate secured direct loans to consumers for household, family, and other personal expenditures. Consumer loans may be secured or unsecured and are usually structured with short or medium term maturities. These loans are underwritten and approved based on a number of consumer credit quality criteria including limits on maximum LTV on secured consumer loans, minimum credit scores, and maximum debt to income. Many traditional forms of consumer installment credit have standard monthly payments and fixed repayment schedules of one to five years. These loans are made with either fixed or variable interest rates that are based on specific indices. Installment loans fill a variety of needs, such as financing the purchase of an automobile, a boat, a recreational vehicle or other large personal items, or for consolidating debt. These loan may be unsecured or secured by an assignment of title, as in an automobile loan, or by money in a bank account. In addition to consumer installment loans, this portfolio segment also includes secured and unsecured personal lines of credit as well as overdraft protection lines. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers’ ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

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Transactions in the allowance for loan losses for the six months ended June 30, 2016 and year ended December 31, 2015 are summarized as follows:

	(In Thousands)									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
June 30, 2016										
Allowance for loan losses:										
Beginning balance	$5,024	619	9,986	5,136	654	106	594	301	480	22,900
Provision	(280)	393	139	(519)	104	(2)	7	19	288	149
Charge-offs	(97)	—	—	—	—	—	—	(7)	(326)	(430)
Recoveries	28	—	2	6	—	3	9	2	128	178
Ending balance	$4,675	1,012	10,127	4,623	758	107	610	315	570	22,797
Ending balance individually evaluated for impairment	$179	—	—	—	—	—	—	—	—	179
Ending balance collectively evaluated for impairment	$4,496	1,012	10,127	4,623	758	107	610	315	570	22,618
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—
Loans:										
Ending balance	$355,982	82,246	666,911	294,176	36,446	8,033	50,349	34,429	55,459	1,584,031
Ending balance individually evaluated for impairment	$684	—	4,262	1,838	105	—	—	—	—	6,889
Ending balance collectively evaluated for impairment	$355,298	82,246	662,649	292,338	36,341	8,033	50,349	34,429	55,459	1,577,142
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—

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	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
December 31, 2015										
Allowance for loan losses:										
Beginning balance	$5,582	172	9,578	5,578	795	61	304	176	326	22,572
Provision	(290)	447	(267)	(455)	(142)	87	303	118	587	388
Charge-offs	(311)	—	(44)	(26)	—	(45)	(14)	—	(664)	(1,104)
Recoveries	43	—	719	39	1	3	1	7	231	1,044
Ending balance	$5,024	619	9,986	5,136	654	106	594	301	480	22,900
Ending balance individually evaluated for impairment	$194	—	—	—	—	—	—	—	—	194
Ending balance collectively evaluated for impairment	$4,830	619	9,986	5,136	654	106	594	301	480	22,706
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—
Loans:										
Ending balance	$349,631	49,564	625,623	275,319	32,114	7,551	46,506	30,537	54,269	1,471,114
Ending balance individually evaluated for impairment	$1,449	—	4,643	1,938	575	—	—	—	—	8,605
Ending balance collectively evaluated for impairment	$348,182	49,564	620,980	273,381	31,539	7,551	46,506	30,537	54,269	1,462,509
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—

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Impaired Loans

At June 30, 2016, the Company had certain impaired loans of $3.0 million which were on non-accruing interest status. At December 31, 2015, the Company had certain impaired loans of $4.9 million which were on non-accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company's impaired loans at June 30, 2016 and December 31, 2015.

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2016					
With no related allowance recorded:					
Residential 1-4 family	$149	149	—	150	4
Multifamily	—	—	—	—	—
Commercial real estate	4,263	4,262	—	4,452	13
Construction	1,843	1,838	—	1,893	43
Farmland	106	105	—	53	1
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$6,361	6,354	—	6,548	61
With allowance recorded:					
Residential 1-4 family	$537	535	179	539	16
Multifamily	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$537	535	179	539	16
Total					
Residential 1-4 family	$686	684	179	689	20
Multifamily	—	—	—	—	—
Commercial real estate	4,263	4,262	—	4,452	13
Construction	1,843	1,838	—	1,893	43
Farmland	106	105	—	53	1
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$6,898	6,889	179	7,087	77

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	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015					
With no related allowance recorded:					
Residential 1-4 family	$633	622	—	724	39
Multifamily	—	—	—	—	—
Commercial real estate	4,645	4,643	—	5,048	24
Construction	1,943	1,938	—	486	97
Farmland	575	575	—	431	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$7,796	7,778	—	6,689	160
With allowance recorded:					
Residential 1-4 family	$834	827	194	785	47
Multifamily	—	—	—	—	—
Commercial real estate	—	—	—	3,419	—
Construction	—	—	—	—	—
Farmland	—	—	—	144	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$834	827	194	4,348	47
Total:					
Residential 1-4 family	$1,467	1,449	194	1,509	86
Multifamily	—	—	—	—	—
Commercial real estate	4,645	4,643	—	8,467	24
Construction	1,943	1,938	—	486	97
Farmland	575	575	—	575	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$8,630	8,605	194	11,037	207

Impaired loans also include loans that the Company may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Company may have to otherwise incur. These loans are classified as impaired loans and, if on non-accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

Troubled Debt Restructuring

The Bank’s loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank’s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain

TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower’s sustained repayment performance for a reasonable period, generally six months.

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The following table summarizes the carrying balances of TDR's at June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
	(In thousands)	
Performing TDRs	$2,606	$ 983
Nonperforming TDRs	1,759	3,121
Total TDRS	$4,365	$ 4,104

The following table outlines the amount of each troubled debt restructuring categorized by loan classification for the six months ended June 30, 2016 and the year ended December 31, 2015 (in thousands, except for number of contracts):

	June 30, 2016			December 31, 2015		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family	2	$ 33	$ 33	2	$ 77	$ 77
Multifamily	—	—	—	—	—	—
Commercial real estate	1	937	937	—	—	—
Construction	—	—	—	1	1,938	1,938
Farmland	1	105	105	—	—	—
Second mortgages	—	—	—	—	—	—
Equity lines of credit	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Agricultural, installment and other	1	2	2	1	2	1
Total	5	$ 1,077	$ 1,077	4	$ 2,017	$ 2,016

As of June 30, 2016, the Company had no loan relationships that had been previously classified as troubled debt restructuring subsequently default within twelve months of restructuring. As of December 31, 2015, the Company had two loans totaling $1,060,000 that had been previously classified as troubled debt restructuring subsequently default within twelve months of restructuring. A default is defined as an occurrence which violates the terms of the receivable's contract.

As of June 30, 2016 and December 31, 2015, the Company's recorded investment in consumer mortgage loans in the process of foreclosure amounted to $379,000 and $639,000, respectively.

Potential problem loans, which include nonperforming loans, amounted to approximately $19.0 million at June 30, 2016 compared to $25.2 million at December 31, 2015. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Bank's primary federal regulator, for loans classified as special mention, substandard, or doubtful.

The following summary presents our loan balances by primary loan classification and the amount classified within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard and doubtful which are defined as follows:

- Special mention loans have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank’s credit position at some future date.
- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize

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liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Bank considers all doubtful loans to be impaired and places the loan on nonaccrual status.

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The following table is a summary of the Bank's loan portfolio by risk rating at June 30, 2016 and December 31, 2015:

	(In Thousands)									
	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, installment and other	Total
June 30, 2016 Credit Risk Profile by Internally Assigned Rating										
Pass	$345,993	82,246	660,482	293,307	35,587	7,567	50,091	34,422	55,359	1,565,054
Special Mention	6,379	—	1,698	760	153	330	117	6	31	9,474
Substandard	3,610	—	4,731	109	706	136	141	1	69	9,503
Doubtful	—	—	—	—	—	—	—	—	—	—
Total	$355,982	82,246	666,911	294,176	36,446	8,033	50,349	34,429	55,459	1,584,031
December 31, 2015 Credit Risk Profile by Internally Assigned Rating										
Pass	$340,019	49,564	612,318	274,926	30,933	7,097	46,361	30,525	54,154	1,445,897
Special Mention	6,957	—	8,227	277	200	353	—	10	38	16,062
Substandard	2,655	—	5,078	116	981	101	145	2	77	9,155
Doubtful	—	—	—	—	—	—	—	—	—	—
Total	$349,631	49,564	625,623	275,319	32,114	7,551	46,506	30,537	54,269	1,471,114

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Note 3. Debt and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. Debt and equity securities at June 30, 2016 and December 31, 2015 are summarized as follows:

	June 30, 2016 Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$59,505	$ 311	$ 45	$59,771
Mortgage-backed:				
GSE residential	206,166	1,557	252	207,471
Asset-backed:				
SBAP	31,681	640	—	32,321
Obligations of states and political subdivisions	43,057	646	21	43,682
	$340,409	$ 3,154	$ 318	$343,245

	June 30, 2016 Securities Held-to-Maturity In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$12,693	$ 123	$ 49	$ 12,767
Obligations of states and political subdivisions	22,177	332	22	22,487
	$34,870	$ 455	$ 71	$ 35,254

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank, and Government National Mortgage Association.

	December 31, 2015 Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$77,177	215	483	76,909
Mortgage-backed:				
GSE residential	192,983	430	1,498	191,915
Asset-backed:				
SBAP	31,253	54	273	31,034
Obligations of states and political subdivisions	31,093	274	97	31,270
	$332,506	973	2,351	331,128

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	December 31, 2015 Securities Held-To-Maturity In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$9,375	60	169	9,266
Obligations of states and political subdivisions	18,820	288	9	19,099
	$28,195	348	178	28,365

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank, and Government National Mortgage Association.

The amortized cost and estimated market value of debt securities at June 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity In Thousands		Available-for-sale	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$2,016	$ 2,042	$1	$1
Due after one year through five years	8,874	8,993	38,432	38,805
Due after five years through ten years	9,059	9,169	101,771	102,811
Due after ten years	14,921	15,050	200,205	201,628
	$34,870	$ 35,254	$340,409	$343,245

The following table shows the gross unrealized losses and fair value of the Company’s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015.

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June 30, 2016	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
Held to Maturity Securities:								
Mortgage-backed:								
Government-sponsored enterprises (GSEs) residential	$2,970	$ 7	2	$2,547	$ 42	2	$5,517	$ 49
Obligations of states and political subdivisions	3,046	22	6	—	—	—	3,046	22
	$6,016	$ 29	8	$2,547	$ 42	2	$8,563	$ 71
Available-for-Sale Securities:								
GSEs	$20,378	$ 45	8	$—	$ —	—	$20,378	$ 45
Mortgage-backed:								
GSE residential	48,221	177	22	11,044	75	10	59,265	252
Asset-backed: SBAP	—	—	—	—	—	—	—	—
Obligations of states and political subdivisions	6,167	21	14	—	—	—	6,167	21
	$74,766	$ 243	44	$11,044	$ 75	10	$85,810	$ 318

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	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
December 31, 2015	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
Held to Maturity Securities:								
Mortgage-backed:								
Government-sponsored enterprises (GSEs) residential	$4,339	$ 45	3	$2,717	$ 124	3	$7,056	$ 169
Obligations of states and political subdivisions	3,461	9	10	—	—	—	3,461	9
	$7,800	$ 54	13	$2,717	$ 124	3	$10,517	$ 178
Available-for-Sale Securities:								
GSEs	$33,369	$ 232	12	$17,829	$ 251	6	$51,198	$ 483
Mortgage-backed:								
GSE residential	142,251	1,407	66	4,521	91	7	146,772	1,498
Asset-backed: SBAP	22,811	273	12	—	—	—	22,811	273
Obligations of states and political subdivisions	7,925	60	18	3,350	37	9	11,275	97
	$206,356	$ 1,972	108	$25,700	$ 379	22	$232,056	$ 2,351

Unrealized losses on securities have not been recognized into income because the issuers' securities are of high credit quality, management does not intend to sell the securities and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payment on the securities. The fair value is expected to recover as the securities approach maturity. The Company does not consider these securities to be other-than-temporarily impaired at June 30, 2016.

The carrying values of the Company's investment securities could decline in the future if the financial condition of issuers deteriorates and management determines it is probable that the Company will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future given the current economic environment.

Note 4. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period, adjusted for stock splits. The computation of diluted earnings per share for the Company begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options.

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The following is a summary of components comprising basic and diluted earnings per share ("EPS") for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Share and Per Share Amounts)	
Basic EPS Computation*:				
Numerator – Earnings available to common stockholders	$6,270	$ 6,201	$11,913	$ 11,817
Denominator – Weighted average number of common shares outstanding	10,257,536	10,146,669	10,248,742	10,138,312
Basic earnings per common share	$0.61	$ 0.61	$1.16	$ 1.17
Diluted EPS Computation*:				
Numerator – Earnings available to common stockholders	$6,270	$ 6,201	$11,913	$ 11,817
Denominator – Weighted average number of common shares outstanding	10,257,536	10,146,669	10,248,742	10,138,312
Dilutive effect of stock options	4,780	4,488	4,854	4,601
	10,262,316	10,151,157	10,253,596	10,142,913
Diluted earnings per common share	$0.61	$ 0.61	$1.16	$ 1.17

* Adjusted for 4 for 3 stock split paid on March 30, 2016.

Note 5. Income Taxes

Accounting Standards Codification ("ASC") 740, Income Taxes, defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. This section also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. As of June 30, 2016, the Company had no unrecognized tax benefits related to Federal or state income tax matters and does not anticipate any material increase or decrease in unrecognized tax benefits relative to any tax positions taken prior to June 30, 2016.

As of June 30, 2016, the Company has accrued no interest and no penalties related to uncertain tax positions. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file consolidated U.S. Federal and State of Tennessee income tax returns. The Company is currently open to audit under the statute of limitations by the State of Tennessee for the years ended December 31, 2012 through 2015 and the IRS for the years ended December 31, 2013 through 2015.

Note 6. Commitments and Contingent Liabilities

In the normal course of business, the Bank has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Standby letters of credit are generally issued on behalf of an applicant (our customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from the Company under certain prescribed

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circumstances. Subsequently, the Company would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

The Company follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer's creditworthiness is evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and would only be reflected if drawn upon. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, the Company's maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

A summary of the Company's total contractual amount for all off-balance sheet commitments at June 30, 2016 is as follows:

Commitments to extend credit	$440,785,000
Standby letters of credit	$34,942,000

The Company originates residential mortgage loans, sells them to third-party purchasers, and does not retain the servicing rights. These loans are originated internally and are primarily to borrowers in the Company's geographic market footprint. These sales are on a best efforts basis to investors that follow conventional government sponsored entities ("GSE") and the Department of Housing and Urban Development/U.S. Department of Veterans Affairs ("HUD/VA") guidelines. Generally, loans held for sale are underwritten by the Company, including HUD/VA loans.

Each purchaser has specific guidelines and criteria for sellers of loans, and the risk of credit loss with regard to the principal amount of the loans sold is generally transferred to the purchasers upon sale. While the loans are sold without recourse, the purchase agreements require the Company to make certain representations and warranties regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. If it is determined that the loans sold were in breach of these representations or warranties or the loan had an early payoff or payment default, the Company has obligations to either repurchase the loan for the unpaid principal balance and related investor fees or make the purchaser whole for the economic benefits of the loan.

To date, repurchase activity pursuant to the terms of these representations and warranties has been insignificant and has resulted in insignificant losses to the Company.

Based on information currently available, management believes that it does not have significant exposure to contingent losses that may arise relating to the representations and warranties that it has made in connection with its mortgage loan sales.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at June 30, 2016 will not have a material impact on the Company's financial statements.

Note 7. Fair Value Measurements

FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price (i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date). The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available-for-sale — Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans — A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the valuation hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Other real estate owned — Other real estate owned ("OREO") represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts relate to construction and land development, other loans secured by land, and commercial real estate loans for which the Company believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

Mortgage loans held-for-sale — Mortgage loans held-for-sale are carried at the fair value. The fair value of mortgage loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Other assets — Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies and annuity contracts. The Company uses financial information received from insurance carriers indicating the performance of the insurance policies, cash surrender values, and annuity contracts in determining the carrying value. The Company reflects these assets within Level 3 of the valuation hierarchy due to the unobservable inputs included in the valuation of these items. The Company does not consider the fair values of these policies and contracts to be materially sensitive to changes in these unobservable inputs.

The following tables present the financial instruments carried at fair value as of June 30, 2016 and December 31, 2015, by caption on the consolidated balance sheet and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

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	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
June 30, 2016				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 59,771	—	59,771	—
Mortgage-backed securities	207,471	—	207,471	—
Asset-backed securities	32,321	—	32,321	—
State and municipal securities	43,682	—	43,682	—
Total investment securities available-for-sale	343,245	—	343,245	—
Loans held for sale	14,538	—	14,538	—
Other assets	28,873	—	—	28,873
Total assets at fair value	$ 386,656	—	357,783	28,873
December 31, 2015				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 76,909	—	76,909	—
Mortgage-backed securities	191,915	—	191,915	—
Asset-backed securities	31,034	—	31,034	—
State and municipal securities	31,270	—	31,270	—
Total investment securities available-for-sale	331,128	—	331,128	—
Loans held for sale	10,135	—	10,135	—
Other assets	26,672	—	—	26,672
Total assets at fair value	$ 367,935	—	341,263	26,672

	Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
June 30, 2016				
Other real estate owned	$ 4,907	—	—	4,907
Impaired loans, net (1)	6,710	—	—	6,710
Total	$ 11,617	—	—	11,617
December 31, 2015				
Other real estate owned	$ 5,410	—	—	5,410
Impaired loans, net (1)	8,436	—	—	8,436
Total	$ 13,846	—	—	13,846

(1) Amount is net of a valuation allowance of $179,000 at June 30, 2016 and $194,000 at December 31, 2015 as required by ASC 310, "Receivables."

In the case of the bond portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the six months ended June 30, 2016, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the six months ended June 30, 2016 and 2015 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall

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fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the Six Months Ended June 30,			
	2016		2015	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Fair value, January 1	$26,672	—	$17,331	—
Total realized gains included in income	285	—	558	—
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at June 30	—	—		—
Purchases, issuances and settlements, net	1,916	—	7,654	—
Transfers out of Level 3	—	—	—	—
Fair value, June 30	$28,873	—	$25,543	—
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at June 30	$285	—	$558	—

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices or observable components are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2016 and December 31, 2015. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Held-to-maturity securities — Estimated fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics.

Loans — The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

Deposits and Securities sold under agreements to repurchase — Fair values for deposits are estimated using discounted cash flow models, using current market interest rates offered on deposits with similar remaining maturities.

Off-Balance Sheet Instruments — The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

The following table presents the carrying amounts, estimated fair value and placement in the fair valuation hierarchy of the Company's financial instruments at June 30, 2016 and December 31, 2015. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

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(in Thousands)	Carrying/ Notional Amount	Estimated Fair Value (1)	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
June 30, 2016					
Financial assets:					
Securities held-to-maturity	$ 34,870	35,254	—	35,254	—
Loans, net	1,555,437	1,564,096	—	—	1,564,096
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	1,884,760	1,688,755	—	—	1,688,755
Off-balance sheet instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2015					
Financial assets:					
Securities held-to-maturity	$ 28,195	28,365	—	28,365	—
Loans, net	1,443,179	1,443,738	—	—	1,443,738
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	1,791,885	1,549,414	—	—	1,549,414
Off-balance sheet instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.

Note 8. Stock Option Plan, Equity Incentive Plan & Charter Amendment

In April 1999, the stockholders of the Company approved the Wilson Bank Holding Company 1999 Stock Option Plan (the “1999 Stock Option Plan”). The 1999 Stock Option Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 200,000 shares of common stock, to officers and other key employees of the Company and the Bank.

In April 2009, the Company’s shareholders approved the Wilson Bank Holding Company 2009 Stock Option Plan (the “2009 Stock Option Plan”). The 2009 Stock Option Plan was effective as of April 14, 2009 and replaced the 1999 Stock Option Plan which expired on April 13, 2009. Under the 2009 Stock Option Plan, awards may be in the form of options to acquire common stock of the Company. The maximum number of shares of common stock with respect to which awards may be granted under the 2009 Stock Option Plan is 75,000 shares. As of June 30, 2016, the Company has 48,700 options available to grant to employees pursuant to the 2009 Stock Option Plan.

During the second quarter of 2016, the Company’s shareholders approved the Wilson Bank Holding Company 2016 Equity Incentive Plan (the “2016 Equity Incentive Plan”), which authorizes awards of up to 750,000 shares of common stock. The 2016 Equity Incentive Plan was approved by the Board of Directors and effective as of January 25, 2016 and approved by the Company's shareholders on April 12, 2016. The primary purpose of the 2016 Equity Incentive Plan is to promote the interests of the Company and its shareholders by, among other things, (i) attracting and retaining key officers, employees and directors of, and consultants to, the Company and its subsidiaries and affiliates,

(ii) motivating those individuals by means of performance-related incentives to achieve long-range performance goals, (iii) enabling such individuals to participate in the long-term growth and financial success of the Company, (iv) encouraging ownership of stock in the Company by such individuals, and (v) linking their compensation to the long-term interests of the Company and its shareholders. Except for certain limitations, awards can be in the form of stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted shares and restricted share units, performance awards and other stock-based awards. As of June 30, 2016, no awards under the 2016 Equity Incentive Plan had been granted.

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During the second quarter of 2016, the shareholders of the Company approved and adopted a proposed amendment to the Company's Charter, providing for an increase in the authorized number of shares of capital stock from 15,000,000 to 50,000,000 with 50,000,000 shares reserved for Common Stock and 100 shares reserved for Organizational Stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion is to provide insight into the financial condition and results of operations of the Company and its bank subsidiary. This discussion should be read in conjunction with the consolidated financial statements appearing elsewhere in this report. Reference should also be made to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a more complete discussion of factors that impact liquidity, capital and the results of operations.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements regarding, among other things, the anticipated financial and operating results of the Company. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions investors that future financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. The words "expect," "intend," "should," "may," "could," "believe," "suspect," "anticipate," "seek," "plan," "estimate" and similar expressions are intended to identify such forward-lool statements, but other statements not based on historical fact may also be considered forward-looking. Such forward-looking statements involve known and unknown risks and uncertainties, including, but not limited to those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and also include, without limitation, (i) deterioration in the financial condition of borrowers and other economic conditions resulting in significant increases in loan losses and provisions for these losses, (ii) renewed deterioration in the real estate market conditions in the Company's market areas, (iii) increased competition with other financial institutions, (iv) the deterioration of the economy in the Company's market areas, (v) continuation of the extremely low short-term interest rate environment or rapid fluctuations in short-term interest rates, (vi) significant downturns in the business of one or more large customers, (vii) the inability of the Company to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels; (viii) changes in state or Federal regulations, policies, or legislation applicable to banks and other financial service providers, including regulatory or legislative developments arising out of the Dodd Frank Wall Street Reform and Consumer Protection Act, (ix) changes in capital levels and loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments, (x) inadequate allowance for loan losses, (xi) the effectiveness of the Company's activities in improving, resolving or liquidating lower quality assets, (xii) results of regulatory examinations, (xiii) the vulnerability of our network and online banking portals to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss, misuse, malicious code and other security breaches; (xiv) the possibility of additional increases to compliance costs as a result of increased regulatory oversight; and (xv) loss of key personnel. These risks and uncertainties may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. The Company's future operating results depend on a number of factors which were derived utilizing numerous assumptions that could cause actual results to differ materially from those projected in forward-looking statements.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses have been critical to the determination of our financial position and results of operations. There have been no significant changes to our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Allowance for Loan Losses ("allowance"). Our management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. This evaluation is inherently subjective as it requires material estimates including the

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amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a "confirming event" has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, is deemed to be uncollectible.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means that both the interest and principal payments of a loan will be collected as scheduled in the loan agreement.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). The impairment is recognized through the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral, less estimated disposal costs. If the measure of the impaired loan is less than the recorded investment in the loan, the Company recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses. Management believes it follows appropriate accounting and regulatory guidance in determining impairment and accrual status of impaired loans.

The level of allowance maintained is believed by management to be adequate to absorb probable losses inherent in the portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

In assessing the adequacy of the allowance, we also consider the results of our ongoing loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, the input from our independent loan reviewers, and reviews that may have been conducted by bank regulatory agencies as part of their usual examination process. We incorporate loan review results in the determination of whether or not it is probable that we will be able to collect all amounts due according to the contractual terms of a loan.

As part of management's quarterly assessment of the allowance, management divides the loan portfolio into twelve segments based on bank call reporting requirements. Each segment is then analyzed such that an allocation of the allowance is estimated for each loan segment.

The allowance allocation begins with a process of estimating the probable losses in each of the twelve loan segments. The estimates for these loans are based on our historical loss data for that category over the last twenty quarters. During the first quarter of 2015, management increased the number of quarters of loss data that it reviews from twelve quarters to the last twenty quarters. Management believes that twenty quarters is a more accurate representation of an economic business cycle.

The estimated loan loss allocation for all twelve loan portfolio segments is then adjusted for several "environmental" factors. The allocation for environmental factors is particularly subjective and does not lend itself to exact mathematical calculation. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified, as of the balance sheet date, and are based upon quarterly trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, credit concentration changes, prevailing economic conditions, changes in lending personnel experience, changes in lending policies, increase in interest rates, or procedures and other influencing factors. These environmental factors are considered for each of the twelve loan segments and the allowance allocation, as determined by the processes noted above for each component, is increased or decreased based on the incremental assessment of these various environmental factors.

We then test the resulting allowance by comparing the balance in the allowance to industry and peer information. Our management then evaluates the result of the procedures performed, including the result of our testing, and concludes on the appropriateness of the balance of the allowance in its entirety. The board of directors reviews and approves the assessment prior to the filing of quarterly and annual financial information.

Impairment of Intangible Assets. Long-lived assets, including purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds

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the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill and intangible assets that have indefinite useful lives are evaluated for impairment annually and are evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. That annual assessment date is December 31. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The Company first has the option to perform a qualitative assessment of goodwill to determine if impairment has occurred. Based upon the qualitative assessment, if the fair value of goodwill exceeds the carrying value, the evaluation of goodwill is complete. If the qualitative assessment indicates that impairment is present, the goodwill impairment analysis continues with a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill.

Other-than-temporary Impairment. A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the security. To determine whether impairment is other-than-temporary, management considers whether the entity expects to recover the entire amortized cost basis of the security by reviewing the present value of the future cash flows associated with the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss and is deemed to be other-than temporary impairment. If a credit loss is identified, the credit loss is recognized as a charge to earnings and a new cost basis for the security is established. If management concludes that no credit loss exists and it is not more-likely-than-not that the Company will be required to sell the security before maturity, then the security is not other-than-temporarily impaired and the shortfall is recorded as a component of equity.

Results of Operations

Net earnings increased 0.81% to $11,913,000 for the six months ended June 30, 2016 from $11,817,000 in the first six months of 2015. Net earnings were $6,270,000 for the quarter ended June 30, 2016, an increase of $69,000, or 1.11%, from $6,201,000 for the three months ended June 30, 2015 and an increase of $627,000, or 11.11%, over the quarter ended March 31, 2016. The increase in net earnings during the six months ended June 30, 2016 as compared to the prior year comparable period was primarily due to an increase in net interest income and an increase in noninterest income, partially offset by an increase in noninterest expense. Net yield on earning assets for the six months ended June 30, 2016 and 2015 was 3.75%, and the net interest spread was 3.66% and 3.65%, for the six months ended June 30, 2016 and the six months ended June 30, 2015, respectively. The yield on loans decreased during the first six months of 2016 when compared to the comparable period in 2015 as a result of increased competition for loans in all market areas, thus causing an overall decrease in the yield on earning assets.

The average balances, interest, and average rates for the six-month periods ended June 30, 2016 and June 30, 2015 are presented in the following table (dollars in thousands):

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	June 30, 2016			June 30, 2015		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Loans, net of unearned interest (1)	$1,527,696	4.90 %	$37,449	$1,381,506	5.05 %	$34,861
Investment securities—taxable	301,642	1.89	2,856	327,720	1.91	3,136
Investment securities—tax exempt	50,197	2.00	501	34,483	1.99	343
Taxable equivalent adjustment	—	1.03	258	—	1.02	177
Total tax-exempt investment securities	50,197	3.02	759	34,483	3.01	520
Total investment securities	351,839	2.05	3,615	362,203	2.02	3,656
Loans held for sale	10,479	3.03	159	9,776	3.38	165
Federal funds sold	93,285	0.40	188	78,073	0.20	78
Restricted equity securities	3,012	4.05	61	3,012	4.05	61
Total earning assets	1,986,311	4.18	41,472	1,834,570	4.23	38,821
Cash and due from banks	10,287			9,126		
Allowance for loan losses	(22,857)			(22,475)		
Bank premises and equipment	42,069			40,315		
Other assets	55,039			53,637		
Total assets	$2,070,849			$1,915,173		

	June 30, 2016			June 30, 2015		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Deposits:						
Negotiable order of withdrawal accounts	$445,181	0.33 %	$728	$385,556	0.39 %	$754
Money market demand accounts	558,678	0.28	778	495,706	0.31	766
Individual retirement accounts	85,319	0.85	363	90,226	1.00	451
Other savings deposits	113,208	0.39	221	103,122	0.45	232
Certificates of deposit $250,000 and over (4)	76,416	1.01	385	229,562	1.06	1,212
Certificates of deposit under $250,000 (4)	352,431	0.99	1,739	220,195	0.90	987
Total interest-bearing deposits	1,631,233	0.52	4,214	1,524,367	0.58	4,402
Securities sold under repurchase agreements	1,165	0.17	1	2,762	0.29	4
Federal funds purchased	333	1.20	2	177	—	1
Total interest-bearing liabilities	1,632,731	0.52	4,217	1,527,306	0.58	4,407
Demand deposits	198,082			171,554		
Other liabilities	11,303			9,784		
Stockholders' equity	228,733			206,529		
Total liabilities and stockholders' equity	$2,070,849			$1,915,173		
Net interest income, on a tax equivalent basis			$37,255			$34,414
Net yield on earning assets (2)		3.75 %			3.75 %	
Net interest spread (3)		3.66 %			3.65 %	

(1) Loan fees of $3.3 million and $2.8 million are included in interest income in 2016 and 2015, respectively.
(2) Net interest income divided by average interest-earning assets.
(3) Average interest rate on interest-earning assets less average interest rate on interest-bearing liabilities.
(4) In 2016, the interest on CDs was calculated based upon the $250,000 threshold; however, the $100,000 threshold was still utilized in 2015. The average balance and the interest rate figures will not be comparable for these items.

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Net Interest Income

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Company’s earnings. Reflecting loan growth that outpaced the reduction in loan yields and an increase in the tax equivalent yields on securities, the Company’s total interest income, excluding tax equivalent adjustments relating to tax exempt securities, increased $2,570,000, or 6.65%, during the six months ended June 30, 2016 as compared to the same period in 2015. The increase in total interest income was $1,260,000, or 6.42%, for the quarter ended June 30, 2016 as compared to the quarter ended June 30, 2015. Interest income in the second quarter of 2016 increased $540,000, or 2.66%, over the first three months of 2016. The increase in the first six months of 2016 when compared to the first six months of 2015 was primarily attributable to an overall increase in loans and the resulting increase in the interest and fees earned on loans. The ratio of average earning assets to total average assets was 95.9% and 95.8% for the six months ended June 30, 2016 and June 30, 2015, respectively.

Interest expense decreased $190,000, or 4.31%, for the six months ended June 30, 2016 as compared to the same period in 2015. The decrease was $85,000, or 3.88%, for the three months ended June 30, 2016 as compared to the same period in 2015. Interest expense decreased $5,000, or 0.24%, for the quarter ended June 30, 2016 over the first three months of 2016. The decrease for the three and six months ended June 30, 2016 as compared to the prior year’s comparable period was primarily due to a decrease in the rates paid on deposits, particularly time deposits, reflecting the low interest rate environment and a shift in the mix of deposits from certificates of deposits to transaction and money market accounts.

Provision for Loan Losses

The allowance for loan losses totaled $22,797,000 as of June 30, 2016 compared to $22,900,000 as of December 31, 2015 and $22,412,000 as of June 30, 2015. An analytical model based on historical loss experience, current trends and economic conditions as well as reasonably foreseeable events is used to determine the amount of provision to be recognized and to test the adequacy of the loan loss allowance. The volume of net loans charged off for the first six months of 2016 totaled approximately $252,000 compared to approximately $316,000 in net charge-offs during the first six months of 2015. Overall, net charge-offs were down for the three and six month periods ended June 30, 2016 when compared to the comparable periods in 2015 primarily due to an overall improvement in the quality of the Company's loan portfolio. Reflecting the improving asset quality trends experienced by the Bank in the first six months of 2016, the provision for loan losses during the six months ended June 30, 2016 was $149,000, down $7,000 from the $156,000 incurred in the first six months of 2015. Provision expense for the three months ended June 30, 2016 was $82,000, up $1,000 from the $81,000 incurred in the second quarter of 2015 and up $15,000 from the first quarter of 2016.

The allowance for loan losses is based on past loan experience and other factors which, in management’s judgment, deserve current recognition in estimating possible loan losses. Such factors include growth and composition of the loan portfolio, review of specific problem loans, review of updated appraisals and borrower financial information, the recommendations of the Company’s regulators, and current economic conditions that may affect the borrowers' ability to repay. Management has in place a system designed for monitoring its loan portfolio and identifying potential problem loans. Reflecting improving asset quality metrics, the allowance for loan losses was $22,797,000 at June 30, 2016, a decrease of less than 1.0% from $22,900,000 at December 31, 2015. Due to growth in the loan portfolio since June 30, 2015, the allowance for loan losses increased $385,000, or 1.72%, from June 30, 2015 but decreased as a percentage of total loans between the two perioods. The allowance for loan losses was 1.44%, 1.56%, and 1.56% of total loans at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

Management believes the allowance for loan losses at June 30, 2016 to be adequate, but if economic conditions deteriorate beyond management’s current expectations and additional charge-offs are incurred, the allowance for loan losses may require an increase through additional provision for loan losses which would negatively impact earnings.

Non-Interest Income

The components of the Company’s non-interest income include service charges on deposit accounts, other fees and commissions, income on BOLI and annuity earnings, and gain on sale of loans. Total non-interest income for the six months ended June 30, 2016 increased 10.96% to $10,599,000 from $9,552,000 for the same period in 2015. Total non-interest income increased $865,000, or 17.19%, during the quarter ended June 30, 2016 compared to the second quarter of 2015 and there was an increase of $1,193,000, or 25.37%, over the first three months of 2016. The Company’s non-interest income in the first six months of 2016 increased from the first six months of 2015 mainly due to an increase in service charges on deposit accounts, an increase in other fees and commissions, an increase in gain on the sale of other real estate and an increase in gain on sale of securities, partially offset by a decrease in BOLI and annuity income, and a decrease in gain on sale of loans. Service charges on deposit accounts increased $380,000, or 16.14%, to $2,734,000 during the six months ended June 30, 2016 compared to the same period in 2015 primarily as a result of an increase in service charge on insufficient accounts that resulted from an increase in consumer checking accounts and an increase in the fee charged. Gain on sale of securities increased $77,000 for the six months ended June 30, 2016 compared to the same period in 2015. Income earned on BOLI and annuity contracts decreased $273,000, or 48.92%, primarily due to a large amount of up-front bonuses that were received in 2015 for the purchase of additional insurance policies. Gain on sale of loans decreased $99,000, or 4.96%, during the six months ended June 30, 2016 compared to the same period in 2015. The decrease in gain on sale of loans during the first six months of 2016 related primarily to a decrease in the origination of residential mortgages in the secondary market that resulted from an overall market slowdown relative to the market's adjustment to the TILA-RESPA Integrated Disclosure guidelines and a slight increase in interest rates.

Non-Interest Expenses

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, advertising and marketing expenses, FDIC premiums, data processing expenses, director’s fees, loss on sale of other real estate, and other operating expenses. Total non-interest expenses increased $3,598,000, or 14.63%, during the first six months of 2016 compared to the same period in 2015. The increase for the quarter ended June 30, 2016 was $1,936,000, or 15.50%, as compared to the same quarter in 2015. The Company experienced an increase of $658,000, or 4.78%, in non-interest expenses in the second quarter of 2016 as compared to the first three months of 2016. The increase in non-interest expenses for the six months ended June 30, 2016 when compared to the comparable period in 2015 is primarily attributable to an increase in salaries and employee benefits and an increase in debit card interchange fee expense. The increase in salaries and employee benefits is primarily attributable to an increase in the number of employees necessary to support the Company’s growing operations. The increase in debit card interchange fee expense is a direct result of the increase in debit card transactions. The increase in other operating expenses for the six months ended June 30, 2016 as compared to the same period in 2015 was primarily due to the reversal of an accrual in the amount of $1,325,000 for potential litigation losses due to the settlement of a claim against the Company during the second quarter of 2015.

Income Taxes

The Company’s income tax expense was $7,346,000 for the six months ended June 30, 2016, an increase of $120,000 over the comparable period in 2015. Income tax expense was $3,892,000 for the quarter ended June 30, 2016, an increase of $204,000 over the same period in 2015. The percentage of income tax expense to net income before taxes was 38.14% and 37.94% for the six months ended June 30, 2016 and June 30, 2015, respectively, and 38.30% and 37.29% for the quarters ended June 30, 2016 and 2015. The percentage of income tax expense to net income before taxes was 37.97% for the first three months of 2016. Our effective tax rate represents our blended federal and state rate of 38.29% reduced by the impact of anticipated favorable permanent differences between our book and taxable income such as bank-owned life insurance, income earned on tax-exempt securities and certain federal and state tax credits.

Financial Condition

Balance Sheet Summary

The Company’s total assets increased 5.61% to $2,134,917,000 during the six months ended June 30, 2016 from $2,021,604,000 at December 31, 2015. Total assets increased $62,348,000 during the three-month period ended June 30, 2016 and increased $50,965,000, or 2.52%, during the three-month period ended March 31, 2016. Loans, net of allowance for loan losses, totaled $1,555,437,000 at June 30, 2016, a 7.78% increase compared to $1,443,179,000 at December 31, 2015. Net loans increased $27,427,000, or 1.79%, during the three months ended June 30, 2016. The increase in loans resulted primarily from an overall increase in loan demand associated with increased activity in the housing market, as well as other sectors in which we lend money. Securities increased $18,792,000, or 5.23%, to $378,115,000 at June 30, 2016 from $359,323,000 at December 31, 2015. Securities increased $39,794,000, or 11.76%, during the three months ended June 30, 2016. Federal funds sold decreased to $26,440,000 at June 30, 2016 from $35,220,000 at December 31, 2015.

Total liabilities increased by 5.53% to $1,897,544,000 at June 30, 2016 compared to $1,798,166,000 at December 31, 2015. For the quarter ended June 30, 2016, total liabilities increased $55,112,000, or 2.99%. The increase in total liabilities since December 31, 2015 was composed of a $93,908,000, or 5.25%, increase in total deposits and a $6,503,000, or 103.53%, increase in accrued interest and other liabilities, partially offset by a $1,033,000, or 50.76%, decrease in securities sold under repurchase agreements. The increase in total deposits was primarily attributable to expansion into new markets that resulted in the opening of new accounts. The increase in accrued interest and other liabilities was primarily attributable to an increase in federal and state taxes payable due to the timing of estimated federal and state tax payments.

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Non Performing Assets

The following tables present the Company's non-accrual loans and past due loans as of June 30, 2016 and December 31, 2015.

Loans on Nonaccrual Status

	In Thousands	
	June 30, 2016	December 31, 2015
Residential 1-4 family	$—	$ 41
Multifamily	—	—
Commercial real estate	3,029	4,293
Construction	—	—
Farmland	310	575
Second mortgages	—	—
Equity lines of credit	—	—
Commercial	—	—
Agricultural, installment and other	—	—
Total	$3,339	$ 4,909

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(In thousands)

	30-59 Days Past Due	60-89 Days Past Due	Non Accrual and Greater Than 90 Days	Total Non Accrual and Past Due	Current	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
June 30, 2016							
Residential 1-4 family	$2,863	1,368	1,049	5,280	350,702	355,982	$ 1,049
Multifamily	—	—	—	—	82,246	82,246	—
Commercial real estate	—	77	3,029	3,106	663,805	666,911	—
Construction	88	—	69	157	294,019	294,176	69
Farmland	1,342	3	557	1,902	34,544	36,446	247
Second mortgages	46	7	24	77	7,956	8,033	24
Equity lines of credit	16	—	—	16	50,333	50,349	—
Commercial	4	—	19	23	34,406	34,429	19
Agricultural, installment and other	344	128	46	518	54,941	55,459	112
Total	$4,703	1,583	4,793	11,079	1,572,952	1,584,031	$ 1,520
December 31, 2015							
Residential 1-4 family	$3,272	1,198	1,412	5,882	343,749	349,631	$ 1,371
Multifamily	—	—	—	—	49,564	49,564	—
Commercial real estate	172	—	4,293	4,465	621,158	625,623	—
Construction	958	230	—	1,188	274,131	275,319	—
Farmland	88	21	886	995	31,119	32,114	311
Second mortgages	87	—	4	91	7,460	7,551	4
Equity lines of credit	283	89	197	569	45,937	46,506	197
Commercial	2	—	39	41	30,496	30,537	39
Agricultural, installment and other	382	114	56	552	53,717	54,269	56
Total	$5,244	1,652	6,887	13,783	1,457,331	1,471,114	$ 1,978

Generally, at the time a loan is placed on nonaccrual status, all interest accrued on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. A nonaccrual loan may be restored to accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt. Management has accessed the loans that are 90 days past due and determined that all are well-collateralized and in the process of collection, thus accrual of interest is appropriate.

Non-performing loans, which included non-accrual loans and loans 90 days past due, at June 30, 2016 totaled $4,793,000, a decrease from $6,887,000 at December 31, 2015. The decrease in non-performing loans during the six months ended June 30, 2016 of $2,028,000 is due primarily to an decrease in non-performing residential 1-4 family and farmland loans and commercial real estate, partially offset by an increase in non-performing construction, second mortgages, and agricultural, installment, and other loans. Management believes that it is probable that it will incur losses on these loans but believes that these losses should not exceed the amount in the allowance for loan losses already allocated to these loans, unless there is renewed deterioration of local real estate values.

Other loans may be classified as impaired when the current net worth and financial capacity of the borrower or of the collateral pledged, if any, is viewed as inadequate and it is probable that the Company will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Such loans generally have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the

Company's criteria for nonaccrual status. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Company shall recognize impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The decrease in impaired loans during the six months ended June 30, 2016 when compared to the comparable period in 2015 was primarily due to the fact that the Company's market areas have seen improvements in the residential real estate market and the commercial real estate market remains steady. The allowance for loan loss related to collateral dependent impaired loans was measured based upon the estimated fair value of related collateral.

Loans are charged-off in the month when the determination is made that the loan is uncollectible. Net charge-offs for the six months ended June 30, 2016 were $252,000 as compared to $316,000 in net charge-offs for the same period in 2015. The Bank has continued to experience a stabilization in past dues and nonaccruals and is experiencing fewer foreclosures which has resulted in fewer charge-offs.

The collateral values securing potential problem loans, including impaired loans, based on estimates received by management, total approximately $10.2 million. At June 30, 2016, the internally classified loans have decreased $6,240,000, or 24.75%, to $18,977,000 from $25,217,000 at December 31, 2015. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

The largest category of internally graded loans at June 30, 2016 was real estate mortgage loans. Included within this category are residential real estate construction and development loans, including loans to home builders and developers of land, as well as one-to-four family mortgage loans, and commercial real estate loans. Residential real estate loans, including construction and land development loans that are internally classified totaled $12,441,000 and $11,785,000 at June 30, 2016 and December 31, 2015, respectively. These loans have been graded accordingly due to bankruptcies, inadequate cash flows and delinquencies. The Bank has experienced a stabilization in internally graded loans as the cash flows from home builders, land developers, and commercial real estate borrowers continue to improve. Management does not anticipate losses on the internally classified residential real estate construction and development loans at June 30, 2016 to exceed the amount already allocated to loan losses.

Liquidity and Asset Management

The Company's management seeks to maximize net interest income by managing the Company's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers, and fund attractive investment opportunities. Higher levels of liquidity bear corresponding costs, measured in terms of lower yields on short-term, more liquid earning assets and higher interest expense involved in extending liability maturities.

Liquid assets include cash and cash equivalents and investment securities and money market instruments that will mature within one year. At June 30, 2016, the Company's liquid assets totaled $219.9 million. Additionally, as of June 30, 2016, we had available to us approximately $53.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements, to meet short term funding needs. The Company maintains a formal asset and liability management process to quantify, monitor and control interest rate risk and to assist management in maintaining stability in the net interest margin under varying interest rate environments. The Company accomplishes this process through the development and implementation of lending, funding and pricing strategies designed to maximize net interest income under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

Analysis of rate sensitivity and rate gap analysis are the primary tools used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Included in the analysis are cash flows and maturities of financial instruments held for purposes other than trading, changes in market conditions, loan volumes and pricing and deposit volume and mix. These assumptions are inherently uncertain, and, as a result, net interest income cannot be precisely estimated nor can the impact of higher or lower interest rates on net interest income be precisely predicted. Actual results will differ due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management's strategies, among other factors.

The Company's primary source of liquidity is a stable core deposit base. In addition, short-term borrowings, loan payments and investment security maturities provide a secondary source. At June 30, 2016, the Company had a liability sensitive

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position (a negative gap). Liability sensitivity means that more of the Company’s liabilities are capable of re-pricing over certain time frames than its assets. The interest rates associated with these liabilities may not actually change over this period but are capable of changing.

The Company also uses simulation modeling to evaluate both the level of interest rate sensitivity as well as potential balance sheet strategies. The Asset Liability Committee meets quarterly to analyze the interest rate shock simulation. The interest rate shock simulation model is based on a number of assumptions. These assumptions include, but are not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows and balance sheet management strategies. We model instantaneous change in interest rates using a growth in the balance sheet as well as a flat balance sheet to understand the impact to earnings and capital. The Company also uses Economic Value of Equity (“EVE”) sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest rate scenarios. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. Presented below is the estimated impact on the Bank’s net interest income and EVE as of June 30, 2016, assuming an immediate shift in interest rates:

	% Change from Base Case for Immediate Parallel Changes in Rates		
	-100 BP[(1)]	+100 BP	+200 BP
Net interest income	(4.26)%	(2.09)	(4.68)
EVE	(12.26)	2.18	2.74

(1) Because certain current interest rates are at or below 1.00%, the 100 basis points downward shock assumes that certain corresponding interest rates reflects a decrease of less than the full 100 basis point downward shock.

Management believes that with present maturities, the anticipated growth in deposit base, and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future. At the present time there are no known trends or any known commitments, demands, events or uncertainties that will result in, or that are reasonably likely to result in, the Company’s liquidity changing in a materially adverse way.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Company’s rate sensitivity position has an important impact on earnings. Senior management of the Company analyzes the rate sensitivity position quarterly. Management focuses on the spread between the Company’s cost of funds and interest yields generated primarily through loans and investments.

The Company’s securities portfolio consists of earning assets that provide interest income. For those securities classified as held-to-maturity, the Company has the ability and intent to hold these securities to maturity or on a long-term basis. Securities classified as available-for-sale include securities intended to be used as part of the Company’s asset/liability strategy and/or securities that may be sold in response to changes in interest rate, prepayment risk, the need or desire to increase capital and similar economic factors. At June 30, 2016, securities totaling approximately $27.4 million mature or will be subject to rate adjustments within the next twelve months.

A secondary source of liquidity is the Company’s loan portfolio. At June 30, 2016, loans totaling approximately $378.2 million either will become due or will be subject to rate adjustments within twelve months from that date. Continued emphasis will be placed on structuring adjustable rate loans.

As for liabilities, at June 30, 2016, certificates of deposit of $100,000 or greater totaling approximately $109.1 million will become due or reprice during the next twelve months. Historically, there has been no significant reduction in immediately withdrawable accounts such as negotiable order of withdrawal accounts, money market demand accounts, demand deposit accounts and regular savings accounts. Management anticipates that there will be no significant withdrawals from these accounts in the future.

Management believes that with present maturities, the anticipated growth in deposit base, and the efforts of management in its asset/liability management program, liquidity will not pose a problem in the near term future. At the present time there are no known trends or any known commitments, demands, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity changing in a materially adverse way.

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Off Balance Sheet Arrangements

At June 30, 2016, we had unfunded loan commitments outstanding of $440.8 million and outstanding standby letters of credit of $34.9 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate Federal funds sold or securities available-for-sale or on a short-term basis to borrow and purchase Federal funds from other financial institutions. Additionally, the Bank could sell participations in these or other loans to correspondent banks. As mentioned above, the Bank has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, investment security maturities and short-term borrowings.

Capital Position and Dividends

At June 30, 2016, total stockholders’ equity was $237,373,000, or 11.12% of total assets, which compares with $223,438,000, or 11.05% of total assets, at December 31, 2015. The dollar increase in stockholders’ equity during the six months ended June 30, 2016 results from the Company’s net income of $11,913,000, proceeds from the issuance of common stock related to exercise of stock options of $112,000, the net effect of a $4,214,000 unrealized gain on investment securities net of applicable income taxes of $1,613,000, cash dividends declared of $2,678,000 of which $1,967,000 was reinvested under the Company’s dividend reinvestment plan and $20,000 related to stock option compensation.

The Company and the Bank are subject to regulatory capital requirements administered by the FDIC, the Federal Reserve and the Tennessee Department of Financial Institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common equity, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2016 and December 31, 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of June 30, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank’s category. To be categorized as well capitalized as of December 31, 2015, an institution must have maintained minimum total risk-based, Tier 1 risk-based, common equity Tier 1, and Tier 1 leverage ratios as set forth in the following tables and not have been subject to a written agreement, order or directive to maintain a higher capital level. The minimum capital requirements based on the phase-in provisions of the Basel III Capital Rules as of June 30, 2016 are set forth in the following table:

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	Actual		Minimum Capital Requirement with Basel III Capital Conservation Buffer Phase - In Schedule		Minimum To Be Well Capitalized Under Applicable Regulatory Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
June 30, 2016						
Total capital to risk weighted assets:						
Consolidated	$253,941	13.7%	$159,872	8.625%	$185,358	10.0%
Wilson Bank	251,273	13.5%	160,536	8.625	186,128	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	230,817	12.4%	123,320	6.625	148,914	8.0
Wilson Bank	228,150	12.3%	122,886	6.625	148,390	8.0
Common equity tier 1 capital to average assets:						
Consolidated	230,817	12.4%	95,398	5.125	120,993	6.5
Wilson Bank	228,150	12.3%	95,063	5.125	120,567	6.5
Tier 1 capital to average assets:						
Consolidated	230,817	11.1%	83,177	4.000	N/A	N/A
Wilson Bank	228,150	10.8%	84,500	4.000	105,625	5.0

	Actual		Regulatory Minimum Requirement with Basel III Capital Conservation Buffer Phase-In Schedule		Minimum To Be Well Capitalized Under Applicable Regulatory Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
December 31, 2015						
Total capital to risk weighted assets:						
Consolidated	$240,848	14.1%	$136,588	8.0%	$170,736	10.0%
Wilson Bank	238,963	14.0	136,575	8.0	170,719	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	219,483	12.9	102,441	6.0	136,588	8.0
Wilson Bank	217,600	12.8	102,431	6.0	136,575	8.0
Common equity Tier 1 capital to risk weighted assets:						
Consolidated	219,483	12.9	76,831	4.5	110,978	6.5
Wilson Bank	217,600	12.8	76,823	4.5	110,967	6.5
Tier 1 capital to average assets:						
Consolidated	219,483	11.1	79,361	4.0	N/A	N/A
Wilson Bank	217,600	11.0	79,354	4.0	99,192	5.0

In July 2013, the Federal banking regulators, in response to the statutory requirements of The Dodd-Frank Wall Street Reform and Consumer Protection Act, adopted new regulations implementing the Basel Capital Adequacy Accord ("Basel III") and the related minimum capital ratios. The new capital requirements were effective January 1, 2015 and included a new “Common Equity Tier I Ratio”, which has stricter rules as to what qualifies as Common Equity Tier I Capital.

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The guidelines under Basel III establish a 2.5% capital conservation buffer requirement that is phased in over four years beginning January 1, 2016. The buffer is related to Risk Weighted Assets. The Basel III minimum requirements after giving effect to the buffer are as follow:

	2016	2017	2018	2019
Common Equity Tier I Ratio	5.125%	5.75%	6.375%	7.0 %
Tier I Capital to Risk Weighted Assets Ratio	6.625%	7.25%	7.875%	8.5 %
Total Capital to Risk Weighted Assets Ratio	8.625%	9.25%	9.875%	10.5%

In order to avoid limitations on capital distributions such as dividends and certain discretionary bonus payments to executive officers, a banking organization must maintain capital ratios above the minimum ratios including the buffer.

Impact of Inflation

Although interest rates are significantly affected by inflation, the inflation rate is immaterial when reviewing the Company's results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Company's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. Based upon the nature of the Company's operations, the Company is not subject to foreign currency exchange or commodity price risk.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both short-term and long-term earnings through funds management/interest rate risk management. The Company's rate sensitivity position has an important impact on earnings. Senior management of the Company meets monthly to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments. There have been no material changes in reported market risks during the six months ended June 30, 2016.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, its Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable

Item 1A. RISK FACTORS

There were no material changes to the Company's risk factors as previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None

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(b) Not applicable.
(c) None
Item 3. DEFAULTS UPON SENIOR SECURITIES
(a) None
(b) Not applicable
Item 4. MINE SAFETY DISCLOSURES
Not applicable
Item 5. OTHER INFORMATION
None

Item 6. EXHIBITS

3.1 Charter of Wilson Bank Holding Company, as amended (Restated for SEC filing purposes only.)

31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive Data File
*Management compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	WILSON BANK HOLDING COMPANY (Registrant)
DATE: August 9, 2016	/s/ Randall Clemons Randall Clemons President and Chief Executive Officer
DATE: August 9, 2016	/s/ Lisa Pominski Lisa Pominski Senior Vice President & Chief Financial Officer