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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-20402

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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 ¨ No ý

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: 10,256,718 shares at May 10, 2016

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

	March 31, 2016	December 31, 2015
	(Dollars in Thousands Except Share Amounts)	
Assets		
Loans	$ 1,550,909	$ 1,466,079
Less: Allowance for loan losses	(22,899)	(22,900)
Net loans	1,528,010	1,443,179
Securities:		
Held to maturity, at cost (market value $30,232 and $28,365, respectively)	29,962	28,195
Available-for-sale, at market (amortized cost $306,971 and $332,506, respectively)	308,359	331,128
Total securities	338,321	359,323
Loans held for sale	6,236	10,135
Restricted equity securities	3,012	3,012
Federal funds sold	35,640	35,220
Total earning assets	1,911,219	1,850,869
Cash and due from banks	64,905	74,033
Bank premises and equipment, net	42,014	42,100
Accrued interest receivable	5,265	5,244
Deferred income tax asset	7,580	8,039
Other real estate	5,565	5,410
Bank owned life insurance	18,072	17,733
Other assets	13,144	13,371
Goodwill	4,805	4,805
Total assets	$ 2,072,569	$ 2,021,604
Liabilities and Stockholders' Equity		
Deposits	$ 1,828,042	$ 1,789,850
Securities sold under repurchase agreements	777	2,035
Accrued interest and other liabilities	13,613	6,281
Total liabilities	1,842,432	1,798,166
Stockholders' equity:		
Common stock, $2.00 par value; authorized 15,000,000 shares, issued and outstanding 10,256,718 and 10,202,859 shares, respectively	20,513	20,406
Additional paid-in capital	58,156	56,237
Retained earnings	150,611	147,646
Net unrealized gains (losses) on available-for-sale securities, net of income taxes of $531 and $527, respectively	857	(851)
Total stockholders' equity	230,137	223,438
Total liabilities and stockholders' equity	$ 2,072,569	$ 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 Ended March 31, 2016 and 2015
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(Dollars in Thousands Except Per Share Amounts)	
Interest income:		
Interest and fees on loans	18,513	17,108
Interest and dividends on securities:		
Taxable securities	1,411	1,611
Exempt from Federal income taxes	232	171
Interest on loans held for sale	74	70
Interest on Federal funds sold	77	37
Interest and dividends on restricted securities	30	30
Total interest income	20,337	19,027
Interest expense:		
Interest on negotiable order of withdrawal accounts	376	366
Interest on money market and savings accounts	485	505
Interest on certificates of deposit	1,249	1,343
Interest on securities sold under repurchase agreements	1	2
Total interest expense	2,111	2,216
Net interest income before provision for loan losses	18,226	16,811
Provision for loan losses	67	75
Net interest income after provision for loan losses	18,159	16,736
Non-interest income:		
Service charges on deposit accounts	1,336	1,099
Other fees and commissions	2,410	2,150
Income on BOLI and annuity contracts	124	391
Gain on sale of loans	667	863
Gain on sale of other real estate	49	18
Gain on sale of securities	117	—
Total non-interest income	4,703	4,521
Non-interest expense:		
Salaries and employee benefits	8,193	7,252
Occupancy expenses, net	838	766
Furniture and equipment expense	519	498
Data processing expense	673	531
Directors’ fees	176	176
Other operating expenses	3,366	2,879
Loss on sale of other assets	—	1
Total non-interest expense	13,765	12,103
Earnings before income taxes	9,097	9,154
Income taxes	3,454	3,538

Net earnings	5,643	5,616
Weighted average number of shares outstanding-basic	10,238,798	10,129,861
Weighted average number of shares outstanding-diluted	10,243,026	10,134,374
Basic earnings per common share	$0.55	$ 0.55
Diluted earnings per common share	$0.55	$ 0.55
Dividends per share	$0.26	$ 0.23

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Months Ended March 31, 2016 and 2015
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Net earnings	$5,643	$5,616
Other comprehensive earnings, net of tax:		
Unrealized gains on available-for-sale securities arising during period, net of taxes of $1,103 and $731, respectively	1,780	1,179
Reclassification adjustment for net gains included in net earnings, net of taxes of $45	(72)	—
Other comprehensive earnings	1,708	1,179
Comprehensive earnings	$7,351	$6,795

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$20,943	$19,278
Fees and commissions received	3,870	3,640
Proceeds from sale of loans held for sale	25,102	33,204
Origination of loans held for sale	(20,536)	(34,858)
Interest paid	(2,193)	(2,391)
Cash paid to suppliers and employees	(9,058)	(9,669)
Income taxes paid	(523)	(683)
Net cash provided by operating activities	17,605	8,521
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	667	158
Proceeds from maturities, calls, and principal payments of available-for-sale securities	29,118	14,359
Proceeds from the sale of available-for-sale securities	5,983	—
Purchase of held-to-maturity securities	(2,509)	(249)
Purchase of available-for-sale securities	(10,001)	(3,053)
Loans made to customers, net of repayments	(85,020)	(26,096)
Purchase of Bank owned life insurance	(210)	(7,402)
Purchase of premises and equipment	(611)	(844)
Proceeds from sale of other real estate	—	388
Proceeds from sale of other assets	—	10
Net cash used in investing activities	(62,583)	(22,729)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	39,451	49,385
Net decrease in time deposits	(1,259)	(7,320)
Net decrease in securities sold under repurchase agreements	(1,258)	(818)
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	47	135
Net cash provided by financing activities	36,270	40,713
Net increase (decrease) in cash and cash equivalents	(8,708)	26,505
Cash and cash equivalents at beginning of period	109,253	68,007
Cash and cash equivalents at end of period	$100,545	$94,512

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Three Months Ended March 31, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	5,643	5,616
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	1,324	1,090
Provision for loan losses	67	75
Gain on sale other real estate	(49)	(18)
Security gains	(117)	—
Stock option compensation	12	13
Loss on the sale of other assets	—	1
Decrease (increase) in loans held for sale	3,899	(2,517)
Increase in deferred tax assets	(599)	(30)
Decrease (increase) in other assets, net	114	(120)
Increase in interest receivable	(21)	(222)
Increase in other liabilities	3,884	1,923
Increase in taxes payable	3,530	2,885
Decrease in interest payable	(82)	(175)
Total adjustments	11,962	2,905
Net cash provided by operating activities	$ 17,605	$ 8,521
Supplemental schedule of non-cash activities:		
Unrealized gain in values of securities available-for-sale, net of taxes of $1,058 and $731 for the three months ended March 31, 2016 and 2015, respectively	$ 1,708	$ 1,179
Non-cash transfers from loans to other real estate	$ 577	$ 105
Non-cash transfers from other real estate to loans	$ 471	$ —
Non-cash transfers from loans to other assets	$ 16	$ —

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. 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.

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 March 31, 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

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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 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, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those 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 our consolidated financial statements.

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

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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 March 31, 2016 and December 31, 2015:

	(In Thousands)	
	March 31, 2016	December 31, 2015
Mortgage loans on real estate		
Residential 1-4 family	$350,575	$349,631
Multifamily	77,088	49,564
Commercial	660,335	625,623
Construction and land development	294,722	275,319
Farmland	32,397	32,114
Second mortgages	8,102	7,551
Equity lines of credit	46,725	46,506
Total mortgage loans on real estate	1,469,944	1,386,308
Commercial loans	32,216	30,537
Agricultural loans	1,573	1,552
Consumer installment loans		
Personal	40,132	40,196
Credit cards	3,094	3,271
Total consumer installment loans	43,226	43,467
Other loans	9,190	9,250
	1,556,149	1,471,114
Net deferred loan fees	(5,240)	(5,035)
Total loans	1,550,909	1,466,079
Less: Allowance for loan losses	(22,899)	(22,900)
Net loans	$1,528,010	$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, 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 incorporates 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.

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

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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 three months ended March 31, 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
March 31, 2016										
Allowance for loan losses:										
Beginning balance	$5,024	619	9,986	5,136	654	106	594	301	480	22,900
Provision	(70)	345	(82)	(251)	11	7	(30)	20	117	67
Charge-offs	—	—	—	—	—	—	—	—	(180)	(180)
Recoveries	21	—	1	3	—	1	9	1	76	112
Ending balance	$4,975	964	9,905	4,888	665	114	573	322	493	22,899
Ending balance individually evaluated for impairment	$183	—	—	—	—	—	—	—	—	183
Ending balance collectively evaluated for impairment	$4,792	964	9,905	4,888	665	114	573	322	493	22,716
Ending balance loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—	—	—
Loans:										
Ending balance	$350,575	77,088	660,335	294,722	32,397	8,102	46,725	32,216	53,989	1,556,149
Ending balance individually evaluated for impairment	$686	—	4,639	1,938	—	—	—	—	—	7,263
Ending balance collectively evaluated for impairment	$349,889	77,088	655,696	292,784	32,397	8,102	46,725	32,216	53,989	1,548,886
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 March 31, 2016, the Company had certain impaired loans of $4.3 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 March 31, 2016 and December 31, 2015.

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2016					
With no related allowance recorded:					
Residential 1-4 family	$150	149	—	392	2
Multifamily	—	—	—	—	—
Commercial real estate	4,640	4,639	—	4,643	4
Construction	1,943	1,938	—	1,943	22
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$6,733	6,726	—	6,978	28
With allowance recorded:					
Residential 1-4 family	$540	537	183	687	8
Multifamily	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$540	537	183	687	8
Total					
Residential 1-4 family	$690	686	183	1,079	10
Multifamily	—	—	—	—	—
Commercial real estate	4,640	4,639	—	4,643	4
Construction	1,943	1,938	—	1,943	22
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$7,273	7,263	183	7,665	36

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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	