WILSON BANK HOLDING CO
Form 10-Q
November 07, 2014

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 September 30, 2014

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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: 7,571,372 shares at November 7, 2014

Part I. Financial Information

Item 1. Financial Statements

WILSON BANK HOLDING COMPANY

Consolidated Balance Sheets

September 30, 2014 and December 31, 2013

(Unaudited)

	September 30, 2014	December 31, 2013
	(Dollars in Thousands Except Per Share Amounts)	
Assets		
Loans	$ 1,309,180	$ 1,207,202
Less: Allowance for loan losses	(23,314)	(22,935)
Net loans	1,285,866	1,184,267
Securities:		
Held to maturity, at cost (market value $28,873 and $26,561, respectively)	28,794	26,823
Available-for-sale, at market (amortized cost $342,460 and $336,335, respectively)	338,651	329,373
Total securities	367,445	356,196
Loans held for sale	8,781	7,022
Restricted equity securities	3,012	3,012
Federal funds sold	21,005	38,190
Total earning assets	1,686,109	1,588,687
Cash and due from banks	58,529	73,314
Bank premises and equipment, net	39,592	38,176
Accrued interest receivable	5,186	5,063
Deferred income tax asset	10,928	11,437
Other real estate	9,604	12,869
Bank owned life insurance	16,696	11,390
Other assets	4,119	3,230
Goodwill	4,805	4,805
Total assets	$ 1,835,568	$ 1,748,971
Liabilities and Stockholders Equity		
Deposits	$ 1,624,272	$ 1,554,255
Securities sold under repurchase agreements	4,848	9,078

Accrued interest and other liabilities	13,367	7,967
Total liabilities	1,642,487	1,571,300
Stockholders equity:		
Common stock, $2.00 par value; authorized 15,000,000 shares, issued 7,570,880 and 7,498,588 shares, respectively	15,142	14,997
Additional paid-in capital	57,672	54,519
Retained earnings	122,618	112,451
Net unrealized gains on available-for-sale securities, net of income taxes of $1,458 and $2,666 respectively	(2,351)	(4,296)
Total stockholders equity	193,081	177,671
Total liabilities and stockholders equity	$ 1,835,568	$ 1,748,971

See accompanying notes to consolidated financial statements (unaudited)

WILSON BANK HOLDING COMPANY

Consolidated Statements of Earnings

Three Months and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(Dollars in Thousands Except Per Share Amounts)			
Interest income:				
Interest and fees on loans	$ 17,069	$ 16,594	$ 49,456	$ 49,540
Interest and dividends on securities:				
Taxable securities	1,592	1,032	4,832	3,066
Exempt from Federal income taxes	173	152	505	451
Interest on loans held for sale	83	65	196	188
Interest on Federal funds sold	33	55	120	154
Interest and dividends on restricted securities	30	32	91	100
Total interest income	18,980	17,930	55,200	53,499
Interest expense:				
Interest on negotiable order of withdrawal accounts	406	397	1,197	1,190
Interest on money market and savings accounts	588	601	1,756	1,805
Interest on certificates of deposit	1,426	1,655	4,398	5,234
Interest on securities sold under repurchase agreements	5	13	19	38
Interest on Federal funds purchased	1	1	1	1
Total interest expense	2,426	2,667	7,371	8,268
Net interest income before provision for loan losses	16,554	15,263	47,829	45,231
Provision for loan losses	87	738	364	2,162
Net interest income after provision for loan losses	16,467	14,525	47,465	43,069
Non-interest income:				
Service charges on deposit accounts	1,174	1,107	3,139	3,068
Other fees and commissions	2,314	1,996	6,693	5,745
Gain on sale of loans	796	777	1,926	2,587
Gain on sale of other assets			7	
Gain on sale of securities	5		293	78
Total non-interest income	4,289	3,880	12,058	11,478

Non-interest expense:				
Salaries and employee benefits	6,926	6,485	20,462	18,966
Occupancy expenses, net	858	683	2,250	1,964
Furniture and equipment expense	447	358	1,286	997
Data processing expense	574	462	1,713	1,358
Directors fees	166	157	512	521
Other operating expenses	2,967	2,884	8,828	8,295
Loss on sale of other assets		2	3	2
Legal fees	12	41	80	2,849
Loss on sale of other real estate	34	218	190	934
Total non-interest expense	11,984	11,290	35,324	35,886
Earnings before income taxes	8,772	7,115	24,199	18,661
Income taxes	3,421	2,634	9,522	6,955
Net earnings	$ 5,351	$ 4,481	14,677	11,706
Weighted average number of shares outstanding-basic	7,559,136	7,485,272	7,538,860	7,463,654
Weighted average number of shares outstanding-diluted	7,563,354	7,489,992	7,543,210	7,468,503
Basic earnings per common share	$ .71	$ .60	$ 1.95	$ 1.57
Diluted earnings per common share	$ .71	$ .60	$ 1.95	$ 1.57
Dividends per share	$ .30	$ .30	$ .60	$ .60

See accompanying notes to consolidated financial statements (unaudited)

WILSON BANK HOLDING COMPANY

Consolidated Statements of Comprehensive Earnings

Three Months and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In Thousands)			
Net earnings	$ 5,351	$ 4,481	$ 14,677	$ 11,706
Other comprehensive earnings, net of tax:				
Unrealized gains on available-for-sale securities arising during period, net of taxes of $417, $1,022, $1,320 and $4,069, respectively	(674)	(1,648)	2,126	(6,560)
Reclassification adjustment for net gains included in net earnings, net of taxes of $2, $0, $112, and $30, respectively	(3)		(181)	(48)
Other comprehensive earnings (loss)	(677)	(1,648)	1,945	(6,608)
Comprehensive earnings	$ 4,674	$ 2,833	$ 16,622	$ 5,098

See accompanying notes to consolidated financial statements (unaudited)

WILSON BANK HOLDING COMPANY

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2014 and 2013

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	2014	2013
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$ 56,628	$ 56,215
Fees and commissions received	9,832	8,813
Proceeds from sale of loans held for sale	74,251	95,858
Origination of loans held for sale	(74,084)	(85,390)
Interest paid	(7,666)	(8,910)
Cash paid to suppliers and employees	(29,076)	(25,821)
Income taxes paid	(10,132)	(7,651)
Net cash provided by operating activities	19,753	33,114
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	1,452	2,626
Proceeds from maturities, calls, and principal payments of available-for-sale securities	51,317	60,798
Proceeds from the sale of available-for-sale securities	49,021	6,867
Purchase of held-to-maturity securities	(3,609)	(11,789)
Purchase of available-for-sale securities	(107,535)	(33,416)
Loans made to customers, net of repayments	(101,315)	(48,793)
Purchase of Bank owned life insurance	(5,000)	
Purchase of premises and equipment	(3,024)	(1,929)
Proceeds from sale of premises and equipment	7	
Proceeds from sale of other real estate	2,419	2,656
Proceeds from sale of other assets	1	33
Net cash used in investing activities	(116,266)	(22,947)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	103,666	68,837
Net decrease in time deposits	(33,649)	(25,256)
Net decrease in securities sold under repurchase agreements	(4,230)	(1,333)
Dividends paid	(4,510)	(4,464)
Proceeds from sale of common stock pursuant to dividend reinvestment	3,204	3,248
Repurchase of common stock	(94)	
Proceeds from exercise of stock options	156	136
Net cash provided by financing activities	64,543	41,168

Net increase (decrease) in cash and cash equivalents	(31,970)	51,335
Cash and cash equivalents at beginning of period	111,504	106,664
Cash and cash equivalents at end of period	$ 79,534	$ 157,999

See accompanying notes to consolidated financial statements (unaudited)

WILSON BANK HOLDING COMPANY

Consolidated Statements of Cash Flows, Continued

Nine Months Ended September 30, 2014 and 2013

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	2014	2013
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	$ 14,677	$ 11,706
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	3,159	3,840
Provision for loan losses	364	2,162
Loss on sale of other real estate	190	934
Loss on sale of other assets	3	2
Security gains	(293)	(78)
Stock option compensation	32	25
Gain on sale of fixed assets	(7)	
Decrease (increase) in taxes payable	89	(685)
Decrease (increase) in loans held for sale	(1,759)	7,881
Increase in deferred tax assets	(699)	(11)
Decrease (increase) in other assets, net	(1,191)	1,151
Decrease (increase) in interest receivable	(123)	125
Increase in other liabilities	5,606	6,704
Decrease in interest payable	(295)	(642)
Total adjustments	$ 5,076	$ 21,408
Net cash provided by operating activities	$ 19,753	$ 33,114
Supplemental schedule of non-cash activities:		
Unrealized gain (loss) in values of securities available-for-sale, net of taxes of $1,208 and $4,098 for the nine months ended September 30, 2014 and 2013, respectively	$ 1,945	$ (6,608)
Non-cash transfers from loans to other real estate	$ 424	$ 3,117
Non-cash transfers from other real estate to loans	$ 1,080	$ 886
Non-cash transfers from loans to other assets	$ 8	$ 44

See accompanying notes to consolidated financial statements (unaudited)

7

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, 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 2013 Annual Report previously filed on Form 10-K.

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 Wilson Bank Holding Company s Annual Report on Form 10-K for the year ended December 31, 2013. There have been no significant changes to Wilson Bank Holding Company s significant accounting policies as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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 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, 2013 and at September 30, 2014, 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). Generally, loans with an identified weakness and principal balance of $100,000 or more are subject to individual identification for impairment. 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 is 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 with principal balances of less than $100,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for loans of a similar type greater than $100,000.

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 Adopted Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*, to reduce the diversity in reporting when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property

recognized. The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company adopted this ASU in the first quarter of 2014 using the prospective method and had no loans that met the above stated criteria as of September 30, 2014.

There were no 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 September 30, 2014 and December 31, 2013:

	(In Thousands)	
	September 30, 2014	December 31, 2013
Mortgage Loans on real estate		
Residential 1-4 family	$ 345,346	$ 332,432
Multifamily	13,743	13,920
Commercial	564,744	526,258
Construction and land development	235,324	194,426
Farmland	29,344	22,771
Second mortgages	9,752	10,511
Equity lines of credit	38,404	34,185
Total mortgage loans on real estate	1,236,657	1,134,503
Commercial loans	26,237	29,444
Agricultural loans	2,075	2,099
Consumer installment loans		
Personal	37,913	37,789
Credit cards	3,008	3,329
Total consumer installment loans	40,921	41,118
Other loans	7,517	3,291
	1,313,407	1,210,455

Net deferred loan fees	(4,227)	(3,253)
Total loans	1,309,180	1,207,202
Less: Allowance for loan losses	(23,314)	(22,935)
Net Loans	$ 1,285,866	$ 1,184,267

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.

Transactions in the allowance for loan losses for the nine months ended September 30, 2014 and year ended December 31, 2013 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
September 30, 2014											
Allowance for loan losses:											
Beginning balance	$ 4,935	77	10,918	5,159	618	205	300	395	7	321	22,935
Provision	1,079	(1)	(1,079)	830	228	(154)	(20)	(591)	(7)	79	364
Charge-offs	(372)		(128)	(7)				(37)		(213)	(757)
Recoveries	47		5	140	1	20	1	458	3	97	772
Ending balance	$ 5,689	76	9,716	6,122	847	71	281	225	3	284	23,314
Ending balance individually evaluated for impairment	$ 316		1,753	501	122						2,692
Ending balance collectively evaluated for impairment	$ 5,373	76	7,963	5,621	725	71	281	225	3	284	20,622
Ending balance loans acquired with deteriorated credit quality	$										
Loans:											
Ending balance	$ 345,346	13,743	564,744	235,324	29,344	9,752	38,404	26,237	2,075	48,438	1,313,407
Ending balance individually evaluated for impairment	$ 1,967		13,886	2,427	702						18,982
Ending balance collectively evaluated for impairment	$ 343,379	13,743	550,858	232,897	28,642	9,752	38,404	26,237	2,075	48,438	1,294,425

Ending balance loans acquired with deteriorated credit quality	$

12

(In Thousands)

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
December 31, 2013											
Allowance for loan losses:											
Beginning balance	$ 5,699	89	9,305	7,191	1,658	272	492	382	15	394	25,497
Provision	36	(12)	3,063	(741)	(266)	(70)	(89)	131	(14)	139	2,177
Charge-offs	(877)		(1,478)	(1,470)	(781)	(7)	(104)	(149)	(1)	(380)	(5,247)
Recoveries	77		28	179	7	10	1	31	7	168	508
Ending balance	$ 4,935	77	10,918	5,159	618	205	300	395	7	321	22,935
Ending balance individually evaluated for impairment	$ 1,150		2,300	950	57	49	10				4,516
Ending balance collectively evaluated for impairment	$ 3,785	77	8,618	4,209	561	156	290	395	7	321	18,419
Ending balance loans acquired with deteriorated credit quality	$										
Loans:											
Ending balance	$ 332,432	13,920	526,258	194,426	22,771	10,511	34,185	29,444	2,099	44,409	1,210,455
Ending balance individually evaluated for impairment	$ 4,303		17,722	3,806	1,300	761	174				26,896
Ending balance collectively evaluated for	$ 328,129	13,920	508,536	190,620	22,641	9,750	34,011	29,444	2,099	44,409	1,183,559

impairment

Ending balance loans acquired with deteriorated credit quality	$

13

Impaired Loans

At September 30, 2014, the Company had certain impaired loans of $3,001,000 which were on non-accruing interest status. At December 31, 2013, the Company had certain impaired loans of $4,718,000 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 September 30, 2014 and December 31, 2013.

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2014					
With no related allowance recorded:					
Residential 1-4 family	$ 864	854		811	37
Multifamily					
Commercial real estate	6,916	6,899		7,528	292
Construction				897	
Farmland					
Second mortgages				202	
Equity lines of credit					
Commercial					
Agricultural					
	$ 7,780	7,753		9,438	329
With allowance recorded:					
Residential 1-4 family	$ 1,137	1,114	316	1,411	36
Multifamily					
Commercial real estate	7,010	8,689	1,753	5,963	235
Construction	2,427	2,427	501	2,419	
Farmland	703	702	122	788	5
Second mortgages					
Equity lines of credit					
Commercial					
Agricultural					
	$ 11,277	12,932	2,692	10,581	276
Total					
Residential 1-4 family	$ 2,001	1,968	316	2,222	73
Multifamily					
Commercial real estate	13,926	15,588	1,753	13,491	527
Construction	2,427	2,427	501	3,316	
Farmland	703	702	122	788	5
Second mortgages				202	
Equity lines of credit					
Commercial					

Agricultural					
	$ 19,057	20,685	2,692	20,019	605

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With no related allowance recorded:					
Residential 1-4 family	$ 357	404		2,947	16
Multifamily					
Commercial real estate	7,234	7,199		3,750	260
Construction	1,393	1,393		2,265	11
Farmland					
Second mortgages	606	606		665	
Equity lines of credit					
Commercial				52	
Agricultural					
	$ 9,590	9,602		9,679	287
With allowance recorded:					
Residential 1-4 family	$ 3,972	4,186	1,150	5,107	187
Multifamily					
Commercial real estate	10,589	12,226	2,300	11,834	264
Construction	2,413	2,413	950	5,859	
Farmland	131	131	57	1,818	8
Second mortgages	156	155	49	157	
Equity lines of credit	174	174	10	175	9
Commercial					
Agricultural					
	$ 17,435	19,285	4,516	24,950	468
Total					
Residential 1-4 family	$ 4,329	4,590	1,150	8,054	203
Multifamily					
Commercial real estate	17,823	19,425	2,300	15,584	524
Construction	3,806	3,806	950	8,124	11
Farmland	131	131	57	1,818	8
Second mortgages	762	761	49	822	
Equity lines of credit	174	174	10	175	9
Commercial				52	
Agricultural					
	$ 27,025	28,887	4,516	34,629	755

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 noted above. 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.

The following table summarizes the carrying balances of TDRs at September 30, 2014 and December 31, 2013.

	September 30, 2014	December 31, 2013
Performing TDRs	$ 4,572	$ 6,487
Nonperforming TDRs	2,050	758
Total TDRS	$ 6,622	$ 7,245

The following table outlines the amount of each troubled debt restructuring categorized by loan classification for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	September 30, 2014			December 31, 2013		
	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	3	$ 602	$ 602	6	$ 800	$ 800
Multifamily						
Commercial real estate	1	22	22	2	5,522	3,291
Construction				1	282	282
Farmland						
Second mortgages				1	24	24
Equity lines of credit						
Commercial						
Agricultural, installment and other				2	13	13
Total	4	$ 624	$ 624	12	$ 6,641	$ 4,410

As of September 30, 2014 and December 31, 2013, the Company did not have any loans previously classified as troubled debt restructurings 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 September 30, 2014, the Company s recorded investment in consumer mortgage loans in the process of foreclosure amounted to $1,131,000.

Potential problem loans, which include nonperforming loans, amounted to approximately $41.5 million at September 30, 2014 compared to $38.0 million at December 31, 2013. 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 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.

The following table is a summary of the Bank s loan portfolio by risk rating:

(In Thousands)

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural	Installment and Other	Total
September 30, 2014											
Credit Risk Profile by Internally Assigned Rating											
Pass	$ 333,565	13,743	540,262	232,262	28,322	9,101	38,181	26,125	2,067	48,286	1,271,914
Special Mention	8,912		10,697	582	65	402	176	20	2	27	20,883
Substandard	2,869		13,785	2,480	957	249	47	92	6	125	20,610
Doubtful											
Total	$ 345,346	13,743	564,744	235,324	29,344	9,752	38,404	26,237	2,075	48,438	1,313,407
December 31, 2013											
Credit Risk Profile by Internally Assigned Rating											
Pass	$ 319,762	13,920	507,769	190,083	22,324	9,135	33,964	29,298	2,089	44,159	1,172,503
Special Mention	9,460		5,308	367	64	665	174	26	3	43	16,110
Substandard	3,210		13,181	3,976	383	711	47	120	7	207	21,842
Doubtful											
Total	$ 332,432	13,920	526,258	194,426	22,771	10,511	34,185	29,444	2,099	44,409	1,210,455

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 September 30, 2014 and December 31, 2013 are summarized as follows:

	September 30, 2014 Securities Available-For-Sale *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$ 143,204	$ 43	$ 2,755	$ 140,492
Mortgage-backed:				
GSE residential	163,644	545	1,308	162,881
Asset-backed securities:				
SBAP	21,270		266	21,004
Obligations of states and political subdivisions	14,342	118	186	14,274
	$ 342,460	$ 706	$ 4,515	$ 338,651

	September 30, 2014 Securities Held-To-Maturity *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$ 7,819	$ 53	$ 310	$ 7,562
Obligations of states and political subdivisions	20,975	414	78	21,311
	$ 28,794	$ 467	$ 388	$ 28,873

	December 31, 2013 Securities Available-For-Sale *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$ 141,968	$ 10	$ 5,892	$ 136,086
Mortgage-backed:				
GSE residential	175,855	808	1,481	175,182
Asset-backed securities:				
SBAP	4,801		69	4,732
Obligations of states and political subdivisions	13,711	71	409	13,373

	$ 336,335	$ 889	$ 7,851	$ 329,373

21

	December 31, 2013 Securities Held-To-Maturity *In Thousands*			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$ 8,649	$ 73	$ 520	$ 8,202
Obligations of states and political subdivisions	18,174	424	239	18,359
	$ 26,823	$ 497	$ 759	$ 26,561

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

The amortized cost and estimated market value of debt securities at September 30, 2014, 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		Available-for-sale	
	In Thousands			
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 1,875	$ 1,897	$ 4,368	$ 4,377
Due after one year through five years	11,174	11,448	58,938	58,132
Due after five years through ten years	3,612	3,658	173,021	170,593
Due after ten years	12,133	11,870	106,133	105,549
	$ 28,794	$ 28,873	$ 342,460	$ 338,651

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 September 30, 2014 and December 31, 2013.

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
September 30, 2014	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	$	$		$ 6,775	$ 310	6	$ 6,775	$ 310
Obligations of states and political subdivisions	1,111	4	3	4,183	74	10	5,294	78
	$ 1,111	$ 4	3	$ 10,958	$ 384	16	$ 12,069	$ 388
Available-for-Sale Securities:								
US Government- Sponsored enterprises (GSEs)*	$ 44,030	$ 343	15	$ 85,021	$ 2,412	28	$ 129,051	$ 2,755
Mortgage-backed:								
Government-sponsored enterprises (GSEs)* residential	92,184	847	35	22,462	461	14	114,646	1,308
Asset-backed securities: SBAP	21,004	266	12				21,004	266
Obligations of states and political subdivisions	1,602	7	3	5,431	179	15	7,033	186
	$ 158,820	$ 1,463	65	$ 112,914	$ 3,052	57	$ 271,734	$ 4,515

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
December 31, 2013	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	$ 6,678	$ 520	5	$	$		$ 6,678	$ 520
Obligations of states and political subdivisions	7,817	231	21	343	8	2	8,160	239
	$ 14,495	$ 751	26	$ 343	$ 8	2	$ 14,838	$ 759
Available-for-Sale Securities:								
U.S. Government - Sponsored enterprises (GSEs)	$ 103,502	$ 4,289	32	$ 19,479	$ 1,603	7	$ 122,981	$ 5,892
Mortgage-backed:								
Government-sponsored Enterprises (GSEs)* residential	97,805	1,449	32	1,866	32	2	99,671	1,481
Asset-backed securities: SBAP	4,732	69	5				4,732	69
Obligations of states and political subdivisions	5,645	95	14	4,766	314	14	10,411	409
	$ 211,684	$ 5,902	83	$ 26,111	$ 1,949	23	$ 237,795	$ 7,851

Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost bases, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

The carrying values of the Company s investment securities could decline in the future if the financial condition of issuers deteriorate 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. 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.

The following is a summary of components comprising basic and diluted earnings per share (EPS) for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Thousands Except Per Share Amounts)		(Dollars in Thousands Except Per Share Amounts)	
Basic EPS Computation:				
Numerator Earnings available to common stockholders	$ 5,351	$ 4,481	$ 14,677	$ 11,706
Denominator Weighted average number of common shares outstanding	7,559,136	7,485,272	7,538,860	7,463,654
Basic earnings per common share	$ .71	$ .60	$ 1.95	$ 1.57
Diluted EPS Computation:				
Numerator Earnings available to common stockholders	$ 5,351	$ 4,481	$ 14,677	$ 11,706
Denominator Weighted average number of common shares outstanding	7,559,136	7,485,272	7,538,860	7,463,654
Dilutive effect of stock options	4,218	4,720	4,350	4,849
	7,563,354	7,489,992	7,543,210	7,468,503
Diluted earnings per common share	$ .71	$ .60	$ 1.95	$ 1.57

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 September 30, 2014, 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 September 30, 2014.

As of September 30, 2014, 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, 2011 through 2013 and the IRS for the years ended December 31, 2011 through 2013.

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 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 September 30, 2014 is as follows:

Commitments to extend credit	$ 314,912,000
Standby letters of credit	$ 31,897,000

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 typically 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, 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 September 30, 2014 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:

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 land secured loans, 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.

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 and cash surrender values in determining the carrying value of life insurance. 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 to be materially sensitive to changes in these unobservable inputs.

The following tables present the financial instruments carried at fair value as of September 30, 2014 and December 31, 2013, by caption on the consolidated balance sheet and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	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)
September 30, 2014				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 140,492		140,492	
Mortgage-backed securities	162,881		162,881	
Asset-backed securities	21,044		21,004	
State and municipal securities	14,274		14,274	
Total investment securities available-for-sale	338,651		338,651	
Other assets	16,696			16,696
Total assets at fair value	$ 355,347		338,651	16,696

<u>December 31, 2013</u>

Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 136,086		136,086	
Mortgage-backed securities	175,182		175,182	
Asset-backed securities	4,732		4,732	
State and municipal securities	13,373		13,373	
Total investment securities available-for-sale	329,373		329,373	
Other assets	11,390			11,390
Total assets at fair value	$ 340,763		329,373	11,390

28

	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)
September 30, 2014				
Other real estate owned	$ 9,604			9,604
Impaired loans, net (1)	16,290			16,290
Total	$ 25,894			25,894
December 31, 2013				
Other real estate owned	$ 12,869			12,869
Impaired loans, net (1)	22,380			22,380
Total	$ 35,249			35,249

(1) *Amount is net of a valuation allowance of $2.7 million at September 30, 2014 and $4.5 million at December 31, 2013 as required by ASC 310-10, 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 nine months ended September 30, 2014, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the nine months ended September 30, 2014 and 2013 (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 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 Nine Months Ended September 30,			
	2014		**2013**	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Fair value, January 1	$ 11,390		6,315	
Total realized gains included in income	306		43	
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held				

at September 30		
Purchases, issuances and settlements, net	5,000	
Transfers out of Level 3		
Fair value, September 30	$ 16,696	6,358
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at September 30	$ 306	43

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 September 30, 2014 and December 31, 2013. 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.

Mortgage loans held-for-sale Mortgage loans held-for-sale are carried at the lower of cost or fair value. The estimate of fair value is equal to the carrying value of these loans as they are usually sold within a few weeks of their origination.

Deposits and Securities sold under agreements to repurchase The carrying amounts of demand deposits, savings deposits and securities sold under agreements to repurchase, approximate their fair values. Fair values for certificates of deposit are estimated using discounted cash flow models, using current market interest rates offered on certificates 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 September 30, 2014 and December 31, 2013. 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. For financial liabilities such as noninterest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(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)
September 30, 2014					
Financial assets:					
Securities held-to-maturity	$ 28,794	28,873		28,873	
Loans, net	1,285,866	1,301,216			1,301,216
Mortgage loans held-for-sale	8,781	8,781			8,781
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	1,629,120	1,490,817			1,490,817
Off-balance sheet instruments:					
Commitments to extend credit					
Standby letters of credit					
December 31, 2013					
Financial assets:					
Securities held-to-maturity	$ 26,823	26,561		26,561	
Loans, net	1,184,267	1,185,271			1,185,271
Mortgage loans held-for-sale	7,022	7,022			7,022
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	1,563,333	1,554,839			1,554,839
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.

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, 2013 and the Company s Quarterly Report on Form 10-Q for the quarters ended June 30, 2014 and March 31, 2014 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, c believe, suspect,

31

anticipate, seek, plan, estimate and similar expressions are intended to identify such forward-looking statements, 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, 2013, and also include, without limitation, (i) deterioration in the financial condition of borrowers 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 recently adopted 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 current unsettled conditions in the economy, including implementation 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 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, 2013.

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 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.

32

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 twelve quarters.

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 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 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 25.4% to $14,677,000 for the nine months ended September 30, 2014 from $11,706,000 in the first nine months of 2013. Net earnings were $5,351,000 for the quarter ended September 30, 2014, an increase of $870,000, or 19.4%, from $4,481,000 for the three months ended September 30, 2013 and an increase of $197,000, or 3.8% over the quarter ended June 30, 2014. The increase in net earnings during the nine months ended September 30, 2014 as compared to the prior year

comparable period was primarily due to an increase in net interest income and a decrease in provision for loan losses. Net yield on earning assets for the nine months ended September 30, 2014 was 2.81% compared to 2.79% for the first nine months of 2013, and the net interest spread was 3.64% and 3.60% for the nine month periods ended September 30, 2014 and September 30, 2013, respectively. The increase in net interest yield for the nine months ended September 30, 2014 reflects an increase in net interest income that outpaced the increase in average earning assets.

The average balances, interest, and average rates for the nine-month periods ended September 30, 2014 and September 30, 2013 are presented in the following table:

	September 30, 2014			**September 30, 2013**		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Loans, net of unearned interest	$ 1,242,785	5.31%	49,456	$ 1,201,061	5.50%	49,540
Investment securities taxable	343,709	1.87	4,832	289,971	1.41	3,066
Investment securities tax exempt	32,377	2.08	505	27,635	2.18	451
Taxable equivalent adjustment		1.07	347		1.12	232
Total tax-exempt investment securities	32,377	3.15	852	27,635	3.30	683
Total investment securities	376,086	1.98	5,684	317,606	1.57	3,749
Loans held for sale	6,929	3.77	196	8,694	2.88	188
Federal funds sold	84,106	.19	120	98,576	.21	154
Restricted equity securities	3,012	4.03	91	3,012	4.43	100
Total earning assets	1,712,918	4.32%	55,547	1,628,949	4.40	53,731
Cash and due from banks	10,925			10,167		
Allowance for loan losses	(23,240)			(26,477)		
Bank premises and equipment	39,204			35,970		
Other assets	50,801			44,473		
Total assets	$ 1,790,608			$ 1,693,082		

	September 30, 2014			September 30, 2013		
	Average Balance	Interest Rate	Income/ Expense	Average Balance	Interest Rate	Income/ Expense
Deposits:						
Negotiable order of withdrawal accounts	$ 345,559	.46%	1,197	$ 308,152	.51%	1,190
Money market demand accounts	428,873	.42	1,355	363,664	.51	1,385
Individual retirement accounts	94,079	1.13	795	98,322	1.30	961
Other savings deposits	98,448	.54	401	95,419	.59	420
Certificates of deposit $100,000 and over	246,893	1.06	1,956	254,381	1.18	2,252
Certificates of deposit under $100,000	233,175	.94	1,647	252,880	1.07	2,021
Total interest-bearing deposits	1,447,027	.68	7,351	1,372,818	.80	8,229
Securities sold under repurchase agreements	6,279	.40	19	9,559	.53	38
Federal funds purchased	164	.81	1	98	1.36	1
Advances from Federal Home Loan Bank						
Total interest-bearing liabilities	1,453,470	.68	7,371	1,382,475	.80	8,268
Demand deposits	141,662			129,334		
Other liabilities	11,212			10,129		
Stockholders equity	184,264			171,144		
Total liabilities and stockholders equity	$ 1,790,608			$ 1,693,082		
Net interest income, on a tax equivalent basis			$ 48,176			$ 45,463
Net yield on earning assets (1)		2.81%			2.79%	
Net interest spread (2)		3.64%			3.60%	

(1) Net interest income divided by average interest-earning assets.

(2) Average interest rate on interest-earning assets less average interest rate on interest-bearing liabilities.

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 a reduction in loan yields that outpaced loan growth and an increase in the yields on taxable securities, the Company s total interest income, excluding tax equivalent adjustments relating to tax exempt securities, increased $1,701,000, or 3.2%, during the nine months ended September 30, 2014 as compared to the same period in 2013. The increase in total interest income was $1,050,000, or 5.9%, for the quarter ended September 30, 2014 as compared to the quarter ended September 30, 2013. Interest income for the third quarter of 2014 increased $694,000, or 3.80%, over the second quarter of 2014. The increase in the first nine months of 2014 was primarily attributable to higher yields on taxable securities. The ratio of average earning assets to total average assets was 95.7% and 96.2% for the nine month periods ended September 30, 2014 and September 30, 2013, respectively.

Interest expense decreased $897,000, or 10.8%, for the nine months ended September 30, 2014 as compared to the same period in 2013. The decrease was $241,000, or 9.0%, for the three months ended September 30, 2014 as compared to the same period in 2013. Interest expense decreased $11,000, or 0.5%, for the quarter ended September 30, 2014 over the second quarter of 2014. The decrease for the nine months ended September 30, 2014 and the quarter ended September 30, 2014 as compared to the prior year s comparable periods 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 $23,314,000 as of September 30, 2014 compared to $22,935,000 as of December 31, 2013 and $23,679,000 as of September 30, 2013. 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 recovered for the first nine months of 2014 totaled $15,000 compared to $3,980,000 and $6,465,000 of net chargeoffs for the first nine months of 2013 and 2012, respectively. Overall, net charge offs were down for the three and nine month periods ended September 30, 2014 when compared to the comparable periods in 2013 due to an overall improvement in the Bank s loan portfolio as well as a single large recovery that occurred in the first quarter of 2014. Although the Bank has experienced modest loan growth of 8.4% in the first nine months and an overall stabilization in the loan portfolio, in accordance with the Bank s quarterly allowance calculation management continues to maintain an appropriate balance in the the allowance for loan losses. Reflecting the improving asset quality trends experienced by the Bank in the first nine months of 2014, the provision for loan losses during the first nine months of 2014 was $364,000 down $1,798,000 from the $2,162,000 incurred in the first nine months of 2013. Provision expense for the three months ended September 30, 2014 was $87,000, down $651,000 from the $738,000 incurred in the third quarter of 2013.

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 borrower s ability to repay. Management has in place a system designed for monitoring its loan portfolio and identifying potential problem loans. The provision for loan losses raised the allowance for loan losses (net of charge-offs and recoveries) to $23,314,000, an increase of 1.7% from $22,935,000 at December 31, 2013 and a decrease of $365,000, or 1.5%, from September 30, 2013. The allowance for loan losses was 1.78%, 1.90%, and 1.96% of total loans at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

Management believes the allowance for loan losses at September 30, 2014 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 and gain on sale of loans. Total non-interest income for the nine months ended September 30, 2014 increased 5.1% to $12,058,000 from $11,478,000 for the same period in 2013. Total non-interest income increased $409,000, or 10.5%, during the quarter ended September 30, 2014 compared to the third quarter in 2013 and there was an decrease of $121,000, or 2.7%, over the

37

second quarter of 2014. The Company s non-interest income in the first nine months of 2014 increased from the first nine months of 2013 mostly due to an increase in other fees and commissions, partially offset by a decrease in gain on sale of loans. Gain on sale of loans decreased $661,000, or 25.6%, during the nine months ended September 30, 2014 compared to the same period in 2013. The decrease in gain on sale of loans during the first nine months of 2014 related primarily to the increase in mortgage rates during the second half of 2013 that has continued to slow consumer demand for refinancing current mortgages. Service charges on deposit accounts increased $71,000, or 2.3%, to $3,139,000 during the nine months ended September 30, 2014 compared to the same period in 2013 and increased $67,000, or 6.1%, during the quarter ended September 30, 2014 compared to the third quarter of 2013 as a result of a new overdraft privilege program implemented in the third quarter of 2014. Other fees and commissions increased $948,000, or 16.5%, to $6,693,000 during the nine months ended September 30, 2014 compared to the same period in 2013. The increase was primarily due to an increase in brokerage income between the two time periods. Other fees and commissions include income on brokerage accounts, insurance policies sold, and various other fees.

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 decreased $562,000, or 1.6%, during the first nine months of 2014 compared to the same period in 2013. The increase for the quarter ended September 30, 2014 was $694,000, or 6.2%, as compared to the same quarter in 2013. The Company experienced an increase of $256,000, or 2.2%, in non-interest expenses in the third quarter of 2014 as compared to the second quarter of 2014 due to an increase in salaries and employee benefits and an increase in occupancy expenses. The decrease in non-interest expenses for the nine months ended September 30, 2014 when compared to the comparable period in 2013 is primarily attributable to a decrease in litigation expense. Loss on the sale of other real estate decreased $744,000, or 79.7%, for the nine months ended September 30, 2014 as compared to the same period in 2013 due to a lower volume of foreclosures as well as improved economic conditions and an improved housing market. The expenses related to holding other real estate properties decreased as well due to an overall reduction in other real estate properties. The decrease in litigation expense and loss on the sale of other real estate for the nine months ended September 30, 2014 as compared to the same period in 2013 was partially offset by a $1,496,000 increase in salaries and employee benefits associated with an increase in the number of employees necessary to support the Company s growing operations.

Income Taxes

The Company s income tax expense was $9,522,000 for the nine months ended September 30, 2014, an increase of $2,567,000 over the comparable period in 2013. Income tax expense was $3,421,000 for the quarter ended September 30, 2014, an increase of $787,000 over the same period in 2013. The percentage of income tax expense to net income before taxes was 39.3% and 37.3% for the nine months ended September 30, 2014 and September 30, 2013, respectively and 39.0% and 37.0% for the quarters ended September 30, 2014 and 2013, respectively. The percentage of income tax expense to net income before taxes was 39.4% for the second quarter of 2014. The increase in effective tax rate for the nine months ended September 30, 2014 is directly attributable to the increase in earnings during the same period without a corresponding increase in non-taxable municipal securities earnings.

Financial Condition

Balance Sheet Summary

The Company s total assets increased 5.0% to $1,835,568,000 during the nine months ended September 30, 2014 from $1,748,971,000 at December 31, 2013. Total assets increased $32,691,000 during the three-month period ended September 30, 2014. Loans, net of allowance for loan losses, totaled $1,285,866,000 at September 30, 2014, an 8.6%

increase compared to

$1,184,267,000 at December 31, 2013. Loans increased $58,559,000, or 4.8%, during the three months ended September 30, 2014. Reflecting a decrease in federal funds sold, securities increased $11,249,000, or 3.2%, to $367,445,000 at September 30, 2014 from $356,196,000 at December 31, 2013. Securities decreased $12,156,000, or 3.2%, during the three months ended September 30, 2014. Federal funds sold decreased to $21,005,000 at September 30, 2014 from $38,190,000 at December 31, 2013 due to the fact that loan growth outpaced deposit growth.

Total liabilities increased by 4.5% to $1,642,487,000 at September 30, 2014 compared to $1,571,300,000 at December 31, 2013. For the quarter ended September 30, 2014, total liabilities increased $28,635,000, or 1.8%. The increase in total liabilities since December 31, 2013 was composed of a $70,017,000, or 4.5%, increase in total deposits and a $5,400,000, or 67.8%, increase in accrued interest and other liabilities. The increase in accrued interest and other liabilities is attributable to an increase in employee bonus payable as well as an increase in federal and state taxes payable. The increase in deposits is attributable to the launch of a new checking account suite in the fourth quarter of 2013 that was aimed at attracting a younger customer base.

Non Performing Assets

The following tables present the Company s non-accrual loans and past due loans as of September 30, 2014 and December 31, 2013.

Loans on Nonaccrual Status

	In Thousands	
	2014	2013
Residential 1-4 family	$ 42	726
Multifamily		
Commercial real estate		21
Construction	2,427	3,524
Farmland	574	700
Second mortgages		606
Equity lines of credit		
Commercial		
Agricultural, installment and other		
Total	$ 3,043	$ 5,577

(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
September 30, 2014							
Residential 1-4 family	$ 4,530	1,045	2,215	7,790	337,556	345,346	$ 2,173
Multifamily					13,743	13,743	

Commercial real estate	434			434	564,310	564,744	
Construction	278	66	2,866	3,210	232,114	235,324	439
Farmland	144		581	725	28,619	29,344	7
Second Mortgages	4	64	21	89	9,663	9,752	21
Equity Lines of Credit	180		21	201	38,203	38,404	21
Commercial			4	4	26,233	26,237	4
Agricultural, installment and other	437	144	111	692	49,821	50,513	111
Total	$ 6,007	1,319	5,819	13,145	1,300,262	1,313,407	$ 2,776
December 31, 2013							
Residential 1-4 family	$ 5,034	221	1,582	6,837	325,595	332,432	$ 856
Multifamily					13,920	13,920	
Commercial real estate	287	19	710	1,016	525,242	526,258	689
Construction	948	20	3,795	4,763	189,663	194,426	271
Farmland	8		700	708	22,063	22,771	
Second Mortgages	78		611	689	9,822	10,511	5
Equity Lines of Credit	48	27		75	34,110	34,185	
Commercial	122		285	407	29,037	29,444	285
Agricultural, installment and other	484	115	27	626	45,882	46,508	27
Total	$ 7,009	402	7,710	15,121	1,195,334	1,210,455	$ 2,133

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 the 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.

Non-performing loans, which included non-accrual loans and loans 90 days past due, at September 30, 2014 totaled $5,819,000, a decrease from $7,710,000 at December 31, 2013. The decrease in non-performing loans during the nine months ended September 30, 2014 of $1,891,000 is due primarily to a decrease in non-performing construction real estate mortgage loans of $929,000 and a decrease in non-performing commercial real estate loans of $582,000. This decrease was due largely to a $1.5 million payoff of a loan on non-accrual status. 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 further 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. 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.

The reduction in impaired loans in the nine months ended September 30, 2014 was primarily due to multiple loan relationships becoming current. According to the Company s policy, a loan may be removed from impaired status only in the event that the borrower has sustained repayment performance for a reasonable period, generally six months and future performance is expected. During the first nine months of 2014, the Company s market areas have seen improvement 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 recoveries for the nine months ended September 30, 2014 were $15,000 as compared to $3,980,000 in net charge-offs for the same period in 2013 and $4,739,000 for the year ended December 31, 2013. The Bank has continued to experience a decrease 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 $29,114,000. The internally classified loans have decreased $3,041,000, or 8.0%, from $37,952,000 at December 31, 2013. 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 September 30, 2014 was real estate mortgage loans. Included within this category are real estate construction and development loans relating to residential and commercial real estate, 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 $16,739,000 and $19,057,000 at September 30, 2014 and December 31, 2013, respectively. These loans have been graded accordingly due to bankruptcies, inadequate cash flows and delinquencies. The Bank continues to see an improvement 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 residential real estate construction and development loans to exceed the amount already allocated to loan losses, unless there is further deterioration of local real estate values.

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 September 30, 2014, the Company s liquid assets totaled $255 million. 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 September 30, 2014, the Company had a liability sensitive 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.

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 meets monthly to analyze its rate sensitivity position. These meetings focus 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. Securities totaling approximately $12 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 September 30, 2014, loans totaling approximately $294 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, certificates of deposit of $100,000 or greater totaling approximately $145 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.

Off Balance Sheet Arrangements

At September 30, 2014, we had unfunded loan commitments outstanding of $315 million and outstanding standby letters of credit of $32 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, its investment security maturities and short-term borrowings.

Capital Position and Dividends

At September 30, 2014, total stockholders equity was $193,081,000, or 10.5% of total assets, which compares with $177,671,000, or 10.2% of total assets, at December 31, 2013. The dollar increase in stockholders equity during the nine months ended September 30, 2014 results from the Company s net income of $14,677,000, proceeds from the issuance of common stock related to exercise of stock options of $156,000, the net effect of a $3,152,000 unrealized gain on investment securities net of applicable income taxes of $1,207,000, cash dividends declared of $4,510,000 of which $3,204,000 was reinvested under the Company s dividend reinvestment plan, the $94,000 repurchase of common stock and $32,000 related to stock option compensation.

The Company s and the Bank s principal regulators have established minimum risk-based capital requirements and leverage capital requirements for the Company and the Bank. These guidelines classify capital into two categories of Tier I and Total risk-based capital. Total risk-based capital consists of Tier I (or core) capital (essentially common equity less intangible assets) and Tier II capital (essentially qualifying long-term debt, of which the Bank has none, and a part of the allowance for possible loan

losses). In determining risk-based capital requirements, assets are assigned risk-weights of 0% to 100%, depending on regulatory assigned levels of credit risk associated with such assets. Under the Federal Reserve s regulations, for a bank holding company, like the Company, to be considered well capitalized it must maintain a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and not be subject to a written agreement, order or directive to maintain a specific capital level. In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide that a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of at least 4% should be maintained by most bank holding companies.

In July 2013, the Federal Reserve and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms will become effective as to the Company and the Bank on January 1, 2015 and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the new regulatory minimum capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital levels fall below the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The application of these more stringent capital requirements to the Company and the Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if the Company and the Bank were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of the final rules regarding Basel III could result in the Company or the Bank having to lengthen the term of their funding, restructure their business models and/or increase their holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit the Company s and the Bank s ability to make distributions, including paying dividends or buying back shares.

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 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). As of September 30, 2014 and December 31, 2013, the Company and the Bank are considered to be well-capitalized under current regulatory definitions. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables.

The Company s and the Bank s actual capital amounts and ratios as of September 30, 2014 and December 31, 2013, are also presented in the tables:

	Actual		*Minimum Capital Requirement*		*Minimum To Be Well Capitalized Under Applicable Regulatory Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(dollars in thousands)			
September 30, 2014:						
Total capital to risk weighted assets:						
Consolidated	$ 208,362	14.8%	$ 113,010	8.0%	$ 141,262	10.0%
Wilson Bank	206,986	14.7	112,953	8.0	141,191	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	190,626	13.5	56,482	4.0	84,723	6.0
Wilson Bank	189,260	13.4	56,496	4.0	84,743	6.0
Tier 1 capital to average assets:						
Consolidated	190,626	10.5	72,413	4.0	N/A	N/A
Wilson Bank	189,260	10.5	72,375	4.0	90,468	5.0

	Actual		*Minimum Capital Requirement*		*Minimum To Be Well Capitalized Under Applicable Regulatory Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(dollars in thousands)			
December 31, 2013:						
Total capital to risk weighted assets:						
Consolidated	$ 193,746	14.7%	$ 105,656	8.0%	$ 132,070	10.0%
Wilson Bank	190,911	14.5	105,622	8.0	132,027	10.0
Tier 1 capital to risk weighted assets:						
Consolidated	177,161	13.4	52,805	4.0	79,208	6.0
Wilson Bank	174,326	13.2	52,826	4.0	79,239	6.0
Tier 1 capital to average assets:						
Consolidated	177,161	10.3	69,001	4.0	N/A	N/A
Wilson Bank	174,326	10.1	69,040	4.0	86,300	5.0

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 nine months ended September 30, 2014.

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 September 30, 2014 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, 2013.

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

(a) None

(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

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

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: November 7, 2014	/s/ Randall Clemons Randall Clemons President and Chief Executive Officer
DATE: November 7, 2014	/s/ Lisa Pominski Lisa Pominski Senior Vice President and Chief Financial Officer