HOPFED BANCORP INC
Form 10-Q
August 09, 2016
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000-23667

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1322555**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4155 Lafayette Road, Hopkinsville, Kentucky	**42240**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (270) 885-1171

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 ninety 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 Date File required and posted pursuant to Rule 405 of Regulation S-T (subsection 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 file or a non-accelerated filer. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule12b-2 of the Exchange Act: (Check one)

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company filer ¨

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

As of August 6, 2016, the Registrant had outstanding 6,739,108 shares of the Registrant s Common stock.

Table of Contents

CONTENTS

HOPFED BANCORP, INC.

PART I. FINANCIAL INFORMATION		PAGE
The unaudited consolidated condensed financial statements of the Registrant and its wholly owned subsidiaries are as follows:		
Item 1.	Financial Statements	
	Consolidated Condensed Statements of Financial Condition as of June 30, 2016 (unaudited) and December 31, 2015	2
	Consolidated Condensed Statements of Income (Loss) for the Three and Six Month Periods Ended June 30, 2016, and June 30, 2015 (unaudited)	4
	Consolidated Condensed Statements of Comprehensive Income (Loss) for the Three and Six Month Periods Ended June 30, 2016, and June 30, 2015 (unaudited)	6
	Consolidated Condensed Statement of Stockholders Equity for the Six-Month Periods Ended June 30, 2015, and June 30, 2016 (unaudited)	7
	Consolidated Condensed Statements of Cash Flows for the Six-Month Periods Ended June 30, 2016, and June 30, 2015 (unaudited)	9
	Notes to Unaudited Consolidated Condensed Financial Statements	10
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 4.	Controls and Procedures	51
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	52
Item 1A.	Risk Factors	52
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3.	Defaults Upon Senior Securities	52
Item 4.	Mine Safety Disclosures	52
Item 5.	Other Information	53
Item 6.	Exhibits	53
SIGNATURES		53

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Financial Condition

(Dollars in Thousands)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 14,826	46,926
Interest-earning deposits	3,545	7,772
Cash and cash equivalents	18,371	54,698
Federal Home Loan Bank stock, at cost	4,428	4,428
Securities available for sale	232,585	237,177
Loans held for sale	1,637	2,792
Loans receivable, net of allowance for loan losses of $6,524 at June 30, 2016, and $5,700 at December 31, 2015	560,759	556,349
Accrued interest receivable	3,781	4,139
Real estate and other assets owned	772	1,736
Bank owned life insurance	10,480	10,319
Premises and equipment, net	23,730	24,034
Deferred tax assets	1,615	2,642
Other assets	3,585	4,840
Total assets	$ 861,743	903,154
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest-bearing accounts	$ 121,852	125,070
Interest-bearing accounts:		
Interest bearing checking accounts	190,593	203,779
Savings and money market accounts	100,772	95,893
Other time deposits	286,410	314,664
Total deposits	699,627	739,406
Advances from Federal Home Loan Bank	11,000	15,000
Repurchase agreements	47,582	45,770
Subordinated debentures	10,310	10,310
Advances from borrowers for taxes and insurance	1,167	614

Dividends payable	285	287
Accrued expenses and other liabilities	2,820	4,137
Total liabilities	772,791	815,524

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Financial Condition, Continued

(Dollars in Thousands)

	June 30, 2016 (Unaudited)	December 31, 2015
Stockholders equity:		
Preferred stock, par value $0.01 per share; authorized - 500,000 shares; no shares issued and outstanding at June 30, 2016, and December 31, 2015.		
Common stock, par value $0.01 per share; authorized 15,000,000 shares; 7,962,522 issued and 6,738,416 outstanding at June 30, 2016, and 7,951,699 issued and 6,865,811 outstanding at December 31, 2015	80	79
Additional paid-in-capital	58,648	58,604
Retained earnings	47,438	47,124
Treasury stock- common (at cost, 1,224,106 shares at June 30, 2016, and 1,085,888 shares at December 31, 2015)	(15,095)	(13,471)
Unallocated ESOP shares (at cost, 524,929 shares at June 30, 2016, and 546,413 shares at December 31, 2015)	(6,898)	(7,180)
Accumulated other comprehensive income, net of taxes	4,779	2,474
Total stockholders equity	88,952	87,630
Total liabilities and stockholders equity	$ 861,743	903,154

The consolidated condensed statement of financial condition at December 31, 2015, has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income (Loss)

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended June 30,		For the Six Month Periods Ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans receivable	$ 6,141	6,231	12,606	12,521
Securities available for sale - taxable	1,198	1,268	2,445	3,716
Securities available for sale - nontaxable	340	416	693	869
Interest-earning deposits	12	4	28	8
Total interest income	7,691	7,919	15,772	17,114
Interest expense:				
Deposits	1,007	1,245	2,102	2,505
Advances from Federal Home Loan Bank	28	66	101	135
Repurchase agreements	139	118	282	238
Subordinated debentures	94	183	188	367
Total interest expense	1,268	1,612	2,673	3,245
Net interest income	6,423	6,307	13,099	13,869
Provision for loan losses	465	270	923	485
Net interest income after provision for loan losses	5,958	6,037	12,176	13,384
Non-interest income:				
Service charges	698	720	1,375	1,434
Merchant card income	314	286	605	556
Mortgage origination revenue	435	343	803	520
Gain on sale of securities	52	83	343	449
Income from bank owned life insurance	77	73	161	144
Financial services commission	191	194	324	353
Other operating income	203	169	379	325
Total non-interest income	1,970	1,868	3,990	3,781

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Income (Loss), Continued

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	For the Three Month Periods Ended June 30,		For the Six Month Periods Ended June 30,	
	2016	2015	2016	2015
Non-interest expenses:				
Salaries and benefits	$ 3,901	4,004	7,889	8,188
Occupancy	801	752	1,588	1,490
Data processing	704	701	1,431	1,393
State deposit tax	247	251	495	499
Intangible amortization		16		32
Professional services	305	468	640	797
Deposit insurance and examination	159	151	332	268
Advertising	371	340	691	646
Postage and communications	172	134	327	266
Supplies	159	111	308	257
Loss (gain) on real estate owned	(1)	741	8	734
Real estate owned	202	67	261	204
Other operating	589	498	1,322	930
Total non-interest expense	7,609	8,234	15,292	15,704
Income (loss) before income tax	319	(329)	874	1,461
Income tax expense (benefit)	15	(212)	61	223
Net income (loss)	$ 304	(117)	813	1,238
Net income (loss) per share:				
Basic	$ 0.05	($ 0.02)	$ 0.13	$ 0.19
Diluted	$ 0.05	($ 0.02)	$ 0.13	$ 0.19
Dividend per share	$ 0.04	$ 0.04	$ 0.08	$ 0.08
Weighted average shares outstanding - basic	6,232,457	6,425,687	6,265,106	6,588,845
Weighted average shares outstanding - diluted	6,232,457	6,425,687	6,265,106	6,588,845

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

(Unaudited)

	For the three month Periods Ended June 30,		For the six month Periods Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$ 304	(117)	813	1,238
Other comprehensive income, net of tax:				
Unrealized gain on previously impaired investment securities, net of taxes of ($37) and ($104) for the six month periods ended June 30, 2016, and June 30, 2015, respectively.			72	202
Unrealized gain (loss) on non other than temporary impaired securities, net of taxes of ($368) and $907 for the three month periods ended June 30, 2016, and June 30, 2015, respectively; and ($1,267) and $379 for the six month periods ended June 30, 2016, and June 30, 2015, respectively.	714	(1,761)	2,459	(736)
Unrealized gain on derivatives, net of taxes of ($32) and ($65) for the three and six month periods ended June 30, 2015.		63		127
Reclassification adjustment for gains and accretion included in net income, net of taxes of $18 and $28 for three month periods ended June 30, 2016, and June 30, 2015, respectively; and $117 and $153 for the six month periods ended June 30, 2016, and June 30, 2015, respectively.	(34)	(54)	(226)	(296)
Total other comprehensive income (loss)	680	(1,752)	2,305	(703)
Comprehensive income (loss)	$ 984	(1,869)	3,118	535

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Six Month Period Ended June 30, 2015

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Shares Common Stock	Common Stock	Additional Capital Surplus	Retained Earnings	Treasury Stock Common	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2014	7,171,282	$ 79	58,466	45,729	(9,429)		3,557	98,402
Consolidated net income				1,238				1,238
Issue of restricted stock	771							
Purchase of treasury stock	(794,808)				(10,614)			(10,614)
Treasury stock reissued	600,000				7,884	(7,884)		
Change in price of ESOP shares			(12)					(12)
ESOP shares committed to release						359		359
Compensation expense, restricted stock awards			98					98
Net change in unrealized loss on derivatives, net of income taxes of ($65)							127	127
Net change in unrealized gain on securities available for sale, net of income taxes of $428							(830)	(830)
Cash dividend to common stockholders				(512)				(512)
Balance June 30, 2015	6,977,245	$ 79	58,552	46,455	(12,159)	(7,525)	2,854	88,256

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

7

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statement of Stockholders Equity

For the Six Month Period Ended June 30, 2016

(Dollars in Thousands, Except Share Amounts)

(Unaudited)

	Shares Common Stock	Common Stock	Additional Capital Surplus	Retained Earnings	Treasury Stock Common	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2015	6,865,811	$ 79	58,604	47,124	(13,471)	(7,180)	2,474	87,630
Consolidated net income				813				813
Issue of restricted stock	11,486	1						1
Purchases of treasury stock	(138,218)				(1,624)			(1,624)
ESOP shares earned			(34)			282		248
Forfeited restricted stock	(663)							
Compensation expense, restricted stock awards			78					78
Net change in unrealized gain on securities available for sale, net of income taxes of ($1,187)							2,305	2,305
Cash dividend to common stockholders				(499)				(499)
Balance June 30, 2016	6,738,416	$ 80	58,648	47,438	(15,095)	(6,898)	4,779	88,952

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

Table of Contents

HOPFED BANCORP, INC.

Consolidated Condensed Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

	For the Six Month Periods Ended June 30, 2016	2015
Cash flows from operating activities:		
Net cash provided by operating activities	$ 4,300	$ 2,306
Cash flows from investing activities		
Proceeds from sales, calls and maturities of securities available for sale	27,615	80,197
Purchase of securities available for sale	(19,952)	(25,989)
Net (increase) decrease in loans	(5,619)	(16,874)
Proceeds from sale of foreclosed assets	1,242	240
Purchase of premises and equipment	(376)	(1,842)
Net cash provided by investing activities	2,910	35,732
Cash flows from financing activities:		
Net decrease in demand deposits	(11,525)	(2,655)
Net decrease in time and other deposits	(28,254)	(11,134)
Increase in advances from borrowers for taxes and insurance	553	279
Advances from Federal Home Loan Bank		15,000
Repayment of advances from Federal Home Loan Bank	(4,000)	(40,000)
Net increase (decrease) in repurchase agreements	1,812	(9,134)
Cash used to repurchase treasury stock	(1,624)	(10,614)
Dividends paid on common stock	(499)	(536)
Net cash used in financing activities	(43,537)	(58,794)
Decrease in cash and cash equivalents	(36,327)	(20,756)
Cash and cash equivalents, beginning of period	54,698	40,439
Cash and cash equivalents, end of period	$ 18,371	$ 19,683
Supplemental disclosures of cash flow information:		
Interest paid	$ 2,772	$ 3,279
Income taxes paid		$ 55
Supplemental disclosures of non-cash investing and financing activities:		
Loans charged off	$ 449	$ 1,357

Foreclosures and in substance foreclosures of loans during period	$	286	$	843
Net unrealized gains (losses) on investment securities classified as available for sale	$	3,493	($	1,258)
Increase (decrease) in deferred tax asset related to unrealized gains on investments	($	1,187)	$	428
Dividends declared and payable	$	286	$	296
Issue of common stock to ESOP	$		$	7,884
Issue of restricted common stock	$	135		

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

Table of Contents

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

HopFed Bancorp, Inc. (the Company) was formed at the direction of Heritage Bank USA Inc., formerly Hopkinsville Federal Savings Bank (the Bank), to become the holding company of the Bank upon the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank. The conversion was consummated on February 6, 1998. The Company s primary assets are the outstanding capital stock of the converted Bank, and its sole business is that of the converted Bank.

On June 5, 2013, the Bank s legal name became Heritage Bank USA Inc. and the Bank was granted a commercial bank charter by the Kentucky Department of Financial Institutions (KDFI). On June 5, 2013, the Bank became subject to regulation by the KDFI and the Federal Deposit Insurance Corporation (FDIC). On the same day, HopFed Bancorp was granted a bank holding company charter by the Federal Reserve Bank of Saint Louis (FED) and as such regulated by the FED.

The Bank operates a mortgage division, Heritage Mortgage Services, in Clarksville, Tennessee with agents located in several of its markets. The Bank has a financial services division, Heritage Solutions, with offices in Murray, Kentucky, Kingston Springs, Tennessee, and Pleasant View, Tennessee. Heritage Solutions agents travel throughout western Kentucky and middle Tennessee offering fixed and variable annuities, mutual funds and brokerage services. In October of 2014, the Bank opened a loan production office in Nashville, Tennessee.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary for fair representation have been included. The results of operations and other data for the three month period ended June 30, 2016, are not necessarily indicative of results that may be expected for the entire fiscal year ending December 31, 2016.

The accompanying unaudited financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015. The accounting policies followed by the Company are set forth in the Summary of Significant Accounting Policies in the Company s December 31, 2015, Consolidated Financial Statements.

Table of Contents

(2) INCOME PER SHARE

The following schedule reconciles the numerators and denominators of the basic and diluted income (loss) per share (IPS) computations for the three and six month periods ended June 30, 2016, and June 30, 2015. Diluted common shares arise from the potentially dilutive effect of the Company s stock options and warrants outstanding. For the three and six month periods ended June 30, 2016, and June 30, 2015, the Company has excluded all unearned shares held by the ESOP.

	For the three month period Ended June 30,	
	2016	2015
Basic IPS:		
Net income (loss)	$ 304,000	($ 117,000)
Average common shares outstanding	6,232,457	6,425,687
Net income (loss) per share	$ 0.05	($ 0.02)
Diluted IPS:		
Net income (loss)	$ 304,000	($ 117,000)
Average common shares outstanding	6,232,457	6,425,687
Dilutive effect of stock options		
Average diluted shares outstanding	6,232,457	6,425,687
Net income (loss) per share, diluted	$ 0.05	($ 0.02)

	For the six month period Ended June 30,	
	2016	2015
Basic IPS:		
Net income	$ 813,000	$ 1,238,000
Average common shares outstanding	6,265,106	6,588,845
Net income per share	$ 0.13	$ 0.19
Diluted IPS:		
Net income	$ 813,000	$ 1,238,000
Average common shares outstanding	6,265,106	6,588,845
Dilutive effect of stock options		
Average diluted shares outstanding	6,265,106	6,588,845
Net income per share, diluted	$ 0.13	$ 0.19

Table of Contents

(3) STOCK COMPENSATION

The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of $48,000 and $78,000 for the three and six month periods ended June 30, 2016, and $49,000 and $98,000 for the three and six month periods ended June 30, 2015, respectively. The Company issued 877 and 11,486 shares of restricted stock during the three and six month periods ended June 30, 2016. The Company issue 771 shares of restricted stock during the three and six month periods ended June 30, 2015. The table below provides a detail of the Company s future compensation expense related to restricted stock vesting at June 30, 2016:

Year Ending December 31,	Future Expense
2016	$ 60,696
2017	85,696
2018	51,563
2019	4,974
Total	$ 202,929

The compensation committee may make additional awards of restricted stock, thereby increasing the future expense related to this plan. In addition, award vesting may be accelerated due to certain events as outlined in the restricted stock award agreement. Any acceleration of vesting will change the timing of, but not the aggregate amount of, compensation expense incurred.

Table of Contents

(4) SECURITIES
Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluations. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2016, the Company has 16 securities with unrealized losses. The carrying amount of securities and their estimated fair values at June 30, 2016, were as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Available for sale:				
U.S. Treasury securities	$ 2,001	5		2,006
U.S. Agency securities	84,055	3,101	(35)	87,121
Taxable municipal bonds	5,821	152	(1)	5,972
Tax free municipal bonds	37,601	2,395		39,996
Trust preferred securities	1,625	353		1,978
Mortgage-backed securities:				
GNMA	26,120	333	(78)	26,375
FNMA	36,220	890	(28)	37,082
FHLMC	10,117	124		10,241
NON-AGENCY CMO	3,765		(329)	3,436
AGENCY CMO	18,019	359		18,378
	$ 225,344	7,712	(471)	232,585

13

Table of Contents

The carrying amount of securities and their estimated fair values at December 31, 2015, was as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
Restricted:				
FHLB stock	$ 4,428			4,428
Available for sale:				
U.S. Treasury securities	$ 2,001		(1)	2,000
U.S. Agency securities	91,694	1,727	(488)	92,933
Tax free municipal bonds	42,237	2,481	(59)	44,659
Taxable municipal bonds	6,190	52	(65)	6,177
Trust preferred securities	1,617	248		1,865
Mortgage-backed securities:				
GNMA	29,990	239	(239)	29,990
FNMA	28,189	266	(152)	28,303
FHLMC	8,113	24	(51)	8,086
Non-Agency CMO	3,828		(174)	3,654
AGENCY CMO	19,570	71	(131)	19,510
	$ 233,429	5,108	(1,360)	237,177

The scheduled maturities of debt securities available for sale at June 30, 2016, were as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in Thousands)	
Due within one year	$ 2,965	$ 2,973
Due in one to five years	17,664	18,218
Due in five to ten years	40,474	41,996
Due after ten years	14,912	16,274
	76,015	79,461
Amortizing agency bonds	55,088	57,611
Mortgage-backed securities	94,241	95,513
Total unrestricted securities available for sale	$ 225,344	$ 232,585

14

Table of Contents

The scheduled maturities of debt securities available for sale at December 31, 2015, were as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in Thousands)	
Due within one year	$	$
Due in one to five years	17,939	18,304
Due in five to ten years	42,151	42,793
Due after ten years	22,702	24,088
	82,792	85,185
Amortizing agency bonds	60,947	62,449
Mortgage-backed securities	89,690	89,543
Total unrestricted securities available for sale	$ 233,429	$ 237,177

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of June 30, 2016, are as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in Thousands)			
Available for sale						
U.S. Agency securities	$ 3,016	(2)	2,812	(33)	5,828	(35)
Taxable municipals	561	(1)			561	(1)
Mortgage-backed securities:						
GNMA			8,090	(78)	8,090	(78)
FNMA	3,675	(28)			3,675	(28)
NON-AGENCY CMOs			3,436	(329)	3,436	(329)
Total available for sale	$ 7,252	(31)	14,338	(440)	21,590	(471)

Table of Contents

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2015, were as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in Thousands)			
Available for sale						
U.S. Treasury securities	$ 2,000	(1)			2,000	(1)
U.S. Agency securities	26,499	(203)	16,224	(285)	42,723	(488)
Taxable municipals	2,159	(32)	1,887	(33)	4,046	(65)
Tax free municipals			3,878	(59)	3,878	(59)
Mortgage-backed securities:						
GNMA	10,840	(105)	11,508	(134)	22,348	(239)
FNMA	11,484	(87)	3,036	(65)	14,520	(152)
FHLMC	7,336	(51)			7,336	(51)
Non-Agency CMOs			3,654	(174)	3,654	(174)
AGENCY CMOs	9,781	(90)	1,991	(41)	11,772	(131)
Total Available for Sale	$ 70,099	(569)	42,178	(791)	112,277	(1,360)

At June 30, 2016, securities with a book value of approximately $117.6 million and a market value of approximately $120.0 million were pledged to various municipalities for deposits in excess of FDIC limits as required by law. The Federal Home Loan Bank of Cincinnati has issued letters of credit in the Bank s name totaling $45.5 million secured by the Bank s loan portfolio to secure additional municipal deposits.

At June 30, 2016, securities with a book and market value of $41.6 million were sold under agreements to repurchase from various customers. Furthermore, the Company has a wholesale repurchase agreement with third party secured by investments with a combined book value of $6.1 million and a market value of $6.4 million. The repurchase agreement is in the amount of $6.0 million and has a maturity of September 18, 2016, and has a fixed rate of interest of 4.36%.

Table of Contents

(5) LOANS

Set forth below is selected data relating to the composition of the loan portfolio by type of loan at June 30, 2016, and December 31, 2015. At June 30, 2016, and December 31, 2015, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below:

	June 30, 2016 Amount	June 30, 2016 Percent	December 31, 2015 Amount	December 31, 2015 Percent
		(Dollars in Thousands)		
Real estate loans:				
One-to-four family (closed end) first mortgages	$ 145,859	25.7%	$ 145,999	26.0%
Second mortgages (closed end)	1,661	0.3%	1,771	0.3%
Home equity lines of credit	33,063	5.8%	33,644	6.0%
Multi-family	31,289	5.5%	24,725	4.4%
Construction	36,923	6.5%	34,878	6.2%
Land	21,881	3.9%	22,453	4.0%
Farmland	45,593	8.0%	42,246	7.5%
Non-residential real estate	154,658	27.2%	149,711	26.6%
Total mortgage loans	470,927	82.9%	455,427	81.0%
Consumer loans	8,482	1.5%	20,324	3.6%
Commercial loans	88,258	15.6%	86,743	15.4%
Total other loans	96,740	17.1%	107,067	19.0%
Total loans, gross	567,667	100.0%	562,494	100.0%
Deferred loan cost, net of income	(384)		(445)	
Less allowance for loan losses	(6,524)		(5,700)	
Total loans	$ 560,759		$ 556,349	

The allowance for loan losses totaled $6.5 million at June 30, 2016, $5.7 million at December 31, 2015, and $5.5 million at June 30, 2015, respectively. The ratio of the allowance for loan losses to total loans was 1.15% at June 30, 2016, 1.01% at December 31, 2015, and 0.99% at June 30, 2015. The following table indicates the type and level of non-accrual loans at the periods indicated below:

	June 30, 2016	December 31, 2015	June 30, 2015
		(Dollars in Thousands)	
One-to-four family mortgages	$ 469	2,234	1,456
Home equity line of credit	54	48	48
Multi-family	1,772	1,968	1,827
Land	8,281	1,553	1,982
Non-residential real estate	28	247	520

Farmland		166	209
Consumer loans	31	8	
Commercial loans	888	1,198	1,014
Total non-accrual loans	$ 11,523	7,422	7,056

Table of Contents

At June 30, 2015, and December 31, 2015, the Company had no loans past due more than 90 days still accruing interest. At June 30, 2016, the Company has the following loans past due more than 90 days and still accruing interest:

	June 30, 2016 (Dollars in Thousands)
One-to-four family mortgages	$ 283
Non-residential real estate	1,160
Land	1,236
Total loans past due more than 90 days and still accruing interest	$ 2,679

The following table provides a detail of the Company s activity in the allowance for loan loss account by loan type for the three month period ended June 30, 2016:

	Balance 12/31/2015	Charge off 2016	Recovery 2016	General Provision 2016	Specific Provision 2016	Ending Balance 6/30/2016
			(Dollars in Thousands)			
One-to-four family mortgages	$ 1,030		161	149	(15)	1,325
Home equity line of credit	201	(19)	8	105	11	306
Junior liens	8		5	2	(5)	10
Multi-family	227			63	(137)	153
Construction	377			369		746
Land	1,379			(214)	(69)	1,096
Non-residential real estate	1,139		3	53	(31)	1,164
Farmland	358			219		577
Consumer loans	358	(178)	81	(196)	98	163
Commercial loans	623	(252)	92	442	79	984
	$ 5,700	(449)	350	992	(69)	6,524

The following table provides a detail of the Company s activity in the allowance for loan loss account by loan type for the year ended December 31, 2015:

	Balance 12/31/2014	Charge off 2015	Recovery 2015	General Provision 2015	Specific Provision 2015	Ending Balance 12/31/2015
			(Dollars in Thousands)			
One-to-four family mortgages	$ 1,198	(143)	39	(176)	112	1,030
Home equity line of credit	181	(92)	10	20	82	201
Junior liens	14		4	(6)	(4)	8

Multi-family	85			4	138	227
Construction	146			231		377
Land	1,123	(911)		850	317	1,379
Non-residential real estate	2,083	(222)	2	(944)	220	1,139
Farmland	461			500	(603)	358
Consumer loans	494	(298)	118	(123)	167	358
Commercial loans	504	(201)	54	(61)	327	623
	$ 6,289	(1,867)	227	295	756	5,700

Table of Contents

The table below presents performing, past due and adversely classified loan balances at June 30, 2016, by loan classification:

	Currently Performing	30 - 89 Days Past Due	90 Days Plus Past Due and Still Accruing	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubtful	Total
	(Dollars in Thousands)							
One-to-four family mortgages	$ 141,856	1,037	283	469	753	1,461		$ 145,859
Home equity line of credit	32,594	173		54	21	221		33,063
Junior liens	1,616				33	12		1,661
Multi-family	26,460			1,772		3,057		31,289
Construction	36,923							36,923
Land	9,558	766	1,236	8,281	38	2,002		21,881
Farmland	43,808	701				1,084		45,593
Non-residential real estate	144,029	47	1,160	28	282	9,112		154,658
Consumer loans	8,207	22		31		222		8,482
Commercial loans	80,584	193		888	324	6,269		88,258
Total	$ 525,635	2,939	2,679	11,523	1,451	23,440		$ 567,667

The table below presents performing, past due and adversely classified loan balances at December 31, 2015, by loan classification:

	Currently Performing	30 -89 Days Past Due	Non-accrual Loans	Special Mention	Impaired Loans Currently Performing Substandard	Doubtful	Total
	(Dollars in Thousands)						
One-to-four family mortgages	$ 142,058	671	2,234	41	995		$ 145,999
Home equity line of credit	33,396	79	48		121		33,644
Junior liens	1,720			35	16		1,771
Multi-family	21,638	6	1,968		1,113		24,725
Construction	34,878						34,878
Land	11,047	747	1,553	41	9,065		22,453
Non-residential real estate	138,637	228	247	2,489	8,110		149,711
Farmland	41,853	64	166		163		42,246
Consumer loans	20,108	15	8		193		20,324
Commercial loans	84,272	45	1,198	352	876		86,743
Total	$ 529,607	1,855	7,422	2,958	20,652		562,494

19

Table of Contents

The following table presents the balance in the allowance for loan losses and the recorded investment in loans as of June 30, 2016, and December 31, 2015, by portfolio segment and based on the impairment method as of June 30, 2016, and December 31, 2015.

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
			(Dollars in Thousands)			
June 30, 2016:						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 99		108	206	50	463
Collectively evaluated for impairment	885	1,842	1,786	1,435	113	6,061
Total ending allowance balance	$ 984	1,842	1,894	1,641	163	6,524
Loans:						
Loans individually evaluated for impairment	$ 7,157	11,519	16,213	2,500	253	37,642
Loans collectively evaluated for impairment	81,101	47,285	215,327	178,083	8,229	530,025
Total ending loans balance	$ 88,258	58,804	231,540	180,583	8,482	567,667

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
			(Dollars in Thousands)			
December 31, 2015:						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 180	69	272	60	49	630
Collectively evaluated for impairment	443	1,687	1,452	1,179	309	5,070
Total ending allowance balance	$ 623	1,756	1,724	1,239	358	5,700
Loans:						
Loans individually evaluated for impairment	$ 2,074	10,618	11,767	3,414	201	28,074
	84,669	46,713	204,915	178,000	20,123	534,420

Loans collectively evaluated for impairment						
Total ending loans balance	$ 86,743	57,331	216,682	181,414	20,324	562,494

20

Table of Contents

All loans 30-89 days past due, 90 days plus past due and non-accrual are not performing as agreed. Loans listed as special mentioned and substandard are paying as agreed. However, the customer s financial statements may indicate weaknesses in their current cash flow, the customer s industry may be in decline due to current economic conditions, collateral values used to secure the loan may be declining, or the Company may be concerned about the customer s future business prospects.

The Company does not originate loans it considers sub-prime and is not aware of any exposure to the additional credit concerns associated with sub-prime lending in either the Company s loan or investment portfolios. The Company does have a significant amount of construction and land development loans. Management reports to the Company s Board of Directors on the status of the Company s specific construction and development loans as well as the market trends in those markets in which the Company actively participates.

The Company s annualized net charge off ratios for six month periods ended June 30, 2016, June 30, 2015, and the year ended December 31, 2015, was 0.03%, 0.45% and 0.29%, respectively. The ratios of allowance for loan losses to non-accrual loans at June 30, 2016, June 30, 2015, and December 31, 2015, were 56.62%, 78.40%, and 76.80%, respectively.

The determination of the allowance for loan losses is based on management s analysis, performed on a quarterly basis. Various factors are considered, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions. Although management believes its allowance for loan losses is adequate, there can be no assurance that additional allowances will not be required or that losses on loans will not be incurred.

The Company conducts annual reviews on all loan relationships above one million to ascertain the borrowers continued ability to service their debt as agreed. In addition to the credit relationships mentioned above, management may classify any credit relationship once it becomes aware of adverse credit trends for that customer. Typically, the annual review consists of updated financial statements for borrowers and any guarantors, a review of the borrower s credit history with the Company and other creditors, and current income tax information.

As a result of this review, management will classify loans based on their credit risk. Additionally, the Company provides a risk grade for all loans past due more than sixty days. The Company uses the following risk definitions for commercial loan risk grades:

Excellent - Loans in this category are to persons or entities of unquestioned financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.

Very Good - These are loans to persons or entities with strong financial condition and above - average liquidity who have previously satisfactorily handled their obligations with the bank. Collateral securing the bank s debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.

Satisfactory - Assets of this grade conform to substantially all the Bank s underwriting criteria and evidence an average level of credit risk; however, such assets display more susceptibility to economic, technological or political changes since they lack the above average financial strength of credits rated Very Good. Borrower s repayment capacity is considered to be adequate. Credit is appropriately structured and serviced; payment history is satisfactory.

Acceptable - Assets of this grade conform to most of the Bank s underwriting criteria and evidence an acceptable, though higher than average, level of credit risk; however, these loans have certain risk characteristics which could adversely affect the borrower s ability to repay given material adverse trends. Loans in this category require an above average level of servicing and show more reliance on collateral and guaranties to preclude a loss to the Bank should material adverse trends develop. If the borrower is a company, its earnings, liquidity and capitalization are slightly below average when compared to its peers.

Watch - These loans are characterized by borrowers who have marginal cash flow, marginal profitability, or have experienced an unprofitable year and a declining financial condition. The borrower has in the past satisfactorily handled debts with the bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower s continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure. This classification includes loans to established borrowers that are reasonably margined by collateral, but where potential for improvement in financial capacity appears limited.

Special Mention - Loans in this category have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deteriorating prospects for the asset or in the institution s credit position at some future date. Borrowers may be experiencing adverse operating trends or market conditions. Non-financial reasons for rating a credit exposure Special Mention include, but are not limited to: management problems, pending litigations, ineffective loan agreement and/or inadequate loan documentation, structural weaknesses and/or lack of control over collateral.

Table of Contents

Substandard - A substandard asset is inadequately protected by the current sound worth or paying capacity of the debtor or the collateral pledged. There exists one or more well defined weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility the Bank will experience some loss if the deficiencies are not corrected. Generally, the asset is considered collectible as to both principal and interest primarily because of collateral coverage or enterprise value. Generally, the asset is current and marginally secured.

Doubtful - A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard, 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. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the bank s loan. These loans are in a work-out status and have a defined work-out strategy.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The bank takes losses in the period in which they become uncollectible.

The following credit risk standards are assigned to consumer loans.

Satisfactory - All consumer open-end and closed-end retail loans shall have an initial risk grade assigned of 3 - Satisfactory.

Substandard Assets -All consumer open-end and closed-end retail loans past due 90 cumulative days from the contractual date will be classified as 7 - Substandard. If a consumer/retail loan customer files bankruptcy, the loan will be classified as 7 - Substandard regardless of payment history.

Loss Assets - All closed-end retail loans that become past due 120 cumulative days and open-end retail loans that become past due 180 cumulative days from the contractual due date will be charged off as loss assets. The charge off will be taken by the end of the month in which the 120-day or 180-day time period elapses. All losses in retail credit will be recognized when the affiliate becomes aware of the loss, but in no case should the charge off exceed the time frames stated within this policy.

A loan is considered to be impaired when management determines that it is possible that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. The value of individually impaired loans is measured based on the present value of expected payments or using the fair value of the collateral less cost to sell if the loan is collateral dependent. Currently, it is management s practice to classify all substandard or doubtful loans as impaired.

Table of Contents

At June 30, 2016, December 31, 2015, and June 30, 2015, the Company s impaired loans totaled $37.6 million, $28.1 million and $28.7 million, respectively. At June 30, 2016, December 31, 2015 and June 30, 2015, the Company s specific reserve for impaired loans totaled $463,000, $630,000 and $746,000 respectively. A summary of the Company s impaired loans, including their respective regulatory classification and their respective specific reserve at June 30, 2016, and December 31, 2015, were as follows:

	Pass	Special Mention	Impaired Loans Substandard	Impaired Loans Doubful	Total	Specific Allowance for Impairment	Allowance for Loans not Impaired
			(Dollars in Thousands)				
June 30, 2016							
One-to-four family mortgages	142,893	753	2,213		145,859	206	1,119
Home equity line of credit	32,767	21	275		33,063		306
Junior liens	1,616	33	12		1,661		10
Multi-family	26,460		4,829		31,289		153
Construction	36,923				36,923		746
Land	10,324	38	11,519		21,881		1,096
Non-residential real estate	144,076	282	10,300		154,658	108	1,056
Farmland	44,509		1,084		45,593		577
Consumer loans	8,229		253		8,482	50	113
Commercial loans	80,777	324	7,157		88,258	99	885
Total	528,574	1,451	37,642		567,667	463	6,061

	Pass	Special Mention	Impaired Loans Substandard	Impaired Loans Doubtful	Total	Specific Allowance for Impairment	Allowance for Loans not Impaired
			(Dollars in Thousands)				
December 31, 2015							
One-to-four family mortgages	$ 142,729	41	3,229		145,999	60	970
Home equity line of credit	33,475		169		33,644		201
Junior lien	1,720	35	16		1,771		8
Multi-family	21,644		3,081		24,725	138	89
Construction	34,878				34,878		377
Land	11,794	41	10,618		22,453	69	1,310
Non-residential real estate	138,865	2,489	8,357		149,711	134	1,005
Farmland	41,917		329		42,246		358
Consumer loans	20,123		201		20,324	49	309
Commercial loans	84,317	352	2,074		86,743	180	443
Total	$ 531,462	2,958	28,074		562,494	630	5,070

24

Table of Contents

Impaired loans by classification type and the related valuation allowance amounts at June 30, 2016, were as follows:

Impaired loans with no recorded reserve

	At June 30, 2016			For the six month period ended June 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)				
One-to-four family mortgages	$ 1,660	1,660		1,760	35
Home equity line of credit	275	275		221	5
Junior liens	12	12		14	
Multi-family	4,829	4,829		3,156	116
Construction					
Land	11,519	12,476		10,107	14
Farmland	1,084	1,084		3,495	55
Non-residential real estate	9,589	9,589		4,801	244
Consumer loans	51	51		21	1
Commercial loans	6,124	6,124		1,708	98
Total	35,143	36,100		25,283	568
Impaired loans with a specific allowance:					
One-to-four family mortgages	553	553	206	836	11
Home equity line of credit					
Junior liens					
Multi-family				942	
Construction					
Land				576	
Farmland					
Non-residential real estate	711	711	108	1,555	14
Consumer loans	202	202	50	225	
Commercial loans	1,033	1,033	99	903	38
Total	2,499	2,499	463	5,037	63
Total impaired loans	$ 37,642	38,599	463	30,320	631

Impaired loans by classification type and the related valuation allowance amounts at December 31, 2015, were as follows:

Impaired loans with no specific allowance

	At December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)				
One-to-four family mortgages	$ 2,526	2,526		2,389	80
Home equity line of credit	169	169		457	7
Junior liens	16	16		17	1
Multi-family	2,128	2,128		2,797	126
Construction					
Land	10,038	10,998		8,520	671
Non-residential real estate	7,640	7,640		283	404
Farmland	329	329		7,774	19
Consumer loans	5	5		3	
Commercial loans	1,274	1,274		1,599	73
Total	24,125	25,085		23,839	1,381

Impaired loans with a specific allowance

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
One-to-four family mortgages	$ 703	703	60	709	40
Home equity line of credit					
Junior liens					
Multi-family	953	953	138	318	17
Construction					
Land	580	580	69	1,707	46
Non-residential real estate	717	717	134	836	28
Farmland					
Consumer loans	196	196	49	194	
Commercial loans	800	800	180	514	15
Total	3,949	3,949	630	4,278	146
Total impaired loans	$ 28,074	29,034	630	28,117	1,527

Table of Contents

On a periodic basis, the Bank may modify the terms of certain loans. In evaluating whether a restructuring constitutes a troubled debt restructuring (TDR), Financial Accounting Standards Board has issued Accounting Standards Update 310 (ASU 310), *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. In evaluating whether a restructuring constitutes a TDR, the Bank must separately conclude that both of the following exist:

- The restructuring constitutes a concession
- The debtor is experiencing financial difficulties

ASU 310 provides the following guidance for the Bank s evaluation of whether it has granted a concession as follows:

1. If a debtor does not otherwise have access to funds at a market interest rate for debt with similar risk characteristics as the restructured debt, the restructured debt would be considered a below market rate, which may indicate that the Bank may have granted a concession. In that circumstance, the Bank should consider all aspects of the restructuring in determining whether it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a TDR.

2. A temporary or permanent increase in the interest rate on a loan as a result of a restructuring does not eliminate the possibility of the restructuring from being considered a concession if the new interest rate on the loan is below the market interest rate for loans of similar risk characteristics.

3. A restructuring that results in a delay in payment that is insignificant is not a concession. However, the Bank must consider a variety of factors in assessing whether a restructuring resulting in a delay in payment is insignificant.

At December 31, 2015, the Company had eight loans, representing two lending relationships, classified as performing TDR s. During the six month period ended June 30, 2016, the Company added four loans to TDR status, representing one additional lending relationship, as a performing TDR. The loans added to TDR classification are paying interest only for one year while the customer markets the collateral for sale. A summary of the activity in loans classified as TDRs for the six month period ended June 30, 2016, is as follows:

	Balance at 12/31/15	New TDR	Loss or Foreclosure	Loan Amortization	Removed from (Taken to) Non-accrual	Balance at 06/30/16
			(Dollars in Thousands)			
Multi-family real estate		816				816
Non-residential real estate	$ 5,536	228		(43)		$ 5,721

Total performing TDR	$ 5,536	1,044	(43)	$ 6,537

Table of Contents

A summary of the activity in loans classified as TDRs for the twelve month period ended December 31, 2015, is as follows:

	Balance at 12/31/14	New TDR	Loss or Foreclosure	Loan Amortization	Removed from (Taken to) Non-accrual	Balance at 12/31/15
			(Dollars in Thousands)			
Non-residential real estate	$ 3,284	2,265		(13)		$ 5,536
Total performing TDR	$ 3,284	2,265		(13)		$ 5,536

(6) REAL ESTATE AND OTHER ASSETS OWNED

The Company s real estate and other assets owned represent properties and personal collateral acquired through customer loan defaults. The property is recorded at the lower of cost or fair value less estimated cost to sell and carrying cost at the date acquired. Any difference between the book value and estimated market value is recognized as a charge off through the allowance for loan loss account. Additional real estate owned and other asset losses may be determined on individual properties at specific intervals or at the time of disposal. In general, the Company will obtain a new appraisal on all real estate owned with a book balance in excess of $250,000 on an annual basis. Additional losses are recognized as a non-interest expense.

At June 30, 2016, December 31, 2015, and June 30, 2015, the Company had balances in other real estate and assets owned and non-accrual loans consisting of the following:

	June 30, 2016	December 31, 2015	June 30, 2015
		(Dollars in Thousands)	
One-to-four family mortgages	$	55	115
Multi-family mortgages	141		
Land	172	943	943
Non-residential real estate	459	738	737
Total other assets owned	$ 772	1,736	1,795
Total non-accrual loans	$ 11,523	7,422	7,056
Total non-performing assets	$ 12,295	9,158	8,851
Non-performing assets /Average assets	1.43%	1.02%	1.01%

28

The following is a summary of the activity in the Company s real estate and other assets owned for the six month period ending June 30, 2016:

	Balance 12/31/2015	Activity During 2016 Foreclosuzres	Activity During 2016 Proceeds	Reduction in Values	Gain (Loss) on Sale	Balance 6/30/2016
	(Dollars in Thousands)					
One-to-four family mortgages	$ 55		(40)		(15)	$
Multi-family real estate		141				141
Land	943	130	(913)		12	172
Non-residential real estate	738		(270)		(9)	459
Consumer		15	(19)		4	
Total	$ 1,736	286	(1,242)		(8)	$ 772

The following is a summary of the activity in the Company s real estate and other assets owned for the year ended December 31, 2015:

	Balance 12/31/2014	Activity During 2015 Foreclosures	Activity During 2015 Proceeds	Reduction in Values	Gain (Loss) on Sale	Balance 12/31/2015
	(Dollars in Thousands)					
One-to-four family mortgages	$ 159	105	(194)		(15)	$ 55
Land	1,768		(124)		(701)	943
Non-residential real estate		738				738
Total	$ 1,927	843	(318)		(716)	$ 1,736

Table of Contents

(7) INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies accounted for under the equity method consist of 100% of the common stock of HopFed Capital Trust 1 (Trust), a wholly-owned statutory business trust. The Trust was formed on September 25, 2003. Summary financial information for the Trust follows (Dollars in Thousands):

Summary Statements of Financial Condition

	At June 30, 2016	At December 31, 2015
	(Dollars in Thousands)	
Assets - investment in subordinated debentures issued by HopFed Bancorp, Inc.	$ 10,310	10,310
Liabilities		
Stockholder s equity trust preferred securities	10,000	10,000
Common stock (100% Owned by HopFed Bancorp, Inc.)	310	310
Total stockholders equity	$ 10,310	10,310

Summary Statement of Income

	Three Month Periods Ended June 30,		Six Month Period Ended June 30,	
	2016	2015	2016	2015
Income interest income from subordinated debentures issued by HopFed Bancorp, Inc.	$ 97	89	$ 194	174
Net income	$ 97	89	$ 194	174

Summary Statement of Stockholders Equity

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholders Equity
Beginning balances, December 31, 2015	$ 10,000	310		10,310
Net income			194	194
Dividends:				
Trust preferred securities			(188)	(188)
Common paid to HopFed Bancorp, Inc.			(6)	(6)
Ending balances, June 30, 2016	$ 10,000	310		10,310

Table of Contents

(8) FAIR VALUE OF ASSETS AND LIABILITIES

In September 2006, the FASB issued ASC 820-10*, Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value. The statement establishes a fair value hierarchy which requires an entity to maximize the use of observable input and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 is for assets and liabilities that management has obtained quoted prices (unadjusted for transaction cost) or identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2 is for assets and liabilities in which significant unobservable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 is for assets and liabilities in which significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without exclusively using quoted prices for the individual securities in the Company s portfolio but rather by relying on the securities relationship to other benchmark quoted securities. Impaired loans are valued at the net present value of expected payments using the fair value of any assigned collateral. The values for bank owned life insurance are obtained from redemption values from the respective insurance companies. The liability associated with the Company s derivative is obtained from a quoted value supplied by our correspondent banker. The value of real estate owned is obtained from appraisals completed on properties at the time of acquisition and annually thereafter.

Table of Contents

Assets and Liabilities Measured on a Recurring Basis

The assets and liabilities measured at fair value on a recurring basis at June 30, 2016, are summarized below:

Description	Total carrying value in the consolidated balance sheet at June 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets				
Available for sale securities	$ 232,585	2,006	228,601	1,978

The assets and liabilities measured at fair value on a recurring basis at December 31, 2015, are summarized below

Description	Total carrying value in the consolidated balance sheet at December 31, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets				
Available for sale securities	$ 237,177	2,000	233,312	1,865

Table of Contents

The assets and liabilities measured at fair value on a non-recurring basis are summarized below for June 30, 2016:

Description	Total carrying value in the consolidated balance sheet at June 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets				
Other real estate and other assets owned	$ 772			$ 772
Impaired loans, net of reserve of $463	$ 2,036			$ 2,036

The assets and liabilities measured at fair value on a non-recurring basis are summarized below for December 31, 2015:

Description	Total carrying value in the consolidated balance sheet at December 31, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets				
Other real estate and other assets owned	$ 1,736			$ 1,736
Impaired loans, net of reserve of $630	$ 3,319			$ 3,319

Table of Contents

The table below includes a roll-forward of the consolidated condensed statement of financial condition items for the six month periods ended June 30, 2016, and June 30, 2015, (including the change in fair value) for assets and liabilities classified by HopFed Bancorp, Inc. 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 an asset or liability 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 assets and liabilities 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.

	2016		2015	
Six month period ended June 30,	Other Assets	Other Liabilities	Other Assets	Other Liabilities
	(Dollars in Thousands)			
Fair value, January 1,	$ 1,865		1,489	
Change in unrealized gains included in other comprehensive income for assets and liabilities still held at June 30,	97		306	
Accretion of previous discounted amounts	16		8	
Purchases, issuances and settlements, net				
Transfers in and/or out of Level 3				
Fair value, June 30,	$ 1,978		1,803	

34

The estimated fair values of financial instruments were as follows at June 30, 2016:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
			(Dollars in Thousands)		
Financial Assets:					
Cash and due from banks	$ 14,826	14,826	$ 14,826		
Interest-earning deposits	3,545	3,545	3,545		
Securities available for sale	232,585	232,585	2,006	228,601	1,978
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans held for sale	1,637	1,637		1,637	
Loans receivable	560,759	558,305			558,305
Accrued interest receivable	3,781	3,781		3,781	
Financial liabilities:					
Deposits	699,627	689,981		689,981	
Advances from borrowers for taxes and insurance	1,167	1,167		1,167	
Advances from Federal Home Loan Bank	11,000	11,018		11,018	
Repurchase agreements	47,582	47,632		47,632	
Subordinated debentures	10,310	10,099			10,099

The estimated fair values of financial instruments were as follows at December 31, 2015:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
			(Dollars in Thousands)		
Financial Assets:					
Cash and due from banks	$ 46,926	46,926	$ 46,926		
Interest-earning deposits	7,772	7,772	7,772		
Securities available for sale	237,177	237,177	2,000	233,312	1,865
Federal Home Loan Bank stock	4,428	4,428		4,428	
Loans held for sale	2,792	2,792		2,792	
Loans receivable	556,349	552,981			552,981
Accrued interest receivable	4,139	4,139		4,139	
Financial liabilities:					
Deposits	739,406	724,877		724,877	
Advances from borrowers for taxes and insurance	614	614		614	
Advances from Federal Home Loan Bank	15,000	14,985		14,985	
Repurchase agreements	45,770	45,931		45,931	
Subordinated debentures	10,310	10,099			10,099

(9) EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

ASU 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for the Company beginning January 1, 2016, though early adoption is permitted. The implementation of ASU 2015-01 did not have a significant impact on the Company s Consolidated Financial Statements.

ASU No. 2015-02, *Amendments to the Consolidation Analysis.* This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The provisions of ASU No. 2015-02 did not have a material impact on the Company s Consolidated Financial Statements.

Table of Contents

ASU 2015-05, Intangibles Goodwill and Other - Internal-Use Software (Subtopic 350-40) Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service, (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 was effective on January 1, 2016, and did not have a material impact on the Company s Consolidated Financial Statements.

ASU 2015-15, Interest Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. ASU 2015-15 adds SEC paragraphs pursuant to an SEC Staff Announcement that given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 did not have a significant impact on the Company s Consolidated Financial Statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16*, Simplifying the Accounting for Measurement-Period Adjustments.* The guidance in this update eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance is intended to reduce complexity in financial reporting. The elimination of the restatement requirement should simplify financial reporting for many entities. However, recognizing the entire impact of a measurement period adjustment in a single reporting period may introduce earnings volatility and reduce comparability between periods when the adjustments are material. The accounting changes in this update are effective for public companies for annual periods, and the interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted for financial statements that have not been issued. The implementation of ASU 2015-16 did not have a material impact on the Company s Consolidated Financial Statements.

ASU 2016-1, No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments,

(vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective on January 1, 2018, and is not expected to have a significant impact on the Company s financial statements.

On June 16, 2016, the FASB released its finalized ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* . The amendments to U.S. GAAP require businesses and other organization to measure the expected credit losses on financial assets, such as loans, securities, bond insurance, and many receivables, the FASB said. The accounting changes apply to instruments recorded on balance sheets at their historical cost, although there are some limited changes to the accounting for debt instruments classified as available-for-sale. The accounting board added that the write-downs will be based on historical information, current business conditions, and forecasts, and it expects the forecasts to improve the loss estimates on financial assets that are losing value. The board also said the techniques that are employed today to write down loans and other instruments can still be used, although it expects the variables for calculating the losses to change. ASU 2016-13 will become effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Companies are permitted to adopt ASU 2016-13 in fiscal years beginning after December 15, 2018. The Company has not made a determination as to how the implementation of ASU 2016-13 will affect the Company s consolidated financial statements.

ASU 2016-02, Leases (Topic 842). ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, Revenue from Contracts with Customers. ASU 2016-02 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the potential impact of ASU 2016-02 on our financial statements.

ASU 2016-05 Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-07, Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the

assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 will be effective on January 1, 2017 and is not expected to have a significant impact on our financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

(10) INCOME TAXES

The Company and its subsidiaries file consolidated federal income tax returns and Tennessee excise tax returns. The Company and its non-bank subsidiaries filed consolidated Kentucky income tax returns. The Bank is exempt from Kentucky corporate income tax. The Company has no unrecognized tax benefits and has accrued any interest or penalties for uncertain tax positions. The effective tax rate differs from the statutory federal rate of 34% and Tennessee excise rate of 6.50% due to investments in qualified municipal securities; bank owned life insurance, income apportioned to Kentucky and certain non-deductible expenses.

Table of Contents

(11) OTHER ASSETS

The Company has invested in two flow-through limited liability entities that manage and invest in affordable housing projects that qualify for historic, low-income and elderly housing tax credits. At June 30, 2016, the Company s total investment in each entity was $78,500 and $923,000, respectively. The Company has no future capital commitments to either entity. The amounts recognized in net income for these investments for the three and six month periods below include:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	(Dollars in Thousands)			
Investment loss included in pre-tax net income	$ 55	55	$ 110	110
Tax credits recognized in provision for income taxes		24		48

(12) ESOP

All Company employees participate in the 2015 HopFed Bancorp, Inc. Employee Stock Ownership Plan (ESOP). The ESOP purchased 600,000 shares of the Company s common stock from the Company on March 2, 2015, at $13.14 per share. The ESOP borrowed $7.9 million from an open-end line of credit from the Company for the purchase of the stock, using the 600,000 shares of common stock as collateral. The Company makes discretionary contributions to the ESOP. The ESOP utilizes these contributions along with the dividends on the 600,000 held by the ESOP to repay the loan from the Company. When loan payments are made, ESOP shares are released based on reduction in the principal balance of the loan. The shares are allocated to participants based on relative compensation. Employees who are not employed at the December 31st of each year are not eligible for participation in the ESOP. The Company anticipates that loan payments will be made at the end of each year. Participants receive shares at the end of employment. The Company has the option to repurchase the shares or provide the shares directly to the employee.

The Company made its first ESOP loan payment in December 2015. In January 2016, the ESOP and Company revised the loan to the ESOP converting the loan to a closed end note with total payments of approximately $780,000 per year for a term of eleven year. At June 30, 2016, the Company s accrued liability for the loan payment is $336,000. At June 30, 2016, shares held by the ESOP were as follows:

	June 30, 2016 (Dollars in Thousands)
Accrued to allocation to participants	21,484
Earned ESOP shares	53,587
Unearned ESOP shares	524,929
Total ESOP shares	600,000
Fair value of unearned shares	$ 6,094,426

39

Table of Contents

(13) COMMITMENTS AND CONTINGENCIES

At June 30, 2016, certificates of deposits scheduled to mature in one year or less from June 30, 2016, totaled $138.9 million. At June 30, 2016, the Company has $30.8 million in times deposits greater than $100,000 but less than $250,000 that are schedule to mature in one year and $46.5 million in time deposits greater than $250,000 that are scheduled to mature in one year or less. Management believes that a significant percentage of such deposits will remain with the Bank. At June 30, 2016, the Company has deposit balances of $27.8 million that exceed FDIC insurance limits without additional collateral pledged.

At June 30, 2016, the Company had the following off-balance sheet commitments:

	June 30, 2016 (Dollars in Thousands)	
Standby letters of credit	$	228
Unused home equity lines of credit		31,238
Unused commercial lines of credit		58,687
Unused unsecured personal lines of credit		18,645
Unfunded commitments to originate commercial loans		26,465

The Bank s FHLB borrowings are secured by a blanket security agreement pledging the Bank s 1-4 family first mortgage loans and non-residential real estate loans. At June 30, 2016, the Bank has pledged all eligible 1-4 family first mortgages. At June 30, 2016, the Bank has outstanding borrowings of $11.0 million from the FHLB. A schedule of FHLB borrowings at June 30, 2016, is provided below:

Outstanding Balance	Rate	Maturity
	(Dollars in thousands)	
$ 5,000	0.88%	10/06/2017
6,000	1.18%	07/06/2018
$ 11,000	1.04%	

(14) REGULATORY MATTERS

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory capital rules applicable to Heritage Bank USA, Inc. and HopFed Bancorp, Inc. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) 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 became effective for the Company and 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, including the definitions of Tier 1 capital and Tier 2 capital.

40

Table of Contents

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); (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 risk-based 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%, (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 was phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these new rules, Tier 1 capital generally consist of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Company has made the decision to opt-out of this requirement.

The Federal Reserve has adopted regulations applicable to bank holding companies with assets over $10 billion that require such holding companies and banks to conduct annual stress tests and report the results to the applicable regulators and publicly disclose a summary of certain capital information and results including pro forma changes in regulatory capital ratios. The Board of Directors and senior management are required to consider the results of the stress test in the normal course of business, including but not limited to capital planning and an assessment of capital adequacy in accordance with management s policies. The FDIC has adopted all guidelines applicable to state nonmember banks in each case. At June 30, 2016, the Bank exceeded all regulatory capital requirements. The table below presents certain information relating to the Company s and Bank s capital compliance at June 30, 2016:

	Company		Bank	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands, Except Percentages)			
Common equity tier 1 capital ratio	$ 93,287	16.10%	$ 91,528	15.88%
Tier 1 leverage ratio	93,287	10.85%	91,528	10.64%

Tier 1 risk-based capital ratio	93,287	16.10%	91,528	15.88%
Total risk based capital ratio	99,812	17.23%	98,052	17.01%

Table of Contents

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

Critical Accounting Policies

The consolidated condensed financial statements as of June 30, 2016, and December 31, 2015, and for the three and six month periods ended June 30, 2016, and June 30, 2015, included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and notes thereon included in the Company s 2015 Annual Report to Stockholders on Form 10-K.

Certain of the Company s accounting policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances, which could affect these material judgments, include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, determining the fair value of securities and other financial instruments, and assessing other than temporary impairments of securities.

Comparison of Financial Condition at June 30, 2016, and December 31, 2015

At June 30, 2016, total assets declined $41.5 million, to $861.7 million as compared to $903.2 million at December 31, 2015, largely due to lower levels of time deposits and cash and cash equivalents. At June 30, 2016, total cash and cash equivalents was $18.4 million, representing a decline of $36.3 million decline as compared to December 31, 2015. Securities available for sale declined from $237.2 million at December 31, 2015, to $232.6 million at June 30, 2016. At June 30, 2016, and December 31, 2015, securities classified as available for sale had an amortized cost of $225.3 million and $233.4 million, respectively.

The Company s holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock, at cost were $4.4 million at December 31, 2015, and June 30, 2016. Total FHLB borrowings were $11.0 million at June 30, 2016, as compared to $15.0 million at December 31, 2015. Total repurchase balances increased from $45.8 million at December 31, 2015, to $47.6 million at June 30, 2016. Net loans totaled $560.8 million and $556.3 million at June 30, 2016, and December 31, 2015, respectively.

At June 30, 2016, deposits declined $39.8 million, from $739.4 million at December 31, 2015, to $699.6 million at June 30, 2016. At June 30, 2016, non-interest checking account balances are $121.9 million, or 17.4% of total deposits as compared to $125.1 million, or 16.9% of total deposits at December 31, 2015. At June 30, 2016, time deposits were $286.4 million, representing a $28.3 million decline as compared to December 31, 2015.

Table of Contents

Comparison of Operating Results for the Six Month Periods Ended June 30, 2016, and June 30, 2015.

Net Income. The Company s net income was $813,000 for the six month period ended June 30, 2016, as compared to net income of $1.2 million for the six month period ended June 30, 2015. For the six month period ended June 30, 2015, net income was largely influenced by a $830,000 recovery on a previously non-accrual investment in First Financial Services Corporation (FFKY) upon its sale in January 2015 to Your Community Bank of Indiana (YCB).

Net Interest Income. Net interest income for the six month period ended June 30, 2016, was $13.1 million, compared to $13.9 million for the six month period ended June 30, 2015. The decrease in net interest income for the six months ended June 30, 2016, as compared to June 30, 2015, was largely due to the collection of past due investment income in 2015.

For the six months ended June 30, 2016, the average yield on loans was 4.53%, as compared to 4.58% for the six month period ended June 30, 2015. For the six month period ended June 30, 2016, and June 30, 2015, income on taxable securities was $2.4 million and $3.7 million, respectively. For the six month period ending June 30, 2016, the tax equivalent yield on taxable and tax free securities were 2.46% and 5.04%, respectively, as compared to 3.46% and 4.70% for the six month period ended June 30, 2015, respectively. For the six month period ended June 30, 2015, the receipt of non-accrual interest added 0.77% to the Company s yield on taxable securities.

For the six month periods ended June 30, 2016, and June 30, 2015, the Company s cost of interest bearing liabilities was 0.80% and 0.94%, respectively. The average cost of retail time deposits declined from 1.15% for the six month period ended June 30, 2015, to 0.94% for the six month period ended June 30, 2016. At June 30, 2016, and June 30, 2015, the Company s net interest margin was 3.34% and 3.48%, respectively. For the six month period ended June 30, 2015, the receipt of past due investment interest added 0.20% to the Company s net interest margin.

Average Balances, Yields and Interest Expenses. The table on the next page summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the six month periods ended June 30, 2016, and June 30, 2015. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate six-month periods.

Table of Contents

Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by $344,000 for June 30, 2016, and $429,000 for June 30, 2015, for a tax equivalent rate using a cost of funds rate of 0.80% for June 30, 2016, and 0.94% for June 30, 2015. The table adjusts tax-free loan income by $13,000 for June 30, 2016, and $7,000 for June 30, 2015, respectively, for a tax equivalent rate using the same cost of funds rate (Table Amounts in Thousands, Except Percentages):

	Average Balance 06/30/2016	Income & Expense 06/30/2016	Average Rates 06/30/2016	Average Balance 6/30/2015	Income & Expense 06/30/2015	Average Rates 06/30/2015
Loans	$ 556,562	$ 12,619	4.53%	$ 547,071	$ 12,528	4.58%
Investments AFS taxable	199,129	2,445	2.46%	214,920	3,716	3.46%
Investments AFS tax free	41,202	1,037	5.04%	55,281	1,298	4.70%
Interest earning deposits	9,508	28	0.59%	6,046	8	0.26%
Total interest earning assets	806,401	16,129	4.00%	823,318	17,550	4.26%
Other assets	77,219			73,916		
Total assets	$ 883,620			$ 897,234		
Retail time deposits	$ 258,776	1,218	0.94%	$ 290,499	1,676	1.15%
Brokered deposits	34,478	187	1.08%	34,006	190	1.12%
Interest bearing checking accounts	209,810	87	0.18%	192,921	538	0.56%
MMDA and savings accounts	98,223	610	0.58%	100,242	101	0.20%
FHLB borrowings	12,297	101	1.64%	20,685	135	1.31%
Repurchase agreements	43,127	282	1.31%	41,999	238	1.13%
Subordinated debentures	10,310	188	3.65%	10,310	367	7.12%
Total interest bearing liabilities	667,021	2,673	0.80%	690,662	3,245	0.94%
Non-interest bearing deposits	124,379			111,120		
Other non-interest bearing liabilities	3,270			3,413		
Stockholders equity	88,950			92,039		
Total liabilities and stockholders equity	$ 883,620			$ 897,234		
Net change in interest earning assets and interest bearing liabilities		$ 13,456			$ 14,305	
Interest rate spread			3.20%			3.32%
Net interest margin		3.34%			3.48%	

Interest Income. For the six month periods ended June 30, 2016, and June 30, 2015, the Company s total interest income was $15.8 million and $17.1 million, respectively. For the six month period ended June 30, 2016, and June 30, 2015, interest income on loans was $12.6 million and $12.5 million, respectively. The average balance of loans receivable increased from $547.1 million for the six month period ended June 30, 2015, to $556.6 million for the six month period ended June 30, 2016. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 119.2% for the six months ended June 30, 2015, to 120.9% for the six months ended June 30, 2016.

Interest Expense. Interest expense declined $572,000 for the six month period ended June 30, 2016, as compared to the six month period ended June 30, 2015. For the six month period ending June 30, 2016, the Company s interest expense on FHLB advances was $101,000, compared to $135,000 for the three month period ended June 30, 2015. The average cost of FHLB borrowings were 1.31% for the six months ended June 30, 2015, and 1.64% for the six months ended June 30, 2016.

For the six month period ended June 30, 2016, the average balance of interest bearing retail time deposits declined to $258.8 million, as compared to $290.5 million for the six month period ended June 30, 2015. The average cost of retail time deposits for the six month periods ended June 30, 2016, and June 30, 2015, was 0.94% and 1.15%, respectively. The decline in the average balance of retail time deposits is a result of management s emphasis on the growth of our non-interest checking products to reduce or reliance on higher costing time deposits.

The average cost of brokered deposits declined from 1.12% for the six months ended June 30, 2015, to 1.08% for the six months ended June 30, 2016. Over the same period, the average balance of brokered deposits was $34.5 million, for the six month period ended June 30, 2016, as compared to $34.0 million for the six month period ended June 30, 2015. For the six month period ended June 30, 2016, the Company s total cost of deposits was 0.58% as compared to 0.69% for the six month period ended June 30, 2015.

The average balance of repurchase agreements increased from $42.0 million for the six months ended June 30, 2015, to $43.1 million for the six month period ended June 30, 2016. The average cost of repurchase agreements was 1.13% for the six months ended June 30, 2015, and 1.31% for the six month period ended June 30, 2016. The increase in the cost of repurchase agreements is due to the fact that many are indexed to the federal funds rate.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional $923,000 in provision for loan loss was required for the six month period ended June 30, 2016, compared to a $485,000 provision for loan loss expense for the six month period ended June 30, 2015.

Non-Interest Income. There was a $209,000 increase in non-interest income in the six month period ended June 30, 2016, as compared to the six month period ended June 30, 2015. For the six month period ended June 30, 2016, the Company earned $803,000 in mortgage origination income as compared to $520,000 during the six month period ended June 30, 2015. The Company s income for services charges declined by $59,000 for the six month period ended June 30, 2016, as compared to the six month period ended June 30, 2015. The Company s financial services commission declined from $353,000 for the six month period ended June 30, 2015, to $324,000 in the six month period ended June 30, 2016. For the six month period ended June 30, 2016, gains on the sale of securities were $343,000, as compared to $449,000 for the six month period ended June 30, 2015.

45

Table of Contents

Non-Interest Expenses. There was a $412,000 decrease in total non-interest expenses in the six month period ended June 30, 2016, as compared to the six month period ended June 30, 2015. The most significant change in non-interest expenses was a $392,000 increase in other operating expenses. For the six month period ended June 30, 2016, salaries and benefit expenses were $7.9 million, a reduction of $299,000 as compared to the six month period ended June 30, 2015. For the six month period ended June 30, 2015, the Company experienced a $734,000 loss on the sale of other assets, as compared to $8,000 for the six month period ended June 30, 2016.

Income Taxes. The effective tax rate for the six-month periods ending June 30, 2016, was 7.0% due to the lower level of taxable net interest income. For the six month period ended June 30, 2015, the Company s taxable net income effective rate was 15.2% due to slightly higher levels of taxable gross income resulting from the recovery of non-accrual taxable interest on securities.

Comparison of Operating Results for the Three Month Periods Ended June 30, 2016, and June 30, 2015.

Net Income. The Company s net income was $304,000 for the three month period ended June 30, 2016, as compared to net loss of $117,000 for the three month period ended June 30, 2015. For the three month period ended June 30, 2015, the Company s net loss was strongly influenced by a $741,000 loss on the sale of other real estate owned.

Net Interest Income. Net interest income for the three month period ended June 30, 2016, was $6.4 million, compared to $6.3 million for the three month period ended June 30, 2015. For the three months ended June 30, 2016, the average yield on loans was 4.43%, as compared to 4.51% for the three month period ended June 30, 2015. For the three month period ended June 30, 2016, and June 30, 2015, income on taxable securities was $1.2 million and $1.3 million, respectively. For the three month period ending June 30, 2016, the tax equivalent yield on taxable and tax free securities were 2.39% and 5.05%, respectively, as compared to 2.42% and 4.69% for the three-month period ended June 30, 2015, respectively.

For the three month periods ended June 30, 2016, and June 30, 2015, the Company s cost of interest bearing liabilities was 0.77% and 0.94%, respectively. The lower cost of interest bearing liabilities was largely the result of the maturity of $64.4 million in long term retail time deposits bearing an annualized cost of 2.52%. As a result of these maturities, the average cost of retail time deposits declined from 1.15% for the three month period ended June 30, 2015, to 0.91% for the three month period ended June 30, 2016. At June 30, 2016, and June 30, 2015, the Company s net interest margin was 3.28% and 3.17%, respectively.

Average Balances, Yields and Interest Expenses. The table on the next page summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the three month periods ended June 30, 2016, and June 30, 2015. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate three-month periods.

Table of Contents

Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by $169,000 for June 30, 2016, and $205,000 for June 30, 2015, for a tax equivalent rate using a cost of funds rate of 0.77% for June 30, 2016, and 0.94% for June 30, 2015. The table adjusts tax-free loan income by $6,000 for June 30, 2016, and $5,000 for June 30, 2015, respectively, for a tax equivalent rate using the same cost of funds rate (Table Amounts in Thousands, Except Percentages):

	Average Balance 06/30/2016	Income & Expense 06/30/2016	Average Rates 06/30/2016	Average Balance 06/30/2015	Income & Expense 06/30/2015	Average Rates 06/30/2015
	(Dollars in Thousands, Expect Percentages)					
Loans	$ 555,147	6,147	4.43%	$ 552,992	6,236	4.51%
Investments AFS taxable	200,496	1,198	2.39%	209,907	1,268	2.42%
Investments AFS tax free	40,306	509	5.05%	52,960	621	4.69%
Interest earning deposits	9,525	12	0.50%	6,107	4	0.26%
Total interest earning assets	805,474	7,866	3.91%	821,966	8,129	3.96%
Other assets	67,697			68,467		
Total assets	$ 873,171			$ 890,433		
Retail time deposits	253,244	578	0.91%	288,618	831	1.15%
Brokered deposits	32,971	88	1.07%	32,669	94	1.15%
Interest bearing checking accounts	206,284	299	0.58%	194,224	269	0.55%
MMDA and savings accounts	99,054	42	0.17%	100,776	51	0.20%
FHLB borrowings	11,000	28	1.02%	18,231	66	1.45%
Repurchase agreements	42,510	139	1.31%	41,478	118	1.14%
Subordinated debentures	10,310	94	3.65%	10,310	183	7.10%
Total interest bearing liabilities	655,373	1,268	0.77%	686,306	1,612	0.94%
Non-interest bearing deposits	125,833			110,379		
Other non-interest bearing liabilities	3,302			3,353		
Stockholders equity	88,663			90,395		
Total liabilities and stockholders equity	$ 873,171			$ 890,433		
Net change in interest earning assets and interest bearing liabilities		$ 6,598			$ 6,517	
Interest rate spread			3.14%			3.02%

Net interest margin	3.28%	3.17%

Interest Income. For the three month periods ended June 30, 2016, and June 30, 2015, the Company s total interest income was $7.7 million and $7.9 million, respectively. For the three month period ended June 30, 2016, and June 30, 2015, interest income on loans was $6.1 million and $6.2 million, respectively. The average balance of loans receivable increased from $553.0 million for the three month period ended June 30, 2015, to $555.1 million for the three month period ended June 30, 2016. For the three month period ended June 30, 2016, and June 30, 2015, the average yield on loans was 4.43% and 4.51%, respectively. The ratio of average interest-earning assets to average interest-bearing liabilities increased from 119.8% for the three months ended June 30, 2015, to 122.9% for the three months ended June 30, 2016.

Interest Expense. For the three month period ended June 30, 2016, the Company s total interest expense was $1.3 million, representing a decline of $344,000 as compared to the three month period ended June 30, 2015. For the three month period ending June 30, 2016, the Company s interest expense on FHLB advances was $28,000, compared to $66,000 for the three month period ended June 30, 2015. The average cost of FHLB borrowings were 1.45% for the three months ended June 30, 2015, and 1.02% for the three months ended June 30, 2016.

For the three month period ended June 30, 2016, the average balance of interest bearing retail time deposits declined $35.4 million to $253.2 million, as compared to $288.6 million for the three month period ended June 30, 2015. The average cost of retail time deposits for the three month periods ended June 30, 2016, and June 30, 2015, was 0.91% and 1.15%, respectively.

For the three month period ended June 30, 2016, the average balance of brokered deposits was $33.0 million, as compared $32.7 million for the three month period ended June 30, 2015. The average cost of brokered deposits declined from 1.15% for the three months ended June 30, 2015, to 1.07% for the three months ended June 30, 2016. For the three month period ended June 30, 2016, the Company s total cost of deposits was 0.55% as compared to 0.69% for the three month period ended June 30, 2015.

The average balance of repurchase agreements increased from $41.5 million for the three months ended June 30, 2015, to $42.5 million for the three month period ended June 30, 2016. The average cost of repurchase agreements was 1.14% for the three months ended June 30, 2015, and 1.31% for the three month period ended June 30, 2016. The increase in the cost of repurchase agreements is due to the fact that many are indexed to the Federal Funds rate.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional $465,000 in provision for loan loss was required for the three month period ended June 30, 2016, compared to a $270,000 provision for loan loss expense for the three month period ended June 30, 2015.

Non-Interest Income. There was a $102,000 increase in non-interest income in the three month period ended June 30, 2016, as compared to the three month period ended June 30, 2015. For the three month period ended June 30, 2016, the Company earned $435,000 in mortgage origination income as compared to $343,000 during the three month period ended June 30, 2015. The Company s service charge income was $698,000 for the three month period ended June 30, 2016, compared to $720,000 for the same period in 2015. For the three month period ended June 30, 2016, gains on the sale of securities were $52,000, as compared to $83,000 for the three month period ended June 30, 2015.

48

Table of Contents

Non-Interest Expenses. There was a $625,000 decline in total non-interest expenses in the three-month period ended June 30, 2016, as compared to the three month period ended June 30, 2015. The most significant change in non-interest expenses was a $742,000 change in gain or loss on the sale of other real estate owned. For the three month period ended June 30, 2016, salaries and benefit expenses were $3.9 million, a reduction of $103,000 as compared to the three month period ended June 30, 2015. For the three month period ended June 30, 2016, expenses related to other real estate owned were $202,000, as compared to $67,000 for the three month period ended June 30, 2015, due to legal expenses incurred as the result of customer bankruptcy filings.

Income Taxes. The effective tax rate for the three month periods ending June 30, 2016, was 4.7% due to the lower level of taxable net interest income. For the three month period ended June 30, 2015, the Company s net income was negative due to the loss on the sale of other real estate owned and we received a tax benefit during the period.

Liquidity and Capital Resources. The Company has no business other than that of the Bank. Management believes that dividends that may be paid by the Bank to the Company will provide sufficient funds for its current needs. However, no assurance can be given that the Company will not have a need for additional funds in the future. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company.

The Bank uses brokered deposits to supplement its asset liability need for longer term deposits at reasonable prices. In addition to the coupon rate listed below, brokered deposits carry an additional fee of approximately 0.25% that includes the cost of selling and servicing the deposits. The Company includes this cost as interest expense on its income statement and on its table on page 47 that provides the yields and cost of assets and liabilities.

At June 30, 2016, the Bank s brokered deposits consisted of the following:

Issue Date	Interest Rate	Balance	Maturity Date
7/22/2013	0.80%	$ 2,000,000	7/22/2016
10/16/2015	0.40%	3,795,000	8/16/2016
8/6/2014	0.75%	2,842,000	10/06/2016
10/13/2011	1.35%	2,086,000	10/13/2016(1)
3/9/2012	1.00%	3,044,000	12/9/2016(1)
1/15/2016	0.75%	3,077,000	12/15/2016
7/9/2012	1.05%	1,446,000	1/9/2017(1)
1/9/2015	1.00%	2,077,000	4/9/2017
1/15/2016	1.00%	2,028,000	5/15/2017
10/16/2015	0.85%	4,042,000	7/16/2017
7/27/2015	1.00%	1,500,000	7/27/2017(1)
1/3/2013	1.00%	3,030,000	1/3/2018
1/9/2015	1.20%	2,004,000	1/9/2018
Total		$ 32,971,000	

(1) Denotes brokered deposit with rising rate feature in which the Bank has a call option.

Table of Contents

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words believe, expect, seek, and intend and similar expressions identify forward-looking stateme which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions, which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The actual results of the Company s asset liability management analysis are highly dependent on the prepayment speed of mortgage backed securities and collateralized mortgage obligations. The United States Treasury s policy of purchasing longer dated Treasury bonds has the result of lowering mortgage loan rates, allowing more consumers to refinance their mortgages and pay-off their current mortgage, resulting in higher prepayment speeds on mortgage investment products.

The effects of rising interest rates are discussed throughout Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations. Actual results for the year ending December 31, 2016, will differ from simulations due to timing, magnitude, and the frequency or interest rate changes, market conditions, management strategies, and the timing of the Company s cash receipts and disbursements.

The Company s analysis at June 30, 2016, indicates that increases in interest rates are not expected to result in significant changes in the Company s annual net interest income. A summary of the Company s analysis at June 30, 2016, for the twelve month period ending June 30, 2017, is as follows:

	Down 1.00%	No change	Up 1.00%	Up 2.00%	Up 3.00%
	(Dollars in Thousands)				
Net interest income	$ 25,913	$ 27,367	$ 28,500	$ 29,501	$ 30,139

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

In accordance with Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), an evaluation was carried out with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarter ended June 30, 2016.

Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the three months ended June 30, 2016, to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Any control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are achieved. The design of a control system inherently has limitations, including the controls cost relative to their benefits. Additionally, controls can be circumvented. No cost-effective control system can provide absolute assurance that all control issues and instances of fraud will be detected.

The Company is subject to Section 404 of The Sarbanes-Oxley Act of 2002. Section 404 requires management to assess and report on the effectiveness of the Company s internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting includes (as such term s defined in rules 13a-15(f) and 15d-15(f)) under the Exchange Act during the Company s fiscal quarter ended June 30, 2016, that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company currently has no material pending legal proceedings.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Part 1, Item 1A of our annual report on Form 10-K for the fiscal year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities.

N/A

(b) Use of Proceeds. Not applicable

(c) Repurchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares Purchased as part of Publically Announced Programs	Maximum Number of Shares that Yet may be Purchased Under the Program at the end of the period
April 1, 2016, to April 31, 2016	21,000	$ 11.38	1,782,545	156,141
May 1, 2016, to May 31, 2016	22,457	$ 11.27	1,805,002	133,684
June 1, 2016, to June 30, 2016	19,104	$ 12.09	1,824,106	114,580
Total	62,561	$ 11.56	1,824,106	114,580

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Table of Contents

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John E. Peck, Chief Executive Officer.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Billy C. Duvall, Chief Financial Officer.

32.1 Certification Pursuant to Section 18 U.S.C. Section 1350 for John E. Peck, Chief Executive Officer.

32.2 Certification Pursuant to Section 18 U.S.C. Section 1350 for Billy C. Duvall, Chief Financial Officer.

101 The following materials from the Company s quarterly report on Form 10-Q for the three and six month periods ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Financial Condition as of June 30, 2016 (unaudited) and December 31, 2015, (ii) Condensed Consolidated Statements of Income (Loss) for the three and six month periods ended June 30, 2016 and June 30, 2015 (unaudited), (iii) Consolidated Condensed Statement of Comprehensive Income (Loss) for the three and six month periods ended June 30, 2016, and June 30, 2015 (unaudited), (iv) Consolidated Condensed Statement of Stockholders Equity, for the six-month periods ended June 30, 2016, and June 30, 2015 (unaudited); and (v) Condensed Consolidated Statements of Cash Flows, for the six month periods ended June 30, 2016 and June 30, 2015 (unaudited), and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

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.

HOPFED BANCORP, INC.

Date: August 9, 2016

/s/ John E. Peck
John E. Peck
President and Chief Executive Officer

Date: August 9, 2016

/s/ Billy C. Duvall
Billy C. Duvall
Senior Vice President, Chief Financial Officer and Treasurer