FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
May 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ______________

Commission file number 0-13368

FIRST MID-ILLINOIS BANCSHARES, INC.
(Exact name of Registrant as specified in its charter)

Delaware	37-1103704
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
1421 Charleston Avenue,	
Mattoon, Illinois	61938
(Address of principal executive offices)	(Zip code)

(217) 234-7454
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]
(Do not check if a smaller reporting company)	

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

As of May 4, 2018, 14,334,164 common shares, $4.00 par value, were outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS
First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Balance Sheets

(In thousands, except share data)	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Cash and due from banks:		
Non-interest bearing	$39,214	$75,398
Interest bearing	15,130	12,990
Federal funds sold	491	491
Cash and cash equivalents	54,835	88,879
Certificates of deposit investments	1,685	1,685
Investment securities:		
Available-for-sale, at fair value	569,862	578,579
Held-to-maturity, at amortized cost (estimated fair value of $67,631 and $68,457 at March 31, 2018 and December 31, 2017, respectively)	69,358	69,332
Loans held for sale	1,309	1,025
Loans	1,976,388	1,938,476
Less allowance for loan losses	(20,771)	(19,977)
Net loans	1,955,617	1,918,499
Interest receivable	10,182	10,832
Other real estate owned	1,951	2,754
Premises and equipment, net	37,833	38,266
Goodwill, net	60,150	60,150
Intangible assets, net	10,174	10,679
Bank owned life insurance	42,159	41,883
Other assets	22,231	18,976
Total assets	$2,837,346	$2,841,539
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$478,303	$480,283
Interest bearing	1,813,588	1,794,356
Total deposits	2,291,891	2,274,639
Securities sold under agreements to repurchase	132,435	155,388
Interest payable	709	602
FHLB borrowings	60,024	60,038
Other borrowings	9,375	10,313
Junior subordinated debentures	24,021	24,000
Other liabilities	8,304	8,595
Total liabilities	2,526,759	2,533,575
Stockholders' Equity:		
Common stock, $4 par value; authorized 18,000,000 shares; issued 13,248,323 and 13,231,225 shares in 2018 and 2017, respectively	54,993	54,925
Additional paid-in capital	165,012	163,603
Retained earnings	113,073	104,683
Deferred compensation	2,195	3,540
Accumulated other comprehensive loss	(8,519)	(2,304)

Less treasury stock at cost, 570,477 shares in 2018 and 2017	(16,167)	(16,483)
Total stockholders' equity	310,587	307,964
Total liabilities and stockholders' equity	$2,837,346	$2,841,539

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)	Three months ended March 31,	
	2018	2017
Interest income:		
Interest and fees on loans	$21,007	$19,927
Interest on investment securities	4,081	4,040
Interest on certificates of deposit investments	9	25
Interest on federal funds sold	1	61
Interest on deposits with other financial institutions	60	129
Total interest income	25,158	24,182
Interest expense:		
Interest on deposits	1,262	879
Interest on securities sold under agreements to repurchase	59	40
Interest on FHLB borrowings	275	151
Interest on other borrowings	108	123
Interest on subordinated debentures	259	217
Total interest expense	1,963	1,410
Net interest income	23,195	22,772
Provision for loan losses	1,055	1,722
Net interest income after provision for loan losses	22,140	21,050
Other income:		
Trust revenues	1,077	930
Brokerage commissions	665	505
Insurance commissions	1,487	1,625
Service charges	1,635	1,712
Securities gains, net	20	—
Mortgage banking revenue, net	161	193
ATM / debit card revenue	1,604	1,568
Bank owned life insurance	276	281
Other	562	682
Total other income	7,487	7,496
Other expense:		
Salaries and employee benefits	10,194	9,935
Net occupancy and equipment expense	3,273	3,133
Net other real estate owned expense	76	18
FDIC insurance	281	179
Amortization of intangible assets	505	547
Stationery and supplies	211	185
Legal and professional	1,137	831
Marketing and donations	354	294
Other	2,343	4,080
Total other expense	18,374	19,202
Income before income taxes	11,253	9,344
Income taxes	2,863	3,080
Net income	8,390	6,264
Per share data:		
Basic net income per common share available to common stockholders	$0.66	$0.50

Diluted net income per common share available to common stockholders	$0.66	$0.50

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended March 31,	
	2018	2017
Net income	$8,390	$6,264
Other Comprehensive Income		
Unrealized gains (losses) on available-for-sale securities, net of taxes of $2,540 and $(2,037) for three months ended March 31, 2018 and 2017, respectively.	(6,221)	3,189
Amortized holding losses on held-to-maturity securities transferred from available-for-sale, net of taxes of $(8) and $(11) for three months ended March 31, 2018 and 2017, respectively.	20	17
Less: reclassification adjustment for realized gains included in net income, net of taxes of $6 and $0 for three months ended March 31, 2018 and 2017, respectively.	(14)	—
Other comprehensive income (loss), net of taxes	(6,215)	3,206
Comprehensive income	$2,175	$9,470

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Three months ended March 31,	
(In thousands)	2018	2017
Cash flows from operating activities:		
Net income	$8,390	$6,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,055	1,722
Depreciation, amortization and accretion, net	1,731	2,025
Change in cash surrender value of bank owned life insurance	(276)	(281)
Stock-based compensation expense	80	62
Gains on investment securities, net	(20)	—
Loss on sales of other real property owned, net	50	9
Loss on write down of fixed assets	1	—
Gains on sale of loans held for sale, net	(174)	(220)
Decrease in accrued interest receivable	650	767
Increase (decrease) in accrued interest payable	114	(44)
Origination of loans held for sale	(11,762)	(14,219)
Proceeds from sale of loans held for sale	11,652	14,036
Increase in other assets	(488)	(643)
(Decrease) increase in other liabilities	(291)	2,083
Net cash provided by operating activities	10,712	11,561
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposit investments	—	12,958
Proceeds from sales of securities available-for-sale	6,527	—
Proceeds from maturities of securities available-for-sale	12,754	15,617
Purchases of securities available-for-sale	(19,883)	(85,685)
Net (increase) decrease in loans	(38,223)	30,104
Purchases of premises and equipment	(234)	(503)
Proceeds from sales of other real property owned	792	173
Net cash used in investing activities	(38,267)	(27,336)
Cash flows from financing activities:		
Net increase (decrease) in deposits	17,252	(358)
Decrease in repurchase agreements	(22,953)	(41,899)
Repayment from short-term debt	—	(4,000)
Repayment of long-term debt	(938)	(938)
Proceeds from issuance of common stock	150	318
Net cash used in financing activities	(6,489)	(46,877)
Decrease in cash and cash equivalents	(34,044)	(62,652)
Cash and cash equivalents at beginning of period	88,879	175,902
Cash and cash equivalents at end of period	$54,835	$113,250

Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$1,856	$1,461
Income taxes	2,320	—
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	50	—
Net tax benefit related to option and deferred compensation plans	218	216

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 -- Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. ("Company") and its wholly-owned subsidiaries: First Mid-Illinois Bank & Trust, N.A. ("First Mid Bank"), Mid-Illinois Data Services, Inc. ("MIDS") and The Checkley Agency, Inc. doing business as First Mid Insurance Group ("First Mid Insurance"). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended March 31, 2018 and 2017, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the March 31, 2018 presentation and there was no impact on net income or stockholders' equity. The results of the interim period ended March 31, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018. The Company operates as a one-segment entity for financial reporting purposes.

The 2017 year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K.

Website

The Company maintains a website at www.firstmid.com. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission ("SEC") can be accessed, free of charge, through this website as soon as reasonably practicable after these materials are filed with the SEC.

At-The-Market Program

On August 16, 2017, the Company entered into a Sales Agency Agreement, pursuant to which the Company may sell, from time to time, up to an aggregate of $20 million of it's common stock. Shares of common stock are offered pursuant to the Company's shelf registration statement filed within the SEC. During the three ended March 31, 2018, the company sold no shares of common stock under the program. As of March 31, 2018, approximately $16.53 million of common stock remained available for issuance under the At The Market program.

Agreement and Plan of Merger

On December 11, 2017, the Company and Project Hawks Merger Sub LLC (formerly known as Project Hawks Merger Sub Corp.), a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company ("Merger Sub"), entered into an Agreement and Plan of Merger (as amended as of January 18, 2018, the "Merger Agreement") with First BancTrust Corporation, a Delaware corporation ("First Bank"), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of First Bank pursuant to a business combination whereby First Bank will merge with and into Merger Sub, with Merger Sub as the surviving entity and a wholly-owned subsidiary of the Company (the "Merger").

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each share of common stock, par value $0.01 per share, of First Bank issued and outstanding immediately prior to the effective time of the Merger (other than shares held in treasury by First Bank and shares held by stockholders who have properly made and not withdrawn a demand for appraisal rights under Delaware law) converted into and become the right to receive, (a) $5.00 in cash and (b) 0.800 shares of common stock, par value $4.00 per share, of the Company and cash in lieu of fractional shares, less any applicable taxes required

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to be withheld and subject to certain adjustments, all as set forth in the Merger Agreement. As of March 31, 2018, First Bank had total consolidated assets of $479.2 million, loans of $369.6 million and total deposits of $391.6 million.

Subsequently, the Merger closed on May 1, 2018. The Company issued an aggregate total of 1,643,900 shares of common stock at $37.32 per share and approximately $10,275,000, including cash in lieu of fractional shares. The accounting for the Merger is incomplete as the Company is still determining the fair value of assets acquired and liabilities assumed.

It is anticipated that First Bank's wholly-owned bank subsidiary, First Bank & Trust, IL ("First Bank & Trust"), will be merged with and into the Company's wholly owned bank subsidiary First Mid Bank later in 2018. At the time of the bank merger, First Bank & Trust's banking offices will become branches of First Mid Bank.

Bank Owned Life Insurance

First Mid Bank has purchased life insurance policies on certain senior management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

Stock Plans

At the Annual Meeting of Stockholders held April 26, 2017, the stockholders approved the First Mid-Illinois Bancshares, Inc. 2017 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 2007 Stock Incentive Plan, which had a ten-year term. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of common stock of the Company on the terms and conditions established in the SI Plan.

A maximum of 149,983 shares of common stock may be issued under the SI Plan. There have been no stock options awarded under any Company plan since 2008. The Company has awarded 13,250 shares of restricted stock during 2018 and 15,250 and 18,391 restricted stock units during 2018 and 2017, respectively.

Employee Stock Purchase Plan

At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid-Illinois Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"). The ESPP is intended to promote the interests of the Company by providing eligible employees with the opportunity to purchase shares of common stock of the Company at a 5% discount through payroll deductions. The ESPP is also intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. A maximum of 600,000 shares of common stock may be issued under the ESPP.

Revenue Recognition

Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), establishes a revenue recognition model for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. Most of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans and investment securities, and revenue related to mortgage servicing activities, which are subject to other accounting standards. A description of the revenue-generating activities that are within the scope of ASC 606, and included in other income in the Company’s condensed consolidated statements of income are as follows:

Trust revenues. The Company generates fee income from providing fiduciary services through its trust department. Fees are billed in arrears based upon the preceding period account balance. Revenue from the farm management department is recorded when service is complete, for example when crops are sold.

Brokerage commissions. The primary brokerage revenue is recorded at the beginning of each quarter through billing to customers based on the account asset size on the last day of the previous quarter. If a withdrawal of funds takes place, a prorated refund may occur; this is reflected within the same quarter as the original billing occurred. All performance obligations are met within the same quarter that the revenue is recorded.

Insurance commissions. The Company's insurance agency subsidiary, First Mid Insurance Group ("FMIG"), receives commissions on premiums of new and renewed business policies. FMIG records commission revenue on direct bill policies as the cash is received. For agency bill policies, FMIG retains its commission portion of the customer premium payment and remits the balance to the carrier. In both cases, the entire performance obligation is held by the carriers.

Service charges on deposits. The Company generates revenue from fees charged for deposit account maintenance, overdrafts, wire transfers, and check fees. The revenue related to deposit fees is recognized at the time the performance obligation is satisfied.

ATM/debit card revenue. The Company generates revenue through service charges on the use of its ATM machines and interchange income from the use of Company issued credit and debit cards. The revenue is recognized at the time the service is used and the performance obligation is satisfied.

Other income. Treasury management fees and lock box fees are received and recorded after the service performance obligation is completed. Merchant bank card fees are received from various vendors, however the performance obligation is with the vendors. The Company records gains on the sale of loans and the sale of OREO properties after the transactions are complete and transfer of ownership has occurred.

As each of the Company's facilities is located in markets with similar economies, no disaggregation of revenue is necessary.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) included in stockholders' equity as of March 31, 2018 and December 31, 2017 are as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Securities with Other-Than-Temporary Impairment Losses	Total
March 31, 2018			
Net unrealized losses on securities available-for-sale	$(11,418)	$ —	$(11,418)
Unamortized losses on held-to-maturity securities transferred from available-for-sale	(253)	—	(253)
Securities with other-than-temporary impairment losses	—	(327)	(327)
Tax benefit	3,384	95	3,479
Balance at March 31, 2018	$(8,287)	$ (232)	$(8,519)
December 31, 2017			
Net unrealized losses on securities available-for-sale	$(2,619)	$—	$(2,619)
Unamortized losses on held-to-maturity securities transferred from available-for-sale	(281)	—	(281)
Securities with other-than-temporary impairment losses	—	(345)	(345)
Tax benefit	841	100	941
Balance at December 31, 2017	$(2,059)	$(245)	$(2,304)

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Amounts reclassified from accumulated other comprehensive income and the affected line items in the statements of income during the three months ended March 31, 2018 and 2017, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income		Affected Line Item in the Statements of Income
	Three months ended March 31,		
	2018	2017	
Realized gains on available-for-sale securities	$ 20	$ —	Securities gains, net
			(Total reclassified amount before tax)
	(6)	—	Income taxes
Total reclassifications out of accumulated other comprehensive income	$ 14	$ —	Net reclassified amount

See “Note 3 – Investment Securities” for more detailed information regarding unrealized losses on available-for-sale securities.

Adoption of New Accounting Guidance

Accounting Standards Update 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification ("ASU 2017-09"). In May 2017, FASB issued ASU 2017-09. This update provides guidance on determining which changes to the terms and conditions of share-based payment awards require the application of modification accounting under Topic 718. The guidance is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments should be applied on a prospective basis to an award modified on or after adoption date. ASU 2017-09 did not have a significant impact on the Company's consolidated financial statement.

Accounting Standards Update 2017-08, Receivables-Nonrefundable Fees and Other Costs ("ASU 2017-08"). In March 2017, FASB issued ASU 2017-08. This update amends the amortization period for certain purchased callable debt securities held at a premium. The update shortens the premium's amortization period to the earliest call date to more closely align the amortization period of premiums to expectations incorporated in market pricing on the underlying securities. For public companies, the update is effective for annual periods beginning after December 15, 2018, and is to be applied on a modified retrospective basis with a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period. Early adoption is permitted, including adoption in an interim period. The Company adopted ASU 2017-08 early and there was not a significant impact on the Company's consolidated financial statements.

Accounting Standards Update 2017-04, Intangibles--Goodwill and Other (Topic 350: Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). In January 2017, FASB issued ASU 2017-04. The amendments in this update simplify the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under this guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for public companies for the reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Although the Company cannot anticipate future goodwill impairment, based on the most recent assessment, it is unlikely that an impairment amount would need to be calculated and, therefore, does not anticipate a material impact on the Company's consolidated financial statements. The current accounting policies and procedures of the Company are not anticipated to change, except for the elimination of the Step 2 analysis.

Accounting Standards Update 2016-08, Revenue from Contracts with Customers (Topic 606) (“ASU 2016-08"). In March 2016, the FASB issued ASU 2016-08 which amended the accounting guidance issued by the FASB in May 2014 that revised the criteria for determining when to recognize revenue from contracts with customers and expanded disclosure requirements. The amendment defers the effective date by one year. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams.

Accounting Standards Update 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). In January 2016, FASB issued ASU 2016-01 which amends prior guidance to require an entity to measure its equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of same issuer. The new guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The new guidance is effective for reporting periods after January 1, 2018 and did not have a significant impact on the Company's consolidated financial statements other than adoption of the standard resulted in the use of an exit price rather than an entrance price to determine the fair value of loans not measured at fair value on a non-recurring basis. See Note 7 - Fair Value of Assets and Liabilities for further information regarding the valuation of these loans.

Pending New Accounting Guidance

Accounting Standards Update 2016-02, Leases (Topic 842) ("ASU 2016-02"). On February 25, 2016, FASB issued ASU 2016-02 which creates Topic 842, Leases and supersedes Topic 840, Leases. ASU 2016-02 is intended to improve financial reporting about leasing transactions, by increasing transparency and comparability among organizations. Under the new guidance, a lessee will be required to record all leases with lease terms of more than 12 months on their balance sheet as lease liabilities with a corresponding right-of-use asset. ASU 2016-02 maintains the dual model for lease accounting, requiring leases to be classified as either operating or finance, with lease classification determined in a manner similar to existing lease guidance. The new guidance will be effective for public companies for fiscal years beginning on or after December 15, 2018, and for private companies for fiscal years beginning on or after December 15, 2019. Early adoption is permitted for all entities. Management continues to evaluate the impact ASU 2016-02 will have on the Company's consolidated financial statements.

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments (“ASU 2016-13”). In June 2016, FASB issued ASU 2016-13. The provisions of ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management has formed an internal committee to evaluate implementation steps and assess the impact ASU 2016-13 will have on the Company’s consolidated financial statements. The committee has assigned roles and responsibilities, key tasks to complete, and has established a general timeline for implementation. The Company has also engaged an outside consultant to assist with the methodology review and data validation, as well as other key aspects of implementing the standard. The committee meets periodically to discuss the latest developments and ensure progress is being made. The team also keeps current on evolving interpretations and industry practices related to ASU 2016-13. The committee continues to evaluate and validate data resources and different loss methodologies. The committee is still evaluating the impact ASU 2016-13 will have on the Company's consolidated financial statements.

Note 2 -- Earnings Per Share

Basic net income per common share available to common stockholders is calculated as net income less preferred stock dividends divided by the weighted average number of common shares outstanding. Diluted net income per common share available to common stockholders is computed using the weighted average number of common shares outstanding, increased by the assumed conversion of the Company's convertible preferred stock and the Company's stock options, unless anti-dilutive.

The components of basic and diluted net income per common share available to common stockholders for the three-month period ended March 31, 2018 and 2017 were as follows:

	Three months ended March 31,	
	2018	2017
Basic Net Income per Common Share Available to Common Stockholders:		
Net income	$8,390,000	$6,264,000
Weighted average common shares outstanding	12,671,017	12,475,728
Basic earnings per common share	$0.66	$0.50
Diluted Net Income per Common Share Available to Common Stockholders:		
Net income applicable to diluted earnings per share	$8,390,000	$6,264,000
Weighted average common shares outstanding	12,671,017	12,475,728
Dilutive potential common shares:		
Assumed conversion of stock options	3,980	9,179
Restricted stock awarded	13,250	836
Assumed conversion of preferred stock	—	—
Dilutive potential common shares	17,230	10,015
Diluted weighted average common shares outstanding	12,688,247	12,485,743
Diluted earnings per common share	$0.66	$0.50

There were no shares not considered in computing diluted earnings per share for the three-month periods ended March 31, 2018 and 2017 because they were anti-dilutive.

Note 3 -- Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values for available-for-sale and held-to-maturity securities by major security type at March 31, 2018 and December 31, 2017 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2018				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 124,819	$ —	$ (3,734)	$ 121,085
Obligations of states and political subdivisions	161,424	1,029	(2,228)	160,225
Mortgage-backed securities: GSE residential	290,477	75	(6,715)	283,837
Trust preferred securities	2,849	—	(327)	2,522
Other securities	2,038	155	—	2,193
Total available-for-sale	$ 581,607	$ 1,259	$ (13,004)	$ 569,862
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 69,358	$ 8	$ (1,735)	$ 67,631
December 31, 2017				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 115,796	$ 8	$ (2,034)	$ 113,770
Obligations of states and political subdivisions	165,037	2,254	(1,025)	166,266
Mortgage-backed securities: GSE residential	295,778	493	(2,460)	293,811
Trust preferred securities	2,893	—	(345)	2,548
Other securities	2,039	145	—	2,184
Total available-for-sale	$ 581,543	$ 2,900	$ (5,864)	$ 578,579
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$ 69,332	$ 103	$ (978)	$ 68,457

Trust preferred securities represents one trust preferred pooled security issued by First Tennessee Financial (“FTN”). The unrealized loss of this security, which has a remaining maturity of twenty years, is primarily due to its long-term nature, a lack of demand or inactive market for the security, and concerns regarding the underlying financial institutions that have issued the trust preferred security. See the heading “Trust Preferred Securities” for further information regarding this security.

Realized gains and losses resulting from sales of securities were as follows during the three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31, 2018	2017
Gross gains	$ 20	$ —
Gross losses	—	—

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The following table indicates the expected maturities of investment securities classified as available-for-sale presented at fair value, and held-to-maturity presented at amortized cost, at March 31, 2018 and the weighted average yield for each range of maturities (dollars in thousands):

	One year or less	After 1 through 5 years	After 5 through 10 years	After ten years	Total
Available-for-sale:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$83,291	$37,794	$—	$—	$121,085
Obligations of state and political subdivisions	15,213	70,993	72,582	1,437	160,225
Mortgage-backed securities: GSE residential	8	108,417	—	175,412	283,837
Trust preferred securities	—	—	—	2,522	2,522
Other securities	—	2,001	—	192	2,193
Total available-for-sale investments	$98,512	$219,205	$72,582	$179,563	$569,862
Weighted average yield	2.31 %	2.66 %	3.05 %	2.82 %	2.70 %
Full tax-equivalent yield	2.47 %	3.01 %	4.22 %	2.83 %	3.01 %
Held to Maturity:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$39,994	$29,364	$—	$—	$69,358
Weighted average yield	1.76 %	2.08 %	— %	— %	1.90 %
Full tax-equivalent yield	1.76 %	2.08 %	— %	— %	1.90 %

The weighted average yields are calculated on the basis of the amortized cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent yields have been calculated using a 21% tax rate. With the exception of obligations of the U.S. Treasury and other U.S. government agencies and corporations, there were no investment securities of any single issuer, the book value of which exceeded 10% of stockholders' equity at March 31, 2018.

Investment securities carried at approximately $496 million and $479 million at March 31, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and repurchase agreements and for other purposes as permitted or required by law.

The following table presents the aging of gross unrealized losses and fair value by investment category as of March 31, 2018 and December 31, 2017 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$68,712	$(1,639)	$47,373	$(2,095)	$116,085	$(3,734)
Obligations of states and political subdivisions	66,996	(1,346)	14,901	(882)	81,897	(2,228)
Mortgage-backed securities: GSE residential	209,777	(3,924)	66,119	(2,791)	275,896	(6,715)
Trust preferred securities	—	—	2,522	(327)	2,522	(327)
Other securities	—	—	—	—	—	—
Total	$345,485	$(6,909)	$130,915	$(6,095)	$476,400	$(13,004)
Held-to-maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$24,554	$(313)	$38,137	$(1,422)	$62,691	$(1,735)
December 31, 2017						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$58,584	$(540)	$47,972	$(1,494)	$106,556	$(2,034)
Obligations of states and political subdivisions	42,618	(769)	9,267	(256)	51,885	(1,025)
Mortgage-backed securities: GSE residential	187,949	(1,942)	22,609	(518)	210,558	(2,460)
Trust preferred securities	—	—	2,548	(345)	2,548	(345)
Other securities	—	—	—	—	—	—
Total	$289,151	$(3,251)	$82,396	$(2,613)	$371,547	$(5,864)
Held-to-maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$34,101	$(525)	$14,540	$(453)	$48,641	$(978)

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies. At March 31, 2018 there were eleven available-for sale U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $47,373,000 and unrealized losses of $2,095,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2017 , there were eleven available-for sale U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $47,972,000 and unrealized losses of $1,494,000 in a continuous unrealized loss position for twelve months or more. At March 31, 2018 there were seven held-to-maturity U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $38,137,000 and unrealized losses of $1,422,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2017 there were seven held-to-maturity U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $14,540,000 and unrealized losses of $453,000 in a continuous unrealized loss position for twelve months or more.

Obligations of states and political subdivisions. At March 31, 2018 there were thirty-three obligations of states and political subdivisions with a fair value of $14,901,000 and unrealized losses of $882,000 in a continuous loss position for twelve months or more. At December 31, 2017, there were thirty-nine obligations of states and political subdivisions with a fair value of $9,267,000 and unrealized losses of $256,000 in a continuous unrealized loss position for twelve months or more.

Mortgage-backed Securities: GSE Residential. At March 31, 2018 there were twenty-seven mortgage-backed securities with a fair value of $66,119,000 and unrealized losses of $2,791,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2017, there were twenty-six mortgage-backed securities with a fair value of $22,609,000 and unrealized losses of $518,000 in a continuous unrealized loss position for twelve months or more.

Trust Preferred Securities. At March 31, 2018, there was one trust preferred security with a fair value of $2,522,000 and unrealized loss of $327,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2017, there was one trust preferred security with a fair value of $2,548,000 and unrealized loss of $345,000 in a continuous unrealized loss position for twelve months or more. The unrealized loss was primarily due to the long-term nature of the trust preferred security, a lack of demand or inactive market for the security, the impending change to the regulatory treatment of these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities.

The Company recorded no other-than-temporary impairment (OTTI) for these securities during 2018 or 2017. Because it is not more-likely-than-not that the Company will be required to sell the remaining security before recovery of its new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment to be other-than-temporarily impaired at March 31, 2018. However, future downgrades or additional deferrals and defaults in this security, could result in additional OTTI and consequently, have a material impact on future earnings.

Following are the details for the currently impaired trust preferred security (in thousands):

	Book Value	Fair Value	Unrealized Gains (Losses)	Other-than-temporary Impairment Recorded To-date
PreTSL XXVIII	$2,849	$2,522	$ (327)	$ (1,111)

Other securities. At March 31, 2018 and December 31, 2017, there were no other securities in a continuous unrealized loss position for twelve months or more.

The Company does not believe any other individual unrealized loss as of March 31, 2018 represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

Other-than-temporary Impairment. Upon acquisition of a security, the Company determines whether it is within the scope of the accounting guidance for investments in debt and equity securities or whether it must be evaluated for impairment under the accounting guidance for beneficial interests in securitized financial assets.

The Company conducts periodic reviews to evaluate its investment securities to determine whether OTTI has occurred. While all securities are considered, the securities primarily impacted by OTTI evaluation are pooled trust preferred securities. For the pooled trust preferred security currently in the investment portfolio, an extensive review is conducted to determine if any additional OTTI has occurred. The Company utilizes an independent third-party to perform the OTTI evaluation. The Company's management reviews the assumption inputs and methodology with the third-party to obtain an understanding of them and determine if they are appropriate for the evaluation. Economic models are used to project future cash flows for the security based on current assumptions for discount rate, prepayments, default and deferral rates and recoveries. These assumptions are determined based on the structure of the issuance, the specific collateral underlying the security, historical performance of trust preferred securities and general state of the economy. The OTTI test compares the present value of the cash flows from quarter to quarter to determine if there has been an adverse change which could indicate additional OTTI.

The discount rate assumption used in the cash flow model is equal to the current yield used to accrete the beneficial interest. The Company's current trust preferred security investment has a floating rate coupon of 3-month LIBOR plus 90 basis points. Since the estimate of 3-month LIBOR is based on the forward curve on the measurement date, and is therefore variable, the discount assumption for this security is a range of projected coupons over the expected life of the security.

The Company considers the likelihood that issuers will prepay their securities which changes the amount of expected cash flows. Factors such as the coupon rates of collateral, economic conditions and regulatory changes, such as the Dodd-Frank Act and Basel III, are considered.

The trust preferred security includes collateral issued by financial institutions and insurance companies. To identify bank issuers with a high risk of near term default or deferral, a credit model developed by the third-party is utilized that scores each bank issuer based on 29 different ratios covering capital adequacy, asset quality, earnings, liquidity, the Texas Ratio, and sensitivity to interest rates. To account for longer term bank default risk not captured by the credit model, it is assumed that banks will default at a rate of 2% annually for the first two years of the cash flow projection, and 36 basis points in each year thereafter. To project defaults for insurance issuers, each issuer's credit rating is mapped to its idealized default rate, which is AM Best's estimate of the historical default rate for insurance companies with that rating.

Lastly, it is assumed that trust preferred securities issued by banks that have already failed will have no recoveries, and that banks projected to default will have recoveries of 10%. Additionally, the 10% recovery assumption, incorporates the potential for cures by banks that are currently in deferral.

If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Credit Losses Recognized on Investments. As described above, the Company's investment in trust preferred security has experienced fair value deterioration due to credit losses but is not otherwise other-than-temporarily impaired. The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the three months ended March 31, 2018 and 2017 (in thousands).

	Accumulated Credit Losses	
	March 31, 2018	March 31, 2017
Credit losses on trust preferred securities held		
Beginning of period	$1,111	$ 1,111
Additions related to OTTI losses not previously recognized	—	—
Reductions due to sales / (recoveries)	—	—
Reductions due to change in intent or likelihood of sale	—	—
Additions related to increases in previously recognized OTTI losses	—	—
Reductions due to increases in expected cash flows	—	—
End of period	$1,111	$ 1,111

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Note 4 – Loans and Allowance for Loan Losses

Loans are stated at the principal amount outstanding net of unearned discounts, unearned income and allowance for loan losses. Unearned income includes deferred loan origination fees reduced by loan origination costs and is amortized to interest income over the life of the related loan using methods that approximated the effective interest rate method. Interest on substantially all loans is credited to income based on the principal amount outstanding. A summary of loans at March 31, 2018 and December 31, 2017 follows (in thousands):

	March 31, 2018	December 31, 2017
Construction and land development	$109,188	$ 107,721
Agricultural real estate	122,598	127,232
1-4 Family residential properties	290,567	294,483
Multifamily residential properties	61,049	61,966
Commercial real estate	702,023	684,639
Loans secured by real estate	1,285,425	1,276,041
Agricultural loans	74,282	86,602
Commercial and industrial loans	459,259	445,378
Consumer loans	29,107	30,070
All other loans	135,482	108,023
Total Gross loans	1,983,555	1,946,114
Less: Loans held for sale	1,309	1,025
	1,982,246	1,945,089
Less:		
Net deferred loan fees, premiums and discounts	5,858	6,613
Allowance for loan losses	20,771	19,977
Net loans	$1,955,617	$ 1,918,499

Net loans increased $37.1 million as of March 31, 2018 compared to December 31, 2017. The increase was primarily due to increases in commercial real estate loans, commercial and industrial loans, and all other loans offset by seasonal declines in agricultural loans. Loans expected to be sold are classified as held for sale in the consolidated financial statements and are recorded at the lower of aggregate cost or market value, taking into consideration future commitments to sell the loans. These loans are primarily for 1-4 family residential properties.

Most of the Company’s business activities are with customers located near the Company's branch locations in Illinois and Missouri. At March 31, 2018, the Company’s loan portfolio included $196.9 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $158.3 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture decreased $16.9 million from $213.8 million at December 31, 2017 due to seasonal paydowns based upon timing of cash flow requirements. Loans concentrated in other grain farming decreased $12.5 million from $170.8 million at December 31, 2017. While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has $118.4 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has $187.4 million of loans to lessors of non-residential buildings, $131.3 million of loans to lessors of residential buildings and dwellings, and $97.8 million of loans to other gambling industries.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the board of directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation and the vast majority of borrowers are below regulatory thresholds. The Company can occasionally have outstanding balances to one borrower up to but not exceeding the regulatory threshold should underwriting guidelines warrant. The vast majority of the Company's loans are to businesses located in the geographic market areas served by the Company's branch bank system. Additionally, a significant portion of the collateral securing the loans in the portfolio is located within the Company's primary geographic footprint. In general, the Company adheres to loan underwriting standards consistent with industry guidelines for all loan segments.

The Company's lending can be summarized into the following primary areas:

Commercial Real Estate Loans. Commercial real estate loans are generally comprised of loans to small business entities to purchase or expand structures in which the business operations are housed, loans to owners of real estate who lease space to non-related commercial entities, loans for construction and land development, loans to hotel operators, and loans to owners of multi-family residential structures, such as apartment buildings. Commercial real estate loans are underwritten based on historical and projected cash flows of the borrower and secondarily on the underlying real estate pledged as collateral on the debt. For the various types of commercial real estate loans, minimum criteria have been established within the Company's loan policy regarding debt service coverage while maximum limits on loan-to-value and amortization periods have been defined. Maximum loan-to-value ratios range from 65% to 80% depending upon the type of real estate collateral, while the desired minimum debt coverage ratio is 1.20x. Amortization periods for commercial real estate loans are generally limited to twenty years. The Company's commercial real estate portfolio is well below the thresholds that would designate a concentration in commercial real estate lending, as established by the federal banking regulators.

Commercial and Industrial Loans. Commercial and industrial loans are primarily comprised of working capital loans used to purchase inventory and fund accounts receivable that are secured by business assets other than real estate. These loans are generally written for one year or less. Also, equipment financing is provided to businesses with these loans generally limited to 80% of the value of the collateral and amortization periods limited to seven years. Commercial loans are often accompanied by a personal guaranty of the principal owners of a business. Like commercial real estate loans, the underlying cash flow of the business is the primary consideration in the underwriting process. The financial condition of commercial borrowers is monitored at least annually with the type of financial information required determined by the size of the relationship. Measures employed by the Company for businesses with higher risk profiles include the use of government-assisted lending programs through the Small Business Administration and U.S. Department of Agriculture.

Agricultural and Agricultural Real Estate Loans. Agricultural loans are generally comprised of seasonal operating lines to cash grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop. Loan-to-value ratios on loans secured by farmland generally do not exceed 65% and have amortization periods limited to twenty five years. Federal government-assistance lending programs through the Farm Service Agency are used to mitigate the level of credit risk when deemed appropriate.

Residential Real Estate Loans. Residential real estate loans generally include loans for the purchase or refinance of residential real estate properties consisting of one-to-four units and home equity loans and lines of credit. The Company sells the vast majority of its long-term fixed rate residential real estate loans to secondary market investors. The Company also releases the servicing of these loans upon sale. The Company retains all residential real estate loans with balloon payment features. Balloon periods are limited to five years. Residential real estate loans are typically underwritten to conform to industry standards including criteria for maximum debt-to-income and loan-to-value ratios as well as minimum credit scores. Loans secured by first liens on residential real estate held in the portfolio typically do not exceed 80% of the value of the collateral and have amortization periods of twenty five years or less. The Company does not originate subprime mortgage loans.

Consumer Loans. Consumer loans are primarily comprised of loans to individuals for personal and household purposes such as the purchase of an automobile or other living expenses. Minimum underwriting criteria have been established that consider credit score, debt-to-income ratio, employment history, and collateral coverage. Typically, consumer loans are set up on monthly payments with amortization periods based on the type and age of the collateral.

Other Loans. Other loans consist primarily of loans to municipalities to support community projects such as infrastructure improvements or equipment purchases. Underwriting guidelines for these loans are consistent with those established for commercial loans with the additional repayment source of the taxing authority of the municipality.

Purchase Credit-Impaired Loans. Loans acquired with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchase credit-impaired ("PCI") loans are accounted for under ASC 310-30, Receivables--Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"), and are initially measured at fair value, which includes the estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. The cash flows expected to be collected were estimated using current key assumptions, such as default rates, value of underlying collateral, severity and prepayment speeds.

Allowance for Loan Losses

The allowance for loan losses represents the Company’s best estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by the Company as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, the Company relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company’s credit exposure. The review process is directed by the overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Factors considered by the Company in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and troubled debt restructurings, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates. The Company estimates the appropriate level of allowance for loan losses by separately evaluating large impaired loans and nonimpaired loans.

The Company has loans acquired from business combinations with uncollected principal balances. These loans are carried net of a fair value adjustment for credit risk and interest rates and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew, it is necessary to establish an allowance which represents an amount that, in management’s opinion, will be adequate to absorb probable credit losses inherent in such loans.

Impaired loans

The Company individually evaluates certain loans for impairment. In general, these loans have been internally identified via the Company’s loan grading system as credits requiring management’s attention due to underlying problems in the borrower’s business or collateral concerns. This evaluation considers expected future cash flows, the value of collateral and also other factors that may impact the borrower’s ability to make payments when due. For loans greater than $250,000, impairment is individually measured each quarter using one of three alternatives: (1) the present value of expected future cash flows discounted at the loan’s effective interest rate; (2) the loan’s observable market price, if available; or (3) the fair value of the collateral less costs to sell for collateral dependent loans and loans for which foreclosure is deemed to be probable. A specific allowance is assigned when expected cash flows or collateral do not justify the carrying amount of the loan. The carrying value of the loan reflects reductions from prior charge-offs.

Non-Impaired loans

Non-impaired loans comprise the vast majority of the Company’s total loan portfolio and include loans in accrual status and those credits not identified as troubled debt restructurings. A small portion of these loans are considered “criticized” due to the risk rating assigned reflecting elevated credit risk due to characteristics, such as a strained cash flow position, associated with the individual borrowers. Criticized loans are those assigned risk ratings of Special Mention, Substandard, or Doubtful. Determining the appropriate level of the allowance for loan losses for all non-impaired loans is based on a migration analysis of net losses over a rolling twelve quarter period by loan segment. A weighted average of the net losses is determined by assigning more weight to the most recent quarters in order to recognize current risk factors influencing the various segments of the loan portfolio more prominently than past periods. Environmental factors including changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets are evaluated each quarter to determine if adjustments to the weighted average historical net losses is appropriate given these current influences on the risk profile of each loan segment. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is periodically assessed and adjusted when appropriate. Consumer loans are evaluated for adverse classification based primarily on the Uniform Retail Credit Classification and Account Management Policy established by the federal banking regulators. Classification standards are generally based on delinquency status, collateral coverage, bankruptcy and the presence of fraud.

Due to weakened economic conditions during prior years, the Company established qualitative factor adjustments for each of the loan segments at levels above the historical net loss averages. Some of the economic factors included the potential for reduced cash flow for commercial operating loans from reduction in sales or increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the uncertainty regarding grain prices and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the allowance for loan losses.

The Company has not materially changed any aspect of its overall approach in the determination of the allowance for loan losses. However, on an on-going basis the Company continues to refine the methods used in determining management's best estimate of the allowance for loan losses.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the three-months ended March 31, 2018 and 2017 and for the year ended December 31, 2017 (in thousands):

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Three months ended March 31, 2018						
Allowance for loan losses:						
Balance, beginning of year	$16,546	$1,742	$886	$803	$—	$19,977
Provision charged to expense	936	(161)	177	103	—	1,055
Losses charged off	(237)	—	(103)	(136)	—	(476)
Recoveries	123	—	1	91	—	215
Balance, end of period	$17,368	$1,581	$961	$861	$—	$20,771
Ending balance:						
Individually evaluated for impairment	$486	$5	$20	$—	$—	$511
Collectively evaluated for impairment	$16,877	$1,576	$941	$861	$—	$20,255
Acquired with deteriorated credit quality	$5	$—	$—	$—	$—	$5
Loans:						
Individually evaluated for impairment	$11,592	$202	$1,115	$170	$—	$13,079
Collectively evaluated for impairment	1,417,379	196,173	311,163	39,650	$—	1,964,365

Acquired with deteriorated credit quality	253	—	—	—	$ —	253
Ending balance	$ 1,429,224	$ 196,375	$ 312,278	$ 39,820	$ —	$ 1,977,697

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Three months ended March 31, 2017						
Allowance for loan losses:						
Balance, beginning of year	$ 12,901	$ 2,249	$ 874	$ 693	$ 36	$ 16,753
Provision charged to expense	1,466	69	146	50	(9)	1,722
Losses charged off	(612)	—	(49)	(102)	—	(763)
Recoveries	16	1	7	110	—	134
Balance, end of period	$ 13,771	$ 2,319	$ 978	$ 751	$ 27	$ 17,846
Ending balance:						
Individually evaluated for impairment	$ 316	$ 709	$ 44	$ 1	$ —	$ 1,070
Collectively evaluated for impairment	$ 13,455	$ 1,610	$ 909	$ 750	$ 27	$ 16,751
Acquired with deteriorated credit quality	$—	$—	$ 25	$—	$ —	$ 25
Loans:						
Individually evaluated for impairment	$ 10,656	$ 1,173	$ 4,093	$ 301	$ —	$ 16,223
Collectively evaluated for impairment	1,190,272	198,588	344,160	38,451	—	1,771,471
Acquired with deteriorated credit quality	3,820	—	4,148	—	—	7,968
Ending balance	$ 1,204,748	$ 199,761	$ 352,401	$ 38,752	$ —	$ 1,795,662
Year ended December 31, 2017						
Allowance for loan losses:						
Balance, beginning of year	$ 12,901	$ 2,249	$ 874	$ 693	$ 36	$ 16,753
Provision charged to expense	6,884	153	100	361	(36)	7,462
Losses charged off	(3,795)	(662)	(217)	(521)	—	(5,195)
Recoveries	556	2	129	270	—	957
Balance, end of year	$ 16,546	$ 1,742	$ 886	$ 803	$ —	$ 19,977
Ending balance:						
Individually evaluated for impairment	$ 586	$ 2	$ 25	$ 1	$ —	$ 614
Collectively evaluated for impairment	$ 15,951	$ 1,740	$ 861	$ 802	$ —	$ 19,354
Acquired with deteriorated credit quality	$ 9	$—	$ —	$—	$ —	$ 9
Loans:						
Individually evaluated for impairment	$ 11,372	$ 488	$ 1,026	$ 200	$ —	$ 13,086
Collectively evaluated for impairment	1,360,156	213,033	314,097	38,870	—	1,926,156
Acquired with deteriorated credit quality	259	—	—	—	—	259
Ending balance	$ 1,371,787	$ 213,521	$ 315,123	$ 39,070	$ —	$ 1,939,501

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off 1-4 family residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

Credit Quality

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral support, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Company uses the following definitions for risk ratings which are commensurate with a loan considered "criticized":

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current sound-worthiness and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing factors, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered pass rated loans.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of March 31, 2018 and December 31, 2017 (in thousands):

	Construction & Land Development		Agricultural Real Estate		1-4 Family Residential Properties		Multifamily Residential Properties	
	2018	2017	2018	2017	2018	2017	2018	2017
Pass	$108,582	$107,140	$117,516	$120,767	$277,265	$282,441	$59,875	$60,954
Special Mention	449	454	3,591	4,829	4,081	2,654	470	476
Substandard	45	—	1,457	1,587	8,553	8,572	536	368
Doubtful	—	—	—	—	—	—	—	—
Total	$109,076	$107,594	$122,564	$127,183	$289,899	$293,667	$60,881	$61,798

	Commercial Real Estate (Nonfarm/Nonresidential)		Agricultural Loans		Commercial & Industrial Loans		Consumer Loans	
	2018	2017	2018	2017	2018	2017	2018	2017
Pass	$ 665,007	$ 647,208	$72,019	$83,469	$448,416	$425,846	$28,358	$29,375
Special Mention	17,007	16,941	1,238	2,304	3,290	11,492	3	5
Substandard	17,128	17,608	1,085	858	6,985	6,925	423	369
Doubtful	—	—	—	—	—	—	—	—
Total	$ 699,142	$ 681,757	$74,342	$86,631	$458,691	$444,263	$28,784	$29,749

	All Other Loans		Total Loans	
	2018	2017	2018	2017
Pass	$131,290	$103,339	$1,908,328	$1,860,539
Special Mention	3,028	3,520	33,157	42,675
Substandard	—	—	36,212	36,287
Doubtful	—	—	—	—
Total	$134,318	$106,859	$1,977,697	$1,939,501

The following table presents the Company's loan portfolio aging analysis at March 31, 2018 and December 31, 2017 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
March 31, 2018							
Construction and land development	$205	$253	$45	$503	$108,573	$109,076	$ —
Agricultural real estate	1,103	—	—	1,103	121,461	122,564	—
1-4 Family residential properties	2,289	244	1,481	4,014	285,885	289,899	—
Multifamily residential properties	—	—	—	—	60,881	60,881	—
Commercial real estate	1,036	260	2,116	3,412	695,730	699,142	—
Loans secured by real estate	4,633	757	3,642	9,032	1,272,530	1,281,562	—
Agricultural loans	369	10	158	537	73,805	74,342	—
Commercial and industrial loans	3,101	1,139	734	4,974	453,717	458,691	—
Consumer loans	96	93	12	201	28,583	28,784	—
All other loans	—	—	—	—	134,318	134,318	—
Total loans	$8,199	$1,999	$4,546	$14,744	$1,962,953	$1,977,697	$ —
December 31, 2017							
Construction and land development	$26	$48	$—	$74	$107,520	$107,594	$ —
Agricultural real estate	—	—	396	396	126,787	127,183	—
1-4 Family residential properties	3,023	538	1,767	5,328	288,339	293,667	—
Multifamily residential properties	—	—	—	—	61,798	61,798	—
Commercial real estate	90	38	3,566	3,694	678,063	681,757	—
Loans secured by real estate	3,139	624	5,729	9,492	1,262,507	1,271,999	—
Agricultural loans	—	32	158	190	86,441	86,631	—
Commercial and industrial loans	192	3	770	965	443,298	444,263	—
Consumer loans	178	67	27	272	29,477	29,749	—
All other loans	—	—	—	—	106,859	106,859	—
Total loans	$3,509	$726	$6,684	$10,919	$1,928,582	$1,939,501	$ —

Impaired Loans

Within all loan portfolio segments, loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Impaired loans, excluding certain troubled debt restructured loans, are placed on nonaccrual status. Impaired loans include nonaccrual loans and loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status until, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. If the restructured loan is on accrual status prior to being modified, the loan is reviewed to determine if the modified loan should remain on accrual status

The Company's policy is to discontinue the accrual of interest income on all loans for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Interest on loans determined to be troubled debt restructurings is recognized on an accrual basis in accordance with the restructured terms if the loan is in compliance with the modified terms. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

The following tables present impaired loans as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			December 31, 2017		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans with a specific allowance:						
Construction and land development	$—	$—	$ —	$—	$—	$ —
Agricultural real estate	—	—	—	276	276	—
1-4 Family residential properties	1,095	1,467	20	1,026	1,347	25
Multifamily residential properties	307	307	—	313	313	—
Commercial real estate	5,732	5,732	470	5,544	5,565	531
Loans secured by real estate	7,134	7,506	490	7,159	7,501	556
Agricultural loans	201	986	5	212	1,009	2
Commercial and industrial loans	5,827	6,315	21	5,774	6,037	64
Consumer loans	170	170	—	200	200	1
Total loans	$13,332	$14,977	$ 516	$13,345	$14,747	$ 623
Loans without a specific allowance:						
Construction and land development	$45	$45	$ —	$—	$—	$ —
Agricultural real estate	—	—	—	15	15	—
1-4 Family residential properties	2,743	2,800	—	2,239	2,664	