FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
November 09, 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 September 30, 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 November 8, 2018, 15,297,425 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) September 30, 2018	December 31, 2017
Assets		
Cash and due from banks:		
Non-interest bearing	$ 53,388	$ 75,398
Interest bearing	10,435	12,990
Federal funds sold	662	491
Cash and cash equivalents	64,485	88,879
Certificates of deposit investments	2,183	1,685
Investment securities:		
Available-for-sale, at fair value	599,080	578,579
Held-to-maturity, at amortized cost (estimated fair value of $67,395 and $68,457 at September 30, 2018 and December 31, 2017, respectively)	69,409	69,332
Loans held for sale	940	1,025
Loans	2,399,220	1,938,476
Less allowance for loan losses	(23,839)	(19,977)
Net loans	2,375,381	1,918,499
Interest receivable	14,928	10,832
Other real estate owned	2,093	2,754
Premises and equipment, net	47,327	38,266
Goodwill, net	86,641	60,150
Intangible assets, net	15,373	10,679
Bank owned life insurance	51,443	41,883
Other assets	26,194	18,976
Total assets	$ 3,355,477	$ 2,841,539
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 493,935	$ 480,283
Interest bearing	2,157,462	1,794,356
Total deposits	2,651,397	2,274,639
Securities sold under agreements to repurchase	98,875	155,388
Interest payable	1,400	602
FHLB borrowings	120,736	60,038
Other borrowings	29,500	10,313
Junior subordinated debentures	28,958	24,000
Other liabilities	7,778	8,595
Total liabilities	2,938,644	2,533,575
Stockholders' Equity:		
Common stock, $4 par value; authorized 30,000,000 shares; issued 15,867,990 and 13,231,225 shares in 2018 and 2017, respectively	65,472	54,925
Additional paid-in capital	250,484	163,603
Retained earnings	126,955	104,683
Deferred compensation	2,553	3,540
Accumulated other comprehensive loss	(12,173)	(2,304)

Less treasury stock at cost, 573,065 shares in 2018 and 570,477 shares in 2017	(16,458)	(16,483)
Total stockholders' equity	416,833	307,964
Total liabilities and stockholders' equity	$ 3,355,477	$ 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	$28,850	$20,385	$75,219	$61,337
Interest on investment securities	4,511	4,179	13,271	12,585
Interest on certificates of deposit investments	13	9	34	41
Interest on federal funds sold	2	1	5	62
Interest on deposits with other financial institutions	112	40	248	217
Total interest income	33,488	24,614	88,777	74,242
Interest expense:				
Interest on deposits	2,217	1,028	5,149	2,840
Interest on securities sold under agreements to repurchase	72	51	196	137
Interest on FHLB borrowings	559	283	1,309	602
Interest on other borrowings	148	143	374	385
Interest on subordinated debentures	405	236	1,013	680
Total interest expense	3,401	1,741	8,041	4,644
Net interest income	30,087	22,873	80,736	69,598
Provision for loan losses	2,551	1,489	5,483	5,051
Net interest income after provision for loan losses	27,536	21,384	75,253	64,547
Other income:				
Trust revenues	919	925	2,934	2,696
Brokerage commissions	660	536	1,986	1,550
Insurance commissions	877	670	3,202	3,148
Service charges	2,009	1,758	5,447	5,160
Securities gains, net	—	254	901	589
Mortgage banking revenue, net	368	347	939	875
ATM / debit card revenue	1,979	1,595	5,443	4,828
Bank owned life insurance	342	792	933	1,355
Other	765	784	1,982	2,925
Total other income	7,919	7,661	23,767	23,126
Other expense:				
Salaries and employee benefits	11,600	9,648	32,851	29,685
Net occupancy and equipment expense	3,530	3,129	10,308	9,378
Net other real estate owned expense (income)	(61)	385	22	530
FDIC insurance	174	210	740	679
Amortization of intangible assets	838	545	2,059	1,651
Stationery and supplies	328	168	725	539
Legal and professional	1,071	871	3,925	2,596
Marketing and donations	468	338	1,253	909
Other	6,542	2,618	11,777	9,102
Total other expense	24,490	17,912	63,660	55,069
Income before income taxes	10,965	11,133	35,360	32,604
Income taxes	2,731	3,538	8,699	10,545
Net income	$8,234	$7,595	$26,661	$22,059
Per share data:				

Basic net income per common share available to common stockholders	$0.54	$0.61	$1.91	$1.76
Diluted net income per common share available to common stockholders	$0.54	$0.61	$1.90	$1.76
Cash dividends declared per common share	$—	$—	$0.34	$0.32

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	$8,234	$7,595	$26,661	$22,059
Other Comprehensive Income (Loss)				
Unrealized gains (losses) on available-for-sale securities, net of taxes of $1,191 and $327 for three months ended September 30, 2018 and 2017, respectively and $3,796 and $(5,154) for nine months ended September 30, 2018 and 2017, respectively.	(2,919)	(512)	(9,289)	8,068
Amortized holding losses on held-to-maturity securities transferred from available-for-sale, net of taxes of $(8) and $(11) for three months ended September 30, 2018 and 2017, respectively and $(25) and $(32) for nine months ended September 30, 2018 and 2017, respectively.	20	16	60	51
Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $99 for three months ended September 30, 2018 and 2017, respectively and $261 and $230 for nine months ended September 30, 2018 and 2017, respectively.	—	(155)	(640)	(359)
Other comprehensive income (loss), net of taxes	(2,899)	(651)	(9,869)	7,760
Comprehensive income	$5,335	$6,944	$16,792	$29,819

See accompanying notes to unaudited condensed consolidated financial statements.

4

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Nine months ended September 30,	
(In thousands)	2018	2017
Cash flows from operating activities:		
Net income	$26,661	$22,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,483	5,051
Depreciation, amortization and accretion, net	5,431	6,241
Change in cash surrender value of bank owned life insurance	(933)	(844)
Stock-based compensation expense	242	300
Gains on investment securities, net	(901)	(589)
(Gain) loss on sales of repossessed assets, net	(62)	349
Loss on write down of premises and equipment	26	337
Gains on sale of loans held for sale, net	(796)	(809)
Decrease in accrued interest receivable	(1,767)	(323)
Increase in accrued interest payable	541	38
Origination of loans held for sale	(48,214)	(45,076)
Proceeds from sale of loans held for sale	49,095	44,981
Decrease in other assets	575	2,475
Decrease in other liabilities	(8,941)	(1,421)
Net cash provided by operating activities	26,440	32,769
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposit investments	747	12,958
Proceeds from sales of securities available-for-sale	13,152	96,184
Proceeds from maturities of securities available-for-sale	40,476	52,894
Purchases of securities available-for-sale	(30,082)	(134,807)
Net increase in loans	(99,308)	(49,198)
Purchases of premises and equipment	(1,765)	(1,304)
Proceeds from sales of other real property owned	1,490	5,356
Net cash provided by acquisition	10,323	—
Net cash used in investing activities	(64,967)	(17,917)
Cash flows from financing activities:		
Net decrease in deposits	(8,866)	(112,410)
Increase in federal funds purchased	22,000	20,000
Decrease in repurchase agreements	(56,513)	(69,403)
Proceeds from FHLB advances	45,000	52,000
Repayment of FHLB advances	(15,000)	(5,000)
Repayment from short-term debt	—	(6,813)
Repayment of long-term debt	(2,813)	—
Proceeds from issuance of common stock	36,519	4,195
Direct expenses related to capital transactions	(2,243)	(213)
Purchase of treasury stock	(95)	—
Dividends paid on common stock	(3,856)	(3,467)
Net cash provided by (used in) financing activities	14,133	(121,111)
Decrease in cash and cash equivalents	(24,394)	(106,259)
Cash and cash equivalents at beginning of period	88,879	175,902
Cash and cash equivalents at end of period	$64,485	$69,643

5

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Nine months ended September 30,	
(In thousands)	2018	2017
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$7,243	$4,627
Income taxes	7,919	7,969
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	224	5,317
Dividends reinvested in common stock	533	527
Net tax benefit related to option and deferred compensation plans	160	221
Supplemental disclosure of purchase of capital stock of First Bank		
Fair value of assets acquired	$501,285	$—
Consideration paid:		
Cash paid	10,275	—
Common stock issued	61,350	—
Total consideration paid	71,625	—
Fair value of liabilities assumed	$429,660	$—

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 Bank & Trust, N.A. (“First Mid Bank”), formerly known as First Mid-Illinois Bank & Trust, N.A., First Mid Wealth Management, 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 September 30, 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 September 30, 2018 presentation and there was no impact on net income or stockholders’ equity. The results of the interim period ended September 30, 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.

Capital Raise

On June 13, 2018, the Company and First Mid Bank, entered into an underwriting agreement (the “Underwriting Agreement”) with FIG Partners, LLC, as the representative of the several underwriters named therein (the “Underwriters”), pursuant to which the Company agreed to issue and sell to the Underwriters and the Underwriters agreed to purchase, subject to and upon the terms and conditions of the Underwriting Agreement, an aggregate of 823,799 shares of the Company’s common stock, par value $4.00 per share, at a public offering price of $38.00 per share, in an underwritten public offering (the “Offering”). The Company granted the Underwriters an option for a period of 30 days after the date of the Underwriting Agreement to purchase up to an additional 123,569 shares of common stock at the public offering price, less discounts and commissions. The Underwriters exercised their option in full on June 13, 2018, resulting in 947,368 shares of common stock being offered in the Offering. The Offering closed on June 15, 2018. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, were approximately $34.0 million.

First BancTrust Corporation

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 (“Hawks Merger Sub”), entered into an Agreement and Plan of Merger (as amended as of January 18, 2018, the “First Bank 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 merged with and into Hawks Merger Sub, with Hawks Merger Sub as the surviving entity and a wholly-owned subsidiary of the Company (the “First Bank Merger”).

Subject to the terms and conditions of the First Bank Merger Agreement, at the effective time of the First Bank 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 First Bank 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 to be withheld and subject to certain adjustments, all as set forth in the First Bank Merger Agreement.

The First Bank Merger closed on May 1, 2018 and the Company issued an aggregate total of 1,643,900 shares of common stock paying approximately $10,275,000, including cash in lieu of fractional shares. The accounting for the First Bank Merger is presented in Note 8 to the consolidated financial statements. First Bank's wholly-owned bank subsidiary, First Bank & Trust, merged with and into the Company's wholly owned bank subsidiary, First Mid Bank, on August 10, 2018. At the time of the bank merger, First Bank & Trust's banking offices became branches of First Mid Bank.

SCB Bancorp, Inc.

On June 12, 2018, The Company and Project Almond Merger Sub LLC, a newly formed Illinois limited liability company and wholly-owned subsidiary of the Company ("Almond Merger Sub"), entered into an Agreement and Plan of Merger (the "SCB Merger Agreement") with SCB Bancorp, Inc., an Illinois corporation ("SCB"), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of SCB pursuant to a business combination whereby SCB will merge with and into Almond Merger Sub, whereupon the separate corporate existence of SCB will cease and Merger Sub will continue as the surviving company and a wholly-owned subsidiary of the Company (the "SCB Merger").

Subject to the terms and conditions of the SCB Merger Agreement, at the effective time of the SCB Merger, each share of common stock, par value $7.50 per share, of SCB issued and outstanding immediately prior to the effective time of the SCB Merger (other than shares held in treasury by SCB and shares held by stockholders who have properly made and not withdrawn a demand for appraisal rights under Illinois law) will be converted into and become the right to receive, at the election of each stockholder, either $307.93 in cash or 8.0228 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 to be withheld and subject to certain potential adjustments. Overall elections are subject to proration such that, depending on the number of shares of SCB common stock electing shares of the Company's common stock, between 19 and 32.5 percent of the SCB shares will be exchanged for cash, and between 67.5 and 81 percent will be exchanged for the Company's common stock. Additionally, SCB's outstanding stock options will be fully vested upon consummation of the SCB Merger, and all outstanding SCB options that are unexercised prior to the effective time of the SCB Merger will be cashed out. In addition, immediately prior to the closing of the proposed merger, SCB will pay a special dividend to its shareholders in the aggregate amount of approximately $25 million. The SCB Merger is subject to customary closing conditions, including the approval of the appropriate regulatory authorities and of the stockholders of SCB. The SCB Merger is anticipated to be completed in November 2018.

It is anticipated that SCB's wholly-owned bank subsidiary, Soy Capital Bank and Trust Company ("Soy Capital Bank"), will be merged with and into First Mid Bank at a date following completion of the Merger. At the time of the bank merger, Soy Capital Bank's banking offices will become branches of First Mid Bank.

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 its common stock. Shares of common stock are offered pursuant to the Company's shelf registration statement filed within the SEC. During the nine months ended September 30, 2018, the company sold no shares of common stock under the program. As of September 30, 2018, approximately $16.53 million of common stock remained available for issuance under the At The Market program.

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 15,450 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.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

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 September 30, 2018 and December 31, 2017 are as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Securities with Other-Than-Temporary Impairment Losses	Total
September 30, 2018			
Net unrealized losses on securities available-for-sale	$(16,949)	$ —	$(16,949)
Unamortized losses on held-to-maturity securities transferred from available-for-sale	(197)	—	(197)
Securities with other-than-temporary impairment losses	—	—	—
Tax benefit	4,973	—	4,973
Balance at September 30, 2018	$(12,173)	$ —	$(12,173)
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)

Amounts reclassified from accumulated other comprehensive income and the affected line items in the statements of income during the nine months ended September 30, 2018 and 2017, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income				
	Three months ended September 30,		Nine months ended September 30,		Affected Line Item in the Statements of Income
	2018	2017	2018	2017	
Realized gains on available-for-sale securities	$ —	$ 254	$ 901	$ 589	Securities gains, net (Total reclassified amount before tax)
	—	(99)	(261)	(230)	Income taxes
Total reclassifications out of accumulated other comprehensive income	$ —	$ 155	$ 640	$ 359	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. Upon adoption of the guidance, the Company expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheet. However, the determination of the final amount is dependent on the terms of leases in effect and the level of interest rates on January 1, 2019. The Company does not expect the new guidance will have a material impact on its consolidated statement of income.

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.

Accounting Standards Update 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). In August 2018, FASB issued ASU 2018-13. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, an entity will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. As ASU 2018-13 only revises disclosure requirements, it will not have a material impact 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 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 and nine-month period ended September 30, 2018 and 2017 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic Net Income per Common Share Available to Common Stockholders:				
Net income	$8,234,000	$7,595,000	$26,661,000	$22,059,000
Weighted average common shares outstanding	15,290,539	12,528,674	13,982,339	12,498,913
Basic earnings per common share	$0.54	$0.61	$1.91	$1.76
Diluted Net Income per Common Share Available to Common Stockholders:				
Net income applicable to diluted earnings per share	8,234,000	7,595,000	$26,661,000	$22,059,000
Weighted average common shares outstanding	15,290,539	12,528,674	13,982,339	12,498,913
Dilutive potential common shares:				
Assumed conversion of stock options	2,429	6,299	3,570	6,827
Restricted stock awarded	13,250	836	13,250	836
Dilutive potential common shares	15,679	7,135	16,820	7,663
Diluted weighted average common shares outstanding	15,306,218	12,535,809	13,999,159	12,506,576
Diluted earnings per common share	$0.54	$0.61	$1.90	$1.76

There were no shares not considered in computing diluted earnings per share for the three and nine-month periods ended September 30, 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 September 30, 2018 and December 31, 2017 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2018				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$127,365	$ —	$(4,696)	$122,669
Obligations of states and political subdivisions	176,273	570	(3,497)	173,346
Mortgage-backed securities: GSE residential	310,122	132	(9,585)	300,669
Other securities	2,269	127	—	2,396
Total available-for-sale	$616,029	$ 829	$(17,778)	$599,080
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$69,409	$ —	$(2,014)	$67,395
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"). This security was sold during the second quarter of 2018.

Realized gains and losses resulting from sales of securities were as follows during the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Gross gains	$ —	$ 394	$941	$746
Gross losses	—	(140)	(40)	(157)

15

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 September 30, 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	$85,272	$37,397	$—	$—	$122,669
Obligations of state and political subdivisions	16,847	78,561	76,890	1,048	173,346
Mortgage-backed securities: GSE residential	4	120,920	179,745	—	300,669
Other securities	—	2,015	—	381	2,396
Total available-for-sale investments	$102,123	$238,893	$256,635	$1,429	$599,080
Weighted average yield	2.34 %	2.76 %	2.95 %	3.12 %	2.77 %
Full tax-equivalent yield	2.51 %	3.12 %	3.31 %	4.16 %	3.10 %
Held to Maturity:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$39,994	$29,415	$—	$—	$69,409
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 September 30, 2018.

Investment securities carried at approximately $575 million and $479 million at September 30, 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 September 30, 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
September 30, 2018						
Available-for-sale:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$67,162	$(1,957)	$55,507	$(2,739)	$122,669	$(4,696)
Obligations of states and political subdivisions	101,192	(2,338)	18,856	(1,159)	120,048	(3,497)
Mortgage-backed securities: GSE residential	234,958	(8,724)	45,257	(861)	280,215	(9,585)
Total	$403,312	$(13,019)	$119,620	$(4,759)	$522,932	$(17,778)
Held-to-maturity:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$24,510	$(340)	$42,885	$(1,674)	$67,395	$(2,014)
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)
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 September 30, 2018 there were fourteen available-for sale U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $55,507,000 and unrealized losses of $2,739,000 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 September 30, 2018 there were eight held-to-maturity U.S. Treasury securities and obligations of U.S. government corporations and agencies with a fair value of $42,885,000 and unrealized losses of $1,674,000 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 September 30, 2018 there were forty-one obligations of states and political subdivisions with a fair value of $18,856,000 and unrealized losses of $1,159,000 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 September 30, 2018 there were thirty-two mortgage-backed securities with a fair value of $45,257,000 and unrealized losses of $861,000 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 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 sold this security during the second quarter of 2018.

Other securities. At September 30, 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 September 30, 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.

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. The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses were recorded in other comprehensive income (loss) for the nine months ended September 30, 2018 and 2017 (in thousands).

	Accumulated Credit Losses	
	September 30, 2018	September 30, 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)	(1,111)	—
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

On May 29, 2018 the Company sold its trust preferred security. This sale resulted in recovery of all of the book value of the security. The net proceeds exceeded the aggregate book value of these securities by approximately $846,000 and this amount was recorded as a security gain during the second quarter of 2018.

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 September 30, 2018 and December 31, 2017 follows (in thousands):

	September 30, 2018	December 31, 2017
Construction and land development	$ 91,768	$ 107,721
Agricultural real estate	191,812	127,232
1-4 Family residential properties	368,759	294,483
Multifamily residential properties	100,881	61,966
Commercial real estate	818,093	684,639
Loans secured by real estate	1,571,313	1,276,041
Agricultural loans	120,812	86,602
Commercial and industrial loans	541,099	445,378
Consumer loans	57,788	30,070
All other loans	117,031	108,023
Total Gross loans	2,408,043	1,946,114
Less: Loans held for sale	940	1,025
	2,407,103	1,945,089
Less:		
Net deferred loan fees, premiums and discounts	7,883	6,613
Allowance for loan losses	23,839	19,977
Net loans	$ 2,375,381	$ 1,918,499

Net loans increased $456.9 million as of September 30, 2018 compared to December 31, 2017. Of this increase, approximately $364.9 million is a result of the acquisition of First Bank & Trust. 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 September 30, 2018, the Company’s loan portfolio included $312.6 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $236.8 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $98.8 million from $213.8 million at December 31, 2017 due to $81.8 million acquired from First Bank & Trust and seasonal paydowns based upon timing of cash flow requirements. Loans concentrated in other grain farming increased $66.0 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 $129.5 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 $235.2 million of loans to lessors of non-residential buildings, $230.2 million of loans to lessors of residential buildings and dwellings, and $96.3 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 and nine-months ended September 30, 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 September 30, 2018						
Allowance for loan losses:						
Balance, beginning of period	$ 18,663	$ 1,900	$ 554	$ 928	$ —	$22,045
Provision charged to expense	1,197	247	942	165	—	2,551
Losses charged off	(439)	(93)	(181)	(133)	—	(846)
Recoveries	5	—	2	82	—	89
Balance, end of period	$ 19,426	$ 2,054	$ 1,317	$ 1,042	$ —	$23,839
Ending balance:						
Individually evaluated for impairment	$ 858	$ —	$ 249	$ 1	$ —	$1,108
Collectively evaluated for impairment	$ 18,157	$ 2,054	$ 1,068	$ 1,041	$ —	$22,320
Acquired with deteriorated credit quality	$ 411	$ —	$ —	$ —	$ —	$411

22

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Three months ended September 30, 2017						
Allowance for loan losses:						
Balance, beginning of period	$14,747	$1,743	$ 969	$716	$ 34	$18,209
Provision charged to expense	1,440	(57)	(2)	72	36	1,489
Losses charged off	(1,242)	—	(7)	(160)	—	(1,409)
Recoveries	158	1	78	63	—	300
Balance, end of period	$15,103	$1,687	$ 1,038	$691	$ 70	$18,589
Ending balance:						
Individually evaluated for impairment	$168	$—	$ 125	$2	$ —	$295
Collectively evaluated for impairment	$14,935	$1,687	$ 913	$689	$ 70	$18,294
Acquired with deteriorated credit quality	$—	$—	$ —	$—	$ —	$—

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Nine months ended September 30, 2018						
Allowance for loan losses:						
Balance, beginning of year	$16,546	$1,742	$ 886	$803	$ —	$19,977
Provision charged to expense	3,467	405	1,211	400	—	5,483
Losses charged off	(715)	(93)	(836)	(397)	—	(2,041)
Recoveries	128	—	56	236	—	420
Balance, end of period	$19,426	$2,054	$ 1,317	$1,042	$ —	$23,839
Ending balance:						
Individually evaluated for impairment	$858	$—	$ 249	$1	$ —	$1,108
Collectively evaluated for impairment	$18,157	$2,054	$ 1,068	$1,041	$ —	$22,320
Acquired with deteriorated credit quality	$411	$—	$ —	$—	$ —	$411
Loans:						
Individually evaluated for impairment	$14,924	$42	$ 2,708	$159	$ —	$17,833
Collectively evaluated for impairment	1,605,717	312,145	381,012	69,048	$ —	2,367,922
Acquired with deteriorated credit quality	11,435	4	2,961	5	$ —	14,405
Ending balance	$1,632,076	$312,191	$ 386,681	$69,212	$ —	$2,400,160

	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Nine months ended September 30, 2017						
Allowance for loan losses:						
Balance, beginning of year	$12,901	$2,249	$874	$693	$36	$16,753
Provision charged to expense	4,573	98	167	179	34	5,051
Losses charged off	(2,725)	(662)	(106)	(397)	—	(3,890)
Recoveries	354	2	103	216	—	675
Balance, end of period	$15,103	$1,687	$1,038	$691	$70	$18,589
Ending balance:						
Individually evaluated for impairment	$168	$—	$125	$2	$—	$295
Collectively evaluated for impairment	$14,935	$1,687	$913	$689	$70	$18,294
Acquired with deteriorated credit quality	$—	$—	$—	$—	$—	$—
Loans:						
Individually evaluated for impairment	$7,635	$513	$1,418	$210	$—	$9,776
Collectively evaluated for impairment	1,287,821	206,669	324,920	32,892	—	1,852,302
Acquired with deteriorated credit quality	5,484	—	—	—	—	5,484
Ending balance	$1,300,940	$207,182	$326,338	$33,102	$—	$1,867,562
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 September 30, 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	$90,552	$107,140	$180,273	$120,767	$345,527	$282,441	$90,751	$60,954
Special Mention	439	454	9,500	4,829	7,142	2,654	4,900	476
Substandard	364	—	1,951	1,587	14,674	8,572	4,717	368
Doubtful	—	—	—	—	—	—	—	—
Total	$91,355	$107,594	$191,724	$127,183	$367,343	$293,667	$100,368	$61,798

	Commercial Real Estate (Nonfarm/Nonresidential)		Agricultural Loans		Commercial & Industrial Loans		Consumer Loans	
	2018	2017	2018	2017	2018	2017	2018	2017
Pass	$ 772,696	$ 647,208	$111,903	$83,469	$524,649	$425,846	$55,865	$29,375
Special Mention	16,716	16,941	8,048	2,304	5,841	11,492	200	5
Substandard	25,162	17,608	819	858	9,897	6,925	1,183	369
Doubtful	—	—	—	—	—	—	—	—
Total	$ 814,574	$ 681,757	$120,770	$86,631	$540,387	$444,263	$57,248	$29,749

	All Other Loans		Total Loans	
	2018	2017	2018	2017
Pass	$113,630	$103,339	$2,285,846	$1,860,539
Special Mention	2,746	3,520	55,532	42,675
Substandard	15	—	58,782	36,287
Doubtful	—	—	—	—
Total	$116,391	$106,859	$2,400,160	$1,939,501

The following table presents the Company's loan portfolio aging analysis at September 30, 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
September 30, 2018							
Construction and land development	$773	$—	$61	$834	$90,521	$91,355	$ —
Agricultural real estate	42	—	1,066	1,108	190,616	191,724	—
1-4 Family residential properties	5,777	2,313	2,002	10,092	357,251	367,343	—
Multifamily residential properties	—	305	229	534	99,834	100,368	—
Commercial real estate	3,535	1,285	3,010	7,830	806,744	814,574	—
Loans secured by real estate	10,127	3,903	6,368	20,398	1,544,966	1,565,364	—
Agricultural loans	170	—	522	692	120,078	120,770	—
Commercial and industrial loans	809	467	3,989	5,265	535,122	540,387	—
Consumer loans	989	447	304	1,740	55,508	57,248	—
All other loans	—	—	—	—	116,391	116,391	—
Total loans	$12,095	$4,817	$11,183	$28,095	$2,372,065	$2,400,160	$ —
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

27

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 September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 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	$292	$ 292	$ 21	$—	$ —	$ —
Agricultural real estate	—	—	—	276	276	—
1-4 Family residential properties	5,670	6,057	249	1,026	1,347	25
Multifamily residential properties	4,488	4,488	—	313	313	—
Commercial real estate	13,032	13,053	783	5,544	5,565	531
Loans secured by real estate	23,482	23,890	1,053	7,159	7,501	556
Agricultural loans	46	609	—	212	1,009	2
Commercial and industrial loans	8,546	9,228	465	5,774	6,037	64
Consumer loans	164	164	1	200	200	1
Total loans	$32,238	$ 33,891	$ 1,519	$13,345	$ 14,747	$ 623
Loans without a specific allowance:						
Construction and land development	$67	$ 67	$ —	$—	$ —	$ —
Agricultural real estate	171	171	—	15	15	—
1-4 Family residential properties	3,343	4,465	—	2,239	2,664	—
Multifamily residential properties	229	229	—	55	55	—
Commercial real estate	975	1,046	—	303	368	—
Loans secured by real estate	4,785	5,978	—	2,612	3,102	—
Agricultural loans	717	154	—	545	—	—
Commercial and industrial loans	923	958	—	909	1,249	—
Consumer loans	447	959	—	102	119	—
All other loans	6	6	—	—	—	—
Total loans	$6,878	$ 8,055	$ —	$4,168	$ 4,470	$ —
Total loans:						
Construction and land development	$359	$ 359	$ 21	$—	$ —	$ —
Agricultural real estate	171	171	—	291	291	—
1-4 Family residential properties	9,013	10,522	249	3,265	4,011	25
Multifamily residential properties	4,717	4,717	—	368	368	—
Commercial real estate	14,007	14,099	783	5,847	5,933	531
Loans secured by real estate	28,267	29,868	1,053	9,771	10,603	556
Agricultural loans	763	763	—	757	1,009	2
Commercial and industrial loans	9,469	10,186	465	6,683	7,286	64
Consumer loans	611	1,123	1	302	319	1

All other loans	6	6	—	—	—	—
Total loans	$39,116	$41,946	$ 1,519	$17,513	$19,217	$ 623

The following tables present average recorded investment and interest income recognized on impaired loans for the three and nine-month periods ended September 30, 2018 and 2017 (in thousands):

	For the three months ended			
	September 30, 2018		September 30, 2017	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$395	$ 22	$267	$ —
Agricultural real estate	620	—	291	—
1-4 Family residential properties	7,574	137	3,047	5
Multifamily residential properties	3,164	126	8,017	80
Commercial real estate	11,932	188	5,762	6
Loans secured by real estate	23,685	473	17,384	91
Agricultural loans	752	—	834	—
Commercial and industrial loans	8,909	5	2,075	2
Consumer loans	234	—	296	—
All other loans	8	—	—	—
Total loans	$33,588	$ 478	$20,589	$ 93

	For the nine months ended			
	September 30, 2018		September 30, 2017	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$167	$ 29	$98	$ —
Agricultural real estate	182	—	293	—
1-4 Family residential properties	5,672	188	3,003	16
Multifamily residential properties	1,414	169	10,839	229
Commercial real estate	8,595	256	4,638	14
Loans secured by real estate	16,030	642	18,871	259
Agricultural loans	642	—	900	—
Commercial and industrial loans	8,109	7	2,216	6
Consumer loans	—	—	307	—
All other loans	—	—	—	—
Total loans	$24,781	$ 649	$22,294	$ 265

The amount of interest income recognized by the Company within the periods stated above was due to loans modified in troubled debt restructurings that remained on accrual status. The balance of loans modified in troubled debt restructurings included in the impaired loans at September 30, 2018 stated above that were still accruing was $1,908,000 of 1-4 Family residential properties, $679,000 of commercial real estate and $4,000 of consumer. The balance of loans modified in a troubled debt restructurings at September 30, 2017 included in the impaired loans stated above that were still accruing was $410,000 of 1-4 family residential properties, $5,217,000 of multifamily residential properties, $347,000 commercial real estate, $29,000 commercial and industrial loans, and $1,000 of consumer loans. For the nine months ended September 30, 2018 and 2017, the amount of interest income recognized using a cash-basis method of accounting during the period that the loans were impaired was not material.

Non Accrual Loans

The following table presents the Company's recorded balance of nonaccrual loans as September 30, 2018 and December 31, 2017 (in thousands). This table excludes purchased impaired loans and performing troubled debt restructurings.

	September 30, 2018	December 31, 2017
Construction and land development	$ 67	$ —
Agricultural real estate	171	291
1-4 Family residential properties	4,682	2,687
Multifamily residential properties	805	368
Commercial real estate	8,769	5,596
Loans secured by real estate	14,494	8,942
Agricultural loans	763	757
Commercial and industrial loans	9,473	6,658
Consumer loans	598	302
All other loans	6	—
Total loans	$ 25,334	$ 16,659

Interest income that would have been recorded under the original terms of such nonaccrual loans totaled $1,096,000 and $366,000 for the nine months ended September 30, 2018 and 2017, respectively.

Purchased Credit-Impaired Loans

The Company acquired certain loans considered to be credit-impaired ("PCI") in its business combinations with First Clover Leaf Bank during the third quarter of 2016 and First Bank & Trust during the second quarter of 2018. At acquisition, these loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these loans is included in the consolidated balance sheet amounts for Loans. The Company had no PCI loans prior to the First Clover Leaf Bank acquisition. The amount of these loans at September 30, 2018 and December 31, 2017 are as follows (in thousands):

	September 30, 2018	December 31, 2017
Construction and land development	$ 292	$ —
Agricultural real estate	—	—
1-4 Family residential properties	$ 2,961	$ —
Multifamily residential properties	3,912	—
Commercial real estate	7,164	251
Loans secured by real estate	14,329	251
Agricultural loans	4	—
Commercial and industrial loans	67	8
Consumer loans	5	—
Carrying amount	14,405	259
Allowance for loan losses	411	9
Carrying amount, net of allowance	$ 13,994	$ 250

As of September 8, 2016, the First Clover Leaf acquisition date, the principal outstanding of PCI loans totaled $10,650,000 and the fair value of PCI loans totaled $8,688,000. The balance of these loans at September 30, 2018 was $379,000 and the fair value was $241,000. As of May 1, 2018, the First Bank acquisition date, the principal outstanding of PCI loans totaled $20,357,000 and the fair value of PCI loans totaled $16,126,000. The balance of these loans at September 30, 2018 was $17,646,000 and the fair value totaled $14,164,000.

For PCI loans, the difference between contractually required payments at acquisition and the cash flow expected to be collected is referred to as the non-accretable difference. Any excess of expected cash flows over the fair value is referred to as the accretable yield. As of September 30, 2018 there is no accretable yield on the PCI loans acquired. Subsequent decreases to the expected cash flows will result in a provision for loan and lease losses. Subsequent increases in expected cash flows will result in a reversal of the provision for loan and lease losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. As of September 30, 2018, there were three loans with a change in expected cash flows and as a result, approximately $411,000 of provision was recorded. As of December 31, 2017, there was one loan with a change in expected cash flows and as a result, approximately $9,000 of provision was recorded.

The PCI loans acquired from First Bank & Trust during the second quarter of 2018 for which it was probable that all contractually required payments would not be collected were as follows (in thousands):

Contractually required payments	$20,357
Non-accretable difference	(4,231)
Cash flows expected to be collected at acquisition	16,126
Accretable yield	—
Fair value of acquired loans at acquisition	$16,126

Troubled Debt Restructuring

The balance of troubled debt restructurings ("TDRs") at September 30, 2018 and December 31, 2017 was $10.3 million and $8.9 million, respectively. There was $56,000 and $37,000 in specific reserves established with respect to these loans as of September 30, 2018 and December 31, 2017, respectively. As troubled debt restructurings, these loans are included in nonperforming loans and are classified as impaired which requires that they be individually measured for impairment. The modification of the terms of these loans included one or a combination of the following: a reduction of stated interest rate of the loan; an extension of the maturity date and change in payment terms; or a permanent reduction of the recorded investment in the loan. The following table presents the Company’s recorded balance of troubled debt restructurings at September 30, 2018 and December 31, 2017 (in thousands).

Troubled debt restructurings:	September 30, 2018	December 31, 2017
1-4 Family residential properties	2,494	874
Commercial real estate	1,883	1,376
Loans secured by real estate	4,377	2,250
Agricultural loans	606	757
Commercial and industrial loans	5,208	5,690
Consumer loans	150	201
Total	$ 10,341	$ 8,898
Performing troubled debt restructurings:		
1-4 Family residential properties	1,908	$ 578
Commercial real estate	679	251
Loans secured by real estate	2,587	829
Commercial and industrial loans	—	25
Consumer loans	4	—
Total	$ 2,591	$ 854

The increase in TDRs during the period was was primarily due to loans acquired in the acquisition of First Bank net of loans that paid off during the period.

31

The following table presents loans modified as TDRs during the nine months ended September 30, 2018 and 2017, as a result of various modified loan factors (in thousands):

	September 30, 2018			September 30, 2017		
	Number of Modifications	Recorded Investment	Type of Modifications	Number of Modifications	Recorded Investment	Type of Modifications
1-4 Family residential properties	15	604	(b)(c)	1	17	(c)
Commercial real estate	1	437	(b)(d)	—	—	
Loans secured by real estate	16	1,041		1	17	
Agricultural loans	—	—		4	828	(b)(c)(d)
Commercial and industrial loans	2	99	(b)(c)	1	27	(c)
Consumer Loans	1	4	(b)(c)	—	—	
Total	19	$ 1,144		6	$ 872	

Type of modifications:
(a) Reduction of stated interest rate of loan
(b) Change in payment terms
(c) Extension of maturity date
(d) Permanent reduction of the recorded investment

A loan is considered to be in payment default once it is 90 days past due under the modified terms. There were no loans modified as troubled debt restructurings during the prior twelve months that experienced defaults for nine months ended September 30, 2018. There was one loan modified as troubled debt restructuring during the prior twelve months that experienced defaults as of December 31, 2017.

The balance of real estate owned includes $2,093,000 and $2,754,000 of foreclosed real estate properties recorded as a result of obtaining physical possession of the property at September 30, 2018 and December 31, 2017, respectively. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process was $652,000 and $404,000 at September 30, 2018 and December 31, 2017, respectively.

Note 5 -- Goodwill and Intangible Assets

The Company has goodwill from business combinations, intangible assets from branch acquisitions, identifiable intangible assets assigned to core deposit relationships and customer lists of First Mid Insurance. The following table presents gross carrying value and accumulated amortization by major intangible asset class as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018		December 31, 2017	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill not subject to amortization (effective 1/1/02)	$90,401	$ 3,760	$63,910	$ 3,760
Intangibles from branch acquisition	3,015	3,015	3,015	3,015
Core deposit intangibles	25,086	13,153	19,862	11,473
Other intangibles	3,731	2,422	3,731	2,285
	$122,233	$ 22,350	$90,518	$ 20,533

Goodwill of $27.4 million was provisionally recorded for acquisition and merger of First Bank during the second quarter of 2018. Goodwill was subsequently adjusted to $26.5 million to reflect proper valuation of financial assets and liabilities. All of the goodwill was assigned to the banking segment of the Company. The Company expects this goodwill will not be deductible for tax purposes.

The following table provides a reconciliation of the purchase price paid for the acquisition of First Bank and the amount of goodwill recorded (in thousands):

Purchase price (in excess of net book value)		$26,946
Purchase accounting adjustments:		
Fair value of securities	320	
Fair value of loans, net	3,463	
Fair value of OREO	12	
Fair value of mortgage servicing rights	(1,097)	
Fair value of premises and equipment	689	
Fair value of time deposits	1,301	
Fair value of FHLB advances	(328)	
Fair value of subordinated debentures	(1,451)	
Core deposit intangible	(5,224)	
Other assets and other liabilities, net	1,860	
		(455)
Resulting goodwill from acquisition		$26,491

As part of the First Bank acquisition, the Company acquired mortgage servicing rights valued at $1,522,000. The following table summarizes the activity pertaining to mortgage servicing rights included in intangible assets as of September 30, 2018, September 30, 2017 and December 31, 2017 (in thousands):

	September 30, 2018	September 30, 2017	December 31, 2017
Beginning Balance	$ 844	$985	$ 985
Mortgage servicing rights acquired during period	1,522	—	—
Mortgage servicing rights capitalized	7	—	—
Mortgage servicing rights amortized	(242)	(105)	(141)
Ending Balance	$ 2,131	$880	$ 844

Total amortization expense for the three and nine months ended September 30, 2018 and 2017 was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Core deposit intangibles	669	466	$1,680	$1,409
Other intangibles	46	46	137	137
Mortgage servicing rights	123	33	242	105
	$838	$545	$2,059	$1,651

Aggregate amortization expense for the current year and estimated amortization expense for each of the five succeeding years is shown in the table below (in thousands):

Aggregate amortization expense:

For period 01/01/18-09/30/18	$2,059
Estimated amortization expense:	
For period 07/01/18-12/31/18	718
For year ended 12/31/19	2,903
For year ended 12/31/20	2,409
For year ended 12/31/21	1,943
For year ended 12/31/22	1,730
For year ended 12/31/23	1,547

33

In accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets,” codified within ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2018 and determined that, as of that date, goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets.

Note 6 -- Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase were $98.9 million at September 30, 2018, a decrease of $56.5 million from $155.4 million at December 31, 2017. The decrease during the first nine months of 2018 was primarily due to decreases in balances of customers due to changes in cash flow needs for their businesses. All of the transactions have overnight maturities with a weighted average rate of 0.24%.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value.

The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential of over-collateralization in the event of counterparty default.

Collateral pledged by class for repurchase agreements are as follows (in thousands):

	September 30, 2018	December 31, 2017
US Treasury securities and obligations of U.S. government corporations & agencies	$ 62,202	$ 100,895
Mortgage-backed securities: GSE: residential	36,673	54,493
Total	$ 98,875	$ 155,388

FHLB borrowings increased to $121 million at September 30, 2018 from $60 million at December 31, 2017. Approximately $31 million of this increase resulted from the acquisition of First Bank. At September 30, 2018 the advances were as follows:

- $5 million advance with a 6-month maturity, at 2.10%, due October 16, 2018
- $10 million advance with a 3-year maturity, at 1.42%, due November 5, 2018
- $5 million advance with a 1.5-year maturity, at 1.49%, due December 28, 2018
- $4 million advance with a 3-year maturity, at 1.72% due April 12, 2019
- $5 million advance with a 2-year maturity, at 1.56%, due June 28, 2019
- $10 million advance with a 11-month maturity at 2.81%, due August 30, 2019
- $5 million advance with a 15-month maturity, at 2.63%%, due September 27, 2019
- $2 million advance with a 5-year maturity, at 1.89%%, due October 17, 2019
- $10 million advance with a 14-month maturity at 2.88%, due November 29, 2019
- $5 million advance with a 1.5-year maturity, at 2.67%%, due December 27, 2019
- $5 million advance with a 2.5-year maturity, at 1.67%, due January 31, 2020

- $5 million advance with a 4-year maturity, at 1.79%, due April 13, 2020

- $10 million advance with a 1.5 year maturity at 2.95%, due May 29, 2020
- $5 million advance with a 2-year maturity, at 2.75%, due June 26, 2020
- $5 million advance with a 3-year maturity, at 1.75%, due July 31, 2020
- $5 million advance with a 6-year maturity, at 2.30%, due August 24, 2020
- $5 million advance with a 3.5-year maturity, at 1.83%, due February 1, 2021
- $5 million advance with a 5-year maturity, at 1.85%, due April 12, 2021
- $5 million advance with a 7-year maturity, at 2.55%, due October 1, 2021
- $5 million advance with a 5-year maturity, at 2.71%, due March 21, 2022
- $5 million advance with a 8-year maturity, at 2.40%, due January 9, 2023

Note 7 -- Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1	Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities. The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If
quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independent sources of market parameters, including but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include investments in trust preferred securities.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Treasury function of the Company. The Company contracts with a pricing specialist to generate fair value estimates on a monthly basis. The Treasury function of the Company challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States, analyzes the changes in fair value and compares these changes to internally developed expectations and monitors these changes for appropriateness.

35

The trust preferred securities are collateralized debt obligation securities that are backed by trust preferred securities issued by banks, thrifts, and insurance companies. The market for these securities at December 31, 2017 was not active and markets for similar securities were also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market was also inactive and continues to be, as a result of the Dodd-Frank Act's elimination of trust preferred securities from Tier 1 capital for certain holding companies. Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- The few observable transactions and market quotations that were available were not reliable for purposes of determining fair value at December 31, 2017,

- An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates, and

- The trust preferred securities held by the Company were classified within Level 3 of the fair value hierarchy because we determined that significant adjustments are required to determine fair value at the measurement date.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of September 30, 2018 and December 31, 2017 (in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$122,669	$—	$ 122,669	$ —
Obligations of states and political subdivisions	173,346	—	173,346	—
Mortgage-backed securities	300,669	—	300,669	—
Other securities	2,396	381	2,015	—
Total available-for-sale securities	$599,080	$381	$ 598,699	$ —
December 31, 2017				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$113,770	$—	$ 113,770	$ —
Obligations of states and political subdivisions	166,266	—	166,266	—
Mortgage-backed securities	293,811	—	293,811	—
Trust preferred securities	2,548	—	—	2,548
Other securities	2,184	172	2,012	—
Total available-for-sale securities	$578,579	$172	$ 575,859	$ 2,548

36

The change in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017 is summarized as follows (in thousands):

	Trust Preferred Securities			
	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Beginning balance	$—	$ 2,424	$2,548	$ 1,652
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total gains or losses:				
Included in net income	—	—	—	—
Included in other comprehensive income (loss)	—	318	18	1,166
Purchases, issuances, sales and settlements:				
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	—	(2,522)	—
Settlements	—	(41)	(44)	(117)
Ending balance	$—	$ 2,701	$—	$ 2,701
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$—	$ —	$—	$ —

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent). Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment and estimating fair value include using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Management establishes a specific allowance for impaired loans that have an estimated fair value that is below the carrying value. The total carrying amount of loans for which a change in specific allowance has occurred as of September 30, 2018 was $10,640,000 and a fair value of $9,356,000 resulting in specific loss exposures of $1,284,000.

When there is little prospect of collecting principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible. The recognition of a loss does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

Foreclosed Assets Held For Sale. Other real estate owned acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense. The total carrying amount of other real estate owned as of September 30, 2018 was $2,093,000. Other real estate owned included in the total carrying amount and measured at fair value on a nonrecurring basis during the period amounted to $0.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Impaired loans (collateral dependent)	$9,356	$ —	$ —	$ 9,356
December 31, 2017				
Impaired loans (collateral dependent)	$3,053	$ —	$ —	$ 3,053
Foreclosed assets held for sale	91	—	—	91

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Trust Preferred Securities. The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities was offered quotes and comparability adjustments. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at September 30, 2018 and December 31, 2017 (in thousands).

September 30, 2018	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral dependent)	$9,356	Third party valuations	Discount to reflect realizable value	0%-40%(20%)

December 31, 2017	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Trust Preferred Securities	$2,548	Discounted cash flow	Discount rate	12.7%
			Constant prepayment rate (1)	1.3%
			Cumulative projected prepayments	21.6%
			Probability of default	0.5%
			Projected cures given deferral	0.0%

			Loss severity	97.7%
Impaired loans (collateral dependent)	$3,053	Third party valuations	Discount to reflect realizable value	0%-40%(20%)
Foreclosed assets held for sale	$91	Third party valuations	Discount to reflect realizable value less estimated selling costs	0%-40%(35%)

(1) Every five years

38

Other. The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Federal Funds Sold, Interest Receivable and Federal Reserve and Federal Home Loan Bank Stock. The carrying amount approximates fair value.

Certificates of Deposit Investments. The fair value of certificates of deposit investments is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Held-to-Maturity Securities. Fair Value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale. Loans expected to be sold are classified as held for sale and are recorded at the lower of aggregate cost or market value.

Loans. For September 30, 2018, fair value of loans is estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. This is not comparable with the fair values disclosed for December 31, 2017, which were based on an entrance price basis. For that date, fair values of variable rate loans that reprice frequently and with no significant change in credit risk were based on carrying values. The fair values of other loans as of that date were estimated using discounted cash flow analyses which used interest rates then being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value.

Deposits. Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Securities Sold Under Agreements to Repurchase. The fair value of securities sold under agreements to repurchased is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased. The carrying amount approximates fair value.

Interest Payable. The carrying amount approximates fair value.

Junior Subordinated Debentures, Federal Home Loan Bank Borrowings and Other Borrowings. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

The following tables present estimated fair values of the Company’s financial instruments at September 30, 2018 and December 31, 2017 in accordance with ASC 825 (in thousands):

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2018					
Financial Assets					
Cash and due from banks	$63,823	$63,823	$63,823	$—	$—
Federal funds sold	662	662	662	—	—
Certificates of deposit investments	2,183	2,183	—	2,183	—
Available-for-sale securities	599,080	599,080	381	598,699	—
Held-to-maturity securities	69,409	67,395	—	67,395	—
Loans held for sale	940	940	—	940	—
Loans net of allowance for loan losses	2,375,381	2,325,734	—	—	2,325,734
Interest receivable	14,928	14,928	—	14,928	—
Federal Reserve Bank stock	7,390	7,390	—	7,390	—
Federal Home Loan Bank stock	3,880	3,880	—	3,880	—
Financial Liabilities					
Deposits	$2,651,397	$2,651,414	$—	$2,123,040	$528,374
Federal funds purchased	22,000	22,000	22,000	—	—
Securities sold under agreements to repurchase	98,875	98,868	—	98,868	—
Interest payable	1,400	1,400	—	1,400	—
Federal Home Loan Bank borrowings	120,736	120,264	—	120,264	—
Other borrowings	7,500	7,500	—	7,500	—
Junior subordinated debentures	28,958	23,780	—	23,780	—

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2017					
Financial Assets					
Cash and due from banks	$88,388	$88,388	$88,388	$—	$—
Federal funds sold	491	491	491	—	—
Certificates of deposit investments	1,685	1,692	—	1,692	—
Available-for-sale securities	578,579	578,579	172	575,859	2,548
Held-to-maturity securities	69,332	68,457	—	68,457	—
Loans held for sale	1,025	1,025	—	1,025	—
Loans net of allowance for loan losses	1,918,499	1,899,678	—	—	1,899,678
Interest receivable	10,832	10,832	—	10,832	—
Federal Reserve Bank stock	5,160	5,160	—	5,160	—
Federal Home Loan Bank stock	2,407	2,407	—	2,407	—
Financial Liabilities					
Deposits	$2,274,639	$2,272,868	$—	$1,930,604	$342,264
Securities sold under agreements to repurchase	155,388	155,394	—	155,394	—
Interest payable	602	602	—	602	—
Federal Home Loan Bank borrowings	60,038	59,968	—	59,968	—
Other borrowings	10,313	10,313	—	10,313	—
Junior subordinated debentures	24,000	18,050	—	18,050	—

Note 8 -- Business Combinations

First BancTrust Corporation

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 (“Hawks Merger Sub”), entered into an Agreement and Plan of Merger (as amended as of January 18, 2018, the “First Bank 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 Hawks Merger Sub, with Hawks Merger Sub as the surviving entity and a wholly-owned subsidiary of the Company (the “First Bank Merger”).

At the effective time of the First Bank 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 First Bank Merger (other than shares held in treasury by First Bank and shares held by stockholders who had 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 to be withheld and subject to certain adjustments, all as set forth in the First Bank Merger Agreement.

On May 1, 2018, the Company issued an aggregate total of 1,643,900 shares of common stock valued at $37.32 per share and approximately $10,275,000, including cash in lieu of fractional shares. First Bank’s wholly-owned bank subsidiary, First Bank & Trust, IL (“First Bank & Trust”), merged with and into First Mid Bank on August 10, 2018. At the time of the bank merger, First Bank & Trust’s banking offices became branches of First Mid Bank. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, “Business Combinations ("ASC 805"),” and accordingly the assets and liabilities were recorded at their estimated fair values as of the date of acquisition. Fair values are subject to refinement for up to one year after the closing date of May 1, 2018 as additional information regarding the closing date fair values become available. The total consideration paid was used to determine the amount of goodwill resulting from the transaction. As the total consideration paid exceeded the net assets acquired, goodwill of $26.5 million was recorded for the acquisition. Goodwill recorded in the transaction, which reflects the synergies and economies of scale expected from combining operations and the enhanced revenue opportunities from the Company’s service capabilities, is not tax deductible, and was all assigned to the banking segment of the Company.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the First Bank acquisition (in thousands).

	Acquired Book Value	Fair Value Adjustments	As Recorded by First Bank & Trust
Assets			
Cash & due from banks	$20,598		$20,598
Investment Securities	59,906	(320)	59,586
Loans	371,156	(7,875)	363,281
Allowance for loan losses	(4,412)	4,412	—
Other real estate owned	547	(12)	535
Premises and equipment	10,126	(689)	9,437
Goodwill	543	25,948	26,491
Core deposit intangible	—	5,224	5,224
Other assets	16,389	(256)	16,133
Total assets acquired	$474,853	$ 26,432	$501,285
Liabilities and Stockholders' Equity			
Deposits	$384,323	$ 1,301	$385,624
FHLB advances	31,000	(328)	30,672
Subordinated debentures	6,186	(1,451)	4,735
Other liabilities	8,665	(36)	8,629
Total liabilities assumed	430,174		