WILSON BANK HOLDING CO
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 0-20402

WILSON BANK HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Tennessee	62-1497076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
623 West Main Street, Lebanon, TN	37087
(Address of principal executive offices)	(Zip Code)

(615) 444-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a 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.
Large accelerated filer o Accelerated filer x

Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)	Emerging growth company o

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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. o

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
Common stock outstanding: 10,523,445 shares at May 9, 2018

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Part I. Financial Information
Item 1. Financial Statements
WILSON BANK HOLDING COMPANY
Consolidated Balance Sheets
March 31, 2018 and December 31, 2017

	(Unaudited) March 31, 2018	(Audited) December 31, 2017
	(Dollars in Thousands Except Share Amounts)	
Assets		
Loans	$1,827,729	$1,751,162
Less: Allowance for loan losses	(24,846)	(23,909)
Net loans	1,802,883	1,727,253
Securities:		
Held to maturity, at cost (market value $30,602 and $32,111, respectively)	31,490	32,480
Available-for-sale, at market (amortized cost $336,766 and $338,449, respectively)	324,580	332,716
Total securities	356,070	365,196
Loans held for sale	5,750	5,106
Interest bearing deposits	52,092	44,465
Restricted equity securities	3,012	3,012
Federal funds sold	15,000	—
Total earning assets	2,234,807	2,145,032
Cash and due from banks	40,342	51,053
Bank premises and equipment, net	57,229	54,215
Accrued interest receivable	6,303	6,266
Deferred income tax asset	9,185	7,424
Other real estate	1,620	1,635
Bank owned life insurance	29,689	29,475
Other assets	16,921	17,128
Goodwill	4,805	4,805
Total assets	$2,400,901	$2,317,033
Liabilities and Stockholders' Equity		
Deposits	$2,115,234	$2,037,745
Securities sold under repurchase agreements	—	864
Accrued interest and other liabilities	15,644	10,694
Total liabilities	2,130,878	2,049,303
Stockholders' equity:		
Common stock, $2.00 par value; authorized 50,000,000 shares, issued and outstanding 10,522,277 and 10,450,711 shares, respectively	21,045	20,901
Additional paid-in capital	69,140	66,047
Retained earnings	188,839	185,017
Net unrealized losses on available-for-sale securities, net of income taxes of $3,185 and $1,498, respectively	(9,001)	(4,235)
Total stockholders' equity	270,023	267,730
Total liabilities and stockholders' equity	$2,400,901	$2,317,033

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Earnings
Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(Dollars in Thousands Except Per Share Amounts)	
Interest income:		
Interest and fees on loans	$21,833	$ 19,945
Interest and dividends on securities:		
Taxable securities	1,666	1,283
Exempt from Federal income taxes	303	337
Interest on loans held for sale	39	66
Interest on Federal funds sold	154	71
Interest on balances held at depository institutions	67	25
Interest and dividends on restricted securities	32	31
Total interest income	24,094	21,758
Interest expense:		
Interest on negotiable order of withdrawal accounts	344	319
Interest on money market and savings accounts	707	446
Interest on time deposits	1,592	1,250
Interest on federal funds purchased	—	8
Interest on securities sold under repurchase agreements	16	1
Total interest expense	2,659	2,024
Net interest income before provision for loan losses	21,435	19,734
Provision for loan losses	1,023	389
Net interest income after provision for loan losses	20,412	19,345
Non-interest income:		
Service charges on deposit accounts	1,542	1,429
Other fees and commissions	3,003	2,641
Income on BOLI and annuity contracts	214	222
Gain on sale of loans	1,031	976
Gain (loss) on sale of other real estate	—	24
Gain (loss) on sale of securities	—	(38)
Total non-interest income	5,790	5,254
Non-interest expense:		
Salaries and employee benefits	9,823	8,847
Occupancy expenses, net	963	851
Advertising & public relations expense	482	399
Furniture and equipment expense	585	520
Data processing expense	710	646
ATM & interchange expense	684	580
Directors’ fees	149	162
Other operating expenses	2,653	2,232
Total non-interest expense	16,049	14,237

Earnings before income taxes	10,153	10,362
Income taxes	2,673	3,867
Net earnings	$7,480	$ 6,495
Weighted average number of common shares outstanding-basic	10,507,273	10,360,776
Weighted average number of common shares outstanding-diluted	10,513,076	10,365,717
Basic earnings per common share	$0.71	$ 0.63
Diluted earnings per common share	$0.71	$ 0.63
Dividends per share	$0.35	$ 0.30

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Comprehensive Earnings
Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Net earnings	$7,480	$6,495
Other comprehensive earnings (loss), net of tax:		
Unrealized gains (losses) on available-for-sale securities arising during period, net of taxes of $1,687 and $57, respectively	(4,766)	(89)
Reclassification adjustment for net losses (gains) included in net earnings, net of taxes of $0 and $15, respectively	—	23
Other comprehensive earnings (loss)	(4,766)	(66)
Comprehensive earnings	$2,714	$6,429

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Cash flows from operating activities:		
Interest received	$24,710	$23,059
Fees and commissions received	4,545	4,070
Proceeds from sale of loans held for sale	28,865	31,920
Origination of loans held for sale	(28,478)	(24,449)
Interest paid	(2,562)	(2,157)
Cash paid to suppliers and employees	(11,926)	(10,955)
Income taxes paid	(974)	(792)
Net cash provided by operating activities	14,180	20,696
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal payments of held-to-maturity securities	928	1,046
Proceeds from maturities, calls, and principal payments of available-for-sale securities	10,210	9,556
Proceeds from the sale of available-for-sale securities	—	12,446
Purchase of available-for-sale securities	(9,118)	(12,563)
Loans made to customers, net of repayments	(76,653)	(48,327)
Purchase of premises and equipment	(3,750)	(2,727)
Proceeds from sale of other real estate	15	2,053
Net cash used in investing activities	(78,368)	(38,516)
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	52,874	68,610
Net increase in time deposits	24,615	14,126
Net increase (decrease) in securities sold under repurchase agreements	(864)	773
Dividends paid	(3,658)	(3,096)
Proceeds from sale of common stock pursuant to dividend reinvestment	2,902	2,398
Proceeds from exercise of stock options	235	93
Net cash provided by financing activities	76,104	82,904
Net increase (decrease) in cash and cash equivalents	11,916	65,084
Cash and cash equivalents at beginning of period	95,518	47,918
Cash and cash equivalents at end of period	$107,434	$113,002

See accompanying notes to consolidated financial statements (unaudited)

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WILSON BANK HOLDING COMPANY
Consolidated Statements of Cash Flows, Continued
Three Months Ended March 31, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(In Thousands)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	7,480	6,495
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization, and accretion	1,389	1,421
Provision for loan losses	1,023	389
Gain on sale of other real estate	—	(24)
Loss on sale of securities	—	38
Stock-based compensation expense	100	79
Decrease (increase) in loans held for sale	(644)	6,495
Increase in deferred tax asset	(74)	(131)
Decrease (increase) in other assets, bank owned life insurance and annuity contract earnings, net	(7)	178
Decrease (increase) in interest receivable	(37)	592
Increase in other liabilities	3,080	2,091
Increase in taxes payable	1,773	3,206
Increase (decrease) in interest payable	97	(133)
Total adjustments	6,700	14,201
Net cash provided by operating activities	$14,180	$20,696
Supplemental schedule of non-cash activities:		
Unrealized gain (loss) in value of securities available-for-sale, net of taxes of $1,687 and $42 for the three months ended March 31, 2018 and 2017, respectively	$(4,766)	$(66)
Non-cash transfers from loans to other real estate	$—	$80
Non-cash transfers from other real estate to loans	$—	$16
Non-cash transfers from loans to other assets	$—	$2

See accompanying notes to consolidated financial statements (unaudited)

WILSON BANK HOLDING COMPANY
Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Summary of Significant Accounting Policies
Nature of Business — Wilson Bank Holding Company (the “Company”) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Wilson Bank & Trust (the “Bank”). The Bank is a commercial bank headquartered in Lebanon, Tennessee. The Bank provides a full range of banking services in its primary market areas of Wilson, Davidson, Rutherford, Trousdale, Sumner, Dekalb, Putnam and Smith Counties, Tennessee.

Basis of Presentation — The accompanying unaudited, consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated audited financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
These consolidated financial statements include the accounts of the Company and the Bank. Significant intercompany transactions and accounts are eliminated in consolidation.
Use of Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of deferred tax assets, determination of any impairment of intangibles, other-than-temporary impairment of securities, the valuation of other real estate, and the fair value of financial instruments. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to the Company’s significant accounting policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.
Loans — Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method.
Loans are charged off when management believes that the full collectability of the loan is unlikely. As such, a loan may be partially charged-off after a “confirming event” has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.
Loans are placed on nonaccrual status when there is a significant deterioration in the financial condition of the borrower, which often is determined when the principal or interest on the loan is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status, is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received while the loan is classified as nonaccrual, but interest income recognition is reviewed on a case-by-case basis. A nonaccrual loan is returned to accruing status once the loan has been brought current and collection is reasonably assured or the loan has been “well-secured” through other techniques. Past due status is determined based on the contractual due date per the underlying loan agreement.

All loans that are placed on nonaccrual are further analyzed to determine if they should be classified as impaired loans. At December 31, 2017 and March 31, 2018, there were no loans classified as nonaccrual that were not also deemed to be impaired except for those loans not individually evaluated for impairment as described below. A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan. This determination is made using a variety of techniques, which include a review of the borrower's financial condition, debt-service coverage ratios, global cash flow analysis, guarantor support, other loan file information, meetings with borrowers, inspection or reappraisal of collateral and/or consultation with legal counsel as well as results of

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reviews of other similar industry credits (e.g. builder loans, development loans, church loans, etc). Loans with an identified weakness and principal balance of $500,000 or more are subject to individual identification for impairment. Individually identified impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a specific valuation allowance is established as a component of the allowance for loan losses or, in the case of collateral dependent loans, the excess may be charged off. Changes to the valuation allowance are recorded as a component of the provision for loan losses. Any subsequent adjustments to present value calculations for impaired loan valuations as a result of the passage of time, such as changes in the anticipated payback period for repayment, are recorded as a component of the provision for loan losses. For loans less than $500,000, the Company assigns a valuation allowance to these loans utilizing an allocation rate equal to the allocation rate calculated for non-impaired loans of a similar type.

Allowance for Loan Losses — The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, loss experience of various loan segments, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent loan reviewers, and reviews that may have been conducted by third-party reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses, and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, "Leases (Topic 842)." The amendments in this ASU are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. As a result of the amendment, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustments, such as adjustments for initial direct costs. For income statement purposes, FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. We currently do not expect this ASU to have a material impact on our consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on held-to-maturity debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements. We are also evaluating the sufficiency of current systems and data needed to comply with this ASU. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

In January 2017, FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill

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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 recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for us on January 1, 2020, with early adoption permitted for interim or annual impairment tests beginning in 2017. ASU 2017-04 is not expected to have a significant impact on our financial statements.

In March 2017, FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 provides guidance on the amortization period for certain purchased callable debt securities held at a premium. This update shortens the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument related to certain cash flow issues. ASU 2017-08 will be effective for us on January 1, 2019. We are currently evaluating the potential impact of ASU 2017-08 on our financial statements.

In February 2018, FASB Issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act). The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The Company elected to adopt this update as of December 31, 2017 and as a result reclassified $697,000 from retained earnings to accumulated other comprehensive income.

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

Subsequent Events - Accounting Standards Codification (ASC) Topic 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Wilson Bank Holding Company evaluated all events or transactions that occurred after March 31, 2018 through the date of the issued financial statements.

Note 2. Loans and Allowance for Loan Losses

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the Federal Deposit Insurance Corporation ("FDIC").

The following schedule details the loans of the Company at March 31, 2018 and December 31, 2017:

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	(In Thousands)	
	March 31, 2018	December 31, 2017
Mortgage loans on real estate		
Residential 1-4 family	$412,919	$406,667
Multifamily	92,322	91,992
Commercial	691,320	661,223
Construction and land development	429,689	392,039
Farmland	30,065	34,212
Second mortgages	9,077	8,952
Equity lines of credit	65,404	60,650
Total mortgage loans on real estate	1,730,796	1,655,735
Commercial loans	50,797	47,939
Agricultural loans	1,833	1,665
Consumer installment loans		
Personal	38,554	39,624
Credit cards	3,463	3,385
Total consumer installment loans	42,017	43,009
Other loans	9,732	10,193
Total loans before net deferred loan fees	1,835,175	1,758,541
Net deferred loan fees	(7,446)	(7,379)
Total loans	1,827,729	1,751,162
Less: Allowance for loan losses	(24,846)	(23,909)
Net loans	$1,802,883	$1,727,253

Risk characteristics relevant to each portfolio segment are as follows:

Construction and land development: Loans for non-owner-occupied real estate construction or land development are generally repaid through cash flow related to the operation, sale or refinance of the property. The Company also finances construction loans for owner-occupied properties. A portion of the Company’s construction and land portfolio segment is comprised of loans secured by residential product types (residential land and single-family construction). With respect to construction loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, market sales activity, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayments substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

1-4 family residential real estate: Residential real estate loans represent loans to consumers or investors to finance a residence. These loans are typically financed on 15 to 30 year amortization terms, but generally with shorter maturities of 5 to 15 years. Many of these loans are extended to borrowers to finance their primary or secondary residence. Loans to an investor secured by a 1-4 family residence will be repaid from either the rental income from the property or from the sale of the property. This loan segment also includes closed-end home equity loans that are secured by a first or second mortgage on the borrower’s residence. This allows customers to borrow against the equity in their home. Loans in this portfolio segment are underwritten and approved based on a number of credit quality criteria including limits on maximum Loan-to-Value ("LTV"), minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment.

1-4 family HELOC: This loan segment includes open-end home equity loans that are secured by a first or second mortgage on the borrower’s residence. This allows customers to borrow against the equity in their home utilizing a revolving line of credit.

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These loans are underwritten and approved based on a number of credit quality criteria including limits on maximum LTV, minimum credit scores, and maximum debt to income. Real estate market values as of the time the loan is made directly affect the amount of credit extended and, in addition, changes in these residential property values impact the depth of potential losses in this portfolio segment. Because of the revolving nature of these loans, as well as the fact that many represent second mortgages, this portfolio segment can contain more risk than the amortizing 1-4 family residential real estate loans.

Multi-family and commercial real estate: Multi-family and commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate.

Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting the market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Non-owner occupied commercial real estate loans are loans secured by multifamily and commercial properties where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. These loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail properties. Owner-occupied commercial real estate loans are loans where the primary source of repayment is the cash flow from the ongoing operations and business activities conducted by the party, or affiliate of the party, who owns the property.

Commercial and Industrial: The commercial and industrial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer: The consumer loan portfolio segment includes non-real estate secured direct loans to consumers for household, family, and other personal expenditures. Consumer loans may be secured or unsecured and are usually structured with short or medium term maturities. These loans are underwritten and approved based on a number of consumer credit quality criteria including limits on maximum LTV on secured consumer loans, minimum credit scores, and maximum debt to income. Many traditional forms of consumer installment credit have standard monthly payments and fixed repayment schedules of one to five years. These loans are made with either fixed or variable interest rates that are based on specific indices. Installment loans fill a variety of needs, such as financing the purchase of an automobile, a boat, a recreational vehicle or other large personal items, or for consolidating debt. These loan may be unsecured or secured by an assignment of title, as in an automobile loan, or by money in a bank account. In addition to consumer installment loans, this portfolio segment also includes secured and unsecured personal lines of credit as well as overdraft protection lines. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, current and anticipated economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

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Transactions in the allowance for loan losses for the three months ended March 31, 2018 and year ended December 31, 2017 are summarized as follows:

(In Thousands)	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
March 31, 2018										
Allowance for loan losses:										
Beginning balance	$5,156	1,011	9,267	6,094	487	94	723	401	676	23,909
Provision	555	5	111	200	(59)	2	45	25	139	1,023
Charge-offs	—	—	—	(2)	—	—	—	—	(235)	(237)
Recoveries	6	—	—	22	—	—	—	2	121	151
Ending balance	$5,717	1,016	9,378	6,314	428	96	768	428	701	24,846
Ending balance individually evaluated for impairment	$946	—	328	—	—	—	—	—	—	1,274
Ending balance collectively evaluated for impairment	$4,771	1,016	9,050	6,314	428	96	768	428	701	23,572
Loans:										
Ending balance	$412,919	92,322	691,320	429,689	30,065	9,077	65,404	50,797	53,582	1,835,175
Ending balance individually evaluated for impairment	$4,136	—	2,487	903	310	—	—	—	—	7,836
Ending balance collectively evaluated for impairment	$408,783	92,322	688,833	428,786	29,755	9,077	65,404	50,797	53,582	1,827,339

	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, Installment and Other	Total
December 31, 2017										
Allowance for loan losses:										
Beginning balance	$4,571	839	9,541	5,387	658	112	675	386	562	22,731
Provision	675	172	(414)	586	(168)	(10)	45	9	786	1,681
Charge-offs	(118)	—	—	—	(3)	(11)	—	—	(1,090)	(1,222)
Recoveries	28	—	140	121	—	3	3	6	418	719
Ending balance	$5,156	1,011	9,267	6,094	487	94	723	401	676	23,909

Ending balance individually evaluated for impairment	$136	—	291	—	—	—	—	—	—	427
Ending balance collectively evaluated for impairment	$5,020	1,011	8,976	6,094	487	94	723	401	676	23,482
Loans:										
Ending balance	$406,667	91,992	661,223	392,039	34,212	8,952	60,650	47,939	54,867	1,758,541
Ending balance individually evaluated for impairment	$2,678	—	3,046	1,182	—	—	—	—	—	6,906
Ending balance collectively evaluated for impairment	$403,989	91,992	658,177	390,857	34,212	8,952	60,650	47,939	54,867	1,751,635

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Impaired Loans

At March 31, 2018, the Company had certain impaired loans of $2.1 million which were on non-accruing interest status. At December 31, 2017, the Company had certain impaired loans of $1.7 million which were on non-accruing interest status. In each case, at the date such loans were placed on nonaccrual status, the Company reversed all previously accrued interest income against current year earnings. The following table presents the Company’s impaired loans at March 31, 2018 and December 31, 2017.

	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2018					
With no related allowance recorded:					
Residential 1-4 family	$2,284	2,321	—	2,299	35
Multifamily	—	—	—	—	—
Commercial real estate	324	323	—	609	4
Construction	906	903	—	1,046	13
Farmland	310	310	—	155	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$3,824	3,857	—	4,109	52
With allowance recorded:					
Residential 1-4 family	$1,870	2,041	946	1,140	14
Multifamily	—	—	—	—	—
Commercial real estate	2,165	2,164	328	2,161	4
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$4,035	4,205	1,274	3,301	18
Total					
Residential 1-4 family	$4,154	4,362	946	3,439	49
Multifamily	—	—	—	—	—
Commercial real estate	2,489	2,487	328	2,770	8
Construction	906	903	—	1,046	13
Farmland	310	310	—	155	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$7,859	8,062	1,274	7,410	70

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	In Thousands				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2017					
With no related allowance recorded:					
Residential 1-4 family	$2,314	2,322	—	742	103
Multifamily	—	—	—	—	—
Commercial real estate	893	889	—	902	39
Construction	1,185	1,182	—	1,354	64
Farmland	—	—	—	26	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$4,392	4,393	—	3,024	206
With allowance recorded:					
Residential 1-4 family	$409	581	136	461	29
Multifamily	—	—	—	—	—
Commercial real estate	2,157	2,157	291	2,894	17
Construction	—	—	—	—	—
Farmland	—	—	—	—	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$2,566	2,738	427	3,355	46
Total:					
Residential 1-4 family	$2,723	2,903	136	1,203	132
Multifamily	—	—	—	—	—
Commercial real estate	3,050	3,046	291	3,796	56
Construction	1,185	1,182	—	1,354	64
Farmland	—	—	—	26	—
Second mortgages	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Commercial	—	—	—	—	—
Agricultural, installment and other	—	—	—	—	—
	$6,958	7,131	427	6,379	252

Impaired loans also include loans that the Bank may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Bank may otherwise incur. These loans are classified as impaired loans and, if on non-accruing status as of the date of restructuring, the loans are included in the nonperforming loan balances. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

Troubled Debt Restructuring

The Bank’s loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic or other concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank’s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower’s sustained repayment performance for a reasonable period, generally six months.

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The following table summarizes the carrying balances of TDRs at March 31, 2018 and December 31, 2017.

	March 31, 2018	December 31, 2017
	(In thousands)	
Performing TDRs	$ 1,710	$ 2,250
Nonperforming TDRs	1,261	1,834
Total TDRS	$ 2,971	$ 4,084

The following table outlines the amount of each troubled debt restructuring categorized by loan classification for the three months ended March 31, 2018 and the year ended December 31, 2017 (in thousands, except for number of contracts):

	March 31, 2018			December 31, 2017		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Residential 1-4 family	—	$ —	$ —	6	$ 610	$ 535
Multifamily	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Farmland	1	310	310	1	86	86
Second mortgages	—	—	—	—	—	—
Equity lines of credit	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Agricultural, installment and other	—	—	—	1	3	3
Total	1	$ 310	$ 310	8	$ 699	$ 624

As of March 31, 2018 the Company had two loan relationships totaling $413,000 that had been previously classified as a TDR subsequently default within twelve months of restructuring. As of December 31, 2017, the Company had one loan relationship totaling $103,000 that had been previously classified as a TDR subsequently default within twelve months of restructuring. A default is defined as an occurrence which violates the terms of the receivable's contract.

As of March 31, 2018 and December 31, 2017, the Company's recorded investment in consumer mortgage loans in the process of foreclosure amounted to $341,000 and $201,000, respectively.

Potential problem loans, which include nonperforming loans, amounted to approximately $16.7 million at March 31, 2018 and $16.2 million at December 31, 2017. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the FDIC, the Bank's primary federal regulator, for loans classified as special mention, substandard, or doubtful.

The following summary presents the Bank's loan balances by primary loan classification and the amount classified within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard and doubtful which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.
- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize

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liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Bank considers all doubtful loans to be impaired and places such loans on nonaccrual status.

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The following table is a summary of the Bank's loan portfolio by risk rating at March 31, 2018 and December 31, 2017:

(In Thousands)	Residential 1-4 Family	Multifamily	Commercial Real Estate	Construction	Farmland	Second Mortgages	Equity Lines of Credit	Commercial	Agricultural, installment and other	Total
March 31, 2018 Credit Risk Profile by Internally Assigned Rating										
Pass	$400,952	92,322	688,446	429,208	29,379	8,688	65,257	50,797	53,419	1,818,468
Special Mention	5,273	—	640	80	122	248	—	—	78	6,441
Substandard	6,694	—	2,234	401	564	141	147	—	85	10,266
Doubtful	—	—	—	—	—	—	—	—	—	—
Total	$412,919	92,322	691,320	429,689	30,065	9,077	65,404	50,797	53,582	1,835,175
December 31, 2017 Credit Risk Profile by Internally Assigned Rating										
Pass	$395,664	91,992	657,456	391,778	33,500	8,765	60,553	47,937	54,697	1,742,342
Special Mention	5,677	—	646	84	125	43	41	2	77	6,695
Substandard	5,326	—	3,121	177	587	144	56	—	93	9,504
Doubtful	—	—	—	—	—	—	—	—	—	—
Total	$406,667	91,992	661,223	392,039	34,212	8,952	60,650	47,939	54,867	1,758,541

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Note 3. Debt and Equity Securities

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. Debt and equity securities at March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018 Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$74,692	$ —	$ 3,576	$71,116
Mortgage-backed:				
GSE residential	196,569	341	5,985	190,925
Asset-backed:				
SBAP	25,261	10	1,149	24,122
Obligations of states and political subdivisions	40,244	—	1,827	38,417
	$336,766	$ 351	$ 12,537	$324,580

	March 31, 2018 Securities Held-to-Maturity In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$9,532	$ 12	$ 374	$ 9,170
Obligations of states and political subdivisions	21,958	42	568	21,432
	$31,490	$ 54	$ 942	$ 30,602

	December 31, 2017 Securities Available-For-Sale In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government-sponsored enterprises (GSEs)*	$74,690	$ 4	$ 1,714	$72,980
Mortgage-backed:				
GSE residential	200,175	302	2,551	197,926
Asset-backed:				
SBAP	26,387	—	789	25,598
Obligations of states and political subdivisions	37,197	7	992	36,212
	$338,449	$ 313	$ 6,046	$332,716

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	December 31, 2017 Securities Held-To-Maturity In Thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed:				
Government-sponsored enterprises (GSEs)* residential	$9,886	$ 31	$ 156	$ 9,761
Obligations of states and political subdivisions	22,594	66	310	22,350
	$32,480	$ 97	$ 466	$ 32,111

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

The amortized cost and estimated market value of debt securities at March 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity In Thousands		Available-For-Sale	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$3,698	$ 3,696	$—	$—
Due after one year through five years	6,496	6,501	23,881	23,219
Due after five years through ten years	10,255	9,855	130,640	124,982
Due after ten years	11,041	10,550	182,245	176,379
	$31,490	$ 30,602	$336,766	$324,580

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2018 and December 31, 2017.

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March 31, 2018	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
Held-to-Maturity Securities:								
Mortgage-backed:								
Government-sponsored enterprises (GSEs) residential	$4,179	$ 126	6	$4,769	$ 248	5	$8,948	$ 374
Obligations of states and political subdivisions	9,277	61	26	7,028	507	18	16,305	568
	$13,456	$ 187	32	$11,797	$ 755	23	$25,253	$ 942
Available-for-Sale Securities:								
GSEs	$16,821	$ 619	9	$54,295	$ 2,957	21	$71,116	$ 3,576
Mortgage-backed:								
GSE residential	92,250	2,648	43	76,041	3,337	55	168,291	5,985
Asset-backed: SBAP	7,246	276	6	15,773	873	8	23,019	1,149
Obligations of states and political subdivisions	17,279	380	28	21,138	1,447	56	38,417	1,827
	$133,596	$ 3,923	86	$167,247	$ 8,614	140	$300,843	$ 12,537

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	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
December 31, 2017	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
Held-to-Maturity Securities:								
Mortgage-backed:								
Government-sponsored enterprises (GSEs) residential	$3,316	$ 21	4	$5,206	$ 135	5	$8,522	$ 156
Obligations of states and political subdivisions	10,137	46	27	7,278	264	18	17,415	310
	$13,453	$ 67	31	$12,484	$ 399	23	$25,937	$ 466
Available-for-Sale Securities:								
GSEs	$16,099	$ 190	8	$55,726	$ 1,524	21	$71,825	$ 1,714
Mortgage-backed:								
GSE residential	92,180	769	43	81,434	1,782	54	173,614	2,551
Asset-backed: SBAP	9,087	181	7	16,510	608	8	25,597	789
Obligations of states and political subdivisions	12,128	113	22	21,762	879	56	33,890	992
	$129,494	$ 1,253	80	$175,432	$ 4,793	139	$304,926	$ 6,046

Unrealized losses on securities have not been recognized into income because the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2018, as the issuers' securities are of high credit quality, management does not intend to sell the securities and it is not more likely than not that management will be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payment on the securities. The fair value is expected to recover as the securities approach maturity.

The carrying values of the Company's investment securities could decline in the future if the financial condition of issuers deteriorates and management determines it is probable that the Company will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future given the current economic environment.

Note 4. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period, adjusted for stock splits. The computation of diluted earnings per share for the Company begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options.

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The following is a summary of components comprising basic and diluted earnings per share ("EPS") for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(Dollars in Thousands Except Share and Per Share Amounts)	
Basic EPS Computation:		
Numerator – Earnings available to common stockholders	$7,480	$ 6,495
Denominator – Weighted average number of common shares outstanding	10,507,273	10,360,776
Basic earnings per common share	$0.71	$ 0.63
Diluted EPS Computation:		
Numerator – Earnings available to common stockholders	$7,480	$ 6,495
Denominator – Weighted average number of common shares outstanding	10,507,273	10,360,776
Dilutive effect of stock options	5,803	4,941
Weighted average diluted common shares outstanding	10,513,076	10,365,717
Diluted earnings per common share	$0.71	$ 0.63

Note 5. Income Taxes

Accounting Standards Codification ("ASC") 740, Income Taxes, defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. This section also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. As of March 31, 2018, the Company had no unrecognized tax benefits related to Federal or state income tax matters and does not anticipate any material increase or decrease in unrecognized tax benefits relative to any tax positions taken prior to March 31, 2018.

As of March 31, 2018, the Company has not accrued or recognized interest or penalties related to uncertain tax positions. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and the Bank file consolidated U.S. Federal and State of Tennessee income tax returns. The Company is currently open to audit under the statute of limitations by the State of Tennessee for the years ended December 31, 2014 through 2017 and the IRS for the years ended December 31, 2015 through 2017.

In December 2017, the Tax Cuts and Jobs Act was signed into law. As a result, the statutory corporate tax rate was lowered from 35% to 21%, effective January 1, 2018.

Note 6. Commitments and Contingent Liabilities

In the normal course of business, the Bank has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Standby letters of credit are generally issued on behalf of an applicant (the Bank's customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby

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letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated sooner due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from the Bank under certain prescribed circumstances. Subsequently, the Bank would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

The Bank follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer's creditworthiness is evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and would only be reflected if drawn upon. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, the Company's maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

A summary of the Company's total contractual amount for all off-balance sheet commitments at March 31, 2018 is as follows:

Commitments to extend credit	$602,140,000
Standby letters of credit	$70,530,000

The Company originates residential mortgage loans, sells them to third-party purchasers, and does not retain the servicing rights. These loans are originated internally and are primarily to borrowers in the Company's geographic market footprint. These sales are on a best efforts basis to investors that follow conventional government sponsored entities ("GSE") and the Department of Housing and Urban Development/U.S. Department of Veterans Affairs ("HUD/VA") guidelines. Generally, loans held for sale are underwritten by the Company, including HUD/VA loans.

Each purchaser has specific guidelines and criteria for sellers of loans, and the risk of credit loss with regard to the principal amount of the loans sold is generally transferred to the purchasers upon sale. While the loans are sold without recourse, the purchase agreements require the Company to make certain representations and warranties regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. If it is determined that the loans sold were in breach of these representations or warranties or the loan had an early payoff or payment default, the Company has obligations to either repurchase the loan for the unpaid principal balance and related investor fees or make the purchaser whole for the economic benefits of the loan.

To date, repurchase activity pursuant to the terms of these representations and warranties has been insignificant and has resulted in insignificant losses to the Company.

Based on information currently available, management believes that it does not have significant exposure to contingent losses that may arise relating to the representations and warranties that it has made in connection with its mortgage loan sales.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at March 31, 2018 will not have a material impact on the Company's financial statements.

Note 7. Fair Value Measurements

FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price (i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date). The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

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Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available-for-sale — Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans — A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the valuation hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Other real estate owned — Other real estate owned ("OREO") represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts relate to construction and land development, other loans secured by land, and commercial real estate loans for which the Company believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

Mortgage loans held-for-sale — Mortgage loans held-for-sale are carried at the fair value. The fair value of mortgage loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Other assets — Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies. The Company uses financial information received from insurance carriers indicating the performance of the insurance policies and cash surrender values in determining the carrying value. The Company reflects these assets within Level 3 of the valuation hierarchy due to the unobservable inputs included in the valuation of these items. The Company does not consider the fair values of these policies and contracts to be materially sensitive to changes in these unobservable inputs.

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The following tables present the financial instruments carried at fair value as of March 31, 2018 and December 31, 2017, by caption on the consolidated balance sheet and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	Assets and Liabilities Measured at Fair Value on a Recurring Basis (In Thousands)			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
March 31, 2018				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 71,116	—	71,116	—
Mortgage-backed securities	190,925	—	190,925	—
Asset-backed securities	24,122	—	24,122	—
State and municipal securities	38,417	803	37,614	—
Total investment securities available-for-sale	324,580	803	323,777	—
Loans held for sale	5,750	—	5,750	—
Other assets	29,689	—	—	29,689
Total assets at fair value	$ 360,019	803	329,527	29,689
December 31, 2017				
Investment securities available-for-sale:				
U.S. Government sponsored enterprises	$ 72,980	—	72,980	—
Mortgage-backed securities	197,926	—	197,926	—
Asset-backed securities	25,598	—	25,598	—
State and municipal securities	36,212	—	36,212	—
Total investment securities available-for-sale	332,716	—	332,716	—
Loans held for sale	5,106	—	5,106	—
Other assets	29,475	—	—	29,475
Total assets at fair value	$ 367,297	—	337,822	29,475

	Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis (In Thousands)			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
March 31, 2018				
Other real estate owned	$ 1,620	—	—	1,620
Impaired loans, net (1)	6,585	—	—	6,585
Total	$ 8,205	—	—	8,205
December 31, 2017				
Other real estate owned	$ 1,635	—	—	1,635
Impaired loans, net (1)	6,531	—	—	6,531
Total	$ 8,166	—	—	8,166

(1) Amount is net of a valuation allowance of $1,274,000 at March 31, 2018 and $427,000 at December 31, 2017 as required by ASC 310, “Receivables.”

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which we have utilized Level 3 inputs to determine fair value at March 31, 2018 and December 31, 2017:

	Valuation Techniques (1)	Significant Unobservable Inputs	Range (Weighted Average)
Impaired loans	Appraisal	Estimated costs to sell	10%
Other real estate owned	Appraisal	Estimated costs to sell	10%

(1) The fair value is generally determined through independent appraisals of the underlying collateral, which may include Level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

In the case of the bond portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the three months ended March 31, 2018, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the three months ended March 31, 2018 and 2017 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the Three Months Ended March 31,			
	2018		2017	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Fair value, January 1	$29,475	—	$28,616	—
Total realized gains included in income	214	—	222	—
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at March 31	—	—	—	—
Purchases, issuances and settlements, net	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fair value, March 31	$29,689	—	$28,838	—
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at March 31	$214	—	$222	—

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices or observable components are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2018 and December 31, 2017. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Held-to-maturity securities — Estimated fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics.

Loans — The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the

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following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

Deposits and Securities sold under agreements to repurchase — Fair values for deposits and securities sold under agreements to repurchase are estimated using discounted cash flow models, using current market interest rates offered on deposits with similar remaining maturities.

Off-Balance Sheet Instruments — The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

The following table presents the carrying amounts, estimated fair value and placement in the fair valuation hierarchy of the Company's financial instruments at March 31, 2018 and December 31, 2017. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

(in Thousands)	Carrying/ Notional Amount	Estimated Fair Value [1]	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
March 31, 2018					
Financial assets:					
Securities held-to-maturity	$ 31,490	30,602	—	30,602	—
Loans, net	1,802,883	1,793,105	—	—	1,793,105
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	2,115,234	1,847,706	—	—	1,847,706
Off-balance sheet instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2017					
Financial assets:					
Securities held-to-maturity	$ 32,480	32,111	—	32,111	—
Loans, net	1,727,253	1,724,937	—	—	1,724,937
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	2,038,609	1,812,011	—	—	1,812,011
Off-balance sheet instruments:					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.

Note 8. Equity Incentive Plans

In April 1999, the stockholders of the Company approved the Wilson Bank Holding Company 1999 Stock Option Plan (the “1999 Stock Option Plan”). The Stock Option Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 200,000 shares of common stock, to officers and other key employees of the Company and its subsidiary. Furthermore, the Company and its subsidiary could reserve additional shares for issuance under the 1999 Stock Option Plan as needed in order that the aggregate number of shares that may be issued during the term of the 1999 Stock Option Plan is equal to five percent (5%) of the shares of common stock then issued and outstanding. The 1999 Stock Option Plan terminated on April 13, 2009, and no additional rewards may be issued under the 1999 Stock Option Plan. The awards granted under the 1999 Stock Option Plan prior to the plan's termination will remain outstanding until exercised or otherwise terminated.

In April 2009, the Company’s shareholders approved the Wilson Bank Holding Company 2009 Stock Option Plan (the “2009 Stock Option Plan”). The 2009 Stock Option Plan was effective as of April 14, 2009 and replaced the 1999 Stock Option Plan. Under the 2009 Stock Option Plan, awards may be in the form of options to acquire common stock of the Company. Subject to adjustment as provided by the terms of the 2009 Stock Option Plan, the maximum number of shares of common stock with respect to which awards may be granted under the 2009 Stock Option Plan is 100,000 shares. As of March 31, 2018, the Company has available to grant 51,222 options to employees pursuant to the 2009 Stock Option Plan.

Under the 2009 Stock Option Plan, stock option awards may be granted in the form of incentive stock options or nonstatutory stock options and are generally exercisable for up to ten years following the date such option awards are granted. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date.

During the second quarter of 2016, the Company’s shareholders approved the Wilson Bank Holding Company 2016 Equity Incentive Plan, which authorizes awards of up to 750,000 shares of common stock. The 2016 Equity Incentive Plan was approved by the Board of Directors and effective as of January 25, 2016 and approved by the Company’s shareholders on April 12, 2016. On September 26, 2016, the Board of Directors approved an amendment and restatement of the 2016 Equity Incentive Plan (as amended and restated the “2016 Equity Incentive Plan”) to make clear that directors who are not also employees of the Company may be awarded stock appreciation rights. The primary purpose of the 2016 Equity Incentive Plan is to promote the interest of the Company and its shareholders by, among other things, (i) attracting and retaining key officers, employees and directors of, and consultants to, the Company and its subsidiaries and affiliates, (ii) motivating those individuals by means of performance-related incentives to achieve long-range performance goals, (iii) enabling such individuals to participate in the long-term growth and financial success of the Company, (iv) encouraging ownership of stock in the Company by such individuals, and (v) linking their compensation to the long-term interests of the Company and its shareholders. Except for certain limitations, awards can be in the form of stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted shares and restricted share units, performance awards and other stock-based awards. As of March 31, 2018, the Company has 500,170 shares remaining available for issuance under the 2016 Equity Incentive Plan.

As of March 31, 2018, the Company had outstanding 152,981 stock options with a weighted average price of $38.62 and 126,565 cash-settled stock appreciation rights each with a weighted average price of $40.53.

The following tables summarize information about stock options and cash-settled SARs for the three months ended March 31, 2018 and 2017:

March 31, 2018		March 31, 2017	
Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price