FARMERS CAPITAL BANK CORP
Form 10-Q
August 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 OR 15(d) of

The Securities Exchange Act of 1934

For the quarterly period ended June 30, 2018

Farmers Capital Bank Corporation
(Exact name of registrant as specified in its charter)

Kentucky	000-14412	61-1017851
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

P.O. Box 309

202 West Main St.	40601
Frankfort, KY (Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code – (502) 227-1668

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	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 Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, par value $0.125 per share

7,521,430 shares outstanding at August 1, 2018

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents:		
Cash and due from banks	$23,922	$25,581
Interest bearing deposits in other banks	31,303	58,154
Money market mutual funds	38,021	36,673
Total cash and cash equivalents	93,246	120,408
Investment securities:		
Available for sale, amortized cost of $391,093 (2018) and $427,831 (2017)	379,979	423,318
Equity investments, amortized cost of $1,581 (2018) and $864 (2017)	1,573	935
Held to maturity, fair value of $2,868 (2018) and $3,478 (2017)	2,837	3,364
Total investment securities	384,389	427,617
Loans, net of unearned income	1,064,215	1,035,263
Allowance for loan losses	(10,001)	(9,783)
Loans, net	1,054,214	1,025,480
Premises and equipment, net	31,434	30,928
Company-owned life insurance	30,944	30,817
Other real estate owned	4,031	5,489
Other assets	33,704	33,133
Total assets	$1,631,962	$1,673,872
Liabilities		
Deposits:		
Noninterest bearing	$357,657	$361,855
Interest bearing	977,130	1,018,048
Total deposits	1,334,787	1,379,903
Securities sold under agreements to repurchase	33,532	34,252
Federal Home Loan Bank advances	3,392	3,479
Subordinated notes payable to unconsolidated trusts	33,506	33,506
Dividends payable, common stock	940	939
Other liabilities	27,913	28,440
Total liabilities	1,434,070	1,480,519
Shareholders' Equity		
Common stock, par value $.125 per share; 14,608,000 shares authorized; 7,521,101 and 7,517,446 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	940	940
Capital surplus	52,348	52,201
Retained earnings	153,442	143,778
Accumulated other comprehensive loss	(8,838)	(3,566)
Total shareholders' equity	197,892	193,353

Total liabilities and shareholders’ equity	$1,631,962	$1,673,872

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share data)	2018	2017	2018	2017
Interest Income				
Interest and fees on loans	$13,038	$12,106	$25,507	$23,828
Interest on investment securities:				
Taxable	2,023	1,984	4,048	3,884
Nontaxable	449	579	924	1,170
Interest on deposits in other banks	280	128	549	270
Interest on federal funds sold and money market mutual funds	142	33	248	57
Total interest income	15,932	14,830	31,276	29,209
Interest Expense				
Interest on deposits	614	523	1,200	1,056
Interest on securities sold under agreements to repurchase	20	16	39	41
Interest on Federal Home Loan Bank advances	27	129	55	289
Interest on subordinated notes payable to unconsolidated trusts	305	213	559	411
Total interest expense	966	881	1,853	1,797
Net interest income	14,966	13,949	29,423	27,412
Provision for loan losses	127	(499)	(134)	81
Net interest income after provision for loan losses	14,839	14,448	29,557	27,331
Noninterest Income				
Service charges and fees on deposits	1,897	2,012	3,809	3,970
Allotment processing fees	677	651	1,397	1,366
Other service charges, commissions, and fees	1,490	1,328	2,862	2,700
Trust income	695	626	1,484	1,330
Net loss on sales of available for sale investment securities	-	(1)	-	(10)
Net realized gain on sales of equity investment securities	808	-	808	-
Gains on sale of mortgage loans, net	104	189	199	343
Income from company-owned life insurance	213	221	506	456
Other	89	76	109	198
Total noninterest income	5,973	5,102	11,174	10,353
Noninterest Expense				
Salaries and employee benefits	7,410	7,475	14,900	15,335
Occupancy expenses, net	1,177	1,135	2,431	2,349
Equipment expenses	678	599	1,279	1,152
Data processing and communication expenses	1,055	1,093	2,138	2,386
Bank franchise tax	525	609	1,025	1,166
Deposit insurance expense	116	130	242	267
Other real estate expenses, net	522	326	639	400
Other	2,179	1,979	4,126	3,820
Total noninterest expense	13,662	13,346	26,780	26,875
Income before income taxes	7,150	6,204	13,951	10,809
Income tax expense	1,303	1,722	2,463	2,998
Net income	$5,847	$4,482	$11,488	$7,811

Per Common Share				
Net income – basic and diluted	$.78	$.60	$1.53	$1.04
Cash dividends declared	.125	.10	.25	.20
Weighted Average Common Shares Outstanding				
Basic and diluted	7,520	7,512	7,519	7,511

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
Net Income	$5,847	$4,482	$11,488	$7,811
Other comprehensive (loss) income:				
Unrealized holding (loss) gain on available for sale securities arising during the period, net of tax of $(294), $716, $(1,387) and $1,226, respectively	(1,112)	1,329	(5,214)	2,277
Reclassification adjustment for net realized loss included in net income, net of tax of $-, $-, $- and $(3), respectively	-	1	-	7
Change in unfunded portion of postretirement benefit obligation, net of tax of $-, $5, $- and $36, respectively	(1)	9	(2)	68
Other comprehensive (loss) income	(1,113)	1,339	(5,216)	2,352
Comprehensive income	$4,734	$5,821	$6,272	$10,163

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except per share data) Six months ended June 30, 2018 and 2017	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance at January 1, 2018	7,517	$ 940	$52,201	$143,778	$ (3,566)	$ 193,353
Net income	-	-	-	11,488	-	11,488
Other comprehensive loss	-	-	-	-	(5,216)	(5,216)
Adoption of Accounting Standards Update 2016-01	-	-	-	56	(56)	-
Cash dividends declared – common, $.25 per share	-	-	-	(1,880)	-	(1,880)
Shares issued under director compensation plan	1	-	36	-	-	36
Shares issued pursuant to employee stock purchase plan	3	-	95	-	-	95
Expense related to employee stock purchase plan	-	-	16	-	-	16
Balance at June 30, 2018	7,521	$ 940	$52,348	$153,442	$ (8,838)	$ 197,892
Balance at January 1, 2017	7,509	$ 939	$51,885	$134,650	$ (3,408)	$ 184,066
Net income	-	-	-	7,811	-	7,811
Other comprehensive income	-	-	-	-	2,352	2,352
Cash dividends declared – common, $.20 per share	-	-	-	(1,502)	-	(1,502)
Shares issued under director compensation plan	1	-	46	-	-	46
Shares issued pursuant to employee stock purchase plan	3	-	87	-	-	87
Expense related to employee stock purchase plan	-	-	16	-	-	16
Balance at June 30, 2017	7,513	$ 939	$52,034	$140,959	$ (1,056)	$ 192,876

See accompanying notes to unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Cash Flows

Six months ended June 30, (In thousands)	2018	2017
Cash Flows from Operating Activities		
Net income	$11,488	$7,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,654	1,740
Net premium amortization of investment securities:		
Available for sale	1,199	1,694
Held to maturity	27	27
Provision for loan losses	(134)	81
Deferred income tax (benefit) expense	(16)	18
Noncash employee stock purchase plan expense	16	16
Noncash director fee compensation	36	46
Mortgage loans originated for sale	(5,475)	(12,088)
Proceeds from sale of mortgage loans	5,604	13,793
Gain on sale of mortgage loans, net	(199)	(343)
(Gain) loss on disposal of premises and equipment, net	(19)	50
Net loss on sale and write downs of other real estate	571	278
Net loss on sales of available for sale investment securities	-	10
Net realized gain on sales of equity investment securities	(808)	-
Unrealized loss on equity investment securities	79	-
Curtailment gain on postretirement benefits plan liability	-	(351)
Increase in cash surrender value of company-owned life insurance	(426)	(437)
Death benefits in excess of cash surrender value on company-owned life insurance	(67)	-
Decrease in accrued interest receivable	138	312
Decrease in other assets	1,360	1,816
Increase (decrease) in accrued interest payable	135	(42)
Decrease in other liabilities	(664)	(1,049)
Net cash provided by operating activities	14,499	13,382
Cash Flows from Investing Activities		
Proceeds from maturities and calls investment securities:		
Available for sale	37,833	60,210
Held to maturity	500	-
Purchase of available for sale investment securities	(2,621)	(41,274)
Purchase of equity investment securities	(717)	(12)
Proceeds from cancelation of cost method investment securities	239	666
Purchase of cost method investment securities	-	(4,236)
Loans originated for investment greater than principal collected, net	(29,921)	(16,711)
Purchase of loans held for investment	(1,206)	(1,804)
Principal collected on purchased loans	2,681	1,329
Proceeds from death benefits of company-owned life insurance	366	-
Purchase of premises and equipment	(2,072)	(1,462)
Proceeds from sale of other real estate	929	1,761
Proceeds from disposal of premises and equipment	35	-
Net cash provided by (used in) investing activities	6,046	(1,533)
Cash Flows from Financing Activities		

Net decrease in deposits	(45,116)	(17,069)
Net decrease in short-term securities sold under agreements to repurchase	(468)	(3,548)
Proceeds from long-term securities sold under agreements to repurchase	2	5
Repayments of long-term securities sold under agreements to repurchase	(254)	(258)
Repayments of Federal Home Loan Bank advances	(87)	(5,084)
Dividends paid, common stock	(1,879)	(1,502)
Shares issued under employee stock purchase plan	95	87
Net cash used in financing activities	(47,707)	(27,369)
Net decrease in cash and cash equivalents	(27,162)	(15,520)
Cash and cash equivalents at beginning of year	120,408	113,534
Cash and cash equivalents at end of period	$93,246	$98,014

Unaudited Condensed Consolidated Statements of Cash Flows—(Continued)

Six months ended June 30, (In thousands)	2018	2017
Supplemental Disclosures		
Cash paid during the period for:		
Interest	$1,718	$1,839
Income Taxes	2,150	1,835
Transfers from loans to other real estate	-	339
Sale and financing of other real estate	84	2,792
Cash dividends payable, common	940	751

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation and Nature of Operations

The condensed consolidated financial statements include the accounts of Farmers Capital Bank Corporation (the “Company” or “Parent Company”), a financial holding company, and its wholly owned subsidiaries. The Company has one bank subsidiary, United Bank & Capital Trust Company (“United Bank”), and one nonbank subsidiary, FFKT Insurance Services, Inc. (“FFKT Insurance”).

FFKT Insurance is a captive insurance company that provides property and casualty coverage to the Parent Company and its subsidiaries for risk management purposes or where insurance may not be available or economically feasible. The Company has two subsidiaries organized as Delaware statutory trusts that are not consolidated into its financial statements. These trusts were formed for the purpose of issuing trust preferred securities.

United Bank’s significant subsidiaries include EG Properties, Inc. and Farmers Capital Insurance Corporation (“Farmers Insurance”). EG Properties, Inc. is involved in real estate management and liquidation for certain repossessed properties of United Bank. Farmers Insurance is an insurance agency in Frankfort, KY.

The Company provides financial services at its 34 locations in 21 communities throughout Central and Northern Kentucky to individual, business, agricultural, governmental, and educational customers. Its primary deposit products are checking, savings, and term certificate accounts. Its primary lending products are residential mortgage, commercial lending, and consumer installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other services include, but are not limited to, cash management services, issuing letters of credit, safe deposit box rental, and providing funds transfer services. Other financial instruments, which could potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates used in the preparation of the condensed financial statements are based on various factors including the current interest rate environment and the general strength of the local and state economy. Changes in the overall interest rate environment can significantly affect the Company’s net interest income and the value of its recorded assets and liabilities. Actual results could differ from those estimates used in the preparation of the condensed financial statements. The allowance for loan losses, carrying value of other real estate owned, actuarial assumptions used to calculate postretirement benefits, and the fair values of financial instruments are estimates that are particularly subject to change.

The consolidated balance sheet as of December 31, 2017 has been derived from the audited financial statements of the Company as of that date. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2017 included in the Company's annual report on Form 10-K. The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and the footnotes required by U.S. GAAP for complete statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such condensed financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. All significant intercompany transactions and balances are eliminated in consolidation.

2. Reclassifications

Certain reclassifications have been made to the condensed consolidated financial statements of prior periods to conform to the current period presentation. These reclassifications do not affect net income or total shareholders' equity as previously reported.

3. Accumulated Other Comprehensive (Loss) Income

The following table presents changes in accumulated other comprehensive (loss) income (“AOCI”) by component, net of tax, for the periods indicated. The table for the six-month period comparison includes a $56 thousand cumulative-effect adjustment from AOCI to retained earnings related to the adoption of Accounting Standards Update (“ASU”) 2016-01 effective January 1, 2018. ASU 2016-01 requires changes in the fair value of the Company’s equity investments to be recognized through net income. Prior to 2018, changes in the fair value of equity securities were recognized through AOCI. Additional information related to the adoption of ASU 2016-01 can be found in Note 4 and Note 7.

Three Months Ended June 30,	2018			2017		
(In thousands)	Unrealized Gains (Losses) on Available for Sale Investment Securities	Postretirement Benefit Obligation	Total	Unrealized Gains (Losses) on Available for Sale Investment Securities	Postretirement Benefit Obligation	Total
Beginning balance	$(7,668)	$ (57)	$(7,725)	$(2,409)	$ 14	$(2,395)
Other comprehensive (loss) income before reclassifications	(1,112)	-	(1,112)	1,329	8	1,337
Amounts reclassified from accumulated other comprehensive income	-	(1)	(1)	1	1	2
Net current-period other comprehensive (loss) income	(1,112)	(1)	(1,113)	1,330	9	1,339
Ending balance	$(8,780)	$ (58)	$(8,838)	$(1,079)	$ 23	$(1,056)

Six Months Ended June 30,	2018			2017		
(In thousands)	Unrealized Gains (Losses) on	Postretirement Benefit Obligation	Total	Unrealized Gains (Losses) on	Postretirement Benefit Obligation	Total

	Available for Sale Investment Securities			Available for Sale Investment Securities		
Beginning balance	$(3,510)	$ (56)	$(3,566)	$(3,363)	$ (45)	$(3,408)
Other comprehensive (loss) income before reclassifications	(5,214)	-	(5,214)	2,277	17	2,294
Amounts reclassified from accumulated other comprehensive income	-	(2)	(2)	7	51	58
Net current-period other comprehensive (loss) income	(5,214)	(2)	(5,216)	2,284	68	2,352
Adoption of Accounting Standards Update 2016-01	(56)	-	(56)	-	-	-
Ending balance	$(8,780)	$ (58)	$(8,838)	$(1,079)	$ 23	$(1,056)

The following table presents amounts reclassified out of accumulated other comprehensive income by component for the periods indicated. Line items in the statement of income affected by the reclassification are also presented.

	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended June 30,		Six Months Ended June 30,		
(In thousands)	2018	2017	2018	2017	
Unrealized gains (losses) on available for sale investment securities	$-	$(1)	$-	$(10)	Net loss on sales of available for sale investment securities
	-	-	-	3	Income tax expense
	$-	$(1)	$-	$(7)	Net of tax
Amortization related to postretirement benefits					
Prior service costs	$-	$-	$-	$(75)	Salaries and employee benefits
Actuarial gains (losses)	1	(2)	2	(3)	Other noninterest expense
	1	(2)	2	(78)	Total before tax
	-	1	-	27	Income tax expense
	$1	$(1)	$2	$(51)	Net of tax
Total reclassifications for the period	$1	$(2)	$2	$(58)	Net of tax

4. Accounting Policy

Loans and Interest Income

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their unpaid principal amount outstanding adjusted for any charge-offs, deferred fees or costs on originated loans, and unamortized premiums and discounts on purchased loans. Interest income on loans is recognized using the interest method based on loan principal amounts outstanding during the period. Interest income also includes amortization and accretion of any premiums or discounts over the expected life of acquired loans at the time of purchase or business acquisition. Loan origination fees, net of certain direct origination costs, are deferred and amortized as yield adjustments over the contractual term of the loans.

The Company disaggregates certain disclosure information related to loans, the related allowance for loan losses, and credit quality measures by either portfolio segment or by loan class. The Company segregates its loan portfolio segments based on similar risk characteristics as follows: real estate loans, commercial loans, and consumer loans. Portfolio segments are further disaggregated into classes for certain required disclosures as follows:

Portfolio Segment	Class
Real estate loans	Real estate mortgage – construction and land development
	Real estate mortgage – residential
	Real estate mortgage – farmland and other commercial enterprises
Commercial loans	Commercial and industrial
	Depository institutions
	Agriculture production and other loans to farmers
	States and political subdivisions
	Other
Consumer loans	Secured
	Unsecured

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The Company has a loan policy in place that is amended and approved from time to time as needed to reflect current economic conditions and product offerings in its markets. The policy establishes written procedures concerning areas such as the lending authorities of loan officers, committee review and approval of certain credit requests, underwriting criteria, policy exceptions, appraisal requirements, and loan review. Credit is extended to borrowers based primarily on their ability to repay as demonstrated by income and cash flow analysis.

Loans secured by real estate make up the largest segment of the Company's loan portfolio. If a borrower fails to repay a loan secured by real estate, the Company may liquidate the collateral in order to satisfy the amount owed. Determining the value of real estate is a key component to the lending process for real estate backed loans. If the fair value of real estate (less estimated cost to sell) securing a collateral dependent loan declines below the outstanding loan amount, the Company will write down the carrying value of the loan and thereby incur a loss. The Company uses independent third party state certified or licensed appraisers in accordance with its loan policy to mitigate risk when underwriting real estate loans. Cash flow analysis of the borrower, loan to value limits as adopted by loan policy, and other customary underwriting standards are also in place which are designed to maximize credit quality and mitigate risks associated with real estate lending.

Commercial loans are made to businesses and are secured mainly by assets such as inventory, accounts receivable, machinery, fixtures and equipment, or other business assets. Commercial lending involves significant risk, as loan repayments are more dependent on the successful operation or management of the business and its cash flows. Consumer lending includes loans to individuals mainly for personal autos, boats, or a variety of other personal uses and may be secured or unsecured. Loan repayment associated with consumer loans is highly dependent upon the borrower's continuing financial stability, which is heavily influenced by local unemployment rates. The Company mitigates its risk exposure to each of its loan segments by analyzing the borrower's repayment capacity, imposing restrictions on the amount it will loan compared to estimated collateral values, limiting the payback periods, and following other customary underwriting practices as adopted in its loan policy.

The accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed for 90 days or more, unless such loan is well secured and in the process of collection. Past due status is based on the contractual terms of the loan. Interest accrued but not received for a loan placed on nonaccrual status is reversed against interest income. Cash payments received on nonaccrual loans generally are applied to principal until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company's policy for placing a loan on nonaccrual status or subsequently returning a loan to accrual status does not differ based on its portfolio class or segment.

Commercial and real estate loans delinquent in excess of 120 days and consumer loans delinquent in excess of 180 days are charged off, unless the collateral securing the debt is of such value that any loss appears to be unlikely. In all cases, loans are charged off at an earlier date if classified as loss under the Company's loan grading process or as a result of regulatory examination. The Company's charge-off policy for impaired loans does not differ from the charge-off policy for loans outside the definition of impaired.

Provision and Allowance for Loan Losses

The provision for loan losses represents charges or credits made to earnings to maintain an allowance for loan losses at a level considered adequate to provide for probable incurred credit losses at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company estimates the adequacy of the allowance using a risk-rated methodology which is based on the Company’s past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral securing loans, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires significant judgment and the use of estimates that may be susceptible to change.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current risk factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged off. Actual loan losses could differ significantly from the amounts estimated by management.

The general portion of the Company’s loan portfolio is segregated into portfolio segments having similar risk characteristics identified as follows: real estate loans, commercial loans, and consumer loans. Each of these portfolio segments is assigned a loss percentage based on their respective twelve quarter rolling historical loss rates, adjusted for the qualitative risk factors summarized below.

The qualitative risk factors used in the methodology are consistent with the guidance in the most recent Interagency Policy Statement on the Allowance for Loan Losses issued. Each factor is supported by a detailed analysis and is both measurable and supportable. Some factors include a minimum allocation in instances where loss levels are extremely low and it is determined to be prudent from a safety and soundness perspective. Qualitative risk factors that are used in the methodology include the following for each loan portfolio segment:

- Delinquency trends
- Trends in net charge-offs
- Trends in loan volume
- Lending philosophy risk
- Management experience risk
- Concentration of credit risk
- Economic conditions risk

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company accounts for impaired loans in accordance with Accounting Standards Codification (“ASC”) Topic 310, *“Receivables.”* ASC Topic 310 requires that impaired loans be measured at the present value of expected future cash flows, discounted at the loan’s effective interest rate, at the loan’s observable market price, or at the fair value of the collateral if the loan is collateral dependent. Impaired loans may also be classified as nonaccrual. In many circumstances, however, the Company continues to accrue interest on an impaired loan. Cash receipts on accruing impaired loans are applied to the recorded investment in the loan, including any accrued interest receivable. Cash payments received on nonaccrual impaired loans generally are applied to principal until qualifying for return to accrual status. Loans that are part of a large group of smaller-balance homogeneous loans, such as residential mortgage, consumer, and smaller-balance commercial loans, are collectively evaluated for impairment. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan’s effective interest rate at inception, or at the fair value of collateral. The Company determines the amount of reserve for troubled debt restructurings that subsequently default in accordance with its accounting policy for the allowance for loan losses.

Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and subsequently issued several amendments to the standard during 2015, 2016, and 2017. The primary principle of ASU No. 2014-09 is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The majority of the Company's revenues earned are excluded from the scope of the new standard. Revenue streams within the scope of this ASU include services charges and fees on deposits, allotment processing fees, trust income, and certain components of other service charges, commission, and fees. The Company has analyzed each revenue stream under Topic 606 and determined that there were no material changes to existing recognition practices. The Company adopted ASU No. 2014-09 effective January 1, 2018 using a modified retrospective approach and no cumulative-effect adjustment was recorded. Additional disclosures required by the new standard are included in Note 5.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and, in February 2018, issued an amendment for technical corrections and improvements related to this ASU. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). In addition, this ASU eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. Public business entities are required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public business entities, the amendments in this ASU were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU No. 2016-01 effective January 1, 2018, recorded a cumulative-effect adjustment of $56 thousand, and began using the exit price notion rather than entrance price to determine the fair value for disclosure purposes. For equity securities without a readily determinable fair value, the Company elected the practical expedient and recorded them at cost adjusted for impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions. Additional information related to the cumulative-effect adjustment can be found in Note 3 and Note 7. Fair value disclosures can be found in Note 13.

In March 2017, the FASB issued ASU No. 2017-07, "*Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,*" which requires that employers offering benefit plans accounted for under Topic 715 report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The Company retrospectively adopted ASU 2017-07 effective January 1, 2018, which did not have a material impact on its consolidated financial position, results of operations, or cash flows upon adoption. For prior periods, the interest cost, recognized actuarial loss, and recognized curtailment gain have been reclassified from salaries and employee benefits to other noninterest expense.

In February 2018, the FASB issued ASU No. 2018-02, "*Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,"* which allows entities to reclassify the stranded tax effects caused by the Tax Cuts and Jobs Act ("Tax Act"), which was enacted in December 2017, from accumulated other comprehensive income ("AOCI") to retained earnings. This ASU is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company early adopted this standard, resulting in the reclassification of $633 thousand from AOCI to retained earnings for the year ended December 31, 2017. There was no impact on total equity.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842),"* to improve financial reporting about leasing transactions. This ASU will require organizations that lease assets ("lessees") to recognize a lease liability and a right-of-use asset on its balance sheet for all leases with terms of more than twelve months. A lease liability is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset represents the lessee's right to use, or control use of, a specified asset for the lease term. The amendments in this ASU simplify the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. This ASU leaves the accounting for the organizations that own the assets leased to the lessee ("lessor") largely unchanged except for targeted improvements to align it with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*.

For public companies, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company has identified a project team and is in the process of reviewing its leases and assessing the impact of ASU No. 2016-02 on its consolidated financial position, results of operations, and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU requires enhanced disclosures, including qualitative and quantitative requirements, which provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

ASU No. 2016-13 is effective for the Company in annual and interim reporting periods beginning after December 15, 2019. Although early adoption is permitted for fiscal years beginning after December 15, 2018, the Company does not plan to early adopt. The Company has been preserving certain historical loan information from its core processing system in anticipation of adopting the standard. The Company has identified a project team to assess the impact of this ASU on its consolidated financial position, results of operations, and cash flows. The project team has developed a timeline for implementing the standard, has begun working with a third party software solution provider, and has identified an independent third party for validation of the impending changes to the Company's credit loss methodologies and processes. The team continues to assess the impact of the standard; however, the Company expects adopting this ASU will result in an increase in its allowance for loan losses. The amount of the increase in the allowance for loan losses upon adoption will be dependent upon the characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date. A cumulative effect adjustment will be made to retained earnings for the impact of the standard at the beginning of the period the standard is adopted.

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

5. Revenue From Contracts With Customers

The Company records revenue from contracts with customers in accordance with ASC Topic 606, "*Revenue from Contracts with Customers.*" ASC Topic 606 requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized when, or as, the Company satisfies a performance obligation. Primarily all of the Company's revenue from contracts with customers in the scope of ASC Topic 606 is recognized within noninterest income. Net gains or losses on the sale of other real estate owned ("OREO") are included in net other real estate expenses. The following table presents the Company's sources of noninterest income for the three and six months ended June 30, 2018 and 2017. Amounts in the table are within the scope of ASC Topic 606 unless otherwise noted.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Service charges and fees on deposits				
Overdraft fees	$968	$969	$1,924	$1,896
Dormant account fees	574	659	1,167	1,324
Service charges on checking and savings accounts	304	328	618	638
Other	51	56	100	112
Allotment processing fees	677	651	1,397	1,366
Other service charges, commissions, and fees				
Interchange fees	917	808	1,744	1,589
Other[1]	573	520	1,118	1,111
Trust income	695	626	1,484	1,330
Net loss on sales of available for sale investment securities[2]	-	(1)	-	(10)
Net gain on sales of equity investment securities[2]	808	-	808	-
Gain on sale of mortgage loans, net[2]	104	189	199	343
Income from company-owned life insurance[2]	213	221	506	456
Other	89	76	109	198
Total noninterest income	$5,973	$5,102	$11,174	$10,353

[1]Includes fees totaling $147 thousand and $139 thousand for the three months ended June 30, 2018 and 2017, respectively, and $289 thousand and $272 thousand for the six months ended June 30, 2018 and 2017, respectively, which are primarily servicing fees on loans originated for sale on the secondary market and are not within the scope of ASC Topic 606.

[2]Not within the scope of ASC Topic 606.

Net other real estate expenses include a net loss on the sale of OREO of $33 thousand and $43 thousand for the three months ended June 30, 2018 and 2017, respectively, and a net loss of $76 thousand and a net gain of $72 thousand for the six months ended June 30, 2018 and 2017, respectively.

A description of the Company’s revenue-generating activities accounted for under Topic 606 follows.

Service charges and fees on deposits consist primarily of overdraft fees, dormant account fees, and service charges on checking and savings accounts. Overdraft fees are recognized at the time an account is overdrawn. Dormant account fees are recognized when an account is inactive for 365 days. The majority of service charges on checking and savings accounts are for account maintenance services performed and recognized in the same calendar month. Other fees are primarily for transaction-based services completed at the request of the customer and recognized at the time the transaction is executed. These transaction-based services include foreign ATM usage and stop payments services. All service charges and fees on deposits are withdrawn from the customer’s account balance.

Allotment processing fees relate to the Company’s bill payment and electronic funds transfer (“EFT”) services provided under the name of FirstNet. The Company processes payments by individual customers to unaffiliated third party lenders on bi-weekly and monthly schedules. Other EFT services are available to customers upon request. The Company does not provide credit to individuals under the program. Fees are primarily withdrawn from the customer’s account and recognized at the time the transaction is executed.

Other service charges, commissions, and fees include interchange fees earned primarily from debit card holder transactions conducted through the VISA payment network and other networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are received and recognized daily, concurrent with the transaction processing services provided to the cardholder.

Trust income is earned from living trusts and investment management agency accounts, estate planning and estate settlement, custody accounts, individual retirement accounts, and other related services. These fees are primarily earned and accrued over the period of time the Company provides the contracted services and are generally assessed based on tiered scale of the market value of the assets of the accounts. Fees for other services, including the preparation of fiduciary income tax returns, are recognized when the services are rendered. Fees are generally paid out of the assets held in the customer's account.

6. Net Income Per Common Share

Basic net income per common share is determined by dividing net income by the weighted average total number of common shares issued and outstanding. There were no dilutive instruments at June 30, 2018 and 2017.

Net income per common share computations were as follows for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share data)	2018	2017	2018	2017
Net income, basic and diluted	$5,847	$4,482	$11,488	$7,811
Average common shares issued and outstanding, basic and diluted	7,520	7,512	7,519	7,511
Net income per common share, basic and diluted	$.78	$.60	$1.53	$1.04

7. Investment Securities

Equity Securities

Equity securities consist of money market mutual funds classified as cash and cash equivalents on the balance sheet and mutual funds and equity securities in the investment portfolio of the Company’s captive insurance subsidiary. Money market mutual funds were $38.0 million and $36.7 million at June 30, 2018 and December 31, 2017, respectively. The Company held $1.6 million and $935 thousand in mutual funds and equity securities recorded at fair value at June 30, 2018 and December 31, 2017, respectively.

Effective January 1, 2018, the Company adopted ASU 2016-01, which requires the Company to recognize changes in the fair value of its equity securities through net income. Prior to 2018, changes in the fair value of equity securities were recognized through AOCI. At December 31, 2017, unrealized gains, net of tax, of $56 thousand were recognized in AOCI. At the beginning of 2018, the Company made a cumulative-effect adjustment to reclassify those gains out of AOCI and into retained earnings. During the three and six months ended June 30, 2018, the Company recognized unrealized losses of $24 thousand and $79 thousand, respectively, on the equity securities held at June 30, 2018, which was recorded in other noninterest income. Net realized gain on sales of equity securities during 2018 consist of a realized gain of $808 thousand related to the sale of 7,672 shares of Visa Class B stock held at a no cost basis and no realized losses. The Company holds no additional shares of the VISA Class B stock.

Debt Securities

The Company's debt securities are classified as available for sale or held to maturity. The following tables summarize the amortized costs and estimated fair value of the Company's debt securities at June 30, 2018 and December 31, 2017.

June 30, 2018 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available For Sale				
Obligations of U.S. government-sponsored entities	$34,676	$ 5	$ 857	$33,824
Obligations of states and political subdivisions	105,616	263	2,450	103,429
Mortgage-backed securities – residential	178,426	242	5,830	172,838
Mortgage-backed securities – commercial	49,387	-	2,478	46,909
Asset-backed securities	15,493	32	26	15,499
Corporate debt securities	7,495	22	37	7,480
Total securities – available for sale	$391,093	$ 564	$ 11,678	$379,979
Held To Maturity				
Obligations of states and political subdivisions	$2,837	$ 31	$ -	$2,868

December 31, 2017 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available For Sale				
Obligations of U.S. government-sponsored entities	$43,601	$ 44	$ 437	$43,208
Obligations of states and political subdivisions	114,960	562	1,273	114,249
Mortgage-backed securities – residential	195,605	523	2,735	193,393
Mortgage-backed securities – commercial	50,518	42	1,208	49,352
Asset-backed securities	15,569	9	4	15,574
Corporate debt securities	7,578	1	37	7,542
Total securities – available for sale	$427,831	$ 1,181	$ 5,694	$423,318
Held To Maturity				
Obligations of states and political subdivisions	$3,364	$ 114	$ -	$3,478

Debt securities with a carrying value of $207 million and $214 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public and trust deposits, repurchase agreements, and for other purposes.

The amortized cost and estimated fair value of the debt securities portfolio at June 30, 2018, by contractual maturity, are detailed below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are stated separately due to the nature of payment and prepayment characteristics of these securities, as principal is not due at a single date.

	Available For Sale		Held To Maturity	
June 30, 2018 (In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$19,847	$19,828	$-	$ -
Due after one year through five years	53,443	52,717	-	-
Due after five years through ten years	51,363	49,493	732	748
Due after ten years	38,627	38,194	2,105	2,120
Mortgage-backed securities	227,813	219,747	-	-
Total	$391,093	$379,979	$2,837	$ 2,868

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Gross realized gains and losses on the sale of available for sale debt securities are presented in the table below for the periods indicated.

(In thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Gross realized gains	$ -	$ -	$ -	$ -
Gross realized losses	-	1	-	10
Net realized loss	$ -	$ (1)	$ -	$ (10)

Debt securities with unrealized losses at June 30, 2018 and December 31, 2017 not recognized in income are presented in the tables below. The tables segregate debt securities that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or more. The tables also include the fair value of the related securities.

	Less than 12 Months		12 Months or More		Total	
June 30, 2018 (In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored entities	$ 10,175	$ 282	$ 22,987	$ 575	$ 33,162	$ 857
Obligations of states and political subdivisions	50,261	1,051	33,147	1,399	83,408	2,450
Mortgage-backed securities – residential	74,287	2,010	90,087	3,820	164,374	5,830
Mortgage-backed securities – commercial	14,509	611	32,400	1,867	46,909	2,478
Asset-backed securities	3,729	26	-	-	3,729	26
Corporate debt securities	3,102	34	248	3	3,350	37
Total	$ 156,063	$ 4,014	$ 178,869	$ 7,664	$ 334,932	$ 11,678

	Less than 12 Months		12 Months or More		Total	
December 31, 2017 (In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government-sponsored entities	$ 11,544	$ 43	$ 25,298	$ 394	$ 36,842	$ 437
Obligations of states and political subdivisions	40,402	413	33,965	860	74,367	1,273

Mortgage-backed securities – residential	77,312	481	99,986	2,254	177,298	2,735
Mortgage-backed securities – commercial	7,758	62	34,139	1,146	41,897	1,208
Asset-backed securities	1,166	4	-	-	1,166	4
Corporate debt securities	7,251	36	200	1	7,451	37
Total	$145,433	$ 1,039	$193,588	$ 4,655	$339,021	$ 5,694

Unrealized losses included in the tables above have not been recognized in income since they have been identified as temporary. The Company evaluates debt securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant. Many factors are considered, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was effected by macroeconomic conditions, and (4) whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether an OTTI charge exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at a point in time.

The Company attributes the unrealized losses in its debt securities portfolio to changes in market interest rates and volatility. Debt securities with unrealized losses at June 30, 2018 and December 31, 2017 are performing according to their contractual terms, and the Company does not expect to incur a loss on these securities unless they are sold prior to maturity. The Company does not have the intent to sell these securities nor does it believe it is likely that it will be required to sell these securities prior to their anticipated recovery. The Company does not consider any of the securities to be impaired due to reasons of credit quality or other factors.

8. Loans and Allowance for Loan Losses

Major classifications of loans outstanding are summarized as follows:

(In thousands)	June 30, 2018	December 31, 2017
Real Estate		
Real estate mortgage – construction and land development	$128,183	$129,181
Real estate mortgage – residential	350,778	355,304
Real estate mortgage – farmland and other commercial enterprises	457,014	432,321
Commercial		
Commercial and industrial	87,224	63,417
States and political subdivisions	17,686	27,209
Other	16,068	19,916
Consumer		
Secured	4,215	4,853
Unsecured	3,047	3,062
Total loans	1,064,215	1,035,263
Less unearned income	-	-
Total loans, net of unearned income	$1,064,215	$1,035,263

Activity in the allowance for loan losses by portfolio segment was as follows for the periods indicated:

(In thousands)	Real Estate	Commercial	Consumer	Total
Three months ended June 30, 2018				
Balance, beginning of period	$8,601	$ 836	$ 311	$9,748
Provision for loan losses	(148)	296	(21)	127
Recoveries	264	17	13	294
Loans charged off	(88)	(65)	(15)	(168)
Balance, end of period	$8,629	$ 1,084	$ 288	$10,001
Six months ended June 30, 2018				
Balance, beginning of period	$8,509	$ 951	$ 323	$9,783
Provision for loan losses	(339)	249	(44)	(134)
Recoveries	605	37	40	682
Loans charged off	(146)	(153)	(31)	(330)
Balance, end of period	$8,629	$ 1,084	$ 288	$10,001

(In thousands)	Real Estate	Commercial	Consumer	Total
Three months ended June 30, 2017				
Balance, beginning of period	$8,184	$ 864	$ 459	$9,507
Provision for loan losses	(546)	135	(88)	(499)
Recoveries	398	17	8	423
Loans charged off	(75)	(116)	(18)	(209)
Balance, end of period	$7,961	$ 900	$ 361	$9,222
Six months ended June 30, 2017				
Balance, beginning of period	$8,205	$ 854	$ 285	$9,344
Provision for loan losses	(150)	128	103	81
Recoveries	415	66	19	500
Loans charged off	(509)	(148)	(46)	(703)
Balance, end of period	$7,961	$ 900	$ 361	$9,222

The following tables present individually impaired loans by class of loans for the dates indicated.

June 30, 2018 (In thousands)	Unpaid Principal	Recorded Investment	Recorded Investment	Total Recorded	Allowance

	Balance	With No Allowance	With Allowance	Investment	for Loan Losses Allocated
Real Estate					
Real estate mortgage – construction and land development	$ 3,397	$ 1,428	$ 1,594	$ 3,022	$ 323
Real estate mortgage – residential	9,952	3,079	6,871	9,950	2,018
Real estate mortgage – farmland and other commercial enterprises	8,614	2,147	6,299	8,446	295
Commercial					
Commercial and industrial	383	-	383	383	211
Other	3	-	3	3	3
Consumer					
Unsecured	285	-	285	285	192
Total	$ 22,634	$ 6,654	$ 15,435	$ 22,089	$ 3,042

December 31, 2017 (In thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Allowance for Loan Losses Allocated
Real Estate					
Real estate mortgage – construction and land development	$ 4,076	$ 1,746	$ 1,955	$ 3,701	$ 402
Real estate mortgage – residential	10,112	3,233	6,877	10,110	1,973
Real estate mortgage – farmland and other commercial enterprises	8,737	2,203	6,367	8,570	319
Commercial					
Commercial and industrial	448	-	448	448	270
Consumer					
Unsecured	312	-	312	312	218
Total	$ 23,685	$ 7,182	$ 15,959	$ 23,141	$ 3,182

Three Months Ended June 30,	2018			2017		
(In thousands)	Average	Interest Income Recognized	Cash Basis Interest Recognized	Average	Interest Income Recognized	Cash Basis Interest Recognized
Real Estate						
Real estate mortgage – construction and land development	$3,463	$ 44	$ 44	$4,216	$ 58	$ 58
Real estate mortgage – residential	10,122	137	135	11,080	136	134
Real estate mortgage – farmland and other commercial enterprises	8,835	97	95	24,108	296	296
Commercial						
Commercial and industrial	389	5	5	409	4	4
Other	4	-	-	26	-	-
Consumer						
Unsecured	306	5	5	325	4	4
Total	$23,119	$ 288	$ 284	$40,164	$ 498	$ 496

Six Months Ended June 30,	2018			2017		
(In thousands)	Average	Interest	Cash Basis	Average	Interest	Cash Basis

		Income Recognized	Interest Recognized		Income Recognized	Interest Recognized
Real Estate						
Real estate mortgage – construction and land development	$3,539	$ 90	$ 88	$5,226	$ 134	$ 133
Real estate mortgage – residential	10,232	273	267	10,395	254	251
Real estate mortgage – farmland and other commercial enterprises	8,861	197	192	24,098	598	592
Commercial						
Commercial and industrial	391	10	10	454	11	11
Other	2	-	-	13	-	-
Consumer						
Unsecured	313	9	9	330	9	8
Total	$23,338	$ 579	$ 566	$40,516	$ 1,006	$ 995

The following tables present the balance of the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of June 30, 2018 and December 31, 2017.

June 30, 2018 (In thousands)	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$2,636	$ 214	$ 192	$3,042
Collectively evaluated for impairment	5,993	870	96	6,959
Total ending allowance balance	$8,629	$ 1,084	$ 288	$10,001
Loans				
Loans individually evaluated for impairment	$21,418	$ 386	$ 285	$22,089
Loans collectively evaluated for impairment	914,557	120,592	6,977	1,042,126
Total ending loan balance, net of unearned income	$935,975	$ 120,978	$ 7,262	$1,064,215

December 31, 2017 (In thousands)	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$2,694	$ 270	$ 218	$3,182
Collectively evaluated for impairment	5,815	681	105	6,601
Total ending allowance balance	$8,509	$ 951	$ 323	$9,783
Loans				
Loans individually evaluated for impairment	$22,381	$ 448	$ 312	$23,141
Loans collectively evaluated for impairment	894,425	110,094	7,603	1,012,122
Total ending loan balance, net of unearned income	$916,806	$ 110,542	$ 7,915	$1,035,263

The following tables present the recorded investment in nonperforming loans by class of loans as of June 30, 2018 and December 31, 2017.

June 30, 2018 (In thousands)	Nonaccrual	Restructured Loans	Loans Past Due 90 Days or More and

			Still Accruing
Real Estate			
Real estate mortgage – construction and land development	$ 149	$ 1,595	$ -
Real estate mortgage – residential	1,441	5,618	-
Real estate mortgage – farmland and other commercial enterprises	2,355	3,660	-
Commercial			
Commercial and industrial	11	367	-
Consumer			
Unsecured	146	125	-
Total	$ 4,102	$ 11,365	$ -

December 31, 2017 (In thousands)	Nonaccrual	Restructured Loans	Loans Past Due 90 Days or More and Still Accruing
Real Estate			
Real estate mortgage – construction and land development	$ 151	$ 1,955	$ -
Real estate mortgage – residential	1,763	5,326	-
Real estate mortgage – farmland and other commercial enterprises	1,752	3,703	-
Commercial			
Commercial and industrial	53	370	-
Consumer			
Unsecured	168	128	-
Total	$ 3,887	$ 11,482	$ -

The Company has allocated $1.7 million and $1.8 million of specific reserves as of June 30, 2018 and December 31, 2017, respectively, to customers whose loan terms have been modified in troubled debt restructurings and that are in compliance with those terms. The Company had no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings at June 30, 2018 and December 31, 2017. The Company had no credits during the first six months of 2018 or 2017 that were modified as troubled debt restructurings.

The tables below present an age analysis of past due loans 30 days or more by class of loans as of the dates indicated. Past due loans that are also classified as nonaccrual are included in their respective past due category.

June 30, 2018 (In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total	Current	Total Loans
Real Estate					
Real estate mortgage – construction and land development	$15	$87	$102	$128,081	$128,183
Real estate mortgage – residential	630	240	870	349,908	350,778
	496	1,621	2,117	454,897	457,014

Real estate mortgage – farmland and other commercial enterprises					
Commercial					
Commercial and industrial	-	-	-	87,224	87,224
States and political subdivisions	-	-	-	17,686	17,686
Other	-	-	-	16,068	16,068
Consumer					
Secured	-	-	-	4,215	4,215
Unsecured	6	-	6	3,041	3,047
Total	$1,147	$1,948	$3,095	$1,061,120	$1,064,215

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December 31, 2017 (In thousands)	30-89 Days Past Due	90 Days or More Past Due	Total	Current	Total Loans
Real Estate					
Real estate mortgage – construction and land development	$15	$87	$102	$129,079	$129,181
Real estate mortgage – residential	1,160	538	1,698	353,606	355,304
Real estate mortgage – farmland and other commercial enterprises	966	948	1,914	430,407	432,321
Commercial					
Commercial and industrial	62	-	62	63,355	63,417
States and political subdivisions	-	-	-	27,209	27,209
Other	21	-	21	19,895	19,916
Consumer					
Secured	-	-	-	4,853	4,853
Unsecured	9	-	9	3,053	3,062
Total	$2,233	$1,573	$3,806	$1,031,457	$1,035,263

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, credit documentation, public information, and current economic trends and conditions. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes large-balance loans and non-homogeneous loans, such as commercial real estate and certain residential real estate loans. Loan rating grades, as described further below, are assigned based on a continuous process. The amount and adequacy of the allowance for loan loss is determined on a quarterly basis. The Company uses the following definitions for its risk ratings:

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 borrower’s repayment ability, weaken the collateral or inadequately protect the Company’s credit position at some future date. These credits pose elevated risk, but their weaknesses do not yet justify a substandard classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth 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 Company will sustain some loss if the deficiencies are not corrected.

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

Loans not meeting the criteria above which are analyzed individually as part of the above described process are considered to be pass rated loans and are considered to have a low risk of loss. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows for the dates indicated.

June 30, 2018 (In thousands)	Real Estate Mortgage – Construction and Land Development	Real Estate Mortgage – Residential	Real Estate Mortgage – Farmland and Other Commercial Enterprises	Commercial and Industrial	States and Political Subdivisions	Other
	Real Estate			Commercial		
Credit risk profile by internally assigned rating grades						
Pass	$124,342	$326,533	$440,095	$86,390	$ 17,686	$16,051
Special Mention	668	8,975	6,216	448	-	14
Substandard	3,173	15,270	10,703	386	-	3
Doubtful	-	-	-	-	-	-
Total	$128,183	$350,778	$457,014	$87,224	$ 17,686	$16,068

December 31, 2017 (In thousands)	Real Estate Mortgage – Construction and Land Development	Real Estate Mortgage – Residential	Real Estate Mortgage – Farmland and Other Commercial Enterprises	Commercial and Industrial	States and Political Subdivisions	Other
	Real Estate			Commercial		
Credit risk profile by internally assigned rating grades						
Pass	$124,926	$330,401	$414,663	$62,490	$ 27,209	$19,898
Special Mention	396	9,196	7,556	474	-	18
Substandard	3,859	15,707	10,102	453	-	-

Doubtful	-	-	-	-	-	-
Total	$129,181	$355,304	$432,321	$63,417	$ 27,209	$19,916

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the consumer loans outstanding based on payment activity as of June 30, 2018 and December 31, 2017.

	June 30, 2018		December 31, 2017	
	Consumer		Consumer	
(In thousands)	Secured	Unsecured	Secured	Unsecured
Credit risk profile based on payment activity				
Performing	$4,215	$ 2,776	$4,853	$ 2,766
Nonperforming	-	271	-	296
Total	$4,215	$ 3,047	$4,853	$ 3,062

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9. Other Real Estate Owned

Other real estate owned ("OREO") was as follows for the dates indicated:

(In thousands)	June 30, 2018	December 31, 2017
Construction and land development	$3,050	$ 4,433
Residential real estate	-	157
Farmland and other commercial enterprises	981	899
Total	$4,031	$ 5,489

OREO activity for the six months ended June 30, 2018 and 2017 was as follows:

Six months ended June 30, (In thousands)	2018	2017
Beginning balance	$5,489	$10,673
Transfers from loans and other increases	126	345
Proceeds from sales	(1,013)	(4,553)
(Loss) gain on sales, net	(76)	72
Write downs and other decreases, net	(495)	(350)
Ending balance	$4,031	$6,187

At June 30, 2018, the Company had a total of $601 thousand of loans secured by residential real estate mortgages that were in the process of foreclosure.

10. Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase represent transactions where the Company sells certain of its investment securities and agrees to repurchase them at a specific date in the future. Securities sold under agreements to repurchase are accounted for as secured borrowings and reflect the amount of cash received in connection with the transaction.

Securities sold under agreements to repurchase are collateralized by U.S. government agency securities, primarily mortgage-backed securities. The Company may be required to provide additional collateral securing the borrowings in the event of principal pay downs or a decrease in the market value of the pledged securities. The Company mitigates this risk by monitoring the market value and liquidity of the collateral and ensuring that it holds a sufficient level of eligible securities to cover potential increases in collateral requirements.

The following tables represent the remaining maturity of repurchase agreements disaggregated by the class of securities pledged as of the dates indicated.

June 30, 2018 (In thousands)	Remaining Contractual Maturity of the Agreements					
	Overnight/ Continuous	Less Than 30 Days	30-89 Days	90 Days to One Year	Over One Year to Three Years	Total
Mortgage-backed securities – residential	$31,873	$1,400	$ -	$259	$ -	$33,532
Total	$31,873	$1,400	$ -	$259	$ -	$33,532

December 31, 2017 (In thousands)	Remaining Contractual Maturity of the Agreements					
	Overnight/ Continuous	Less Than 30 Days	30-89 Days	90 Days to One Year	Over One Year to Three Years	Total
Mortgage-backed securities – residential	$32,341	$1,200	$ -	$454	$257	$34,252
Total	$32,341	$1,200	$ -	$454	$257	$34,252

11. Postretirement Medical Benefits

The Company provides lifetime medical and dental benefits upon retirement for certain employees meeting the eligibility requirements as of December 31, 1989 (“Plan 1”). Additional participants are not eligible to be included in Plan 1 unless they met the requirements on this date. During 2003, the Company implemented an additional postretirement health insurance program (“Plan 2”). Under Plan 2, any employee meeting the service requirement of 20 years of full time service to the Company and is at least age 55 upon retirement is eligible to continue their health insurance coverage. Under both plans, retirees not yet eligible for Medicare have coverage identical to the coverage offered to active employees. Under both plans, Medicare-eligible retirees are provided with a Medicare Advantage plan. The Company pays 100% of the cost of Plan 1. The Company and the retirees each pay 50% of the cost under Plan 2. Both plans are unfunded. Employees hired on or after January 1, 2016 are not eligible for benefits under Plan 2.

The following disclosures of the net periodic benefit cost components of Plan 1 and Plan 2 were measured at January 1, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Service cost	$141	$137	$281	$283
Interest cost	152	164	305	332
Curtailment gain recognized	-	-	-	(351)
Recognized prior service cost	-	-	-	8
Net periodic benefit cost	$293	$301	$586	$272

Service costs and recognized prior service costs are recorded as a component of salaries and employee benefits with the remaining portion of net periodic benefit cost recorded in other noninterest expense on the Company’s unaudited condensed consolidated statements of income. In connection with the merger of certain of its subsidiaries in February 2017, the Company recognized a curtailment gain of $417 thousand and prior service costs of $66 thousand, for a net gain of $351 thousand at the time of curtailment. This gain is a result of revaluing its postretirement medical benefits plan liability due to a reduction in workforce during the first quarter of 2017.

The Company expects benefit payments of $459 thousand for 2018, of which $98 thousand and $194 thousand have been made during the three and six months ended June 30, 2018, respectively.

12. Regulatory Matters

The Company and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements will initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and its subsidiary bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The regulatory ratios of the consolidated Company and its subsidiary bank were as follows for the dates indicated:

	June 30, 2018				December 31, 2017			
	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]
Consolidated	17.13%	19.82 %	20.65 %	14.41 %	16.56%	19.30 %	20.12 %	13.75 %
United Bank	14.48	14.48	15.32	10.65	14.05	14.05	14.88	10.13
Regulatory minimum	4.50	6.00	8.00	4.00	4.50	6.00	8.00	4.00
Well-capitalized status	6.50	8.00	10.00	5.00	6.50	8.00	10.00	5.00

[1]Common Equity Tier 1 Risked-based, Tier 1 Risk-based, and Total Risk-based Capital ratios are computed by dividing a bank's Common Equity Tier 1, Tier 1 or Total Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

13. Fair Value Measurements

ASC Topic 820, *"Fair Value Measurements and Disclosures,"* defines fair value, establishes a framework for measuring fair value, and sets forth disclosures about fair value measurements. ASC Topic 825, *"Financial Instruments,"* allows entities to choose to measure certain financial assets and liabilities at fair value. The Company has not elected the fair value option for any of its financial assets or liabilities.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This Topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in 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: Significant unobservable inputs that reflect a reporting entity's own assumptions supported by little or no market activity about the assumptions that market participants would use in pricing the asset or liability.

Following is a description of the valuation method used for financial instruments measured at fair value on a recurring basis. For this disclosure, the Company only has available for sale debt securities, equity securities, and money market mutual funds classified as cash equivalents that meet the requirement. The carrying value of the $38.0 million and $36.7 million in money market mutual funds at June 30, 2018 and December 31, 2017, respectively, is equivalent to its fair value and based on Level 1 inputs.

Available for sale debt securities and equity securities

Valued primarily by independent third party pricing services under the market valuation approach that include, but are not limited to, the following inputs:

Mutual funds and equity securities are priced utilizing real-time data feeds from active market exchanges for identical securities and are considered Level 1 inputs.
Government-sponsored agency debt securities, obligations of states and political subdivisions, mortgage-backed securities, corporate bonds, and other similar investment securities are priced with available market information through processes using benchmark yields, matrix pricing, prepayment speeds, cash flows, live trading data, and market spreads sourced from new issues, dealer quotes, and trade prices, among others sources and are considered Level 2 inputs.

Fair value disclosure for available for sale debt securities and equity securities classified as investments on the balance sheet as of June 30, 2018 and December 31, 2017 are as follows:

(In thousands)		Fair Value Measurements Using		
June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available For Sale Securities				
Obligations of U.S. government-sponsored entities	$33,824	$-	$ 33,824	$ -
Obligations of states and political subdivisions	103,429	-	103,429	-
Mortgage-backed securities – residential	172,838	-	172,838	-
Mortgage-backed securities – commercial	46,909	-	46,909	-
Asset-backed securities	15,499	-	15,499	-
Corporate debt securities	7,480	-	7,480	-
Total available for sale securities	$379,979	$-	$ 379,979	$ -
Equity Securities				
Mutual funds and equity securities	$1,573	$1,573	$ -	$ -
December 31, 2017				
Available For Sale Securities				
Obligations of U.S. government-sponsored entities	$43,208	$-	$ 43,208	$ -
Obligations of states and political subdivisions	114,249	-	114,249	-
Mortgage-backed securities – residential	193,393	-	193,393	-
Mortgage-backed securities – commercial	49,352	-	49,352	-
Asset-backed securities	15,574	-	15,574	-
Corporate debt securities	7,542	-	7,542	-
Total available for sale securities	$423,318	$-	$ 423,318	$ -
Equity Securities				
Mutual funds and equity securities	$935	$935	$ -	$ -

The Company is required to measure and disclose certain other assets and liabilities at fair value on a nonrecurring basis in periods following their initial recognition. The Company’s disclosure about assets and liabilities measured at fair value on a nonrecurring basis consists of collateral-dependent impaired loans and OREO.

Adjustments to the fair value of collateral-dependent loans are recorded by either direct loan charge-offs through the allowance for loan losses or an adjustment to the specific reserve through an increase or decrease to the provision for loan losses. The fair value of collateral-dependent impaired loans with specific allocations of the allowance for loan losses is measured based on recent appraisals of the underlying collateral. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraisers take absorption rates into consideration and adjustments are routinely made in the appraisal process to identify differences between the comparable sales and income data available. Such adjustments consist mainly of estimated costs to sell that are not included in certain appraisals or to update appraised collateral values as a result of market declines of similar properties for which a newer appraisal is available. These adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

OREO includes properties acquired by the Company through, or in lieu of, actual loan foreclosures and is carried at fair value less estimated costs to sell. Fair value of OREO at acquisition is generally based on third party appraisals of the property that includes comparable sales data and is considered as Level 3 inputs. The carrying value of each OREO property is updated at least annually and more frequently when market conditions significantly impact the value of the property. If the carrying amount of the OREO exceeds fair value less estimated costs to sell, an impairment loss is recorded through noninterest expense.

The following table represents the carrying amount of assets measured at fair value on a nonrecurring basis and still held by the Company as of the dates indicated. The amounts in the table only represent assets whose carrying amount has been adjusted during the period in a manner as described above; therefore, these amounts will differ from the total amounts outstanding. With the exception of those calculated using the collateral valuation method, collateral-dependent impaired loan amounts in the tables below exclude restructured loans that are measured based on present value techniques, which are outside the scope of the fair value reporting framework.

		Fair Value Measurements Using		
(In thousands) Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Collateral-dependent Impaired Loans				
Real estate mortgage – construction and land development	$1,271	$-	$ -	$ 1,271
Real estate mortgage – residential	4,163	-	-	4,163
Total	$5,434	$-	$ -	$ 5,434
OREO				
Construction and land development	$1,074	$-	$ -	$ 1,074
Total	$1,074	$-	$ -	$ 1,074

Fair Value Measurements Using

(In thousands) Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Collateral-dependent Impaired Loans				
Real estate mortgage – construction and land development	$1,553	$-	$ -	$ 1,553
Real estate mortgage – residential	4,687	-	-	4,687
Real estate mortgage – farmland and other commercial enterprises	2,645	-	-	2,645
Total	$8,885	$-	$ -	$ 8,885
OREO				
Construction and land development	$3,468	$-	$ -	$ 3,468
Residential real estate	157	-	-	157
Farmland and other commercial enterprises	821	-	-	821
Total	$4,446	$-	$ -	$ 4,446

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The following table represents fair value adjustments recorded in earnings for the periods indicated on assets measured at fair value on a nonrecurring basis.

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Net decrease in fair value:				
Collateral-dependent impaired loans	$22	$25	$47	$27
OREO	462	138	479	202
Total	$484	$163	$526	$229

The following table presents quantitative information about unobservable inputs for assets measured on a nonrecurring basis using Level 3 measurements. As described above, the fair value of real estate securing collateral-dependent impaired loans and OREO are based on current third party appraisals. It is sometimes necessary, however, for the Company to discount the appraisal amounts supporting its impaired loans and OREO. These discounts relate primarily to marketing and other holding costs that are not included in certain appraisals or to update values as a result of market declines of similar properties for which newer appraisals are available. Discounts may also result from contracts to sell properties entered into during the period. The range of discounts is presented in the table below for 2018 and 2017.

(In thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
June 30, 2018					
Collateral-dependent impaired loans	$5,434	Discounted appraisals	Marketability discount	-%	- %
OREO	$1,074	Discounted appraisals	Marketability discount	0% - 6.0%	5.3 %
December 31, 2017					
Collateral-dependent impaired loans	$8,885	Discounted appraisals	Marketability discount	0% - 22.8%	3.1 %
OREO	$4,446	Discounted appraisals	Marketability discount	0% - 71.7%	4.0 %

Fair Value of Financial Instruments

The table that follows represents the estimated fair values of the Company's financial instruments made in accordance with the requirements of ASC Topic 825, *"Financial Instruments."* ASC Topic 825 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that value. The estimated fair value amounts have been determined by the Company using available market information and present value or other valuation techniques. These derived fair values are subjective in nature, involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from the disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to represent the underlying value of the Company.

The following table presents the estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and December 31, 2017. Information for available for sale investment securities is presented within this footnote in greater detail above. In accordance with the prospective adoption of ASU 2016-01, the fair values as of June 30, 2018 were measured using an exit price notion.

			Fair Value Measurements Using		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018					
Assets					
Cash and cash equivalents	$93,246	$93,246	$93,246	$ -	$ -
Held to maturity investment securities	2,837	2,868	-	2,868	-
Loans, net	1,054,214	1,035,437	-	-	1,035,437
Accrued interest receivable	4,797	4,797	-	4,797	-
Federal Home Loan Bank and Federal Reserve Bank Stock	12,996	12,996	-	-	12,996
Liabilities					
Deposits	1,334,787	1,334,390	1,135,600	-	198,790
Securities sold under agreements to repurchase	33,532	33,534	-	33,534	-
Federal Home Loan Bank advances	3,392	3,439	-	3,439	-

Subordinated notes payable to unconsolidated trusts	33,506	24,301	-	-	24,301
Accrued interest payable	396	396	-	396	-
December 31, 2017					
Assets					
Cash and cash equivalents	$ 120,408	$ 120,408	$ 120,408	$ -	$ -
Held to maturity investment securities	3,364	3,478	-	3,478	-
Loans, net	1,025,480	1,012,959	-	-	1,012,959
Accrued interest receivable	4,935	4,935	-	4,935	-
Federal Home Loan Bank and Federal Reserve Bank Stock	13,235	13,235	-	-	13,235
Liabilities					
Deposits	1,379,903	1,380,122	1,157,045	-	223,077
Securities sold under agreements to repurchase	34,252	34,257	-	34,257	-
Federal Home Loan Bank advances	3,479	3,546	-	3,546	-
Subordinated notes payable to unconsolidated trusts	33,506	22,709	-	-	22,709
Accrued interest payable	261	261	-	261	-

14. Loss Contingencies

Loss contingencies, including claims and legal actions arising primarily in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. As of June 30, 2018, there were various pending legal actions and proceedings against the Company arising from the normal course of business and in which claims for damages are asserted. It is the opinion of management, after discussion with legal counsel, that the disposition or ultimate resolution of such claims and legal actions will not have a material adverse effect on the consolidated financial statements, results of operations and cash flows of the Company.

15. Subsequent Event

On July 23, 2018, at a Special Meeting of Shareholders (the “Special Meeting”), the Company’s shareholders voted to adopt and approve the Agreement and Plan of Merger dated April 19, 2018 (the “Merger Agreement”) between the Company and Wesbanco, Inc. (“WesBanco”), a multi-state bank holding company with $10.9 billion in assets at June 30, 2018, which provides for the merger of the Company with and into WesBanco (the “Merger”) subject to the terms and conditions set forth in the Merger Agreement. As a result of the Merger, the separate corporate existence of the Company will cease and WesBanco will continue as the surviving corporation in the Merger. The Merger Agreement also provides that, immediately following the completion of the Merger, the Company’s subsidiary bank, United Bank, will merge with and into Wesbanco Bank, Inc., a West Virginia banking corporation and a wholly-owned subsidiary of WesBanco (the “Bank Merger”), with Wesbanco Bank, Inc. continuing as the surviving bank in the Bank Merger. The Merger Agreement was unanimously approved by the Board of Directors of both WesBanco and the Company.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, the Company’s shareholders will have the right to receive (i) 1.053 shares of WesBanco common stock and (ii) $5.00 in cash, without interest, for each share of the Company’s common stock. As of the date of the announcement, the transaction was valued at approximately $378.2 million. The Merger Agreement contains certain termination rights for both WesBanco and the Company and further provides that, upon termination of the Merger Agreement under certain circumstances, the Company may be obligated to pay WesBanco a termination fee of $12,000,000.

Consummation of the Merger is subject to a number of customary conditions, including, but not limited to, the receipt of all required regulatory approvals, the final of which WesBanco received in July 2018. The transaction is expected to close in the third quarter of 2018.

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements with the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Statements in this report that are not statements of historical fact are forward-looking statements. In general, forward-looking statements relate to a discussion of future financial results or projections, future economic performance, future operational plans and objectives, and statements regarding the underlying assumptions of such statements. Although management of Farmers Capital Bank Corporation (the "Company" or "Parent Company") believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate.

Various risks and uncertainties may cause actual results to differ materially from those indicated by the Company's forward-looking statements. In addition to the risks described under Part 1, Item 1A *"Risk Factors"* in the Company's most recent annual report on Form 10-K, factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to: economic conditions (both generally and more specifically in the markets in which the Company and its subsidiaries operate) and lower interest margins; competition for the Company's customers from other providers of financial services; deposit outflows or reduced demand for financial services and loan products; government legislation, regulation, and changes in monetary and fiscal policies (which changes from time to time and over which the Company has no control); changes in interest rates; changes in prepayment speeds of loans or investment securities; inflation; material unforeseen changes in the liquidity, results of operations, or financial condition of the Company's customers; changes in the level of non-performing assets and charge-offs; changes in the number of common shares outstanding; the capability of the Company to successfully enter into a definitive agreement for, close, and realize the benefits of anticipated transactions; unexpected claims or litigation against the Company; expected insurance or other recoveries; technological or operational difficulties; the impact of new accounting pronouncements and changes in policies and practices that may be adopted by regulatory agencies; acts of war or terrorism; the ability of the Parent Company to receive dividends from its subsidiaries; the impact of larger or similar financial institutions encountering difficulties, which may adversely affect the banking industry or the Company; the Company or its subsidiary bank's ability to maintain required capital levels and adequate funding sources and liquidity; and other risks or uncertainties detailed in the Company's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of the Company.

The Company's forward-looking statements are based on information available at the time such statements are made. The Company expressly disclaims any intent or obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or other changes.

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RESULTS OF OPERATIONS

Net income for the second quarter of 2018 was $5.8 million, or $.78 per common share, an increase of 30.5% compared to $4.5 million, or $.60 per common share, for the second quarter of 2017. For the six months ended June 30, 2018, net income was $11.5 million, or $1.53 per common share, an increase of 47.1% compared to $7.8 million, or $1.04 per common share, for the first six months of 2017.

The three and six months ended June 30, 2018 include pre-tax expenses of $467 thousand ($369 thousand after tax), or $.05 per common share, and $501 thousand ($396 thousand after tax), or $.05 per common share, respectively, related to the Company's agreement and plan of merger with and into WesBanco, Inc. ("WesBanco") announced during the second quarter of 2018. The first six months of 2017 includes pre-tax expenses of $472 thousand ($307 thousand after tax), or $.04 per common share, related to the Company's consolidation of its four bank subsidiaries and data processing subsidiary into one bank, which was completed in February 2017.

Selected income statement amounts and related data are summarized in the table below.

	Three Months Ended			Six Months Ended		
	June 30,			June 30,		
(In thousands except per share data)	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Interest income	$15,932	$14,830	$ 1,102	$31,276	$29,209	$ 2,067
Interest expense	966	881	85	1,853	1,797	56
Net interest income	14,966	13,949	1,017	29,423	27,412	2,011
Provision for loan losses	127	(499)	626	(134)	81	(215)
Net interest income after provision for loan losses	14,839	14,448	391	29,557	27,331	2,226
Noninterest income	5,973	5,102	871	11,174	10,353	821
Noninterest expenses	13,662	13,346	316	26,780	26,875	(95)
Income before income taxes	7,150	6,204	946	13,951	10,809	3,142
Income tax expense	1,303	1,722	(419)	2,463	2,998	(535)
Net income	$5,847	$4,482	$ 1,365	$11,488	$7,811	$ 3,677
Basic and diluted net income per common share	$.78	$.60	$ .18	$1.53	$1.04	$ .49
Cash dividends declared per common share	.125	.10	.025	.25	.20	.05
Weighted average common shares outstanding – basic and diluted	7,520	7,512	8	7,519	7,511	8

Return on average assets	1.42	%	1.09	%	33	bp	1.40	%	.95	%	45	bp
Return on average equity	12.04	%	9.45	%	259	bp	11.95	%	8.37	%	358	bp

bp – basis points.

The increase in net income in both the quarterly and six-month comparisons is attributed primarily to higher net interest income and noninterest income. Interest income continued to be positively affected by the rising interest rate environment and loan growth over the past twelve months. Noninterest income includes an $808 thousand net gain on the sale of 7,672 shares of VISA Class B stock during the second quarter of 2018. Further information related to the more significant components making up the changes in net income follows.

Net Interest Income

The overall interest rate environment at June 30, 2018 (as measured by the Treasury yield curve) increased during the quarter, but remained at very low levels when compared with long-term historical trends. During the quarter, the shape of the yield curve flattened as a result of yields on short-term maturities increasing more than yields on longer-term maturities. Yields for the two and three-year maturity periods were up 28 and 26 basis points, respectively, while yields on the ten and thirty-year maturities increased 13 and 2 basis points, respectively.

The Federal Reserve Board increased the short-term federal funds target interest rate 25 basis points during June 2018 to a range between 1.75% and 2.00% and has indicated that it will continue to assess realized and expected economic conditions relative to its objectives of maximum employment and two percent inflation when determining the timing and size of future adjustments to the target rate. At June 30, 2018, the national and Kentucky unemployment rates were 4.0% and 4.2%, respectively. The national inflation rate at June 30, 2018 was 2.9% based on the Consumer Price Index published by the Bureau of Labor Statistics, up from 2.1% at year-end 2017.

Net interest income increased $1.0 million, or 7.3%, and $2.0 million, or 7.3%, for the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. The increase was driven by overall loan growth and higher average rates earned on loans and investment securities, partially offset by a decline in the average balance of investment securities and higher average rates paid on deposits and borrowed funds. Net interest margin increased 19 and 18 basis points in the second quarter and six-month comparisons, respectively, reflecting the Company's efforts to improve net interest income and net interest margin through loan growth combined with continued refinement of the Company's investment securities portfolio.

Interest income on loans was up $932 thousand, or 7.7%, and $1.7 million, or 7.0%, in the three and six-month comparisons, respectively, driven by a higher average loan balance outstanding in both comparison periods. Average loans grew $58.4 million, or 5.9%, in the quarterly comparison and $60.0 million, or 6.1% in the year-to-date comparison.

Interest income on investment securities is down $91 thousand, or 3.6%, and $82 thousand, or 1.6% for the second quarter and first six months of 2018, respectively, compared to the same periods in 2017. Lower volume was partially offset by an increase in the average rate earned on investment securities. Average investment securities decreased $67.6 million, or 13.8%, and $61.2 million, or 12.5%, in the quarterly and year-to-date comparisons, respectively, as the result of deposit outflows and higher loan demand. As loan demand increases, the Company uses proceeds from maturities, calls, and sales of investment securities to fund higher-earning loans. The average rate earned on investment securities was up 12 basis points compared to both the year-ago quarter and six-month periods.

Interest expense on deposits was up $91 thousand, or 17.4%, and $144 thousand, or 13.6%, for the quarterly and year-to-date comparisons, respectively, driven by an increase in average rate paid, partially offset by a decline in the average balance of deposits. The average rate paid on deposits was up 4 and 3 basis points for the second quarter and first six months of 2018 compared to the same periods in 2017. The average rate on interest bearing demand deposits was up 17 basis points for the quarter and 16 basis points for the year-to-date which correlates to the increase in market rates and local market competition. Rates on time deposits decreased 4 and 6 basis points in the quarterly and year-to-date comparisons. The decline in average total deposits was driven by lower volume of time deposits partially offset by higher average interest bearing demand deposits. The Company has continued to aggressively reprice higher-rate maturing time deposits downward with lower rate offerings or to allow them to mature without renewal.

Interest expense on borrowed funds was down $6 thousand, or 1.7%, and $88 thousand, or 11.9%, for the second quarter and first six months of 2018, respectively, compared to the same periods in 2017, primarily due to a lower average balance of Federal Home Loan Bank (“FHLB”) advances. The lower average resulted from the maturity of advances in the amount of $10.0 million and $5.0 million during September and February 2017, respectively. The average rate paid on subordinated notes payable to the Company’s unconsolidated trusts, which is tied to the 3-month LIBOR, increased 110 and 89 basis points, in the second quarter and six month comparisons, respectively. The 3-month LIBOR was 2.34% as of the end of the quarter, up from 1.30% at June 30, 2017.

The average rate earned from interest income on loans and average interest rate paid on deposits, although rising, continue to be near historical lows as a result of the low interest rate environment, competitive pressures, and the Company’s ongoing strategy of being more selective in pricing its loans and deposits. The goal of this strategy is to improve credit quality, net interest income, overall profitability, and capital position.

The Company has improved its mix of earning assets and interest bearing liabilities mainly through growth in the loan portfolio over the past year combined with a significant decrease in lower-yielding investment securities and a decline in higher-rate borrowings. On an average basis, loans represented 66.2% of earning assets for the first six months of 2018, an increase of 330 basis points compared to 62.9% for the first six months of 2017. Loans typically involve an increase in credit risk and higher yields when compared to investment securities.

For the current quarter, net interest margin on a taxable equivalent basis was 3.88%, an increase of 19 basis points compared with 3.69% a year earlier. Net interest spread increased 17 basis points to 3.77%, up from 3.60% in the year-ago quarter. Net interest margin and spread for the current quarter were negatively impacted 3 and 2 basis points, respectively, by lower tax-equivalent adjustments related to tax-exempt loans and investment securities due to a reduction in Federal income tax rates that went into effect at the beginning of 2018.

For the first six months of 2018, net interest margin on a taxable equivalent basis was 3.82%, up 18 basis points from 3.64% in the comparable period a year ago. Net interest spread increased 17 basis points to 3.72%, up from 3.55% for the first six months of 2017. Net interest margin and spread for the current quarter were both negatively impacted 3 basis points by lower tax-equivalent adjustments related to tax-exempt loans and investment securities due to a reduction in Federal income tax rates that went into effect at the beginning of 2018.

The Company expects its net interest margin to stay relatively flat or trend slightly upward in the near term according to internal modeling using expectations about future market interest rates, loan volume, the maturity structure of the Company’s earning assets and liabilities, and other factors. Future results could be significantly different than current expectations.

The following tables present an analysis of net interest income for periods indicated.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

Three Months Ended June 30,	2018				2017			
	Average		Average		Average		Average	
(In thousands)	Balance	Interest	Rate		Balance	Interest	Rate	
Earning Assets								
Investment securities[1]								
Taxable	$331,071	$2,023	2.45	%	$370,020	$1,984	2.15	%
Nontaxable[2]	90,953	566	2.50		119,640	871	2.92	
Interest bearing deposits in banks, federal funds sold, and money market mutual funds	100,103	422	1.69		81,734	161	.79	
Loans[2,3,4]	1,041,521	13,076	5.04		983,139	12,179	4.97	
Total earning assets	1,563,648	$16,087	4.13	%	1,554,533	$15,195	3.92	%
Allowance for loan losses	(9,786)				(9,499)			
Total earning assets, net of allowance for loan losses	1,553,862				1,545,034			
Nonearning Assets								
Cash and due from banks	22,375				21,005			
Premises and equipment, net	31,292				31,923			
Other assets	44,186				62,245			
Total assets	$1,651,715				$1,660,207			
Interest Bearing Liabilities								
Deposits								
Interest bearing demand	$377,152	$281	.30	%	$345,206	$110	.13	%
Savings	418,397	123	.12		424,297	132	.12	
Time	205,953	210	.41		251,141	281	.45	
Federal funds purchased	-	-	-		4	-	-	
Short-term securities sold under agreements to repurchase	33,170	19	.23		31,712	14	.18	
Long-term securities sold under agreements to repurchase	273	1	.89		1,048	2	.77	
Federal Home Loan Bank advances	3,407	27	3.18		13,579	129	3.81	
Subordinated notes payable to unconsolidated trusts	33,506	305	3.65		33,506	213	2.55	
Total interest bearing liabilities	1,071,858	$966	.36	%	1,100,493	$881	.32	%
Noninterest Bearing Liabilities								
Demand deposits	357,156				341,535			
Other liabilities	27,839				27,421			
Total liabilities	1,456,853				1,469,449			
Shareholders' equity	194,862				190,758			
Total liabilities and shareholders' equity	$1,651,715				$1,660,207			
Net interest income		15,121				14,314		
TE basis adjustment		(155)				(365)		

Net interest income	$14,966			$13,949		
Net interest spread		3.77	%		3.60	%
Impact of noninterest bearing sources of funds		.11			.09	
Net interest margin		3.88	%		3.69	%

[1]Average yields on securities available for sale have been calculated based on amortized cost.

[2]Income and yield stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 21% for 2018 and 35% for 2017.

[3]Loan balances include principal balances on nonaccrual loans.

[4]Loan fees included in interest income amounted to $523 thousand and $429 thousand in 2018 and 2017, respectively.

Distribution of Assets, Liabilities and Shareholders' Equity: Interest Rates and Interest Differential

Six Months Ended June 30,	2018			2017		
	Average		Average	Average		Average
(In thousands)	Balance	Interest	Rate	Balance	Interest	Rate
Earning Assets						
Investment securities[1]						
Taxable	$336,689	$4,048	2.42 %	$369,820	$3,884	2.12 %
Nontaxable[2]	93,300	1,164	2.52	121,407	1,758	2.92
Interest bearing deposits in banks, federal funds sold, and money market mutual funds	101,294	797	1.59	87,174	327	.76
Loans[2,3,4]	1,039,038	25,594	4.97	979,063	23,975	4.94
Total earning assets	1,570,321	$31,603	4.06 %	1,557,464	$29,944	3.88 %
Allowance for loan losses	(9,800)			(9,473)		
Total earning assets, net of allowance for loan losses	1,560,521			1,547,991		
Nonearning Assets						
Cash and due from banks	22,337			23,234		
Premises and equipment, net	31,049			31,888		
Other assets	46,257			60,448		
Total assets	$1,660,164			$1,663,561		
Interest Bearing Liabilities						
Deposits						
Interest bearing demand	$379,245	$529	.28 %	$347,209	$201	.12 %
Savings	422,202	238	.11	422,763	256	.12
Time	212,327	433	.41	257,863	599	.47
Federal funds purchased	-	-	-	22	-	-
Short-term securities sold under agreements to repurchase	33,692	37	.22	32,717	37	.23
Long-term securities sold under agreements to repurchase	393	2	.89	1,168	4	.76
Federal Home Loan Bank advances	3,429	55	3.23	14,789	289	3.94
Subordinated notes payable to unconsolidated trusts	33,506	559	3.36	33,506	411	2.47
Total interest bearing liabilities	1,084,794	$1,853	.34 %	1,110,037	$1,797	.33 %
Noninterest Bearing Liabilities						
Demand deposits	353,670			339,276		
Other liabilities	27,782			25,981		
Total liabilities	1,466,246			1,475,294		
Shareholders' equity	193,918			188,267		
Total liabilities and shareholders' equity	$1,660,164			$1,663,561		
Net interest income		29,750			28,147	
TE basis adjustment		(327)			(735)	
Net interest income		$29,423			$27,412	
Net interest spread			3.72 %			3.55 %
Impact of noninterest bearing sources of funds			.10			.09
Net interest margin			3.82 %			3.64 %

[1]Average yields on securities available for sale have been calculated based on amortized cost.

[2]Income and yield stated at a fully tax equivalent basis using the marginal corporate Federal tax rate of 21% for 2018 and 35% for 2017.

[3]Loan balances include principal balances on nonaccrual loans.

[4]Loan fees included in interest income amounted to $821 thousand and $755 thousand in 2018 and 2017, respectively.

Analysis of Changes in Net Interest Income (tax equivalent basis)

(In thousands)	Variance	Variance Attributed to	
Three Months Ended June 30,	2018/2017[1]	Volume	Rate
Interest Income			
Taxable investment securities	$ 39	$ (938)	$ 977
Nontaxable investment securities[2]	(305)	(191)	(114)
Interest bearing deposits in banks, federal funds sold, and money market mutual funds	261	43	218
Loans[2]	897	725	172
Total interest income	892	(361)	1,253
Interest Expense			
Interest bearing demand deposits	171	11	160
Savings deposits	(9)	(9)	-
Time deposits	(71)	(48)	(23)
Federal funds purchased	-	-	-
Short-term securities sold under agreements to repurchase	5	1	4
Long-term securities sold under agreements to repurchase	(1)	(3)	2
Federal Home Loan Bank advances	(102)	(83)	(19)
Subordinated notes payable to unconsolidated trusts	92	-	92
Total interest expense	85	(131)	216
Net interest income	$ 807	$ (230)	$ 1,037
Percentage change	100.0 %	(28.5)%	128.5 %

(In thousands)	Variance	Variance Attributed to	
Six Months Ended June 30,	2018/2017[1]	Volume	Rate
Interest Income			
Taxable investment securities	$ 164	$ (796)	$ 960
Nontaxable investment securities[2]	(594)	(373)	(221)
Interest bearing deposits in banks, federal funds sold, and money market mutual funds	470	61	409
Loans[2]	1,619	1,473	146
Total interest income	1,659	365	1,294
Interest Expense			
Interest bearing demand deposits	328	21	307
Savings deposits	(18)	-	(18)
Time deposits	(166)	(96)	(70)
Federal funds purchased	-	-	-
Short-term securities sold under agreements to repurchase	-	2	(2)
Long-term securities sold under agreements to repurchase	(2)	(4)	2
Federal Home Loan Bank advances	(234)	(190)	(44)
Subordinated notes payable to unconsolidated trusts	148	-	148
Total interest expense	56	(267)	323

Net interest income	$ 1,603	$632	$971
Percentage change	100.0 %	39.4 %	60.6 %

[1]The changes that are not solely due to rate or volume are allocated on a percentage basis using the absolute values of rate and volume variances as a basis for allocation.

[2]Income stated at fully tax equivalent basis using the marginal corporate Federal tax rate of 21% for 2018 and 35% for 2017.

Provision for Loan Losses

The provision for loan losses represents charges or credits to earnings that are necessary to maintain an allowance for loan losses at an adequate level to cover credit losses specifically identified in the loan portfolio, as well as management's best estimate of incurred probable loan losses in the remainder of the portfolio at the balance sheet date. The credit quality of the Company's loan portfolio continued recent trends of improvement during the current quarter, as certain credit quality metrics further improved upon recent quarterly bests.

The Company recorded a provision for loan losses in the amount of $127 thousand for the current quarter and a credit to the provision of $499 thousand for the year-ago quarter. For the first six months of 2018, the Company recorded a credit to the provision of $134 thousand compared with a provision of $81 thousand in the year ago period. The allowance for loan losses as a percentage of outstanding loans was 0.94% at June 30, 2018 compared to 0.94% and 0.93% at year-end 2017 and June 30, 2017, respectively. The provision for the current quarter was driven by loan growth, partially offset by a decline in specific reserves on impaired loans of $131 thousand and net recoveries of previously charged-off loans of $126 thousand. For the first six months of 2018, the credit to the provision was driven by net recoveries of $352 thousand and a decline in specific reserves on impaired loans of $140 thousand, partially offset by loan portfolio growth. Net recoveries in the three and six months ended June 30, 2018 include $239 thousand and $458 thousand, respectively, from a real estate development project. The Company recorded a total of $2.4 million in principal charge-offs primarily between 2010 and 2012 related to this project. Recoveries in the current quarter bring the total recoveries related to this project to $2.4 million.

Overall credit quality metrics of the loan portfolio have continued to improve. Nonperforming loans, impaired loans, loans graded as substandard or below, and watch list loans have each declined when compared with a year earlier even though total loans outstanding have increased $75.2 million, or 7.6%, over that period of time. For further information about improvements in the Company's overall credit quality, please refer to the discussion under the captions *"Allowance for Loan Losses"* and *"Nonperforming Loans"* that follows.

Noninterest Income

The components of noninterest income are as follows for the periods indicated:

	Three months ended June 30				Six months ended June 30			
			Change				Change	
(Dollars in thousands)	2018	2017	$	%	2018	2017	$	%
Service charges and fees on deposits	$1,897	$2,012	$(115)	(5.7)%	$3,809	$3,970	$(161)	(4.1)%
Allotment processing fees	677	651	26	4.0	1,397	1,366	31	2.3

Other service charges, commissions, and fees	1,490	1,328	162	12.2	2,862	2,700	162	6.0
Trust income	695	626	69	11.0	1,484	1,330	154	11.6
Net loss on sales of available for sale investment securities	-	(1)	1	(100.0)	-	(10)	10	(100.0)
Net gain on sales of equity investment securities	808	-	808	NM	808	-	808	NM
Gain on sale of mortgage loans, net	104	189	(85)	(45.0)	199	343	(144)	(42.0)
Income from company-owned life insurance	213	221	(8)	(3.6)	506	456	50	11.0
Other	89	76	13	17.1	109	198	(89)	(44.9)
Total noninterest income	$5,973	$5,102	$871	17.1 %	$11,174	$10,353	$821	7.9 %

NM – not meaningful.

The more significant items impacting noninterest income in the comparison are included below.

Service charges and fees on deposits were down in the three and six month comparisons due to lower dormant account fees of $84 thousand, or 12.8%, and $157 thousand, or 11.9%, respectively. Dormant fees were down primarily due to a decline in certain savings account balances.

Allotment processing fees in the second quarter and first six months of 2018 include extra processing periods compared to the same periods of the prior year due to the timing of scheduled transactions, which offset an overall reduction in processing volume. Allotment processing fees continued to be affected by lower processing volume, led by the U.S. Department of Defense policy that became effective January 1, 2015, restricting the types of purchases active service members are able to make using the military allotment system for payment. The rate of decline in allotment processing fees began to subside during 2017 and the Company is beginning to see higher volume from new customers as it continues efforts to diversify its customer base and expand its payment processing options.

Nondeposit service charges, commissions, and fees were up due to higher interchange fees of $109 thousand, or 13.5%, and $155 thousand, or 9.7%, in the quarterly and year-to-date comparisons, respectively, due to higher transaction volume as well as an increase in the rate earned on certain transactions. During the first quarter of 2018, the Company condensed its debit payments networks for certain PIN/POS transactions into a single network, which resulted in higher rates earned per transaction.

The increase in trust income was driven by a revision of fee schedules and an increase in the market value of accounts. The Company standardized the fee schedules for its trust services following the consolidation of its subsidiaries in 2017. The new fee schedule became effective for new customer accounts during the second quarterA of 2017 and effective for existing accounts as of January 1, 2018, resulting in higher overall fee rates.

During the current quarter the Company recognized a net gain on equity investment securities of $808 thousand related to the sale of all of its 7,672 shares of VISA Class B stock during the current quarter. The shares were acquired with a zero cost basis in 2008 as a result of the initial public offering of VISA.

Net gains on the sale of mortgage loans were down in the comparisons mainly due to lower sales volume, partially offset by an increase in fees earned per loan sold beginning in 2018. Sales of mortgage loans decreased $4.0 million, or 57.6%, in the quarterly comparison and $8.0 million, or 59.8%, in the six-month comparison. The decrease in sales activity is mainly the result of the Company retaining a limited amount of certain mortgage loans that meet specific criteria in order to grow its loan portfolio.

The increase in income from company-owned life insurance in the year-to-date comparison is primarily due to a tax-free death benefit received in excess of the cash surrender value of $67 thousand during the first quarter of 2018.

Other noninterest income during the current year includes a net unrealized loss on equity securities of $79 thousand related to the adoption of Accounting Standards Update (“ASU”) 2016-01 at the beginning of 2018 which requires equity investments to be measured at fair value with changes in the fair value recognized through net income. Prior to 2018, changes in the fair value of equity securities were recognized through accumulated other comprehensive income.

Noninterest Expense

The components of noninterest expense are as follows for the periods indicated:

	Three Months Ended June 30				Six Months Ended June 30			
			Change				Change	
(Dollars in thousands)	2018	2017	$	%	2018	2017	$	%
Salaries and employee benefits	$7,410	$7,475	$(65)	(0.9)%	$14,900	$15,335	$(435)	(2.8)%
Occupancy expenses, net	1,177	1,135	42	3.7	2,431	2,349	82	3.5
Equipment expenses	678	599	79	13.2	1,279	1,152	127	11.0
Data processing and communication expenses	1,055	1,093	(38)	(3.5)	2,138	2,386	(248)	(10.4)
Bank franchise tax	525	609	(84)	(13.8)	1,025	1,166	(141)	(12.1)
Deposit insurance expenses	116	130	(14)	(10.8)	242	267	(25)	(9.4)
Other real estate expenses, net	522	326	196	60.1	639	400	239	59.8
Other	2,179	1,979	200	10.1	4,126	3,820	306	8.0
Total noninterest expense	$13,662	$13,346	$316	2.4 %	$26,780	$26,875	$(95)	(0.4)%

Noninterest expense for the three and six months ended June 30, 2018 includes $467 thousand and $501 thousand, respectively, related to the Company’s agreement and plan of merger with and into WesBanco announced during the second quarter of 2018 (the “Merger”). Noninterest expense for the prior year includes $472 thousand related to the consolidation of the Company’s subsidiaries that was completed during the first quarter of 2017. The more significant items impacting noninterest expense in the comparison are included below.

The decrease in salaries and employee benefits in the quarterly comparison was led by a decline in salaries and related payroll taxes of $133 thousand, or 2.2%, mainly due to retention payments of $201 thousand during the second quarter of 2017 related to the consolidation of subsidiaries. Benefit expenses were up $88 thousand, or 8.8%, in the quarterly comparison, primarily due to higher claims activity of the Company’s self-funded health insurance plan.

The decrease in salaries and employee benefits in the year-to-date comparison was led by a decline in salaries and related payroll taxes of $435 thousand, or 3.5%, driven by retention payments of $201 thousand during the second quarter of 2017 and the reduction in workforce related to the subsidiary consolidation plan completed during the first quarter of 2017. The Company had an average of 425 full time equivalent employees for the first six months of 2018, down from an average of 445 in the year-ago period. Salaries and employee benefits for the first six months of 2017 include severance pay expense of $301 thousand. There were no similar expenses during the first six months of 2018. Benefit expenses were up $219 thousand, or 10.9%, in the year-to-date comparison, primarily due to higher claims activity of the Company’s self-funded health insurance plan.

In connection with the merger of certain of its subsidiaries in February 2017, the Company revalued its postretirement medical benefits plan liability due to the reduction in workforce. This resulted in a curtailment gain of $417 thousand, which is recorded in other noninterest expense, and prior service costs of $66 thousand, which is recorded in salaries and employee benefits, for a net gain of $351 thousand at the time of curtailment during the first quarter of 2017.

Net occupancy expenses were up in both comparisons due primarily to higher building maintenance expenses of $48 thousand, or 30.9%, and $108 thousand, or 31.7%, for the three and six months ended June 30, 2018, respectively, compared to the same periods a year earlier. The increase in equipment expenses for both comparisons was driven by higher software costs and depreciation.

The decline in data processing and communication expenses in the six-month comparison was primarily due to $127 thousand related to the consolidation of subsidiaries in the first quarter of 2017. The reduction in bank franchise taxes in both comparisons is primarily due to a lower tax base and a refinement of the accrual in the current year.

The increase in expenses related to repossessed real estate was mainly the result of higher write-downs of $222 thousand, or 92.5%, in the quarterly comparison. For the year-to-date comparison, the increase was the result of a net loss on the sale of property of $76 thousand compared to a net gain of $72 thousand in the prior year combined with higher write-downs of $145 thousand, or 41.4%.Impairment charges during the quarter include $439 thousand related to a real estate development property written down to its estimated fair value less cost to sell due to an updated appraisal being obtained.

Other noninterest expenses also includes legal and consultant fee expenses in the current quarter of $384 thousand related to the Merger. Supplies expense declined $119 thousand, or 42.4%, mainly due to additional purchases in the year-ago quarter related to the consolidation and the timing of the replenishment of operational supplies.

Income Taxes

Income tax expense was $1.3 million for the current quarter, a decrease of $419 thousand, or 24.3%, compared to $1.7 million for the second quarter of 2017. The effective income tax rates were 18.2% and 27.8% for the current and year-ago quarters, respectively. For the first six months of 2018, income tax expense was $2.5 million, a decrease of $535 thousand, or 17.8%, compared to $3.0 million for 2017. The effective income tax rates were 17.7% and 27.7% for the current and year-ago periods, respectively. Tax expense and the effective tax rate declined as a result of the decrease in the top Federal income tax rate from 35% to 21% that went into effect in 2018.

FINANCIAL CONDITION

Total assets were $1.6 billion at June 30, 2018, a decrease of $41.9 million, or 2.5%, from year-end 2017, led by a decline in investment securities of $43.2 million and lower cash and cash equivalents of $27.2 million, partially offset by an increase in loans, net of allowance, of $28.7 million. Liabilities were down $46.4 million, or 3.1%, mainly due to a decrease in deposits, and equity increased $4.5 million, or 2.3%, in the comparison. Selected balance sheet amounts and related data are presented in the table below and discussion that follows.

(Dollars in thousands, except per share data)	June 30, 2018	December 31, 2017	Increase (Decrease)	%
Cash and cash equivalents	$93,246	$120,408	$ (27,162)	(22.6)%
Investment securities	384,389	427,617	(43,228)	(10.1)
Loans, net of allowance of $10,001 and $9,783	1,054,214	1,025,480	28,734	2.8
Other real estate owned	4,031	5,489	(1,458)	(26.6)
Other assets	96,082	94,878	1,204	1.3
Total assets	$1,631,962	$1,673,872	$ (41,910)	(2.5)%
Deposits	$1,334,787	$1,379,903	$ (45,116)	(3.3)%
Securities sold under agreements to repurchase	33,532	34,252	(720)	(2.1)
Other borrowings	36,898	36,985	(87)	(0.2)
Other liabilities	28,853	29,379	(526)	(1.8)
Total liabilities	1,434,070	1,480,519	(46,449)	(3.1)
Common stock	940	940	-	-

Capital surplus	52,348	52,201	147	0.3
Retained earnings	153,442	143,778	9,664	6.7
Accumulated other comprehensive loss	(8,838)	(3,566)	(5,272)	147.8
Total shareholders’ equity	197,892	193,353	4,539	2.3
Total liabilities and shareholders’ equity	$1,631,962	$1,673,872	$(41,910)	(2.5)%
End of period tangible book value per common share[1]	$26.31	$25.72	$.59	2.3 %
End of period per common share closing price	52.10	38.50	13.60	35.3

[1]Represents total common equity less intangible assets divided by the number of common shares outstanding at the end of the period.

Cash and cash equivalents declined as the result of the outflow of deposits and funding new loans. The increase in loans was driven mainly by commercial real estate lending, followed by commercial and industrial lending.

The decline in total liabilities was driven by lower deposits. Deposits were down primarily from a decrease in time deposits and interest bearing demand deposits, which was driven by a decline in public funds of $24.0 million.

Shareholders’ equity was up primarily due to net income of $11.5 million, partially offset by other comprehensive loss of $5.2 million and dividends declared on common stock of $1.9 million. Other comprehensive loss was driven by an increase in the after-tax unrealized loss of $5.2 million related to the available for sale investment securities portfolio.

Temporary Investments

Temporary investments consist of interest bearing deposits in other banks, federal funds sold, and money market mutual funds. The Company uses these funds in the management of liquidity and interest rate sensitivity, as a short-term holding prior to subsequent movement into other investments with higher yields, or for other purposes. At June 30, 2018, temporary investments were $69 million, a decrease of $25.5 million, or 26.9%, from year-end 2017.

Investment Securities

The investment securities portfolio is comprised primarily of residential mortgage-backed securities, tax-exempt securities of states and political subdivisions, and debt securities issued by U.S. government-sponsored agencies. Substantially all of the Company's investment securities are designated as available for sale debt securities. Proceeds received from maturing or called investment securities not needed to fund higher-earning loans are either reinvested in similar investments or used to manage liquidity, such as for deposit outflows or other payment obligations. Total investment securities had a carrying amount of $384 million at June 30, 2018, a decrease of $43.2 million, or 10.1%, compared to $428 million at year-end 2017.

The decline in investment securities was driven by net maturities and calls totaling $35.0 million, lower pre-tax market values related to the available for sale portfolio of $6.6 million, and net premium amortization of $1.2 million. The decrease in the market value of the available for sale portfolio correlates with an overall increase in market interest rates during the quarter. As market interest rates rise, the value of fixed rate investments generally declines.

Loans

Loans were $1.1 billion at June 30, 2018, up $29.0 million, or 2.8%, compared to year-end 2017 despite early payoffs of several larger-balance loans totaling $17.9 million in the aggregate. The loan portfolio has grown in nine of the last twelve quarters and is at the highest level since the fourth quarter of 2011.

From time to time the Company may purchase a limited amount of loans originated by otherwise nonaffiliated third parties. The Company performs its own risk assessment and makes the credit decision on each loan prior to purchase. The Company purchased smaller balance commercial loans totaling $1.2 million and $1.8 million in the aggregate during the first six months of 2018 and 2017, respectively. The average amount of the purchased loans was $100 thousand for 2018 and $150 thousand for 2017.

The composition of the loan portfolio is summarized in the table below.

	June 30, 2018		December 31, 2017	
(Dollars in thousands)	Amount	%	Amount	%
Real estate mortgage – construction and land development	$128,183	12.0 %	$129,181	12.5 %
Real estate mortgage – residential	350,778	33.0	355,304	34.3
Real estate mortgage – farmland and other commercial enterprises	457,014	42.9	432,321	41.8
Commercial, financial, and agriculture	120,978	11.4	110,542	10.7
Installment	7,262	.7	7,915	.7
Total	$1,064,215	100.0%	$1,035,263	100.0%

On an average basis, loans represented 66.2% of earning assets for the first six months of 2018, an increase of 288 basis points compared to 63.3% for the full year of 2017. The increase in the level of loans as a percentage of earning assets reflects the overall growth in the loan portfolio over the past year combined with a decrease in investment securities. The increase in loans in recent periods has been funded primarily by cash flows from the investment portfolio. Loans typically involve an increase in credit risk and higher yields when compared to investment securities and temporary investment alternatives.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management believes is adequate to cover probable losses in the loan portfolio. The determination of the appropriate level of allowance for loan losses requires significant judgment in order to reflect credit losses specifically identified in the Company’s loan portfolio as well as management's best estimate of probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance for loan losses is a valuation allowance increased by the provision for loan losses and decreased by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses and the related provision for loan losses generally fluctuate as the relative level of nonperforming and impaired loans vary. However, other factors impact the amount of the allowance such as the Company’s historical loss experience, the financial condition of its borrowers, general economic conditions, and other qualitative risk factors as described in greater detail in the Company’s most recent annual report on Form 10-K.

The allowance for loan losses was $10.0 million, or 0.94% of outstanding loans, at June 30, 2018, up $218 thousand compared to $9.8 million, or 0.94% of loans outstanding, at year-end 2017. The increase in the allowance was the result of net recoveries of $352 thousand, partially offset by a credit to the provision for loan losses of $134 thousand. The allowance as a percentage of loans outstanding was unchanged from the prior year-end as the level of allowance kept pace with the increase in loans of $29.0 million. As a percentage of nonperforming loans, the allowance for loan losses was 64.7% at June 30, 2018 compared to 63.7% at year-end 2017. The relatively low amount of the allowance for loan losses as a percentage of nonperforming loans is due mainly to the makeup of nonperforming loans as discussed further below.

Nonperforming loans include $11.4 million of accruing restructured loans, which represents 73.5% of total nonperforming loans at June 30, 2018. At year-end 2017, this amount was $11.5 million, or 74.7%. The allowance attributed to credits that are restructured with lower interest rates generally represents the difference in the present value of future cash flows calculated at the loan’s original effective interest rate and the new lower rate resulting from the restructuring. This typically results in a reserve for loan losses that is less severe than for other loans that are collateral dependent. The allowance specifically allocated to impaired loans, which includes restructured loans, was $3.0 million, or 13.8%, and $3.2 million, or 13.8% of such loans, at June 30, 2018 and year-end 2017, respectively. As a percentage of nonaccrual loans and loans past due 90 days or more and still accruing, the allowance for loan losses was 244% and 252% for the current quarter-end and year-end 2017, respectively.

The overall improvement in the credit quality of the loan portfolio experienced during 2017 continued during the first six months of 2018. Certain credit quality measures are summarized in the table that follows for the periods indicated. Several of these measures are at or near the best level in the last three years.

(In thousands)	June 30, 2018	December 31, 2017	June 30, 2017	Three-year High[1]	Three-year Low[1]
Nonperforming loans	$15,467	$15,369	$26,844	$32,356	$ 15,141
Nonaccrual loans	4,102	3,887	4,427	8,380	3,719
Loans past due 30-89 days and still accruing	783	2,099	1,218	2,719	588
Loans graded substandard or below	29,535	30,121	35,325	44,220	29,535
Impaired loans	22,089	23,141	39,196	43,395	22,089
Loans, net of unearned income	1,064,215	1,035,263	989,049	1,064,215	935,145

[1]Based on quarter-end balances over the previous three years.

Nonperforming Loans

Nonperforming loans consist of nonaccrual loans, accruing restructured loans, and loans 90 days or more past due and still accruing interest. The accrual of interest on loans is discontinued when it is determined that the collection of interest or principal is doubtful, or when a default of interest or principal has existed for 90 days or more, unless such loan is well secured and in the process of collection.

Restructured loans occur when a lender, because of economic or legal reasons related to a borrower's financial difficulty, grants a concession to the borrower that it would not otherwise consider. Restructured loans typically include a reduction of the stated interest rate or an extension of the maturity date, among other possible concessions. The Company gives careful consideration to identifying which of its challenged credits merit a restructuring of terms that it believes will result in maximum loan repayments and mitigation of possible losses. Cash flow projections are carefully scrutinized prior to restructuring any credits; past due credits are typically not granted concessions.

Nonperforming loans were $15.5 million at June 30, 2018, an increase of $98 thousand, or 0.6%, compared to $15.4 million at year-end 2017. Nonaccrual loans were up $215 thousand, or 5.5%, driven by the addition of one credit relationship of $549 thousand secured by commercial real estate. Accruing restructured loans decreased $117 thousand, or 1.0%. Loan payments include $751 thousand related to nonaccrual loans during the first six months of 2018.

Accruing restructured loans make up $11.4 million, or 73.5%, of the Company's nonperforming loans at June 30, 2018. Additionally, two larger balance credits account for $10.2 million, or 89.9%, of total restructured loans.

Nonperforming loans, presented by class, were as follows for the periods indicated:

Nonperforming Loans

(In thousands)	June 30, 2018	December 31, 2017
Nonaccrual Loans		
Real Estate		
Real estate mortgage – construction and land development	$149	$ 151
Real estate mortgage – residential	1,441	1,763
Real estate mortgage – farmland and other commercial enterprises	2,355	1,752
Commercial		
Commercial and industrial	11	53
Consumer		
Unsecured	146	168
Total nonaccrual loans	$4,102	$ 3,887
Restructured Loans		
Real Estate		
Real estate mortgage – construction and land development	$1,595	$ 1,955
Real estate mortgage – residential	5,618	5,326
Real estate mortgage – farmland and other commercial enterprises	3,660	3,703
Commercial		

Commercial and industrial	367	370
Consumer		
Unsecured	125	128
Total restructured loans	$ 11,365	$ 11,482
Past Due 90 Days or More and Still Accruing	$ -	$ -
Total nonperforming loans	$ 15,467	$ 15,369
Ratio of total nonperforming loans to total loans	1.5 %	1.5 %

The most significant components of nonperforming loans include nonaccrual and restructured loans. Activity during 2018 related to these two components was as follows:

(In thousands)	Nonaccrual Loans	Restructured Loans
Balance at December 31, 2017	$ 3,887	$ 11,482
Additions	1,183	-
Principal paydowns	(751)	(117)
Charge-offs	(217)	-
Balance at June 30, 2018	$ 4,102	$ 11,365

The Company's comprehensive risk-grading and loan review program includes a review of loans to assess risk and assign a grade to those loans, a review of delinquencies, and an assessment of loans for needed charge-offs or placement on nonaccrual status. The Company had loans in the amount of $30.7 million and $32.7 million at June 30, 2018 and year-end 2017, respectively, which were performing but considered potential problem loans and are not included in the nonperforming loan totals in the table above. These loans, however, are considered in establishing an appropriate allowance for loan losses. Potential problem loans include a variety of borrowers and are secured primarily by various types of real estate including commercial, construction properties, and residential real estate developments. At June 30, 2018, the five largest potential problem credits were $7.6 million in the aggregate compared to $9.3 million at year-end 2017.

Potential problem loans are identified on the Company's watch list and consist of loans that require close monitoring by management. Credits may be considered as a potential problem loan for reasons that are temporary or correctable, such as for a deficiency in loan documentation or absence of current financial statements of the borrower. Potential problem loans may also include credits where adverse circumstances are identified that may affect the borrower's ability to comply with the contractual terms of the loan. Other factors which might indicate the existence of a potential problem loan include the delinquency of a scheduled loan payment, deterioration in a borrower's financial condition identified in a review of periodic financial statements, a decrease in the value of the collateral securing the loan, or a change in the economic environment in which the borrower operates. Certain loans on the Company's watch list are also considered impaired and specific allowances related to these loans are established in accordance with the appropriate accounting guidance.

Other Real Estate

OREO includes real estate properties acquired by the Company through, or in lieu of, actual foreclosure. At June 30, 2018, OREO was $4.0 million, a decrease of $1.5 million, or 26.6%, compared to $5.5 million at year-end 2017. The decrease was primarily due to sales activity, driven by the sale of four real estate development properties that sold for $526 thousand with a related loss of $61 thousand. OREO has declined $48.5 million or 92.3% from its peak of $52.6 million, which occurred at year-end 2012. A summary of OREO activity for 2018 follows.

(In thousands)	Amount
Balance at December 31, 2017	$5,489
Transfers from loans and other increases	126
Proceeds from sales	(1,013)
Loss on sales, net	(76)
Write-downs	(495)
Balance at June 30, 2018	$4,031

Deposits

A summary of the Company's deposits are as follows for the periods indicated:

(In thousands)	End of Period June 30, 2018	December 31, 2017	Increase (Decrease)	Average Six Months June 30, 2018	Twelve Months December 31, 2017	Increase (Decrease)
Noninterest Bearing	$357,657	$361,855	$ (4,198)	$353,670	$347,355	$ 6,315
Interest Bearing						
Demand	366,847	379,027	(12,180)	379,245	356,023	23,222
Savings	411,096	416,163	(5,067)	422,202	418,507	3,695
Time	199,187	222,858	(23,671)	212,327	245,215	(32,888)
Total interest bearing	977,130	1,018,048	(40,918)	1,013,774	1,019,745	(5,971)
Total Deposits	$1,334,787	$1,379,903	$ (45,116)	$1,367,444	$1,367,100	$ 344

The decline in total end of period deposits was driven by lower time deposits and interest bearing demand deposits. The decrease in time deposits is a result of the Company's overall high liquidity position and a strategy to minimize overall funding costs, mainly by allowing higher-rate certificates of deposit to roll off or reprice at lower interest rates. Many of those balances have been moved into noninterest bearing demand or lower-rate interest bearing demand or savings accounts or withdrawn by customers seeking higher returns. The decline in interest bearing demand deposits was driven by fluctuations in public funds, which were down $24.0 million, or 14.7% compared to year-end. The Company has not sought out or accepted brokered deposits in the past nor does it have plans to do so in the future.

Borrowed Funds

Total borrowed funds were $70.4 million at June 30, 2018, down $807 thousand, or 1.1%, from year-end 2017. The decrease in borrowed funds was driven by securities sold under agreements to repurchase, which were $33.5 million at quarter-end, down $720 thousand, or 2.1%, from year-end. Securities sold under agreements to repurchase represent funds that have been swept out of the deposit accounts into repurchase agreements to facilitate the needs of certain qualifying customers, primarily commercial. Such transactions are accounted for as secured borrowings.

LIQUIDITY

The primary source of funds for the Parent Company is the receipt of dividends from its subsidiary bank, United Bank & Capital Trust Company ("United Bank" or the "Bank"), balances of cash and cash equivalents maintained, and borrowings from nonaffiliated sources. Primary uses of cash include the payment of dividends to its shareholders, paying interest on borrowings, and payments to fund general operating expenses.

Payments of dividends to the Parent Company by the Bank are subject to certain regulatory restrictions as set forth in national and state banking laws and regulations. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it is already undercapitalized. Capital ratios at the Bank exceed regulatory established "well-capitalized" status at June 30, 2018 under the prompt corrective action regulatory framework. The federal banking agencies may prevent the payment of a dividend if they determine that the payment would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

The Parent Company had cash and cash equivalents of $63.9 million and $61.6 million at June 30, 2018 and year-end 2017, respectively. Significant cash receipts for 2018 include dividend payments from United Bank of $5 million. Significant cash payments include $1.9 million and $420 thousand for the payment of dividends on common stock and interest on subordinated notes payable, respectively.

The Company's objective as it relates to liquidity is to ensure that the Bank has funds available to meet deposit withdrawals and credit demands without unduly penalizing profitability. In order to maintain a proper level of liquidity, the Bank has several sources of funds available on a daily basis. For assets, those sources of funds include liquid assets that are readily marketable or that can be pledged, or which mature in the near future. These assets primarily include cash and due from banks, federal funds sold, investment securities, and cash flow generated by the repayment of principal and interest on loans and investment securities. For liabilities, sources of funds primarily include the Bank’s core deposits, FHLB and other borrowings, and federal funds purchased and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and investment securities are generally a predictable source of funds, deposit outflows and mortgage prepayments are influenced significantly by general interest rates, economic conditions, and competition in our local markets.

As of June 30, 2018, the Company had $425 million of additional borrowing capacity under various FHLB, federal funds, and other borrowing agreements. However, there is no guarantee that these sources of funds will continue to be available to the Company, or that current borrowings can be refinanced upon maturity, although the Company is not aware of any events or uncertainties that are likely to cause a decrease in the Company’s liquidity from these sources. The Company’s borrowing capacity was $406 million at year-end 2017.

For the longer term, the liquidity position is managed by balancing the maturity structure of the balance sheet. This process allows for an orderly flow of funds over an extended period of time. The Company’s Asset and Liability Management Committee meets regularly and monitors the composition of the balance sheet to ensure comprehensive management of interest rate risk and liquidity.

Liquid assets consist of cash and cash equivalents, available for sale debt securities, and equity investment securities. At June 30, 2018, consolidated liquid assets were $475 million, down $69.9 million, or 12.8%, compared to $545 million at year-end 2017. The Company’s liquidity position remains elevated mainly as a result of the Company’s overall net funding position. The overall funding position of the Company changes as loan demand, deposit levels, and other sources and uses of funds fluctuate.

Net cash provided by operating activities was $14.5 million and $13.4 million for the first six months of 2018 and 2017, respectively. This represents an increase of $1.1 million, or 8.3%. Net cash provided by investing activities was $6.0 million for the first six months of 2018 compared to a net use of cash of $1.5 million for the first six months of the prior year. The change was primarily driven by investment securities activity, partially offset by loan activity. The Company had net cash proceeds of $35.0 million related to investment securities for 2018, up $16.1 million compared with the year-ago period with most of the proceeds generally used to fund loan growth during the period. Net cash inflows represent proceeds from the sale, maturity, and call of investment securities in excess of purchases. For loans, the Company had cash outflows representing overall net principal advances of $28.4 million for 2018, up $11.3 million from a year earlier.

Net cash used in financing activities was $47.7 million and $27.4 million for the first six months of 2018 and 2017, respectively. This represents an increase of $20.3 million, or 74.3%, driven primarily by deposit activity. For 2018, cash outflows from deposits were $45.1 million, up $28.0 million compared to $17.1 million for the first six months of 2017. Short-term securities sold under agreements to repurchase declined $468 thousand during the first six months of 2018, down $3.1 million compared to a decrease of $3.5 million in the year-ago period. For 2018, the Company had net repayments of FHLB advances of $87 thousand compared to net repayments of $5.1 million in 2017.

Commitments to extend credit are entered into with customers in the ordinary course of providing traditional banking services and are considered in addressing the Company’s liquidity management. The Company does not expect these commitments to significantly affect the liquidity position in future periods. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options, or similar instruments.

CAPITAL RESOURCES

Shareholders’ equity was $198 million at June 30, 2018, an increase of $4.5 million, or 2.3%, compared to $193 million at year-end 2017. The increase in shareholders’ equity was driven by net income of $11.5 million, partially offset by higher accumulated other comprehensive loss of $5.3 million, and dividends declared on common stock of $1.9 million. The increase in accumulated other comprehensive loss is primarily due to a $5.2 million after-tax decline in the market value of the available for sale investment securities portfolio, which correlates with an overall increase in market interest rates during the quarter. As market interest rates rise, the value of fixed rate investments generally declines.

At June 30, 2018, the Company's tangible common equity ratio was 12.13%, an increase of 58 basis points compared to 11.55% at year-end 2017. The tangible common equity ratio represents tangible common equity as a percentage of tangible assets, which excludes intangible assets.

In July 2013, U.S. banking regulators adopted final rules related to standards on bank capital adequacy and liquidity (commonly referred to as "Basel III"). The rules were effective for the Company beginning on January 1, 2015, subject to a phase-in period for certain provisions extending through January 1, 2019. The rules include a new common equity Tier 1 capital ratio, an increase to the minimum Tier 1 capital ratio, an increase to risk-weightings of certain assets, implementation of a new capital conservation buffer in excess of the required minimum (which began being phased in during 2016), and changes to how regulatory capital is defined. At June 30, 2018, the Company and the Bank met the minimum capital ratios and a fully phased-in capital conservation buffer under the rules.

Consistent with the objective of operating a sound financial organization, the Company's goal is to maintain capital ratios well above the regulatory minimum requirements. The capital ratios of the Company and its subsidiary bank are presented in the following table for the dates indicated.

	June 30, 2018				December 31, 2017			
	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk -based Capital[1]	Tier 1 Leverage[2]	Common Equity Tier 1 Risk-based Capital[1]	Tier 1 Risk-based Capital[1]	Total Risk-based Capital[1]	Tier 1 Leverage[2]
Consolidated	17.13%	19.82 %	20.65 %	14.41 %	16.56%	19.30 %	20.12 %	13.75 %
United Bank	14.48	14.48	15.32	10.65	14.05	14.05	14.88	10.13
Regulatory minimum	4.50	6.00	8.00	4.00	4.50	6.00	8.00	4.00
Well-capitalized status	6.50	8.00	10.00	5.00	6.50	8.00	10.00	5.00

[1]Common Equity Tier 1 Risked-based, Tier 1 Risk-based, and Total Risk-based Capital ratios are computed by dividing a bank's Common Equity Tier 1, Tier 1 or Total Capital, as defined by regulation, by a risk-weighted sum of the bank's assets, with the risk weighting determined by general standards established by regulation.

[2]Tier 1 Leverage ratio is computed by dividing a bank's Tier 1 Capital by its total quarterly average assets, as defined by regulation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company uses a simulation model as a tool to monitor and evaluate interest rate risk exposure. The model is designed to measure the sensitivity of net interest income and net income to changing interest rates over future time periods. Forecasting net interest income and its sensitivity to changes in interest rates requires the Company to make assumptions about the volume and characteristics of many attributes, including assumptions relating to the replacement of maturing earning assets and liabilities. Other assumptions include, but are not limited to, projected prepayments, projected new volume, and the predicted relationship between changes in market interest rates and changes in customer account balances. These effects are combined with the Company’s estimate of the most likely rate environment to produce a forecast of net interest income and net income. The forecasted results are then adjusted for the effect of a gradual increase and decrease in market interest rates on the Company’s net interest income and net income. Because assumptions are inherently uncertain, the model cannot precisely estimate net interest income and net income or the effect of interest rate changes on net interest income and net income. Actual results could differ significantly from simulated results.

At June 30, 2018, the model indicated that if rates were to gradually increase by 150 basis points during the remainder of the calendar year, then net interest income and net income would increase 0.10% and 0.23%, respectively, for the year ending December 31, 2018 when compared to the forecasted results for the most likely rate environment. The model indicated that if rates were to gradually decrease by 150 basis points over the same period, then net interest income and net income would decrease 0.64% and 1.39%, respectively.

In the current low interest rate environment, it is not practical or possible to reduce certain deposit rates by the same magnitude as rates on earning assets. The average rate paid on the Company’s deposits is presently below 1.5%. This situation magnifies the model’s predicted results when modeling a decrease in interest rates, as earning assets with higher yields have more of an opportunity to reprice at lower rates than lower-rate deposits.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report, and have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that all material information required to be disclosed in this report has been made known to them in a timely fashion.

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes during the quarter ended June 30, 2018 in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On July 10, 2018, an alleged class action complaint was filed by a purported stockholder of the Company in the Franklin Circuit Court of the Commonwealth of Kentucky captioned *Parshall v. Farmers Capital Bank Corporation* (Case No. 18-CI-00699) against the Company, United Bank, the individual members of the board of directors of the Company ("Defendant Directors"), WesBanco, and WesBanco Bank, Inc. ("WesBanco Bank") (the "Complaint"). The Complaint related to the disclosures made by the Company and WesBanco with respect to the transactions contemplated by the Agreement and Plan of Merger, dated as of April 19, 2018, by and among the Company, WesBanco, United Bank, and WesBanco Bank (the "Merger Agreement"), providing for, among other things, the merger of the Company with and into WesBanco with WesBanco surviving (the "Proposed Merger"). Among other things, the Complaint alleges that the Definitive Proxy Statement filed by the Company with the Securities and Exchange Commission ("SEC") on June 15, 2018 failed to disclose allegedly material information, including information relating to the Company's financial projections and the valuation analyses performed by the Company's financial advisor in connection with the Proposed Merger, and that the Defendant Directors breached various of their fiduciary duties to the Company's shareholders and that the Company, United Bank, WesBanco, and WesBanco Bank aided and abetted those alleged breaches. The Complaint generally sought an injunction barring the defendants from consummating the Proposed Merger. Alternatively, the Complaint sought rescission of the Merger or rescissory damages. The Complaint also requests an accounting for all damages suffered as a result of the alleged claims asserted in the Complaint and an award of the costs incurred in prosecuting the case, including attorneys' and experts' fees and costs. WesBanco and the Company believe the allegations in the Complaint were without merit.

On July 18, 2018, in order to avoid the costs, disruption, and distraction of further litigation, in return for the plaintiff dismissing the Complaint with prejudice, the Company and WesBanco provided additional supplemental disclosures to the Proxy Statement/Prospectus related to the Proposed Merger, dated June 15, 2018. The Company, Wesbanco, and the other defendants deny all of the allegations made by the plaintiff in the Complaint and believe the disclosures in the Proxy Statement are adequate under the law. The plaintiff's counsel reserves the right to seek attorneys' fees and expenses. After discussion with legal counsel, management of the Company believes the potential amount of fees and expenses agreed upon, if any, will not have a material impact on the consolidated financial statements of the Company.

As of June 30, 2018, there were various other pending legal actions and proceedings against the Company arising from the normal course of business and in which claims for damages are asserted. It is the opinion of management, after discussion with legal counsel, that the disposition or ultimate resolution of such claims and legal actions will not have a material effect upon the consolidated financial statements of the Company.

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

During 2014, the Company changed the form of payment to its directors for board meeting and quarterly fees from 100% cash to 50% in cash and 50% in Company common stock. The shares are issued as part of a plan adopted by the Board of Directors. Each director has elected to participate by entering into an agreement with the Company to accept common stock in lieu of cash for 50% of the director's board meeting and quarterly fees. As the shares are only issued to directors as part of a plan approved by the Board, the shares are exempt from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), as a sale not involving any public offering under Section 4(2) of the 1933 Act. Attendance for committee meetings continues to be paid completely in cash. As employee directors are not paid director's fees, only non-employee directors receive stock under this plan.

The Company issued a total of 368 shares and 815 shares of common stock to its non-employee directors under this plan in the three and six months ended June 30, 2018, respectively, as compensation for director fees of $18 thousand and $36 thousand for those respective periods. The cash retained by the Company by issuing common stock in lieu of paying cash is used for general corporate purposes. There are no brokers involved in the issuance of stock to directors and no commissions or other broker fees are paid.

At various times, the Company's Board of Directors has authorized the purchase of shares of the Company's outstanding common stock. No stated expiration dates have been established under any of the previous authorizations. There were no shares of common stock repurchased by the Company during the quarter ended June 30, 2018. There are 84,971 shares that may still be purchased under the various authorizations, although no shares have been purchased since 2008.

Item 6. Exhibits

List of Exhibits

2.1	Agreement and Plan of Merger dated April 19, 2018 by and between WesBanco, Inc., WesBanco Bank, Inc., Farmers Capital Bank Corporation, and United Bank & Capital Trust Company (incorporated by reference to the Current Report on Form 8-K filed April 20, 2018 (File No. 000-14412)).
3.1	Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 000-14412)).
3.2	Articles of Amendment to Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation dated January 6, 2009 (incorporated by reference to the Current Report on Form 8-K dated January 13, 2009 (File No. 000-14412)).
3.3	Articles of Amendment to Second Amended and Restated Articles of Incorporation of Farmers Capital Bank Corporation dated November 16, 2009 (incorporated by reference to the Current Report on Form 8-K dated November 17, 2009 (File No. 000-14412)).
3.4	Amended and Restated Bylaws of Farmers Capital Bank Corporation (incorporated by reference to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (File No. 000-14412)).
4.1*	Junior Subordinated Indenture, dated as of July 21, 2005, between Farmers Capital Bank Corporation and Wilmington Trust Company, as Trustee, relating to unsecured junior subordinated deferrable interest notes that mature in 2035.
4.2*	Amended and Restated Trust Agreement, dated as of July 21, 2005, among Farmers Capital Bank Corporation, as Depositor, Wilmington Trust Company, as Property and Delaware Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).

4.3*	Guarantee Agreement, dated as of July 21, 2005, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.
4.4*	Junior Subordinated Indenture, dated as of July 26, 2005, between Farmers Capital Bank Corporation and Wilmington Trust Company, as Trustee, relating to unsecured junior subordinated deferrable interest notes that mature in 2035.
4.5*	Amended and Restated Trust Agreement, dated as of July 26, 2005, among Farmers Capital Bank Corporation, as Depositor, Wilmington Trust Company, as Property and Delaware Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).
4.6*	Guarantee Agreement, dated as of July 26, 2005, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.

4.7*	Indenture, dated as of August 14, 2007 between Farmers Capital Bank Corporation, as Issuer, and Wilmington Trust Company, as Trustee, relating to fixed/floating rate junior subordinated debt due 2037.
4.8*	Amended and Restated Declaration of Trust, dated as of August 14, 2007, by Farmers Capital Bank Corporation, as Sponsor, Wilmington Trust Company, as Delaware and Institutional Trustee, the Administrative Trustees (as named therein), and the Holders (as defined therein).
4.9*	Guarantee Agreement, dated as of August 14, 2007, between Farmers Capital Bank Corporation, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee.
10.1	Employee Stock Purchase Plan of Farmers Capital Bank Corporation (incorporated by reference to Form S-8 effective June 24, 2004 (File No. 333-116801)).
10.2	Nonqualified Stock Option Plan of Farmers Capital Bank Corporation (incorporated by reference to Form S-8 effective September 8, 1998 (File No. 333-63037)).
10.3	Employment agreement dated December 17, 2013 between Farmers Capital Bank Corporation and Rickey D. Harp (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 30, 2013 (File No. 000-14412)).
10.4	Employment agreement dated November 18, 2015 between Farmers Capital Bank Corporation and J. David Smith, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 19, 2015 (File No. 000-14412)).
10.5	Executive Short-Term Incentive Plan January 1, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 24, 2017).
10.6	Executive Short-Term Incentive Plan January 1, 2018 (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 6, 2017).
10.7	Employment agreement dated December 4, 2017 between Farmers Capital Bank Corporation and Lloyd C. Hillard, Jr. (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 8, 2017).
10.8	Employment agreement dated December 4, 2017 between Farmers Capital Bank Corporation and Mark A. Hampton (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 8, 2017).
31.1**	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32**	CEO & CFO Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101**	Interactive Data Files

* Exhibit not included pursuant to Item 601(b)(4)(iii) and (v) of Regulation S-K. The Company will provide a copy of such exhibit to the Securities and Exchange Commission upon request.

** Filed with this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 6, 2018	*/s/ Lloyd C. Hillard, Jr.* Lloyd C. Hillard, Jr. President and CEO (Principal Executive Officer)
Date: August 6, 2018	*/s/ Mark A. Hampton* Mark A. Hampton Executive Vice President, CFO, and Secretary (Principal Financial and Accounting Officer)