W.T.B. Financial Corporation

2018
Audited Financial Statements

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Selected Consolidated Financial Highlights

(unaudited) (dollars in thousands, except per share data)

	At or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
PERFORMANCE					
Net interest revenue, fully tax-equivalent	**$ 236,749**	$ 208,018	$ 182,948	$ 165,150	$ 157,228
Fully tax-equivalent adjustment	**497**	1,249	1,387	1,349	1,393
Net interest revenue	**236,252**	206,769	181,561	163,801	155,835
Provision for loan losses	**2,700**	-	2,250	2,667	6,000
Net interest revenue after provision for loan losses	**233,552**	206,769	179,311	161,134	149,835
Noninterest revenue	**51,008**	49,137	48,541	48,857	44,498
Noninterest expense	**180,124**	167,832	148,429	140,369	130,542
Income before provision for income taxes	**104,436**	88,074	79,423	69,622	63,791
Provision for income taxes	**21,380**	46,276	27,696	23,262	21,927
Net income	**83,056**	41,798	51,727	46,360	41,864
Preferred stock dividends	**-**	-	-	142	418
Net income available to common shareholders	**$ 83,056**	$ 41,798	$ 51,727	$ 46,218	$ 41,446
SELECTED YEAR-END DATA					
Interest-bearing deposits with banks	**$ 751,180**	$ 748,822	$ 326,002	$ 438,603	$ 344,438
Debt securities	**1,589,251**	1,387,176	1,384,817	1,162,292	907,333
Total loans	**4,047,398**	3,932,076	3,785,076	3,556,598	3,351,052
Allowance for loan losses	**90,749**	86,784	85,787	84,969	81,210
Earning assets	**6,420,888**	6,095,353	5,522,413	5,165,726	4,615,066
Total assets	**6,552,350**	6,246,093	5,668,953	5,305,272	4,771,922
Deposits	**5,638,923**	5,448,866	4,923,690	4,540,548	4,082,517
Interest-bearing liabilities	**3,485,267**	3,313,797	3,106,707	2,980,365	2,770,756
Preferred equity	**-**	-	-	-	19,571
Common equity	**602,665**	530,791	496,286	464,407	422,027
Total shareholders’ equity	**602,665**	530,791	496,286	464,407	441,598
Full-time equivalent employees	**996**	965	927	882	864
PER COMMON SHARE					
Net income available to common shareholders (basic)	**$ 32.52**	$ 16.42	$ 20.33	$ 18.19	$ 16.37
Net income available to common shareholders (diluted)	**32.42**	16.36	20.29	18.01	16.21
Common cash dividends	**4.60**	3.36	3.00	2.72	2.40
Common shareholders’ equity	**234.45**	206.48	193.66	180.79	164.93
PERFORMANCE RATIOS					
Return on average assets	**1.30%**	0.72%	0.98%	0.94%	0.92%
Return on average shareholders’ equity	**14.94%**	7.93%	10.53%	10.12%	9.14%
Margin on average earning assets	**3.77%**	3.66%	3.53%	3.42%	3.57%
Noninterest expense to average assets	**2.82%**	2.89%	2.81%	2.83%	2.87%
Efficiency ratio	**62.6%**	65.3%	64.1%	65.6%	64.7%
Net loans to deposits	**70.2%**	70.6%	75.1%	76.5%	80.1%
Total cash dividends to net income	**14.2%**	20.5%	14.8%	15.2%	15.5%
CAPITAL RATIOS					
Common equity to total assets	**9.20%**	8.50%	8.75%	8.75%	8.84%
Total equity to total assets	**9.20%**	8.50%	8.75%	8.75%	9.25%
Tier 1 leverage	**9.81%**	9.32%	9.59%	9.41%	9.87%
Common equity tier 1 capital	**13.36%**	12.41%	11.90%	11.98%	N/A
Tier 1 risk-based capital	**13.36%**	12.41%	11.90%	11.98%	12.70%
Total risk-based capital	**14.62%**	13.67%	13.16%	13.24%	13.96%
ASSET QUALITY RATIOS					
Allowance for loan losses to total loans	**2.24%**	2.21%	2.27%	2.39%	2.42%
Allowance for loan losses to noncurrent loans	**755.32%**	755.32%	597.57%	453.98%	285.36%
Net charge-offs (recoveries) to total average loans	**(0.03%)**	(0.03%)	0.04%	(0.03%)	0.22%
Noncurrent loans and ORE to assets	**0.18%**	0.19%	0.27%	0.36%	0.62%
Noncurrent loans, ORE and TDRs to assets	**0.20%**	0.21%	0.33%	0.64%	0.95%

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Financial Condition

	December 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	**$ 106,555,393**	$ 106,151,555
Interest-bearing deposits with banks	**751,180,001**	748,821,952
Securities available for sale, at fair value	**1,031,058,762**	906,663,938
Securities held to maturity, at amortized cost	**558,191,770**	480,511,844
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock, at cost	**7,540,600**	6,857,600
Loans receivable:		
Held for sale	**4,125,682**	21,068,365
Held in portfolio	**4,043,272,737**	3,911,007,180
Total loans	**4,047,398,419**	3,932,075,545
Allowance for loan losses	**(90,748,593)**	(86,784,229)
Loans net of allowance for loan losses	**3,956,649,826**	3,845,291,316
Premises and equipment, net	**55,522,989**	50,888,675
Other real estate, net	**-**	310,500
Deferred income taxes, net	**25,935,646**	25,539,866
Cash surrender value of life insurance, net	**8,173,904**	7,859,504
Accrued interest receivable	**20,929,201**	19,574,352
Prepaid expenses and other assets	**30,612,186**	47,621,692
Total assets	**$ 6,552,350,278**	$ 6,246,092,794
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 2,413,512,717**	$ 2,357,204,208
Interest-bearing	**3,225,410,150**	3,091,661,772
Total deposits	**5,638,922,867**	5,448,865,980
Securities sold under agreements to repurchase	**259,857,022**	222,135,525
Accrued interest payable	**2,084,277**	570,243
Other liabilities	**48,821,466**	43,730,063
Total liabilities	**5,949,685,632**	5,715,301,811
COMMITMENTS AND CONTINGENCIES (NOTE 18)		
SHAREHOLDERS' EQUITY		
Class C preferred stock, no par value, 500,000 shares authorized; no shares issued and outstanding	**-**	-
Class A common stock, no par value, 25,000 shares authorized, issued and outstanding	**250,000**	250,000
Class B common stock, no par value, 3,475,000 shares authorized; 2,545,547 shares issued and outstanding at December 31, 2018; 2,545,614 shares issued and outstanding at December 31, 2017	**32,174,650**	29,919,275
Surplus	**32,665,000**	32,665,000
Undivided profits	**584,433,474**	513,131,560
	649,523,124	575,965,835
Accumulated other comprehensive loss	**(46,858,478)**	(45,174,852)
Total shareholders' equity	**602,664,646**	530,790,983
Total liabilities and shareholders' equity	**$ 6,552,350,278**	$ 6,246,092,794

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income

	Years Ended December 31,		
	2018	2017	2016
INTEREST REVENUE			
Loans, including fees	**$ 202,233,603**	$ 179,649,629	$ 161,242,023
Deposits with banks	**15,399,484**	4,173,196	1,446,623
Securities:			
Taxable	**29,746,080**	27,029,269	22,571,811
Tax-exempt	**181,794**	104,953	110,020
Other interest and dividend income	**322,200**	91,610	129,549
Total interest revenue	**247,883,161**	211,048,657	185,500,026
INTEREST EXPENSE			
Demand and savings deposits	**8,021,236**	2,931,580	2,581,128
Time deposits	**3,158,146**	1,164,993	1,164,870
Securities sold under agreements to repurchase and other borrowings	**452,236**	182,936	193,039
Total interest expense	**11,631,618**	4,279,509	3,939,037
Net interest revenue	**236,251,543**	206,769,148	181,560,989
Provision for loan losses	**2,700,000**	-	2,250,000
Net interest revenue after provision for loan losses	**233,551,543**	206,769,148	179,310,989
NONINTEREST REVENUE			
Fiduciary income	**18,137,249**	14,643,254	13,565,832
Investment services fees	**3,528,012**	3,999,719	4,009,562
Bank card and credit card fees, net	**12,373,651**	11,667,417	11,444,237
Mortgage banking revenue, net	**5,820,035**	6,184,067	8,253,908
Other fees on loans	**1,005,992**	974,228	1,124,701
Service charges on deposits	**6,890,245**	6,909,474	6,698,751
Other service charges, commissions and fees	**856,015**	816,082	761,017
Net gains (losses) on other real estate	**(92,638)**	(11,649)	56,418
Gains on sale of securities, net	**-**	-	1,000,753
Other income	**2,489,859**	3,954,696	1,626,011
Total noninterest revenue	**51,008,420**	49,137,288	48,541,190
NONINTEREST EXPENSE			
Salaries	**87,933,587**	81,343,395	71,631,756
Pension and employee benefits	**18,443,654**	17,167,529	15,739,934
Occupancy expense	**11,223,110**	9,187,992	7,821,361
Furniture and equipment expense	**6,794,743**	6,399,417	6,459,633
Software expense	**8,526,011**	8,549,694	7,305,595
Data processing expense	**9,493,584**	9,506,732	8,963,687
Marketing and public relations	**5,275,673**	6,751,104	4,627,305
Professional fees	**6,099,407**	3,817,597	3,337,492
State revenue taxes	**2,695,992**	1,986,543	1,672,319
FDIC assessments	**2,436,447**	2,382,974	2,491,772
Other real estate operations	**18,677**	80,699	87,470
Other expense	**21,183,365**	20,658,741	18,290,656
Total noninterest expense	**180,124,250**	167,832,417	148,428,980
Income before provision for income taxes	**104,435,713**	88,074,019	79,423,199
Provision for income taxes	**21,379,897**	46,276,428	27,696,541
NET INCOME	**$ 83,055,816**	$ 41,797,591	$ 51,726,658

See notes to consolidated financial statements.

Continued

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income (continued)

	Years Ended December 31,		
	2018	2017	2016
PER SHARE DATA			
Weighted average number of common stock shares outstanding			
Basic	**2,553,971**	2,545,414	2,543,917
Diluted	**2,562,199**	2,554,837	2,549,894
Earnings per common share (based on weighted average shares outstanding)			
Basic	**$ 32.52**	$ 16.42	$ 20.33
Diluted	**$ 32.42**	$ 16.36	$ 20.29

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2018	2017	2016
NET INCOME	**$ 83,055,816**	$ 41,797,591	$ 51,726,658
Securities available for sale:			
Unrealized losses arising during the year	**(5,096,261)**	(325,412)	(16,645,512)
Income tax benefit related to unrealized losses	**1,070,215**	113,894	5,825,929
Reclassification adjustment for gains included in net income	**-**	-	(1,000,753)
Income tax expense related to reclassification adjustment for gains included in net income	**-**	-	350,264
Net change in unrealized losses	**(4,026,046)**	(211,518)	(11,470,072)
Defined benefit pension plan:			
Unrealized loss arising during the year	**(330,117)**	(3,393,248)	(2,687,260)
Income tax benefit related to unrealized loss	**69,325**	1,187,637	940,541
Reclassification adjustment for amounts included in net income	**3,295,205**	3,161,683	3,599,993
Income tax benefit related to reclassification adjustment for amounts included in net income	**(691,993)**	(1,106,589)	(1,259,998)
Net decrease (increase) in unrealized losses	**2,342,420**	(150,517)	593,276
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(1,683,626)**	(362,035)	(10,876,796)
COMPREHENSIVE INCOME	**$ 81,372,190**	$ 41,435,556	$ 40,849,862

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity

	Number of Common Shares Outstanding	Total Shareholders' Equity	Common Stock Class A	Common Stock Class B	Surplus	Accumulated Other Comprehensive Loss	Undivided Profits
Balance, December 31, 2015	2,568,805	$ 464,407,013	$ 250,000	$ 29,629,574	$ 32,665,000	$ (25,930,351)	$427,792,790
Net income, 2016	-	51,726,658	-	-	-	-	51,726,658
Other comprehensive loss, net of tax	-	(10,876,796)	-	-	-	(10,876,796)	-
Cash dividends of $3.00 per share	-	(7,634,318)	-	-	-	-	(7,634,318)
Share repurchase and retirement	(15,000)	(3,000,000)	-	(3,000,000)	-	-	-
Stock-based compensation	7,463	1,363,219	-	1,363,219	-	-	-
Stock-based directors' fees	1,350	300,132	-	300,132	-	-	-
Balance, December 31, 2016	2,562,618	496,285,908	250,000	28,292,925	32,665,000	(36,807,147)	471,885,130
Net income, 2017	-	41,797,591	-	-	-	-	41,797,591
Other comprehensive loss, net of tax	-	(362,035)	-	-	-	(362,035)	-
Reclassification of certain tax effects	-	-	-	-	-	(8,005,670)	8,005,670
Cash dividends of $3.36 per share	-	(8,556,831)	-	-	-	-	(8,556,831)
Stock-based compensation	7,150	1,355,629	-	1,355,629	-	-	-
Stock-based directors' fees	846	270,721	-	270,721	-	-	-
Balance, December 31, 2017	2,570,614	530,790,983	250,000	29,919,275	32,665,000	(45,174,852)	513,131,560
Net income, 2018	-	83,055,816	-	-	-	-	83,055,816
Other comprehensive loss, net of tax	-	(1,683,626)	-	-	-	(1,683,626)	-
Cash dividends of $4.60 per share	-	(11,753,902)	-	-	-	-	(11,753,902)
Share repurchase and retirement	(2,444)	(890,447)	-	(890,447)	-	-	-
Stock-based compensation	865	2,605,872	-	2,605,872	-	-	-
Stock-based directors' fees	1,512	539,950	-	539,950	-	-	-
Balance, December 31, 2018	2,570,547	$ 602,664,646	$ 250,000	$ 32,174,650	$ 32,665,000	$ (46,858,478)	$584,433,474

See notes to consolidated financial statements.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	**$ 83,055,816**	$ 41,797,591	$ 51,726,658
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**2,700,000**	-	2,250,000
Provision for losses on other real estate	**92,709**	-	183,878
Deferred income expense (benefit)	**(2,004,409)**	16,113,073	(1,043,243)
Depreciation	**6,372,906**	6,078,389	6,407,146
Amortization of software	**1,136,959**	1,325,692	1,802,075
Net premium amortization of securities	**2,858,093**	2,769,562	3,824,015
Change in mortgage servicing rights	**104,190**	151,310	146,991
Gains on sales of securities, net	**-**	-	(1,000,753)
(Gains) losses on sales of premises and equipment	**(664,431)**	892,546	1,147
(Gains) losses on sale of other real estate, net	**(71)**	11,649	(240,296)
Origination of loans held for sale	**(192,090,620)**	(210,035,622)	(321,748,885)
Proceeds from sales of loans held for sale	**214,625,235**	223,239,431	326,021,310
Gains on sales of loans	**(5,591,932)**	(6,299,566)	(8,516,438)
Increase in accrued interest receivable	**(1,354,849)**	(2,512,860)	(3,379,342)
Increase in cash surrender value of life insurance, net	**(314,400)**	(4,710,667)	(1,085,688)
Stock-based compensation	**2,605,872**	1,355,629	1,363,219
Stock-based directors' fees	**539,950**	270,721	300,132
Contributions to pension plan	**(10,000,000)**	(1,000,000)	(10,750,000)
(Increase) decrease in other assets	**11,863,243**	1,873,757	(3,695,269)
Increase in accrued expenses and other liabilities	**6,605,437**	6,785,261	2,180,113
Net cash provided by operating activities	**120,539,698**	78,105,896	44,746,770
Cash flows from investing activities:			
Net (increase) decrease in interest-bearing deposits with banks	**(2,358,049)**	(422,820,423)	112,601,697
Securities available for sale:			
Payments for purchases	**(193,819,177)**	(45,028,082)	(755,428,728)
Proceeds from sales	**-**	-	376,814,325
Proceeds from maturities, calls, and paydowns	**62,823,712**	69,235,914	106,228,294
Securities held to maturity:			
Payments for purchases	**(150,562,410)**	(177,933,803)	(90,171,819)
Proceeds from maturities, calls, and paydowns	**71,528,771**	148,272,682	119,563,325
Net change in Federal Home Loan Bank stock	**(683,000)**	(436,100)	(640,200)
Net increase in loans held in portfolio	**(131,001,193)**	(152,934,084)	(226,551,115)
Purchases of premises and equipment	**(12,632,657)**	(15,570,660)	(5,461,468)
Proceeds from sales of premises and equipment	**2,081,468**	170,697	644,070
Purchases of software	**(28,308)**	(226,687)	(565,138)
Proceeds from investments	**980,255**	35,484	22,014
Proceeds from sales of other real estate	**217,862**	576,251	426,745
Proceeds from the settlement of life insurance	**18,182,831**	-	16,305,483
Net cash used in investing activities	**(335,269,895)**	(596,658,811)	(346,212,515)

See notes to consolidated financial statements.

Continued

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows (continued)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from financing activities:			
Net increase in deposits	**$ 190,056,887**	$ 525,176,172	$ 383,141,758
Net increase (decrease) in securities sold under repurchase agreements	**37,721,497**	10,673,087	(53,424,672)
Repurchase and retirement of common stock	**(890,447)**	-	(3,000,000)
Common stock dividends paid	**(11,753,902)**	(8,556,831)	(7,634,318)
Net cash provided by financing activities	**215,134,035**	527,292,428	319,082,768
Increase in cash and cash equivalents	**403,838**	8,739,513	17,617,023
Cash and cash equivalents at beginning of year	**106,151,555**	97,412,042	79,795,019
Cash and cash equivalents at end of year	**$ 106,555,393**	$ 106,151,555	$ 97,412,042

Supplemental disclosures of cash flow information:			
Cash paid for interest	**$ 10,117,584**	$ 4,149,187	$ 4,025,701
Cash paid for income taxes	**16,459,138**	35,858,626	28,648,149
Transfer from loans to other real estate	**-**	27,900	885,327
Transfer from cash surrender value life insurance to other assets	**-**	18,182,831	-
Transfer between premises and equipment and prepaid expenses and other assets	**208,400**	526,968	81,989

See notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

W.T.B. Financial Corporation ("W.T.B.") is a bank holding company headquartered in Spokane, Washington, and through its wholly-owned subsidiary, Washington Trust Bank (the "Bank"), is primarily engaged in the business of financial services in Washington, Idaho and Oregon. The Bank was originally chartered in 1902 and provides a wide range of banking, fiduciary, asset management, mortgage banking, and other financial services to corporate and individual customers. West Sprague Holding Company, LLC is a wholly-owned subsidiary of the Bank.

Basis of Financial Statement Presentation and Consolidation

The consolidated financial statements of W.T.B. include the accounts of W.T.B. and its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation. The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of the defined benefit pension obligation, and fair value of financial instruments.

Segment Reporting

W.T.B. has not established any independent business activity apart from acting as the parent company of the Bank. W.T.B. and the Bank are managed as a single entity and not by departments or lines of business. Based on management's analysis, no department or line of business meets the criteria established in Accounting Standards Codification ("ASC") 280, Segment Reporting, for reporting of selected information about operating segments.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the consolidated financial statements are available to be issued. W.T.B. recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing the financial statements. W.T.B.'s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after the date of the statement of financial condition and before the financial statements are available to be issued.

W.T.B. has evaluated subsequent events through March 18, 2019, the date these consolidated financial statements were available to be issued.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and securities purchased under resale agreements. Federal funds sold and securities purchased under resale agreements all have original maturities of three months or less.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with any unrealized gains and losses, net of tax, reported as a component of other comprehensive income ("OCI") and shareholders' equity. Equity securities are carried at fair value, with changes reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Other-than-temporary impairment ("OTTI") losses relating to credit impairment are included in noninterest revenue. Gains and losses realized on the sale of securities are computed on the specific-identification method and are included in noninterest revenue. Interest and dividends on debt securities are included in interest revenue. Interest revenue includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are factored into the amortization method.

W.T.B. considers the following factors when determining OTTI for a security: the length of time and the extent to which the market value has been less than amortized cost, the financial condition and near-term prospects of the issuer, terms and structure of the security, the underlying fundamentals of the relevant market and the outlook for such market for the near future. Management also makes an assessment of whether W.T.B. has (1) the intent to sell the security, or (2) more likely than not will be required to sell the security before its anticipated market recovery. If the security is likely to be sold or if it is likely the security will be required to be sold before recovering its cost basis, the entire impairment loss would be recognized in earnings as OTTI. If W.T.B. does not intend to sell the security and it is not likely the security will be required to be sold, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings as OTTI. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original interest rate when a security is analyzed for potential OTTI. The remaining impairment related to all other factors, calculated as the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to OCI.

Note 1: Summary of Significant Accounting Policies (continued)

Federal Home Loan Bank and Pacific Coast Bankers' Bancshares Stock

The Bank is a member of the Federal Home Loan Bank of Des Moines ("FHLB") and is required to maintain a minimum level of investment in FHLB stock based on the Bank's membership, the level of FHLB borrowings and other factors, and may invest in additional amounts. The FHLB provides a wide range of secured lending facilities and structures, which are an important source of supplemental funding and liquidity to the Bank. The Bank's investment in FHLB stock has no quoted market value, is carried at par value ($100 per share), and is classified as a restricted security. Ownership of FHLB stock is restricted to members and former members of the FHLB, and is purchased and redeemed at par. At December 31, 2018 and 2017, the Bank's investment in FHLB stock was $7,480,600 and $6,797,600, respectively.

The Bank's investment in Pacific Coast Bankers' Bancshares ("PCBB") consists of shares of PCBB's common stock. No ready market exists for PCBB stock, and it has no quoted market value. This investment is carried at cost and classified as a restricted security. At December 31, 2018 and 2017, the Bank's investment in PCBB stock was $60,000.

Management periodically evaluates FHLB and PCBB stock for impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any deterioration in earnings performance, credit rating or asset quality of the issuer, (2) the significance of any adverse changes in the regulatory or economic environment, and (3) the significance of adverse changes in the general market condition of either the geographic area or the industry in which they operate. Management has determined there is no other-than-temporary impairment on its investments in FHLB or PCBB stock as of December 31, 2018.

Cash Surrender Value of Life Insurance

The Bank has purchased life insurance policies on certain current and/or former key executives. Bank owned life insurance is recorded at its cash surrender value, net of surrender charges, or the amount that can be realized.

Loans

Loans held in portfolio are carried at the principal amount outstanding, net of unearned income. Loans held for sale are carried at the lower of aggregate cost or market, as determined based on quoted secondary market prices for similar loans. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Interest income on loans is accrued on the principal amount outstanding. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield of the related loan over its estimated life.

Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. Impaired loans above a de minimis threshold are individually evaluated for impairment. The carrying value of individually evaluated impaired loans is based on the present value of expected future cash flows discounted at each loan's effective interest rate, the loan's observable market price, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each impaired loan's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses. This recognition of impairment is accomplished by charging-off the impaired portion of the loan, or establishing a specific amount to be provided for in the allowance for loan losses. In general, any portion of the recorded investment in a collateral dependent loan in excess of the fair value of the collateral that can be identified as uncollectible is a confirmed loss and charged-off against the allowance for loan losses.

Income Recognition on Nonaccrual and Impaired Loans

Loans are classified as nonaccrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is past due as to maturity, or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. Generally, if a loan, or portion thereof, is partially charged-off, the loan is considered impaired and classified as nonaccrual. Loans that are less than 90 days past due may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as nonaccrual, all uncollected accrued interest is reversed from interest income and the accrual of interest income is discontinued. Generally, any subsequent cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower's financial condition improves so that full collection of future contractual payments is considered likely. Restoration to accrual status for those loans placed on nonaccrual status due to payment delinquency will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

Note 1: Summary of Significant Accounting Policies (continued)

Troubled Debt Restructuring

Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in order to protect the Bank's investment. Examples of such concessions may include forgiving principal or accrued interest, extending maturity date(s), or providing lower interest rates than would normally be available for transactions of similar risk. This generally occurs when the financial condition of the borrower necessitates temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a troubled debt restructuring ("TDR") is an impaired loan and is accounted for as such. If a borrower on a restructured accruing loan has demonstrated performance under the previous terms and shows the capacity to continue to perform under the restructured terms, the loan will remain on accrual status. Otherwise, the loan will be placed on nonaccrual status until the borrower demonstrates repayment ability over a period of not less than six months.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses in the portfolio. Management's determination of the allowance is based upon an evaluation of the loan portfolio, impaired loans, past loan loss experience, economic conditions, volume, growth and composition of the loan portfolio, and other risks inherent in the portfolio. Management applies risk factors to categories of loans and individually reviews all impaired loans above a de minimis threshold. Management uses risk grades for loans in the commercial, agricultural, real estate secured, and consumer categories. For homogenous consumer portfolios, management relies heavily on statistical analysis, past loan loss experience, current payment performance and industry trends to estimate losses. Management evaluates the adequacy of the allowance at least quarterly, by reviewing relevant internal and external factors that affect credit quality.

Mortgage Servicing Rights

Mortgage servicing rights result from the sale of mortgage loans while retaining loan servicing responsibilities. Mortgage servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a model that calculates the present value of estimated future net servicing income. Mortgage servicing rights are amortized in proportion to, and over the period of, the estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. The current market interest rate is to reflect expected marketplace yield requirements for loan servicing portfolios. For purposes of measuring impairment, mortgage servicing rights are stratified based on the characteristics of the underlying loans, including loan type, size, note rate, origination date and term. Subsequent loan prepayments and elevated prepayment assumptions in excess of those forecasted can adversely impact the carrying value of mortgage servicing rights. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for each class exceed their fair value.

Servicing fee income is recorded as noninterest income for fees earned for servicing loans and included in mortgage banking revenue, net. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Derivatives

Derivative instruments are contracts between two or more parties that have a notional and an underlying variable, require no net investment, and allow for the net settlement of positions. Derivative financial instruments are used to meet the ongoing credit needs of customers and the market exposure of certain types of interest rate risk. Derivative instruments are recognized as either assets or liabilities in the consolidated statements of financial condition at fair value. The Bank is party to various interest rate swaps that are considered derivative instruments. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item, are recognized in current earnings as fair values change. For stand-alone derivatives that have no hedging designation, changes in the fair value of a derivative are recorded in the consolidated statements of income.

The Bank utilizes forward sales contracts associated with mortgage banking activities in its derivative risk management strategy. The Bank enters into forward sales contracts with brokers/dealers to hedge the risk of changes in fair value, due to changes in interest rates, of both locked residential mortgage loan commitments and residential loans held for sale. The estimated fair values of these derivatives are determined by the changes in the market value of the related loans, caused by changes in market interest rates, during the period from the commitment date or contract date to the valuation date. At December 31, 2018, the estimated fair value of rate locks was $71,075 and the estimate fair value of forward sales agreements was ($29,464). At December 31, 2017, the estimated fair value of rate locks was $34,423 and the estimated fair value of forward sales agreements was $5,635.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Note 1: Summary of Significant Accounting Policies (continued)

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on both the straight-line and accelerated methods over the estimated useful lives of the assets, or the terms of the associated operating leases. Gains or losses on disposition are reflected in current income. Normal costs of maintenance and repairs are treated as current expenses.

W.T.B. reviews long-lived and intangible assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

Other Real Estate

Other real estate ("ORE") acquired through, or in lieu of, loan foreclosure is recorded at the fair value of the property, which becomes the property's new basis. A provision to the valuation allowance on ORE is made for subsequent declines in the fair value on a specific property basis. Direct costs incurred in connection with holding ORE are charged to expense when incurred.

Advertising Costs

W.T.B. expenses advertising costs as incurred, which are included in marketing and public relations expense. Advertising expenses were $1,631,641, $1,454,424 and $1,671,753 for 2018, 2017 and 2016, respectively.

Income Taxes

Income tax expense is separated into two components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the current tax law to the taxable income or excess of deductions over revenues. W.T.B. determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

W.T.B. recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

Stock-Based Compensation

Compensation cost related to restricted stock awards issued to executive officers is based on fair value at the date of grant. The fair value of the awards is estimated using the market value of W.T.B.'s common stock. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings per Common Share

W.T.B.'s basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period, excluding nonvested restricted stock. Diluted earnings per common share is computed using the weighted-average number of common shares outstanding for the basic earnings per share computation plus the dilutive effects of nonvested restricted stock using the treasury stock method.

Stock

Class A common stock has the right to vote on certain matters. Class B common stock does not have voting rights except in those circumstances for which class voting is required by law. Class C preferred stock may be issued in one or more series. The Board of Directors of W.T.B. have the express authority to fix and designate the preferences and various other rights of Class C preferred stock.

Note 1: Summary of Significant Accounting Policies (continued)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses related to the defined benefit pension plan, which are reported as a separate component of equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications

Certain amounts appearing in the consolidated financial statements and notes thereto for the years ended December 31, 2017 and 2016 have been reclassified to conform to the December 31, 2018 presentation. These reclassifications had no effect on surplus or net income as previously reported and the effect of these reclassifications is not considered material.

Standards Adopted During the Current Period

Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (*collectively "ASC 606"*). W.T.B. adopted this ASU on January 1, 2018. The core principle of ASC 606 is that an entity recognizes 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. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. A majority of W.T.B.'s revenues come from interest income on loans and securities, and is outside the scope of ASC 606. Revenues that are within the scope of ASC 606 are presented within noninterest revenue and are recognized as W.T.B. satisfies its obligations with the customer. Revenues within the scope of ASC 606 include fiduciary income, investment services fees, interchange income, service charges on deposits, and the sale of other real estate owned. W.T.B. adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a material change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

ASU 2016-01, Financial Instruments - Overall (*Subtopic 825-10*). W.T.B. adopted this ASU on January 1, 2018. This standard revises accounting guidance related to the accounting and reporting of financial instruments. Some of the main provisions include: (a) equity investments that do not result in consolidation and are not accounted for under the equity method would be measured at fair value through net income; (b) changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option would be recognized in OCI; and (c) elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost; however, it does require the use of exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. Applied prospectively, W.T.B. did change the method utilized to disclose the fair value of loans held in portfolio to an exit price notion in Footnote 16. The adoption of this standard did not have a material impact on W.T.B.'s consolidated financial statements.

ASU 2017-07, Compensation – Retirement Benefits *(Topic 715)*. W.T.B. adopted this ASU on January 1, 2018. This standard changes the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. Upon adoption, entities must use a retrospective transition method to adopt the requirement for separate presentation in the income statement. As a result, W.T.B. reclassified $2,486,436 and $3,318,437 for the years ended December 31, 2017 and 2016, respectively, in non-service cost components of the qualified defined benefit pension plan from pension and employee benefits to other expense on the consolidated statements of income.

ASU 2018-07, Compensation – Stock Compensation *(Topic 718)*. W.T.B. early adopted this ASU on January 1, 2018. The current accounting treatment for nonemployee share-based payments differ from that applied to employee awards, particularly as it relates to the measurement date and the impact of performance conditions. This new standard changes the accounting for such awards issued to nonemployees so that it largely aligns the accounting treatment for awards issued to employees. The amount of expense recognized in the income statement as a result of issuing these awards will now be based on the fair value at grant date instead of the fair value at the performance completion date. The adoption of this ASU did not have a material to W.T.B.'s consolidated financial statements.

Note 1: Summary of Significant Accounting Policies (continued)

Standards Not Yet Adopted

ASU 2016-02, Leases *(Topic 842)* as well as additional ASUs for enhancement, clarification or transition of the new lease standard (*collectively "ASC 842*). This standard requires substantially all leases to be recognized by lessees on their balance sheets as a right-of-use asset and a corresponding lease liability, but recognize expenses in their income statements in a manner similar to current practice. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. ASC 842 also permits lessors, as an accounting policy election, to account for variable payments for certain sales taxes or other similar taxes as lessee costs and disclose them as such. The amendments of ASC 842 are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Upon adoption, W.T.B. will recognize a new lease asset of approximately $17.4 million and related lease liability of $18.3 million on the balance sheet due to the associated leases.

ASU 2016-13, Financial Instruments – Credit Losses *(Topic 326)*. This standard broadens the information that an entity must consider in developing its expected credit loss estimate for loans and other financial assets measured either collectively or individually. This standard becomes effective for annual periods beginning after December 15, 2020, and interim periods within those annual periods for W.T.B. Current U.S. GAAP delays recognition of credit losses until it is probable a loss has occurred, generally only considering past events and current conditions in measuring the incurred loss. Once implemented, this new standard will eliminate the probable initial recognition threshold and instead, will require the measurement of expected credit losses based on historical experience, current conditions, and reasonable and supportable forecasts covering the entire term of the instrument through contractual maturity. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This standard requires enhanced disclosures around significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the portfolio. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. W.T.B. is currently evaluating the provisions of this ASU to determine the potential impact the new standard will have on W.T.B.'s consolidated financial statements, once it becomes effective for periods beginning after December 15, 2020.

ASU 2017-12, Derivatives and Hedging (*Topic 815*). This standard more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The standard addresses the specific limitations in current GAAP by expanding hedge accounting for both nonfinancial and financial components and by refining the measurement of hedge results to better reflect W.T.B.'s hedging strategies. The amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. This ASU is not expected to have a significant impact on W.T.B.'s consolidated financial statements.

Note 2: Cash and Due from Banks

Federal Reserve Board regulations require depository institutions to maintain minimum reserve balances in the form of cash on hand or deposits with the Federal Reserve Bank. At December 31, 2018 and 2017, these reserve balance requirements were $32,345,000 and $29,564,000, respectively, which were met by the Bank.

Note 3: Securities

The amortized costs and fair values for securities as of December 31, 2018 and 2017 were as follows:

	2018			
Securities Available for Sale:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 704,345,693	$ 1,416,501	$ 17,032,711	$ 688,729,483
States and political subdivisions	5,317,612	38,354	17,066	5,338,900
Mortgage-backed securities	346,913,997	426,996	10,350,614	336,990,379
	$ 1,056,577,302	$ 1,881,851	$ 27,400,391	$ 1,031,058,762

	2017			
Securities Available for Sale:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 589,442,039	$ 38,052	$ 13,522,444	$ 575,957,647
States and political subdivisions	1,294,158	51,869	-	1,346,027
Mortgage-backed securities	336,350,020	454,656	7,444,412	329,360,264
	$ 927,086,217	$ 544,577	$ 20,966,856	$ 906,663,938

Note 3: Securities (continued)

	2018			
Securities Held to Maturity:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 324,367,386	$ 1,735,398	$ 3,268,999	$ 322,833,785
States and political subdivisions	2,349,760	-	8,983	2,340,777
Mortgage-backed securities	231,474,624	-	7,046,325	224,428,299
	$ 558,191,770	$ 1,735,398	$ 10,324,307	$ 549,602,861

	2017			
Securities Held to Maturity:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$ 201,586,945	$ 92,477	$ 1,470,625	$ 200,208,797
States and political subdivisions	2,411,213	12,285	1,988	2,421,510
Mortgage-backed securities	276,513,686	11,332	4,024,316	272,500,702
	$ 480,511,844	$ 116,094	$ 5,496,929	$ 475,131,009

The following tables show the gross unrealized losses and fair values, aggregated by category and the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017.

	2018					
	Less Than 12 Months		12 Months or More		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 999,141	$ 803	$ 571,119,391	$ 17,031,908	$ 572,118,532	$ 17,032,711
States and political subdivisions	4,004,707	17,066	-	-	4,004,707	17,066
Mortgage-backed securities	48,848,486	326,975	254,582,979	10,023,639	303,431,465	10,350,614
	$ 53,852,334	$ 344,844	$ 825,702,370	$ 27,055,547	$ 879,554,704	$ 27,400,391

	2017					
	Less Than 12 Months		12 Months or More		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 100,905,415	$ 1,049,875	$ 459,949,423	$ 12,472,569	$ 560,854,838	$ 13,522,444
Mortgage-backed securities	24,900,436	537,499	282,937,088	6,906,913	307,837,524	7,444,412
	$ 125,805,851	$ 1,587,374	$ 742,886,511	$ 19,379,482	$ 868,692,362	$ 20,966,856

Note 3: Securities (continued)

	2018					
	Less Than 12 Months		12 Months or More		Total	
Securities Held to Maturity:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ -	$ -	$ 170,538,671	$ 3,268,999	$ 170,538,671	$ 3,268,999
States and political subdivisions	1,787,967	2,566	552,810	6,417	2,340,777	8,983
Mortgage-backed securities	-	-	224,428,299	7,046,325	224,428,299	7,046,325
	$ 1,787,967	$ 2,566	$ 395,519,780	$ 10,321,741	$ 397,307,747	$ 10,324,307

	2017					
	Less Than 12 Months		12 Months or More		Total	
Securities Held to Maturity:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 88,580,200	$ 511,018	$ 44,890,318	$ 959,607	$ 133,470,518	$ 1,470,625
States and political subdivisions	570,090	1,988	-	-	570,090	1,988
Mortgage-backed securities	183,863,783	2,288,047	85,604,815	1,736,269	269,468,598	4,024,316
	$ 273,014,073	$ 2,801,053	$ 130,495,133	$ 2,695,876	$ 403,509,206	$ 5,496,929

The above table represents 70 available-for-sale and 55 held-to-maturity securities for which the fair value at December 31, 2018, was less than the amortized cost. There were 62 available-for-sale securities and 46 held-to-maturity securities in an unrealized loss position as of December 31, 2017.

W.T.B. reviews investment securities on an ongoing basis for the presence of OTTI. As of December 31, 2018, there were 64 available-for-sale securities and 53 held-to-maturity securities in a gross unrealized loss position for twelve months or more. Management takes into consideration current market conditions, fair value in relationship to cost, extent and nature of the decline in fair value, issuer rating changes and trends, intent to sell the security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis, or recorded cost if previously written down, of the investment and other factors. The unrealized losses on these securities were largely due to increases in market interest rates and are not due to the underlying credit of the issuers. We do not consider the unrealized losses on these securities to be OTTI as of December 31, 2018.

W.T.B. adopted a provision of GAAP that provides for the bifurcation of OTTI into two categories: (a) the amount of the total OTTI related to the decrease in cash flows expected to be collected from the debt security (the credit loss) that is recognized in earnings and (b) the amount of the total OTTI related to all other factors that is recognized net of income taxes, as a component of OCI. W.T.B. recorded, during the years ended December 31, 2018, 2017 and 2016, no impairments through OCI or earnings. There were no securities with OTTI losses recognized as of December 31, 2018 and 2017.

As of December 31, 2018, investment securities were pledged for the following obligations:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Repurchase agreements	$ 123,464,937	$ 119,345,769	$ 179,260,079	$ 174,136,772
State and local government public deposits	35,633,192	34,860,630	14,788,595	14,489,007
Other	35,929,885	35,097,660	46,676,745	45,763,618
	$ 195,028,014	$ 189,304,059	$ 240,725,419	$ 234,389,397

In 2018 and 2017, W.T.B. did not sell any available-for-sale securities. Proceeds from the sale of available-for-sale securities in 2016 were $376,814,325 resulting in gross gains of $1,890,392 and gross losses of $889,639.

Note 3: Securities (continued)

The amortized costs and fair values of debt securities by years to maturity as of December 31, 2018 are in the table below. Maturities of mortgage-backed securities are classified in accordance with the contractual maturity dates. Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations.

	2018			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 999,944	$ 999,141	$ -	$ -
Due after one year through five years	634,729,295	618,107,427	92,000,149	91,606,086
Due after five years through ten years	124,826,848	123,394,806	194,713,126	194,763,308
Due after ten years	296,021,215	288,557,388	271,478,495	263,233,467
	$ 1,056,577,302	$ 1,031,058,762	$ 558,191,770	$ 549,602,861

Note 4: Loans and Allowance for Loan Losses

Loans

Loans held in portfolio as of December 31 were as follows:

	2018	2017
Commercial and industrial	$ 1,217,763,262	$ 1,256,795,585
Agricultural	247,194,263	207,861,171
Commercial real estate		
Owner occupied	636,944,180	611,987,613
Non-owner occupied	667,340,276	646,910,988
Construction and development		
Commercial	260,575,245	210,418,356
Residential	165,770,174	188,667,094
Residential real estate		
First mortgage	504,786,763	432,064,400
Junior mortgage	41,323,872	33,628,571
Revolving	201,536,820	208,590,321
Consumer	100,037,882	114,083,081
Total portfolio loans	$ 4,043,272,737	$ 3,911,007,180

Loans are reduced by unamortized deferred fees and costs of $7,627,282 and $8,015,384 at December 31, 2018 and 2017, respectively. Loans of $2,386,042,030 and $1,933,007,073 were pledged at December 31, 2018 and 2017, respectively, to the FHLB and Federal Reserve to secure open borrowing lines of credit.

Note 4: Loans and Allowance for Loan Losses (continued)

Allowance for Loan Losses

The following table summarizes credit performance activity related to the allowance for loan losses by loan category and the recorded investment in loans by loan category and balances individually or collectively evaluated for impairment as of December 31:

2018	Commercial and Agricultural	Real Estate Secured: Commercial	Real Estate Secured: Construction	Real Estate Secured: Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Charge-offs	(4,087,466)	-	-	(398,402)	(793,673)	-	(5,279,541)
Recoveries	1,287,498	-	3,852,198	1,054,165	350,044	-	6,543,905
Provision (recapture)	5,331,929	2,196,106	(3,816,830)	(1,208,707)	298,135	(100,633)	2,700,000
Ending balance	$ 37,418,069	$ 18,520,775	$ 13,785,289	$ 18,068,056	$ 1,362,596	$ 1,593,808	$ 90,748,593
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 128,890	$ 192,774	$ 174,390	$ 62,322	$ 10,693	$ -	$ 569,069
Collectively evaluated for impairment	37,289,179	18,328,001	13,610,899	18,005,734	1,351,903	1,593,808	90,179,524
Total allowance for loan losses	$ 37,418,069	$ 18,520,775	$ 13,785,289	$ 18,068,056	$ 1,362,596	$ 1,593,808	$ 90,748,593
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 1,965,025	$ 2,573,290	$ 1,692,323	$ 2,245,362	$ 102,520		$ 8,578,520
Loans collectively evaluated for impairment	1,462,992,500	1,301,711,166	424,653,096	745,402,093	99,935,362		4,034,694,217
Total portfolio loans	$ 1,464,957,525	$1,304,284,456	$ 426,345,419	$ 747,647,455	$ 100,037,882		$ 4,043,272,737

2017	Commercial and Agricultural	Real Estate Secured: Commercial	Real Estate Secured: Construction	Real Estate Secured: Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 33,705,783	$ 13,592,968	$ 14,670,051	$ 19,391,165	$ 1,487,414	$ 2,939,362	$ 85,786,743
Charge-offs	(4,404,767)	-	(53,112)	(916,416)	(914,119)	-	(6,288,414)
Recoveries	2,976,419	1,459,316	952,362	1,506,353	391,450	-	7,285,900
Provision (recapture)	2,608,673	1,272,385	(1,819,380)	(1,360,102)	543,345	(1,244,921)	-
Ending balance	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 128,912	$ -	$ 338,402	$ 280,845	$ 24,111	$ -	$ 772,270
Collectively evaluated for impairment	34,757,196	16,324,669	13,411,519	18,340,155	1,483,979	1,694,441	86,011,959
Total allowance for loan losses	$ 34,886,108	$ 16,324,669	$ 13,749,921	$ 18,621,000	$ 1,508,090	$ 1,694,441	$ 86,784,229
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 2,117,621	$ -	$ 2,406,652	$ 2,533,068	$ 193,662		$ 7,251,003
Loans collectively evaluated for impairment	1,462,539,135	1,258,898,601	396,678,798	671,750,224	113,889,419		3,903,756,177
Total portfolio loans	$ 1,464,656,756	$1,258,898,601	$ 399,085,450	$ 674,283,292	$ 114,083,081		$ 3,911,007,180

Note 4: Loans and Allowance for Loan Losses (continued)

Allowance for Loan Losses (continued)

	2016						
	Commercial and Agricultural	Real Estate Secured: Commercial	Real Estate Secured: Construction	Real Estate Secured: Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 33,258,039	$ 10,637,229	$ 19,677,414	$ 19,016,008	$ 1,538,567	$ 841,628	$ 84,968,885
Charge-offs	(3,744,991)	(1,587)	(1,444,149)	(556,075)	(862,999)	-	(6,609,801)
Recoveries	2,810,182	185,020	622,742	970,874	588,841	-	5,177,659
Provision (recapture)	1,382,553	2,772,306	(4,185,956)	(39,642)	223,005	2,097,734	2,250,000
Ending balance	$ 33,705,783	$ 13,592,968	$ 14,670,051	$ 19,391,165	$ 1,487,414	$ 2,939,362	$ 85,786,743
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 78,950	$ -	$ 1,027,989	$ 513,152	$ 133,609	$ -	$ 1,753,700
Collectively evaluated for impairment	33,626,833	13,592,968	13,642,062	18,878,013	1,353,805	2,939,362	84,033,043
Total allowance for loan losses	$ 33,705,783	$ 13,592,968	$ 14,670,051	$ 19,391,165	$ 1,487,414	$ 2,939,362	$ 85,786,743
Loans:							
Portfolio loans:							
Loans individually evaluated for impairment	$ 1,489,503	$ -	$ 9,147,084	$ 1,517,600	$ 133,609		$ 12,287,796
Loans collectively evaluated for impairment	1,384,691,358	1,232,904,743	386,799,560	638,403,316	102,016,737		3,744,815,714
Total portfolio loans	$ 1,386,180,861	$1,232,904,743	$ 395,946,644	$ 639,920,916	$ 102,150,346		$ 3,757,103,510

Impaired Loans

Impaired loans below a de minimis threshold are collectively evaluated for impairment. Impaired loans collectively evaluated for impairment were $4,322,083, $5,462,483 and $5,452,565 for the years ended December 31, 2018, 2017 and 2016, respectively. The following table presents impaired loans and the related valuation allowance.

	2018	2017	2016
December 31:			
Nonaccrual loans	$ 10,670,965	$ 11,223,901	$ 14,275,269
Accruing troubled debt restructurings	885,939	1,223,796	3,384,419
Loans past due 90 days or more and still accruing	1,343,699	265,789	80,673
Total impaired loans	$ 12,900,603	$ 12,713,486	$ 17,740,361
Impaired loans with no valuation allowance	$ 4,033,367	$ 2,541,941	$ 4,194,624
Impaired loans with a valuation allowance	8,867,236	10,171,545	13,545,737
Total impaired loans	$ 12,900,603	$ 12,713,486	$ 17,740,361
Allowance on impaired loans	$ 1,019,861	$ 1,449,071	$ 2,514,877
For the years ended December 31:			
Average impaired loans	$ 11,572,342	$ 15,686,600	$ 25,103,380
Interest income received on impaired loans	$ 386,230	$ 399,897	$ 501,685

Commitments to advance additional funds in connection with impaired loans were $20,704, $27,034 and $11,856 at December 31, 2018, 2017 and 2016, respectively.

W.T.B. recognizes the charge-off in the period in which it arises for collateral dependent loans. Therefore, impaired collateral dependent loans have been written-down to their estimated net realizable value, based on fair market value less selling costs.

Note 4: Loans and Allowance for Loan Losses (continued)

Impaired Loans (continued)

The following table presents impaired loans by category as of December 31:

	2018				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ 1,095,750	$ 2,595,750	$ -	$ 122,282	$ 19,279
Agricultural	-	-	-	-	-
Commercial real estate					
Owner occupied	1,051,452	1,051,452	-	808,809	-
Non-owner occupied	-	-	-	-	-
Construction and development					
Commercial	-	-	-	-	-
Residential	243,879	356,313	-	243,879	-
Residential real estate					
First mortgage	442,579	690,712	-	993,964	18,960
Junior mortgage	500,210	500,210	-	38,478	1,576
Revolving	699,497	699,497	-	699,497	-
Consumer	-	-	-	-	-
Total loans with no related allowance recorded	4,033,367	5,893,934	-	2,906,909	39,815
Loans with related allowance recorded:					
Commercial and industrial	2,150,434	2,381,014	262,515	2,032,637	39,716
Agricultural	116,695	125,827	12,171	131,684	61,150
Commercial real estate					
Owner occupied	1,521,838	1,521,838	192,774	492,025	176,377
Non-owner occupied	318,873	346,136	33,258	242,649	10,512
Construction and development					
Commercial	56,441	56,441	5,887	70,806	23,819
Residential	1,480,441	4,492,982	177,727	1,888,573	-
Residential real estate					
First mortgage	1,214,129	2,157,264	127,154	1,410,273	8,354
Junior mortgage	1,136,199	1,423,713	118,506	1,310,564	16,079
Revolving	688,970	1,000,955	70,760	862,781	6,540
Consumer	183,216	200,569	19,109	223,441	3,868
Total loans with related allowance recorded	8,867,236	13,706,739	1,019,861	8,665,433	346,415
Total impaired loans:					
Commercial and industrial	3,246,184	4,976,764	262,515	2,154,919	58,995
Agricultural	116,695	125,827	12,171	131,684	61,150
Commercial real estate					
Owner occupied	2,573,290	2,573,290	192,774	1,300,834	176,377
Non-owner occupied	318,873	346,136	33,258	242,649	10,512
Construction and development					
Commercial	56,441	56,441	5,887	70,806	23,819
Residential	1,724,320	4,849,295	177,727	2,132,452	-
Residential real estate					
First mortgage	1,656,708	2,847,976	127,154	2,404,237	27,314
Junior mortgage	1,636,409	1,923,923	118,506	1,349,042	17,655
Revolving	1,388,467	1,700,452	70,760	1,562,278	6,540
Consumer	183,216	200,569	19,109	223,441	3,868
Total impaired loans	$ 12,900,603	$ 19,600,673	$ 1,019,861	$ 11,572,342	$ 386,230

Note 4: Loans and Allowance for Loan Losses (continued)
Impaired Loans (continued)

	2017				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ 1,155,986	$ 3,955,986	$ -	$ 96,332	$ 8,375
Agricultural	-	-	-	79,032	-
Commercial real estate					
Owner occupied	-	-	-	-	16,691
Non-owner occupied	-	-	-	-	11,086
Construction and development					
Commercial	-	-	-	-	-
Residential	243,879	356,313	-	2,436,631	-
Residential real estate					
First mortgage	442,579	690,712	-	258,171	11,344
Junior mortgage	-	-	-	-	14,891
Revolving	699,497	699,497	-	233,166	4,560
Consumer	-	-	-	-	4,128
Total loans with no related allowance recorded	2,541,941	5,702,508	-	3,103,332	71,075
Loans with related allowance recorded:					
Commercial and industrial	2,076,047	2,754,791	266,987	1,670,183	-
Agricultural	148,514	148,514	18,401	321,047	107,183
Commercial real estate					
Owner occupied	423,717	423,717	52,499	466,812	41,739
Non-owner occupied	230,539	255,413	28,564	266,202	47,675
Construction and development					
Commercial	56,441	56,441	6,993	28,221	-
Residential	2,325,228	6,668,686	358,530	4,282,822	54,271
Residential real estate					
First mortgage	2,340,698	3,309,014	392,224	2,521,303	67,010
Junior mortgage	1,195,030	1,514,252	148,064	1,542,534	10,944
Revolving	1,057,000	1,344,119	137,252	1,084,770	-
Consumer	318,331	330,742	39,557	399,374	-
Total loans with related allowance recorded	10,171,545	16,805,689	1,449,071	12,583,268	328,822
Total impaired loans:					
Commercial and industrial	3,232,033	6,710,777	266,987	1,766,515	8,375
Agricultural	148,514	148,514	18,401	400,079	107,183
Commercial real estate					
Owner occupied	423,717	423,717	52,499	466,812	58,430
Non-owner occupied	230,539	255,413	28,564	266,202	58,761
Construction and development					
Commercial	56,441	56,441	6,993	28,221	-
Residential	2,569,107	7,024,999	358,530	6,719,453	54,271
Residential real estate					
First mortgage	2,783,277	3,999,726	392,224	2,779,474	78,354
Junior mortgage	1,195,030	1,514,252	148,064	1,542,534	25,835
Revolving	1,756,497	2,043,616	137,252	1,317,936	4,560
Consumer	318,331	330,742	39,557	399,374	4,128
Total impaired loans	$ 12,713,486	$ 22,508,197	$ 1,449,071	$ 15,686,600	$ 399,897

Note 4: Loans and Allowance for Loan Losses (continued)

Impaired Loans (continued)

	2016				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ 75,612	$ 20,553
Agricultural	948,380	953,364	-	1,536,781	43,446
Commercial real estate					
Owner occupied	-	-	-	413,062	82,487
Non-owner occupied	-	-	-	-	-
Construction and development					
Commercial	-	-	-	3,396	1,047
Residential	3,246,244	4,790,183	-	3,388,887	531
Residential real estate					
First mortgage	-	-	-	355,968	493
Junior mortgage	-	-	-	-	-
Revolving	-	-	-	2,173	-
Consumer	-	-	-	-	-
Total loans with no related allowance recorded	4,194,624	5,743,547	-	5,775,879	148,557
Loans with related allowance recorded:					
Commercial and industrial	1,363,384	1,450,886	193,737	3,897,897	100,812
Agricultural	523,995	544,202	73,150	458,405	-
Commercial real estate					
Owner occupied	525,180	544,137	73,315	727,625	25,249
Non-owner occupied	260,848	364,831	36,414	259,909	11,562
Construction and development					
Commercial	-	-	-	1,111,686	80,905
Residential	6,025,854	18,906,109	1,045,441	8,386,149	67,251
Residential real estate					
First mortgage	2,355,103	4,572,801	627,017	2,169,684	5,703
Junior mortgage	1,404,971	1,694,171	196,134	1,395,208	52,633
Revolving	816,375	1,124,817	117,016	669,678	2,201
Consumer	270,027	270,027	152,653	251,260	6,812
Total loans with related allowance recorded	13,545,737	29,471,981	2,514,877	19,327,501	353,128
Total impaired loans:					
Commercial and industrial	1,363,384	1,450,886	193,737	3,973,509	121,365
Agricultural	1,472,375	1,497,566	73,150	1,995,186	43,446
Commercial real estate					
Owner occupied	525,180	544,137	73,315	1,140,687	107,736
Non-owner occupied	260,848	364,831	36,414	259,909	11,562
Construction and development					
Commercial	-	-	-	1,115,082	81,952
Residential	9,272,098	23,696,292	1,045,441	11,775,036	67,782
Residential real estate					
First mortgage	2,355,103	4,572,801	627,017	2,525,652	6,196
Junior mortgage	1,404,971	1,694,171	196,134	1,395,208	52,633
Revolving	816,375	1,124,817	117,016	671,851	2,201
Consumer	270,027	270,027	152,653	251,260	6,812
Total impaired loans	$ 17,740,361	$ 35,215,528	$ 2,514,877	$ 25,103,380	$ 501,685

Note 4: Loans and Allowance for Loan Losses (continued)

Troubled Debt Restructurings

Included in impaired loans are troubled debt restructurings. At December 31, 2018 and 2017, respectively, the Bank reported loans totaling $2,909,619 and $5,041,883 that were troubled debt restructurings and on nonaccrual status. In addition to these amounts, the Bank had troubled debt restructurings of $885,939 and $1,223,796 at December 31, 2018 and 2017, respectively, which were performing in accordance with their modified terms and were on accrual status. The Bank has committed to lend additional amounts totaling up to $13,859 and $7,700 to customers with outstanding loans that were classified as troubled debt restructurings as of December 31, 2018 and 2017, respectively.

The carrying value of loans modified in troubled debt restructurings is measured by either the present value of expected future cash flows, or for collateral dependent loans, at the fair value of the collateral, less selling costs. If the measurement of each troubled debt restructuring's value is less than the recorded investment in the loan, the Bank recognizes this impairment and adjusts the carrying value of the loan through the allowance for loan losses.

In certain circumstances, the Bank may offer one, or more, loan modifications to borrowers. The types of loan modifications offered typically impact loan payment amounts in the following ways:

- Rate Modification: A modification in which the interest rate is changed.
- Term Modification: A modification in which the maturity date, timing of payments, or frequency of payments is changed.
- Interest Only Modification: A modification in which the loan is converted to interest only payments for a period of time.
- Payment Modification: A modification in which the dollar amount of the payment is changed, other than as a result of any of the modifications described above.
- Combination Modification: Any other type of modification, including the use of multiple categories above.

Loans modified and recorded as troubled debt restructurings during the years ended December 31:

	2018			2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate						
First mortgage	-	$ -	$ -	1	$ 43,200	$ 43,200
Revolving	-	-	-	1	687,013	687,013
Total	-	$ -	$ -	2	$ 730,213	$ 730,213

	2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate			
First mortgage	1	$ 340,000	$ 340,000
Revolving	-	-	-
Total	1	$ 340,000	$ 340,000

Note 4: Loans and Allowance for Loan Losses (continued)

Troubled Debt Restructurings (continued)

During 2018, the Bank did not have any new restructured loans. During 2017, the Bank restructured two loans that were combination modifications. During 2016, the Bank restructured one loan that was a combination modification.

A default on a troubled debt restructuring is when a loan is more than 90 days delinquent on its contractual payment subsequent to restructuring. The following table presents restructured loans which incurred a default within the years ended December 31, 2018, 2017 and 2016 for which the default occurred within twelve months of the restructure date.

	2018		2017		2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted:						
Commercial and industrial	-	$ -	-	$ -	2	$ 147,867
Agricultural	-	-	-	-	1	782,970
Residential real estate						
First mortgage	1	516,800	-	-	-	-
	1	$ 516,800	-	$ -	3	$ 930,837

Credit Quality Indicators

The following table presents the recorded investment in noncurrent loans by payment status as of December 31:

	2018					
	Noncurrent Loans			Loans		
	Nonaccrual	Past Due 90 or More Days and Still Accruing	Total	Past Due 30-89 Days Still Accruing	Current Loans	Total Loans
Commercial and industrial	$ 2,066,315	$ 819,145	$ 2,885,460	$ 4,637,886	$ 1,210,239,916	$ 1,217,763,262
Agricultural	116,695	-	116,695	-	247,077,568	247,194,263
Commercial real estate						
Owner occupied	2,573,290	-	2,573,290	-	634,370,890	636,944,180
Non-owner occupied	123,933	-	123,933	-	667,216,343	667,340,276
Construction and development						
Commercial	56,441	-	56,441	1,150,046	259,368,758	260,575,245
Residential	1,724,319	-	1,724,319	-	164,045,855	165,770,174
Residential real estate						
First mortgage	1,554,863	21,385	1,576,248	1,012,551	502,197,964	504,786,763
Junior mortgage	942,578	500,210	1,442,788	445,991	39,435,093	41,323,872
Revolving	1,388,468	-	1,388,468	346,530	199,801,822	201,536,820
Consumer	124,063	2,959	127,022	365,708	99,545,152	100,037,882
Total portfolio loans	$ 10,670,965	$ 1,343,699	$ 12,014,664	$ 7,958,712	$ 4,023,299,361	$ 4,043,272,737

Note 4: Loans and Allowance for Loan Losses (continued)
Credit Quality Indicators (continued)

	2017					
	Noncurrent Loans			Loans		
	Nonaccrual	Past Due 90 or More Days and Still Accruing	Total	Past Due 30-89 Days Still Accruing	Current Loans	Total Loans
Commercial and industrial	$ 3,061,594	$ 14,123	$ 3,075,717	$ 988,995	$ 1,252,730,873	$ 1,256,795,585
Agricultural	148,514	-	148,514	656,518	207,056,139	207,861,171
Commercial real estate						
Owner occupied	159,703	-	159,703	196,592	611,631,318	611,987,613
Non-owner occupied	23,910	-	23,910	6,690,859	640,196,219	646,910,988
Construction and development						
Commercial	56,441	-	56,441	-	210,361,915	210,418,356
Residential	2,569,107	-	2,569,107	-	186,097,987	188,667,094
Residential real estate						
First mortgage	2,523,270	175,169	2,698,439	1,968,215	427,397,746	432,064,400
Junior mortgage	838,203	-	838,203	1,610,119	31,180,249	33,628,571
Revolving	1,612,669	59,998	1,672,667	440,146	206,477,508	208,590,321
Consumer	230,490	16,499	246,989	63,240	113,772,852	114,083,081
Total portfolio loans	$ 11,223,901	$ 265,789	$ 11,489,690	$ 12,614,684	$ 3,886,902,806	$ 3,911,007,180

The Bank 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, among other factors.

The Bank analyzes all loans as to credit risk. All extensions of credit have a loan risk grade assigned either individually or on a pooled basis. This analysis is performed on a monthly basis.

The Bank uses risk categories that have the following definitions:

- Pass: Loans classified as pass have minimal risk to acceptable risk, but may require additional monitoring, and do not meet the criteria of the higher risk grade categories.
- Special Mention: Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard: Loans classified as substandard are inadequately protected by the current net worth and/or 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 in full. Substandard loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and collateral values, highly questionable and improbable.
- Loss: Loans classified as loss are considered uncollectible, and therefore, continuing to reflect their balances on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off the asset, even though partial recovery may be possible in the future.

Note 4: Loans and Allowance for Loan Losses (continued)

Credit Quality Indicators (continued)

Loans by risk categories as of December 31 were as follows:

	2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 1,154,685,105	$ 22,215,134	$ 40,817,981	$ 45,042	$ 1,217,763,262
Agricultural	237,354,531	9,708,684	131,048	-	247,194,263
Commercial real estate					
Owner occupied	608,493,838	11,726,569	16,723,773	-	636,944,180
Non-owner occupied	663,831,811	2,362,380	1,146,085	-	667,340,276
Construction and development					
Commercial	259,433,804	1,085,000	56,441	-	260,575,245
Residential	163,605,068	-	2,165,106	-	165,770,174
Residential real estate					
First mortgage	496,081,273	3,781,180	4,924,310	-	504,786,763
Junior mortgage	39,665,892	128,491	1,492,737	36,752	41,323,872
Revolving	199,116,210	927,719	1,453,541	39,350	201,536,820
Consumer	99,306,546	81,793	646,584	2,959	100,037,882
Total portfolio loans	$ 3,921,574,078	$ 52,016,950	$ 69,557,606	$ 124,103	$ 4,043,272,737

	2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 1,215,833,674	$ 24,001,415	$ 16,697,906	$ 262,590	$ 1,256,795,585
Agricultural	204,642,903	2,205,415	1,012,853	-	207,861,171
Commercial real estate					
Owner occupied	589,782,092	14,410,584	7,794,937	-	611,987,613
Non-owner occupied	644,266,812	2,606,688	37,488	-	646,910,988
Construction and development					
Commercial	209,402,474	959,441	56,441	-	210,418,356
Residential	184,274,121	-	4,392,973	-	188,667,094
Residential real estate					
First mortgage	424,281,060	2,543,870	5,239,470	-	432,064,400
Junior mortgage	32,117,910	606,732	867,177	36,752	33,628,571
Revolving	206,325,281	220,344	1,940,032	104,664	208,590,321
Consumer	113,728,104	86,799	266,191	1,987	114,083,081
Total portfolio loans	$ 3,824,654,431	$ 47,641,288	$ 38,305,468	$ 405,993	$ 3,911,007,180

Note 5: Loan Servicing

Mortgage loans serviced for others are not assets of the Bank and therefore are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others at December 31, 2018 and 2017, were $116,525,398 and $136,623,667, respectively. Custodial escrow balances maintained in connection with the loan servicing, and included in the Bank's demand deposits, were $651,831 and $806,665 at December 31, 2018 and 2017, respectively. The balances of loans serviced for others related to servicing rights that have been capitalized at December 31, 2018 and 2017, were $116,211,692 and $136,237,473, respectively.

Note 5: Loan Servicing (continued)

A summary of the carrying values and fair values of mortgage servicing rights, included in other assets, at December 31 follows:

	2018	2017
Unamortized cost	$ 315,517	$ 789,127
Valuation allowance	(15,904)	(385,324)
Carrying value	$ 299,613	$ 403,803
Fair value	$ 986,689	$ 1,012,878

At December 31, 2018 and 2017, the key economic assumptions of the current fair value of mortgage servicing rights were as follows:

	2018	2017
Prepayment speed assumption (constant prepayment rate)	11.50%	14.54%
Discount rate	11.00%	9.50%

Originated loans that were sold with servicing retained were $3,425,604, $2,844,866 and $8,525,805 in 2018, 2017 and 2016, respectively. Following is an analysis of the activity for mortgage servicing rights and the related valuation allowance for the years ended December 31:

	2018	2017	2016
Unamortized cost:			
Balance at beginning of year	$ 789,127	$ 953,728	$ 1,134,504
Mortgage servicing rights capitalized	30,446	23,501	60,930
Amortization	(504,056)	(188,102)	(241,706)
Balance at end of year	$ 315,517	$ 789,127	$ 953,728

	2018	2017	2016
Valuation allowance:			
Balance at beginning of year	$ (385,324)	$ (398,615)	$ (432,400)
Additions	(6,064)	(14,847)	(71,945)
Reductions	375,484	28,138	105,730
Balance at end of year	$ (15,904)	$ (385,324)	$ (398,615)

Note 6: Other Real Estate

The following table summarizes activity related to other real estate for the years ended December 31:

	2018	2017	2016
Balance at beginning of year	$ 310,500	$ 870,500	$ 355,500
Properties acquired	-	27,900	885,327
Sales of foreclosed properties, net	(217,791)	(587,900)	(186,449)
Valuation adjustments	(92,709)	-	(183,878)
Balance at end of year	$ -	$ 310,500	$ 870,500

Revenues and expenses related to maintaining, operating and disposing of other real estate included the following:

	2018	2017	2016
Gains (losses) on sales	$ 71	$ (11,649)	$ 240,296
Valuation adjustments on other real estate	(92,709)	-	(183,878)
Net gains (losses) on other real estate	(92,638)	(11,649)	56,418
Operating expenses	(18,677)	(80,699)	(87,470)
Total other real estate related net loss	$ (111,315)	$ (92,348)	$ (31,052)

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was $99,964 as of December 31, 2018. There were no such properties as of December 31, 2017.

Note 7: Premises and Equipment

A summary of W.T.B. premises and equipment at December 31 follows:

	2018	2017
Land	$ 16,406,115	$ 15,843,264
Buildings	75,216,602	72,776,648
Furniture and equipment	64,053,768	68,037,922
	155,676,485	156,657,834
Less accumulated depreciation	(100,153,496)	(105,769,159)
	$ 55,522,989	$ 50,888,675

Depreciation on W.T.B. premises and equipment was charged to occupancy expense or furniture and equipment expense in the amounts of $6,372,906, $6,078,389 and $6,407,146 in 2018, 2017 and 2016, respectively.

Note 8: Deposits

At December 31 deposits were as follows:

	2018	2017
Noninterest-bearing demand	$ 2,413,512,717	$ 2,357,204,208
Interest-bearing:		
Demand	1,023,594,397	969,024,197
Savings	1,846,460,875	1,829,361,599
Time deposits under $250,000	227,320,863	197,729,759
Time deposits $250,000 or more	104,376,931	69,529,095
Brokered time deposits	23,657,084	26,017,122
Total interest-bearing	3,225,410,150	3,091,661,772
	$ 5,638,922,867	$ 5,448,865,980

At December 31, 2018, the scheduled maturities of time deposits, including brokered time deposits, were as follows:

2019	$ 284,557,311
2020	49,530,894
2021	10,676,598
2022	6,096,841
2023 and thereafter	4,493,234
	$ 355,354,878

At December 31, 2018 and 2017, overdraft deposit accounts with balances of $1,130,665 and $2,211,745, respectively, have been reclassified and were reported as loans.

Note 9: Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

The following table presents information regarding securities sold under agreements to repurchase:

	2018	2017
December 31:		
Repurchase amount	$ 259,857,022	$ 222,135,525
Rate	0.37%	0.08%
Average for the year:		
Amount	$ 242,449,072	$ 231,033,386
Rate	0.19%	0.08%
Maximum outstanding at any month end	$ 263,184,772	$ 248,494,448

Securities sold under agreements to repurchase are performed with sweep accounts in conjunction with a master repurchase agreement on an overnight basis. Investment securities are pledged as collateral in an amount greater than the repurchase agreements. The Bank maintains custodial control over the securities.

At December 31, 2018 and 2017, the Bank had no outstanding federal funds purchased balances. The Bank had uncommitted federal funds line of credit agreements with financial institutions totaling $90,000,000 at December 31, 2018. Availability of the lines is subject to federal funds balances available for loan, continued borrower eligibility and are reviewed and renewed periodically by the issuing correspondent banks throughout the year. These lines are intended to support the Bank's short-term liquidity needs, and the agreements may restrict consecutive day usage. Federal funds purchased typically mature within one day and interest is payable at the then stated rate.

Note 10: FHLB Borrowings

The Bank maintains a borrowing arrangement with the FHLB to borrow funds under a short-term floating-rate cash management advance program and fixed-term loan agreements. FHLB borrowings consist of FHLB notes and advances. The Bank's borrowing line with the FHLB allows borrowings up to the lesser of 45% of total assets or adjusted qualifying collateral pledged, which, based upon adjusted qualifying collateral pledged, provided a maximum available credit line of $822,295,198 at December 31, 2018.

There were no outstanding FHLB advances as of December 31, 2018 and 2017, respectively. The following table summarizes FHLB advances for the years ended December 31:

	2018	2017
Average for the year:		
Amount	$ 1,096	$ 1,096
Rate	2.05%	1.17%
Maximum outstanding at any month-end	$ -	$ -

Note 11: Other Borrowings

Other borrowings consist of Federal Reserve Bank discount window borrowings. The Bank has established a borrowing line with the Federal Reserve Bank to borrow up to the qualifying collateral pledged, which provided a maximum available credit line of $876,358,211 at December 31, 2018 with interest payable at the then stated rate. Federal Reserve Bank discount window borrowings are intended to support short term liquidity needs. There were no Federal Reserve Bank discount window borrowings outstanding at December 31, 2018 or 2017.

Note 12: Pension and Employee Benefit Plans

Qualified Defined Benefit Pension Plan

W.T.B. maintains a qualified defined benefit pension plan ("Pension Plan") for employees hired before January 1, 2004. Benefits under the Pension Plan are based on the number of years of service and the employee's career average compensation during such years.

W.T.B. uses a December 31 measurement date for the Pension Plan. The following table provides a reconciliation of the changes in the Pension Plan's benefit obligation and fair value of assets over the two-year period ended December 31, 2018, and a statement of the funded status at December 31 of both years:

	2018	2017
Accumulated benefit obligation at end of year	$ 77,624,229	$ 88,544,629
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 95,038,167	$ 88,606,734
Service cost - benefits earned during the period	1,871,238	1,809,633
Interest cost	3,221,713	3,556,181
Actuarial (gain) loss	(9,291,370)	6,363,616
Benefits paid	(7,545,593)	(5,297,997)
Projected benefit obligation at end of year	83,294,155	95,038,167
Change in Pension Plan assets:		
Fair value of Pension Plan assets at beginning of year	97,855,421	94,951,622
Actual return (loss) on Pension Plan assets	(5,177,083)	7,201,796
Employer contributions	10,000,000	1,000,000
Benefits paid	(7,545,593)	(5,297,997)
Fair value of Pension Plan assets at end of year	95,132,745	97,855,421
Funded status of projected benefit obligation at end of year	$ 11,838,590	$ 2,817,254
Accumulated other comprehensive loss not yet reflected in net periodic pension cost (pre-tax)	$ (33,795,989)	$ (36,761,077)
Cumulative employer contributions in excess of net periodic pension cost	45,634,579	39,578,331
Amounts recognized in the consolidated statements of financial condition at end of year:		
Other assets	$ 11,838,590	$ 2,817,254

W.T.B. selects various assumptions in measuring the Pension Plan's defined benefit obligation and recording the net periodic benefit cost. W.T.B. selects the discount rate used to measure liabilities at year ends after reviewing both bond indices with similar durations to the Pension Plan as well as a supportable discount rate from an actuary's proprietary yield curve, under which the Pension Plan's projected benefit payments are matched against a series of spot rates derived from high quality fixed income securities.

Note 12: Pension and Employee Benefit Plans (continued)

Qualified Defined Benefit Pension Plan (continued)

W.T.B.'s assumption for expected long-term return on Pension Plan assets is based on a periodic review and modeling of the Pension Plan's asset allocation over a long-term horizon. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns for the asset classes covered by the investment policy, and (b) expected economic conditions over the long-term period during which benefits are payable to plan participants.

	2018	2017	2016
Assumptions used in computing the present value of the accumulated benefit obligation and the projected benefit obligation at year-end:			
Discount rate	4.08%	3.47%	4.15%
Rates of increase in compensation	5.00%	5.00%	5.00%
Expected long-term rate of return on assets used in computing the net pension expense determined at beginning of year	4.50%	4.50%	4.50%

Net periodic pension costs for 2018, 2017 and 2016, included the following components:

	2018	2017	2016
Service cost	$ 1,871,238	$ 1,809,633	$ 1,904,153
Interest cost	3,221,713	3,556,181	3,688,037
Expected return on Pension Plan assets	(4,444,404)	(4,231,428)	(3,969,593)
Amortization of net loss	3,295,205	3,159,912	3,591,956
Amortization of prior service cost	-	1,771	8,037
Net periodic pension cost	$ 3,943,752	$ 4,296,069	$ 5,222,590

Total service costs in the table above are recognized in pension and employee benefits expense on the consolidated statements of income. Non-service cost components of net periodic pension cost are recorded in other expense.

W.T.B.'s Pension Plan asset allocations at December 31, 2018 and 2017, by asset category, were as follows:

	2018	2017
Asset category:		
Equity securities	30%	27%
Fixed income securities	31%	29%
Group annuity contract	38%	42%
Cash equivalents	1%	2%
Total	100%	100%

W.T.B.'s target asset allocation as of December 31, 2018, by asset category, was as follows:

Asset category:	
Equity securities	30%
Fixed income securities	29%
Group annuity contract	40%
Cash equivalents	1%
Total	100%

In December of 2018, W.T.B. adjusted its target asset allocation for 2019 to be 23% growth assets and 77% liability hedging assets, including the group annuity contract.

Note 12: Pension and Employee Benefit Plans (continued)

Qualified Defined Benefit Pension Plan (continued)

W.T.B.'s investment policy provides direction regarding the investment philosophy, objectives and guidelines for Pension Plan assets. Pension Plan assets are to be invested in a diversified structure that appropriately balances risk and rewards. Diversification includes asset allocation between equity, fixed income, alternative and cash/cash equivalent securities, foreign and domestic securities, industry sectors and asset management styles. W.T.B. seeks to reduce its net interest rate exposure of Pension Plan assets and liabilities with a target interest rate hedge ratio of 93%.

W.T.B has elected, as a practical expedient, to measure the fair value of investments that do not have readily determinable fair values on the basis of the net asset value ("NAV") per share of the investment. Investments that are measured on the basis of the NAV per share have not been classified in the fair value hierarchy.

The Pension Plan investment policy is periodically reviewed by W.T.B.'s Retirement Benefits Committee. The investment policy is established and administered in a manner so as to comply at all times with applicable government regulations. The Retirement Benefits Committee sets funding targets to contribute amounts not less than the minimum required to be funded under ERISA.

A summary of estimated future pension benefit payments are as follows:

2019	$ 4,165,843
2020	4,276,301
2021	4,407,813
2022	4,595,648
2023	4,822,329
Five years thereafter	26,749,040

The fair value of W.T.B.'s Pension Plan assets by asset category are as follows:

	Fair Value Measurements at December 31, 2018			
	Total	Level 1	Level 2	Level 3
Group annuity contract	$ 36,705,428	$ -	$ -	$ 36,705,428
Money market fund	505,405	-	505,405	-
Assets at fair value	37,210,833	$ -	$ 505,405	$ 36,705,428
Investments measured at NAV:				
Fixed income funds	29,297,544			
Emerging markets equity funds	1,961,627			
Global equity funds	8,211,540			
US equity funds	12,337,811			
Multi-Asset funds	6,113,390			
	57,921,912			
Total assets reported	$ 95,132,745			

Note 12: Pension and Employee Benefit Plans (continued)
Qualified Defined Benefit Pension Plan (continued)

	Fair Value Measurements at December 31, 2017			
	Total	Level 1	Level 2	Level 3
Corporate obligations	$ 5,196,024	$ -	$ 5,196,024	$ -
U.S. Treasury and government agency securities	6,681,872	-	6,681,872	-
U.S. Treasury inflation indexed bonds	2,642,779	-	2,642,779	-
Domestic equity securities	9,733,346	9,733,346	-	-
Closed-end REIT	389,201	389,201	-	-
Mutual funds:				
Market neutral	2,741,798	2,741,798	-	-
Hedged equity	1,804,343	1,804,343	-	-
International equity funds	5,274,387	5,274,387	-	-
High yield	2,933,206	2,933,206	-	-
Domestic equity funds	2,523,637	2,523,637	-	-
Global macro	2,081,504	2,081,504	-	-
Floating rate	2,080,130	2,080,130	-	-
Diversified real estate	1,397,683	1,397,683	-	-
Managed futures	1,407,119	1,407,119	-	-
Global infrastructure	1,383,797	1,383,797	-	-
Diversified commodities	1,443,597	1,443,597	-	-
International bonds	4,589,215	4,589,215	-	-
Group annuity contract	41,551,388	-	-	41,551,388
Marketable CDs	439,342	-	439,342	-
Money market fund	1,485,998	-	1,485,998	-
Assets at fair value	97,780,366	$ 39,782,963	$ 16,446,015	$ 41,551,388
Dividends and accrued interest	75,055			
Total assets reported	$ 97,855,421			

Employee Savings Plan

Substantially all of W.T.B.'s employees are eligible to participate in the WTB Defined Contribution Retirement and 401(k) Plan ("WTB 401(k) Plan"), a defined contribution plan sponsored by the Bank. This plan allows qualified employees, at their option, to make contributions of up to certain percentages of pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. Employer contributions may be made at the discretion of the Board of Directors of the Bank (and electing affiliates of the Bank). The Bank matches a portion of qualified employee contributions. Matching contribution expense for 2018, 2017 and 2016 was $2,135,564, $1,944,124 and $1,776,997, respectively. Employees hired on or after January 1, 2004, are placed in an eligible class for an annual nonelective supplementary contribution equal to at least three percent of eligible compensation after meeting certain requirements. The defined contribution expense for 2018, 2017 and 2016 was $1,620,640, $1,386,360 and $1,217,956, respectively. Contributions are invested at the employees' direction among a variety of investment alternatives.

Supplemental Retirement Plans

W.T.B. is obligated under various nonqualified deferred compensation plans to help supplement the retirement income of certain executives, including certain retired executives. These unfunded plans are defined benefit plans, and provide for payments after the executive's retirement. At December 31, 2018 and 2017, liabilities recorded for the various supplemental retirement and salary continuation plan benefits totaled $5,372,142 and $5,228,741, respectively, and were recorded in other liabilities. Changes in the valuation of those liabilities increased benefit expense by $260,089 for the year ended December 31, 2018 and reduced benefit expense by $93,639 and $87,051 for the years ended December 31, 2017 and 2016, respectively.

Note 12: Pension and Employee Benefit Plans (continued)

Self-Insured Medical, Dental and Vision Plans

W.T.B. offers medical, dental and vision plans to its employees and self-insures many of these plans. W.T.B. contracts with third-parties to act as claims administrators. Funding for benefits is derived from employer and employee contributions. W.T.B. limits its potential losses through insurance policies with stop-loss carriers. Medical, dental and vision plan expenses were $5,364,137, $5,452,310 and $4,829,315 for 2018, 2017 and 2016, respectively. Self-insurance reserves were $350,287 and $597,453 for 2018 and 2017, respectively, and were included in other liabilities.

Note 13: Stock-Based Compensation Plans

W.T.B. has a nonqualified deferred compensation "phantom stock" plan for executive officers ("Phantom Stock Plan"). The values of the Phantom Stock Plan awards are indexed to W.T.B.'s book value per share and vest over a five-year period. The stock awards and the change in value of the prior years' stock awards are expensed as compensation over the vesting period. Phantom Stock Plan compensation expense for 2018, 2017 and 2016 was $2,025,053, $1,572,066 and $1,310,517, respectively. Dividend payments on vested and unvested phantom stock are recorded as compensation expense during the period in which they are paid. Phantom Stock Plan dividend payments for 2018, 2017 and 2016 were $241,350, $190,482 and $152,124, respectively.

A summary of changes in the Phantom Stock Plan follows:

	Number of Shares	Total Share Value
Balance, December 31, 2015	44,782	$ 8,096,137
Granted	5,926	1,071,345
Increase in value	-	652,630
Settled	-	-
Balance, December 31, 2016	50,708	9,820,112
Granted	5,983	1,158,668
Increase in value	-	726,778
Settled	-	-
Balance, December 31, 2017	56,691	11,705,558
Granted	6,378	1,316,930
Increase in value	-	1,289,087
Forfeited	(3,523)	(727,429)
Settled	(13,773)	(2,852,666)
Balance, December 31, 2018	45,773	$ 10,731,480

At December 31, 2018 and 2017, there were 9,795 and 12,000 unvested phantom shares with total share values of $2,296,438 and $2,477,760, and those unvested shares had related liabilities recorded in the amounts of $655,757 and $897,156, respectively. Included in other liabilities are Phantom Stock Plan liabilities in the amounts of $9,090,799 and $9,909,595 at December 31, 2018 and 2017, respectively.

On February 23, 2010, the Board of Directors approved the W.T.B. Financial Corporation 2010 Restricted Stock Incentive Plan (the "Restricted Stock Plan") to enhance the long-term shareholder value of W.T.B. by offering opportunities to select persons to participate in the growth and success of W.T.B., encourage them to remain in service and to acquire stock and maintain ownership of W.T.B. Under the Restricted Stock Plan, W.T.B. is authorized to grant up to 150,000 shares of Class B common stock, of which 73,223 shares have been granted. A total 87,651 shares are available for future grants at December 31, 2018 which included 10,874 reused shares. Any awards that lapse, expire, terminate, forfeit, or are cancelled prior to deliver to a participant are available for reuse. Awards tendered or withheld to satisfy tax withholding are also available for reuse. The vesting period, if any, is determined by the plan administrator on an individual grant basis. For awards granted in 2013 and subsequent years, the vesting was 20% per year over five years. Additionally, 2,145 shares were granted in 2018 with no vesting. Recipients do not have the right to receive dividends on unvested restricted shares.

Note 13: Stock-Based Compensation Plans (continued)

The following is a summary of W.T.B.'s unvested restricted stock activity for the years ended December 31, 2018, 2017 and 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2015	24,793	$ 150.40
Granted	7,463	187.14
Vested	(8,261)	136.55
Forfeited	-	-
Balance, December 31, 2016	23,995	166.60
Granted	7,150	232.90
Vested	(8,053)	153.22
Forfeited	-	-
Balance, December 31, 2017	23,092	191.79
Granted	9,295	364.34
Vested	(10,658)	227.54
Forfeited	(8,430)	248.94
Balance, December 31, 2018	13,299	247.52

The grant date fair value of the restricted shares is estimated using recent observable sales. Compensation expense related to the Restricted Stock Plan was $2,110,976, $1,355,629 and $1,216,615 for the years ended December 31, 2018, 2017 and 2016, respectively. The total income tax benefit recognized related to this Plan was $708,873, $695,229 and $572,195 for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, there was $2,549,039 of unrecognized compensation cost related to the unvested restricted stock awards under this Plan, which is expected to be recognized over a weighted average period of 3.3 years.

Note 14: Income Taxes

The Tax Cut and Job Act (the "Tax Act") was enacted on December 22, 2017. The law included significant changes to the U.S. corporate tax system, including a federal corporate tax rate reduction from 35% to 21% starting in 2018. As a result of the Tax Act being signed into law in 2017, W.T.B.'s deferred tax assets and liabilities were required to be re-measured using the lower 21% federal rate as of December 31, 2017. This resulted in a one-time unfavorable charge to tax expense of $16,786,807 in 2017 based on certain estimates of the deferred tax balance. The deferred net tax assets were reevaluated in 2018, which resulted in a favorable tax benefit of $1,367,943 in 2018.

The current and deferred portions of income taxes for the years ended December 31 were as follows:

	2018	2017	2016
Current expense:			
Federal	$ 21,949,642	$ 28,947,529	$ 27,692,160
State	1,434,664	1,215,826	1,047,624
	23,384,306	30,163,355	28,739,784
Deferred expense (benefit):			
Federal	(1,904,243)	16,250,852	(1,010,571)
State	(100,166)	(137,779)	(32,672)
	(2,004,409)	16,113,073	(1,043,243)
Income taxes	$ 21,379,897	$ 46,276,428	$ 27,696,541

Note 14: Income Taxes (continued)

Income taxes on pre-tax income differ from the statutory rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 for the following reasons:

	2018		2017		2016	
Federal income taxes at statutory rate	$21,931,501	21.00%	$30,825,907	35.00%	$27,798,120	35.00%
State income taxes, net of federal tax benefit	1,044,595	1.00%	700,731	0.80%	649,024	0.82%
Decrease in income taxes due to tax-exempt interest on securities and loans of states and political subdivisions	(407,607)	-0.39%	(827,205)	-0.94%	(917,969)	-1.16%
Nondeductible interest expense from carrying tax-exempt assets	14,690	0.01%	15,186	0.02%	16,517	0.02%
Bank owned life insurance	(47,525)	-0.05%	(1,554,125)	-1.77%	(332,984)	-0.42%
Other nondeductible expenses	478,042	0.21%	336,617	0.38%	481,160	0.61%
Revaluation effect of the Tax Act	(1,367,943)	-1.31%	16,786,807	19.06%	-	0.00%
Other	(265,856)	0.00%	(7,490)	-0.01%	2,673	-0.01%
Income taxes	$21,379,897	20.47%	$46,276,428	52.54%	$27,696,541	34.86%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred assets and liabilities at December 31 were as follows:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 20,168,016	$ 19,299,020
Allowance for off-balance sheet credit exposures	222,286	222,397
Unrealized loss on securities available for sale	5,358,894	4,288,678
Deferred compensation	5,409,905	4,741,560
Other real estate	39,318	39,338
Interest on nonaccrual loans	266,546	282,690
Commitment fees	89,878	81,080
Other	324,575	268,899
Total deferred tax assets	31,879,418	29,223,662
Deferred tax liabilities:		
Pension benefits	3,025,190	1,082,258
Financial-over-tax depreciation	749,734	409,507
Deferred loan origination costs	1,633,567	1,620,935
Mortgage servicing	66,600	89,804
Prepaid expenses	190,815	183,448
Discount accretion	4,403	4,405
State income tax	183,988	197,461
Other	89,475	95,978
Total deferred tax liabilities	5,943,772	3,683,796
Net deferred tax assets	$ 25,935,646	$ 25,539,866

W.T.B. files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, W.T.B. is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2015.

W.T.B. determined that it was not required to establish a valuation allowance for deferred tax assets since it is more likely than not that the deferred tax asset will be realized through future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. W.T.B.'s net deferred tax asset is recorded in the consolidated statements of financial condition as an asset.

Note 14: Income Taxes (continued)
At December 31, 2018 and 2017, W.T.B. had no unrecognized tax benefits. W.T.B. does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

W.T.B. had no uncertain tax positions as of December 31, 2018 or 2017; therefore, no liabilities were necessary for unrecognized tax benefits.

Note 15: Financial Instruments with Off-Balance-Sheet Risk
The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. The Bank's financial instruments with off-balance-sheet risk include commitments to extend credit, standby letters of credit, and commercial letters of credit.

Such commitments involve, to varying degrees, elements of credit, liquidity and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Bank's exposure to credit losses is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as used in the lending process.

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the commitment contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Collateral varies, but may include accounts receivable; inventory; property, plant and equipment; residential real estate; or income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of commercial customers to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Through commercial letters of credit, the Bank guarantees customers' trade transactions to third parties, generally to finance commercial contracts for the shipment of goods. The Bank's credit risk in these transactions is limited, since the contracts are supported by the merchandise being shipped and are generally of short duration.

Following is a summary of the Bank's exposure to off-balance-sheet risk at December 31:

	2018	2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 2,160,393,725	$ 1,956,917,426
Standby letters of credit	92,241,300	72,873,172
Commercial letters of credit	43,441	174,428

A reserve for credit losses on off-balance-sheet credit exposures is maintained at a level management considers adequate. As of December 31, 2018 and 2017, the balance of the allowance was $1,000,000, which was included in other liabilities in the consolidated statements of financial condition.

Note 16: Fair Value Measurements
W.T.B. measures some of its assets on a fair value basis. Fair value is used on a recurring basis for certain assets, such as securities available for sale and interest rate swaps, for which fair value is the primary basis of accounting. Fair value is defined as the price that would be received for the sale of an asset in an orderly transaction between market participants at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value measurement, among other things, requires W.T.B. to maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect W.T.B.'s market assumptions. Three types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets that W.T.B. has the ability to access as of the measurement date.

Note 16: Fair Value Measurements (continued)
Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable market data.

Level 3 - Valuations for instruments with inputs that are unobservable, are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such instruments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents information about W.T.B.'s assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy of the fair value measurements for those assets at December 31:

	2018			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Treasury and federal agencies	$ 688,729,483	$ -	$ 688,729,483	$ -
States and political subdivisions	5,338,900	-	5,338,900	-
Mortgage-backed securities	336,990,379	-	336,990,379	-
Equity securities at fair value	11,100	11,100	-	-
Interest rate swap assets	1,784,292	-	1,784,292	-
Total assets	$ 1,032,854,154	$ 11,100	$ 1,032,843,054	$ -
Interest rate swap liabilities	$ 1,832,914	$ -	$ 1,832,914	$ -
Total liabilities	$ 1,832,914	$ -	$ 1,832,914	$ -

	2017			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
U.S. Treasury and federal agencies	$ 575,957,647	$ -	$ 575,957,647	$ -
States and political subdivisions	1,346,027	-	1,346,027	-
Mortgage-backed securities	329,360,264	-	329,360,264	-
Interest rate swap assets	225,177	-	225,177	-
Total assets	$ 906,889,115	$ -	$ 906,889,115	$ -
Interest rate swap liabilities	$ 355,195	$ -	$ 355,195	$ -
Total liabilities	$ 355,195	$ -	$ 355,195	$ -

The following methods and assumptions were used by W.T.B. in estimating its fair value of each class of financial instrument that is carried at fair value in the table above.

Securities Available for Sale
W.T.B. estimates fair values using external, independent pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, live trading levels, trade execution data, market consensus prepayment speeds and credit spreads. Examples of such instruments that would generally be classified within Level 2 of the valuation hierarchy include government-sponsored entity obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases, where there is limited activity or less transparency around inputs to the valuation, W.T.B. classifies those securities as Level 3.

Equity Securities at Fair Value
W.T.B. determines the fair value using quoted market prices.

Interest Rate Swaps
The fair value of interest rate swaps is estimated by discounting the estimated expected cash flows of the swap using a discount curve and implied forward rates.

Note 16: Fair Value Measurements (continued)

The following table presents the fair value measurement of assets on a nonrecurring basis and the level within the fair value hierarchy for those assets at December 31:

	2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,736,159	$ -	$ -	$ 2,736,159
Total	$ 2,736,159	$ -	$ -	$ 2,736,159

	2017			
	Total	Level 1	Level 2	Level 3
Impaired loans	$ 531,360	$ -	$ -	$ 531,360
Other real estate	310,500	-	-	310,500
Total	$ 841,860	$ -	$ -	$ 841,860

The following table provides additional quantitative information about the unobservable inputs for W.T.B.'s assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis at December 31:

2018

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Impaired loans	$ 2,736,159	Market approach	Selling costs	8.2%
			Discount to appraised value	13.3%
	$ 2,736,159			

2017

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Impaired loans	$ 531,360	Market approach	Selling costs	10.0%
			Discount to appraised value	10.0%
Other real estate owned	310,500	Market approach	Selling costs	11.0%
	$ 841,860			

Carrying values of certain impaired loans are periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. When a collateral dependent loan is identified as impaired, the impairment is measured using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. Troubled debt restructurings that are not collateral dependent discount expected future cash flows based on the original contractual rate of the loan and are not considered to be at fair value. The significant unobservable inputs used in the fair value measurement of impaired loans may include estimated selling costs, discounts that may be required to dispose of the property, and management assumptions regarding market trends and other relevant factors. If the determined value of the impaired loan is less than the recorded investment in the loan, impairment is recognized by adjusting the carrying value of the loan through a charge-off to the allowance for loan losses. The carrying value of loans fully charged-off is zero.

Carrying values of other real estate owned are periodically evaluated to determine if valuation adjustments, or partial write-downs, should be recorded. Other real estate owned is carried at the lower of cost or fair value of the property, less the estimated cost to sell. Factors considered in determining the fair value of the property generally include geographic sales trends, the value of comparable sales of surrounding property, pending purchase agreements, as well as the condition of the property.

W.T.B. is required to disclose the estimated fair value of financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate those values. These fair value estimates are made at December 31 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold or the price at which a liability could be settled. The estimated fair value of loans held in portfolio for December 31, 2018 reflects and exit price assumption. The December 31, 2017 fair value estimate is not based on an exit price assumption. Given there is no active market or observable market transactions for many of W.T.B.'s financial instruments, W.T.B.'s estimates of many of these fair values are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values. Nonfinancial instruments are excluded from disclosure requirements. Specifically, land and buildings are not disclosed at fair value, nor is the value derived from retaining customer deposit relationships, commonly referred to as a customer deposit base intangible. Accordingly, the aggregate fair value amounts presented are not intended to represent the fair value of W.T.B.'s assets and liabilities taken as a whole, nor W.T.B.'s shareholders' equity.

Note 16: Fair Value Measurements (continued)

Carrying Amounts and Estimated Fair Values

The carrying amounts and estimated fair values of W.T.B.'s financial instruments at December 31 were as follows:

	2018		
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Financial assets:			
Cash and due from banks and interest-bearing deposits with banks	1	$ 857,735,394	$ 857,735,394
Securities available for sale	2	1,031,058,762	1,031,058,762
Securities held to maturity	2	558,191,770	549,602,861
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock	2	7,540,600	7,540,600
Loans held for sale	2	4,125,682	4,125,682
Loans held in portfolio	3	3,952,524,144	3,958,432,862
Cash surrender value of life insurance, net	1	8,173,904	8,173,904
Mortgage servicing rights	3	299,613	986,689
Interest rate swaps	2	1,784,292	1,784,292
Equity securities at fair value	1	11,100	11,100
Financial liabilities:			
Demand and savings deposits	1	5,283,567,989	5,283,567,989
Time deposits	2	355,354,878	354,598,962
Securities sold under agreements to repurchase	1	259,857,022	259,857,022
Interest rate swaps	2	1,832,914	1,832,914

	2017		
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
Financial assets:			
Cash and due from banks and interest-bearing deposits with banks	1	$ 854,973,507	$ 854,973,507
Securities available for sale	2	906,663,938	906,663,938
Securities held to maturity	2	480,511,844	475,131,009
Federal Home Loan Bank and Pacific Coast Bankers' Bancshares stock	2	6,857,600	6,857,600
Loans held for sale	2	21,068,365	21,068,365
Loans held in portfolio	3	3,824,222,951	3,855,523,275
Cash surrender value of life insurance, net	1	7,859,504	7,859,504
Mortgage servicing rights	3	403,803	1,012,878
Interest rate swaps	2	225,177	225,177
Financial liabilities:			
Demand and savings deposits	1	5,155,590,004	5,155,590,004
Time deposits	2	293,275,976	292,337,144
Securities sold under agreements to repurchase	1	222,135,525	222,135,525
Interest rate swaps	2	355,195	355,195

Note 17: Interest Rate Swaps

The Bank is party to various interest rate swap derivative instruments that are used for asset and liability management and customer financing needs. These interest rate swap derivative arrangements help the Bank manage exposure to both credit risk and market risk. The fair value of interest rate swaps is determined by netting discounted future fixed cash receipts (or payments) and the discounted expected variable payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates derived from observed market interest rate curves.

Credit risk of the financial contract is controlled through credit approval, limits, and monitoring procedures. The Bank is exposed to credit-related losses in the event of nonperformance by the counterparty to these agreements when the Bank is in an unrealized gain position.

Interest Rate Swaps Designated in Hedge Relationships

For certain long-term, fixed rate loans, the Bank has entered into interest rate swap agreements with a counterparty to serve as a hedge to changes in interest rates. Under the swap agreements, the Bank pays the counterparty a fixed rate equal to the rate on the borrower's note. In return, the Bank receives a variable rate from the counterparty.

As of December 31, the notional values and fair values of the Bank's interest rate swaps designated in hedge relationships were as follows:

Asset Derivatives				Liability Derivatives			
2018		2017		2018		2017	
Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
$ -	$ -	$ -	$ -	$ 1,842,239	$ 48,622	$ 2,667,256	$ 130,018

The changes in fair value of the hedged asset and derivatives are recorded in income. Since loans are the item being hedged, net cash settlements on interest rate swaps that qualify for hedge accounting are recorded in interest revenue on loans. Net payments on interest rate swaps reduced interest revenue on loans by $67,278, $118,719 and $212,505 for 2018, 2017 and 2016, respectively.

Interest Rate Swaps Not Designated in Hedge Relationships

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The Bank simultaneously enters into an offsetting interest rate swap with a third party such that the Bank minimizes its net risk exposure. These swaps do not qualify as designated hedges; therefore, each interest rate swap is accounted for as a free standing derivative with changes in fair value reported in income. Net cash settlements for stand-alone derivatives are reported in noninterest revenue.

As of December 31, the notional values and fair values of the Bank's interest rate swaps not designated in hedge relationships were as follows:

Asset Derivatives				Liability Derivatives			
2018		2017		2018		2017	
Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
$ 46,842,448	$ 1,784,292	$ 4,941,486	$ 225,177	$ 46,842,448	$ 1,784,292	$ 4,941,486	$ 225,177

Note 18: Commitments and Contingencies

Lease Commitments

W.T.B. has various operating leases covering the use of certain premises. The lease expense under such arrangements amounted to $3,698,699 $2,987,577 and $2,757,180 for the years ended December 31, 2018, 2017 and 2016, respectively. All leases, not including renewal options, expire prior to the end of year 2034. Certain leases contain renewal clauses and rent escalation clauses based on the Consumer Price Index, or other factors contained in the lease agreement.

The following table sets forth future minimum lease payments under non-cancelable operating leases:

Years ending December 31,	
2019	$ 4,126,664
2020	3,742,061
2021	3,401,951
2022	2,838,199
2023	2,542,785
2024 and thereafter	5,004,550
Total future minimum lease payments	$ 21,656,210

Note 18: Commitments and Contingencies (continued)

Concentrations of Credit Risk

The Bank grants commercial and agricultural, real estate and consumer loans to customers, mainly in Washington, Idaho and Oregon, secured by business, real and personal property. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. Although the loan portfolio is diversified, a substantial portion of the borrower's ability to honor their agreements is dependent upon economic conditions in Washington, Idaho and Oregon. The Bank has no significant exposure to foreign credits in its loan portfolio.

Legal Proceedings

During the normal course of business, W.T.B. and the Bank are involved as defendants in various legal matters. In the opinion of W.T.B.'s management, the potential liability, if any, upon resolution of all litigation currently pending would not have a material adverse effect on W.T.B.'s financial position or results of operations.

Note 19: Parent Company Statements

W.T.B.'s parent company statements are presented using the equity method of accounting; therefore, accounts of its subsidiary have not been included. Intercompany transactions and balances have not been eliminated. The condensed parent company statements follow:

Statements of Financial Condition	December 31, 2018	December 31, 2017
Assets		
Cash	$ 8,204,624	$ 1,631,580
U.S. Treasury securities available for sale, carried at fair value	999,141	993,750
Equity in underlying net book value of bank subsidiary	584,474,784	517,148,063
Premises and equipment, net	7,639,506	8,073,140
Other assets	1,394,136	3,555,108
Total assets	$ 602,712,191	$ 531,401,641
Liabilities		
Other liabilities	$ 58,645	$ 610,658
Shareholders' equity	602,664,646	530,790,983
Total liabilities and shareholders' equity	$ 602,723,291	$ 531,401,641

Statements of Income	Years Ended December 31, 2018	2017	2016
Revenue			
Dividends from banking subsidiary	$ 13,915,000	$ 11,158,000	$ 11,639,000
Other	2,952,255	1,219,677	1,208,761
Total revenue	16,867,255	12,377,677	12,847,761
Expense			
Salaries and employee benefits	704,869	512,945	476,981
Other	2,085,114	1,634,150	1,380,764
Total expense	2,789,983	2,147,095	1,857,745
Income before income tax benefit and equity in undistributed net income of subsidiary	14,077,272	10,230,582	10,990,016
Income tax expense (benefit)	35,528	(1,409,975)	(220,605)
Income before equity in undistributed net income of subsidiary	14,041,744	11,640,557	11,210,621
Equity in undistributed net income of banking subsidiary	69,014,072	30,157,034	40,516,037
Net income	$ 83,055,816	$ 41,797,591	$ 51,726,658

Note 19: Parent Company Statements (continued)

Statements of Cash Flows	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 83,055,816	$ 41,797,591	$ 51,726,658
Adjustments to reconcile net income to cash provided by operating activities:			
Undistributed net income of subsidiary	(69,014,072)	(30,157,034)	(40,516,037)
Depreciation	433,633	57,607	102,735
Deferred income taxes (benefit)	(68,725)	1,670,801	(16,937)
Gains on sales of premises and equipment	(700,000)	-	-
Stock-based compensation	2,605,872	1,355,629	1,363,219
Stock-based directors' fees	539,950	270,721	300,132
Other, net	773,664	(2,009,786)	(9,047)
Net cash provided by operating activities	17,626,138	12,985,529	12,950,723
Cash flows from investing activities:			
Purchases of premises and equipment	-	(6,974,080)	-
Proceeds from sales of premises and equipment	700,000	-	-
Purchase of other assets and investments	(89,000)	(110,000)	(288,910)
Proceeds from investments	980,255	35,484	22,014
Net cash provided (used) by investing activities	1,591,255	(7,048,596)	(266,896)
Cash flows from financing activities:			
Common share repurchase and retirement	(890,447)	-	(3,000,000)
Common stock dividends paid	(11,753,902)	(8,556,831)	(7,634,318)
Net cash used in financing activities	(12,644,349)	(8,556,831)	(10,634,318)
Increase (decrease) in cash	6,573,044	(2,619,898)	2,049,509
Cash at beginning of year	1,631,580	4,251,478	2,201,969
Cash at end of year	$ 8,204,624	$ 1,631,580	$ 4,251,478

Note 20: Related Parties

In the ordinary course of business, W.T.B. and the Bank make loans and enter into other transactions with certain related parties, its directors and entities having a specified relationship with the directors. Such transactions are made on substantially the same terms and conditions as transactions with other customers. Total deposits from these related parties were $25,778,718, $44,994,771 and $43,600,477 at December 31, 2018, 2017 and 2016, respectively. Related party loan amounts for the years ended December 31, 2018, 2017 and 2016, are summarized in the table below. The reclassifications represent loans that were not related party that subsequently became related party loans, or loans that were once considered related party but are no longer considered related party.

	2018	2017	2016
Balance at beginning of year	$ 23,511,572	$ 36,239,620	$ 43,181,161
New loans and advances	8,602,882	7,129,144	17,521,720
Repayments	(17,635,292)	(19,857,192)	(23,090,884)
Other and reclassifications	(2,602,000)	-	(1,372,377)
Balance at end of year	$ 11,877,162	$ 23,511,572	$ 36,239,620

Under current federal regulations, W.T.B. is limited in the amount that may be borrowed from the Bank. At December 31, 2018, 2017 and 2016, a maximum of $4,319,875 could be loaned to W.T.B. No such loans have been made.

Note 21: Earnings per Share

The numerators and denominators used in computing basic and diluted earnings per common share for the years ended December 31, 2018, 2017 and 2016, can be reconciled as follows:

	2018	2017	2016
Numerator:			
Net income	$ 83,055,816	$ 41,797,591	$ 51,726,658
Denominator:			
Weighted-average number of common shares outstanding - basic	2,553,971	2,545,414	2,543,917
Effect of potentially dilutive common shares	8,228	9,423	5,977
Weighted-average number of common shares - diluted	2,562,199	2,554,837	2,549,894
Earnings per common share:			
Basic	$ 32.52	$ 16.42	$ 20.33
Diluted	$ 32.42	$ 16.36	$ 20.29

Note 22: Regulatory Matters

W.T.B. (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on W.T.B.'s and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, W.T.B. and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. W.T.B.'s and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

The Bank is was capitalized under the regulatory framework for prompt corrective action as of December 31, 2018. W.T.B. is not subject to the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain minimum capital ratios as set forth in the table below.

The capital amounts and ratios, as calculated under regulatory guidelines at December 31, 2018 and 2017, were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Tier 1 capital to average assets:						
W.T.B. Financial Corporation	$649,523	9.81%	$264,915	4.00%	N/A	N/A
Washington Trust Bank	631,333	9.55%	264,522	4.00%	330,652	5.00%
Common equity tier 1 capital to risk-weighted assets:						
W.T.B. Financial Corporation	649,523	13.36%	218,781	4.50%	N/A	N/A
Washington Trust Bank	631,333	13.01%	218,397	4.50%	315,462	6.50%
Tier 1 risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	649,523	13.36%	291,708	6.00%	N/A	N/A
Washington Trust Bank	631,333	13.01%	291,196	6.00%	388,261	8.00%
Total risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	710,678	14.62%	388,944	8.00%	N/A	N/A
Washington Trust Bank	692,382	14.27%	388,261	8.00%	485,327	10.00%

Note 22: Regulatory Matters (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Tier 1 capital to average assets:						
W.T.B. Financial Corporation	$575,966	9.32%	$247,321	4.00%	N/A	N/A
Washington Trust Bank	562,319	9.10%	247,104	4.00%	308,880	5.00%
Common equity tier 1 capital to risk-weighted assets:						
W.T.B. Financial Corporation	575,966	12.41%	208,899	4.50%	N/A	N/A
Washington Trust Bank	562,319	12.14%	208,385	4.50%	301,000	6.50%
Tier 1 risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	575,966	12.41%	278,532	6.00%	N/A	N/A
Washington Trust Bank	562,319	12.14%	277,846	6.00%	370,462	8.00%
Total risk-based capital to risk-weighted assets:						
W.T.B. Financial Corporation	634,361	13.67%	371,376	8.00%	N/A	N/A
Washington Trust Bank	620,572	13.40%	370,462	8.00%	463,077	10.00%

The payment of cash dividends by W.T.B. to its shareholders is subject to federal regulatory requirements for capital levels and other restrictions. In addition, the cash dividends paid by the Bank to W.T.B. are subject to both federal and state regulatory requirements.

The Federal Reserve and the Federal Deposit Insurance Corporation approved new regulations (the "Basel III Capital Regulation") that became effective on January 1, 2015. The Basel III Capital Regulation included a capital conservation buffer that will equal 2.5% of risk-weighted assets once fully phased in on January 1, 2019, that is in addition to adequately capitalized regulatory minimums across all three risk-based capital ratios. The capital conservation buffer began being phased in beginning on January 1, 2016 with full implementation by January 1, 2019. The capital conservation buffer was 1.875% for 2018. An institution that does not maintain risk-based capital ratio levels above the sum of adequately capitalized levels plus the phased in portion of the conservation buffer, will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers. As part of the implementation of the Basel III Capital Regulation, W.T.B. and the Bank made a one-time election to exclude accumulated other comprehensive income or loss from regulatory capital calculations. Management believes as of December 31, 2018, W.T.B. and the Bank meet all capital adequacy requirements to which it is subject.

Note 23: Revenue from Contracts with Customers

All of W.T.B.'s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest revenue. The following table presents W.T.B.'s noninterest revenue by revenue stream for the year ended December 31, 2018. Items outside the scope of ASC 606 are noted as such.

	2018
Noninterest revenue:	
Fiduciary income	$ 18,137,249
Investment services fees	3,528,012
Bank card and credit card fees, net	
Interchange income, net	10,393,840
Merchant services income, net	1,117,994
ATM surcharge fees	501,938
All other fees (a)	359,879
Total bank card and credit card fees, net	12,373,651
Mortgage banking revenue, net (a)	5,820,035
Other fees on loans (a)	1,005,992
Service charges on deposits	6,890,245
Other service charges, commissions and fees (a)	856,015
Net losses on other real estate	(92,638)
Other income (a)	2,489,859
Total noninterest revenue	$ 51,008,420

(a) Not within scope of ASC 606

Fiduciary Income

The Bank earns fiduciary income from its contracts with trust customers to manage assets for investment and/or to transact on their accounts. These fees are primarily earned over time as the Bank provides the contracted services and are generally assessed based on a tiered scale of the market value of assets under management. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed. Other related services that are based on a fixed fee schedule, are recognized when the services are rendered.

Investment Services Fees

The Bank earns fees from investment brokerage services provided to its customers by a third-party service provider. The Bank receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly and a receivable is recorded until commissions are paid the following month. Because the Bank acts as an agent in arranging the relationship between the customer and the third party service provider and does not control the services rendered to the customer, investment services fees are presented net of costs.

Bank Card and Credit Card Fees

The Bank earns fees when a debit card or credit card issued by the Bank is used. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized when the cost of the transaction is charged to the cardholder's bank card or credit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income. The Bank also earns income for card payment services provided to its merchant customers. The Bank outsources these services to a third party to provide card payment services to these merchants. The third party provider passes the payments made by the merchants to the Bank, and they are recorded as income. The Bank also has to pay interchange expense for debit card or credit card transactions processed by these merchants. These payments are recorded as a net reduction against fee income when they are made to the payment network.

Service Charges on Deposits

The Bank earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Services charges on deposits are withdrawn directly from the customer's account balance. Transaction-based fees are charges for specific services, such as ATM use charges, stop payment charges, and wire fees, and are recognized at the time the transaction is executed, which is the point in time the Bank fulfills the customer's request. Account maintenance fees consist primarily of base service charge fees and analyzed account fees. The performance obligation is satisfied and the fees are recognized primarily on a monthly basis as the service period is completed. Overdraft fees are recognized at the point in time that the overdraft occurs.

Note 23: Revenue from Contracts with Customers (continued)

Net Gains (Losses) on Other Real Estate

W.T.B. records a gain or loss from the sale of ORE when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When W.T.B. finances the sale of ORE to the buyer, W.T.B. assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the ORE asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, W.T.B. adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Report of Independent Auditors

To the Board of Directors
W.T.B. Financial Corporation and Subsidiary (Washington Trust Bank)

Report on Financial Statements

We have audited the accompanying consolidated financial statements of W.T.B. Financial Corporation and Subsidiary (the Company), which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of W.T.B. Financial Corporation and Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Washington Trust Bank's internal control over financial reporting as of December 31, 2018, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 18, 2019, expressed an unmodified opinion.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Consolidated Financial Highlights on page 1 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

Moss Adams LLP

Spokane, Washington
March 18, 2019

W.T.B. FINANCIAL CORPORATION AND SUBSIDIARY
Directors and Officers

(As of 12/31/2018)

W.T.B. Financial Corporation

BOARD OF DIRECTORS
- Peter F. Stanton
  - Chairman of the Board, President and Chief Executive Officer
- John E. (Jack) Heath, III
  - Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
- Christopher Ackerley
  - Managing Partner, Ackerley Partners, LLC
- Steven M. Helmbrecht
  - Venture Investor
- John J. Luger
  - President, JDL Enterprises, LLC
- Thomas B. Tilford
  - Retired, President, Western Mine Services, Inc.

ADMINISTRATION
- Peter F. Stanton
  - Chairman of the Board, President and Chief Executive Officer
- John E. (Jack) Heath, III
  - Vice-Chairman of the Board, Executive Vice President and Chief Operating Officer
- Larry V. Sorensen
  - Senior Vice President and Chief Financial Officer
- Burke D. Jackowich
  - Senior Vice President and General Counsel
- Daniel A. Clark
  - Senior Vice President and Director of Internal Audit

Washington Trust Bank

BOARD OF DIRECTORS
- Peter F. Stanton
  - Chairman of the Board and Chief Executive Officer
- John E. (Jack) Heath, III
  - President and Chief Operating Officer
- Christopher Ackerley
  - Managing Partner, Ackerley Partners, LLC
- Steven M. Helmbrecht
  - Venture Investor
- Molly J. Scammell Hurley
  - Retired Officer, Washington Trust Bank
- Michael J. Lee
  - President, Lakeside Industries, Inc.
- John J. Luger
  - President, JDL Enterprises, LLC
- Dennis P. Murphy
  - Chief Executive Officer, Hayden Homes, LLC
- Nancy Sue Wallace
  - Community Volunteer
- Jeffrey Wright
  - Chairman, Space Needle Corporation

ADMINISTRATION
- Peter F. Stanton
  - Chairman of the Board and Chief Executive Officer
- John E. (Jack) Heath, III
  - President and Chief Operating Officer

Additional information or copies of this report may be obtained by referencing the Investor Relations webpage at watrust.com/about/investor-relations, or by writing to:

W.T.B. Financial Corporation
Larry V. Sorensen
Senior Vice President & Chief Financial Officer
P.O. Box 2127
Spokane, Washington 99210-2127

COMMERCIAL BANKING
- J. Jay Lewis
  - Senior Vice President, Chief Lending Officer, and Commercial Division Manager
- Andy G. Beitia
  - President, Southern Idaho Region
- Kevin L. Blair
  - President, Western Washington Region
- Linda A. Williams
  - President, Oregon Region
- Steve K. Roberts
  - Senior Vice President, Manager Central Washington Region
- Steve L. Utt
  - Senior Vice President, Manager Eastern Washington/North Idaho Region

CREDIT ADMINISTRATION
- Peter G. Bentley
  - Senior Vice President and Chief Credit Officer

FINANCE
- Larry V. Sorensen
  - Senior Vice President and Chief Financial Officer
- Laura M. Gingrich
  - Vice President and Chief Accounting Officer

HUMAN RESOURCES
- Katy J. Bruya
  - Senior Vice President

RETAIL BANKING, INFORMATION TECHNOLOGY, OPERATIONS AND STRATEGIC SERVICES
- Jim D. Branson
  - Senior Vice President and Chief Banking Officer, Director of Technology, Operations, and Consumer Banking
- John G. Baker
  - Senior Vice President, Commercial/Retail Services Group Manager
- Sharry J. Ditzler
  - Senior Vice President and Chief Information Officer
- Tami T. Ferguson
  - Senior Vice President, Client Experience Director
- F. Mack Wood
  - Senior Vice President and Strategic Services Director

INTERNAL AUDIT
- Daniel A. Clark
  - Senior Vice President and Director of Internal Audit

LEGAL
- Burke D. Jackowich
  - Senior Vice President and General Counsel

WEALTH MANAGEMENT & ADVISORY SERVICES
- Robert A. Blume
  - Senior Vice President, Managing Director