AMERICAN RIVER BANKSHARES
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

California	68-0352144
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 Zinfandel Drive, Suite 450, Rancho Cordova, California	95670
(Address of principal executive offices)	(Zip Code)

(916) 851-0123
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

No par value Common Stock – 5,868,637 shares outstanding at November 6, 2018.

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 24,634	$ 38,467
Federal funds sold	10,000	—
Total cash and cash equivalents	34,634	38,467
Interest-bearing deposits in banks	1,746	1,746
Investment securities:		
Available-for-sale, at fair value	277,269	262,322
Held-to-maturity, at amortized cost	311	378
Loans and leases, less allowance for loan and lease losses of $4,332 at September 30, 2018 and $4,478 at December 31, 2017	310,322	308,713
Premises and equipment, net	1,072	1,158
Federal Home Loan Bank stock	3,932	3,932
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	961	961
Bank owned life insurance	15,350	15,122
Accrued interest receivable and other assets	8,076	6,502
	$ 669,994	$ 655,622
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 209,322	$ 215,528
Interest-bearing	366,498	340,552
Total deposits	575,820	556,080
Short-term borrowings	6,500	3,500
Long-term borrowings	9,000	12,000
Accrued interest payable and other liabilities	6,939	7,121
Total liabilities	598,259	578,701
Shareholders' equity:		

Preferred stock, no par value; 10,000,000 shares authorized; none Outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 5,864,802 shares at September 30, 2018 and 6,132,362 shares at December 31, 2017	30,165	34,463
Retained earnings	45,660	42,779
Accumulated other comprehensive loss, net of taxes	(4,090)	(321)
Total shareholders’ equity	71,735	76,921
	$ 669,994	$ 655,622

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)				
For the periods ended September 30,	Three months		Nine months	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans:				
Taxable	$3,405	$3,496	$10,216	$10,384
Exempt from Federal income taxes	127	110	383	376
Interest on Federal funds sold	120	—	268	—
Interest on deposits in banks	10	4	23	9
Interest and dividends on investment securities:				
Taxable	1,902	1,292	4,930	3,978
Exempt from Federal income taxes	102	180	410	496
Dividends	—	—	—	13
Total interest income	5,666	5,082	16,230	15,256
Interest expense:				
Interest on deposits	346	224	945	621
Interest on borrowings	63	55	171	152
Total interest expense	409	279	1,116	773
Net interest income	5,257	4,803	15,114	14,483
Provision for loan and lease losses	50	300	50	300
Net interest income after provision for loan and lease losses	5,207	4,503	15,064	14,183
Noninterest income:				
Service charges on deposit accounts	119	117	352	348
Gain on sale or call of securities	8	19	19	161
Other noninterest income	250	241	758	726
Total noninterest income	377	377	1,129	1,235
Noninterest expense:				
Salaries and employee benefits	2,551	2,102	7,274	6,336
Occupancy	267	262	791	793
Furniture and equipment	141	141	415	439
Federal Deposit Insurance Corporation assessments	52	51	158	156
Expenses related to other real estate owned	10	4	12	36
Other expense	982	752	2,531	2,350
Total noninterest expense	4,003	3,312	11,181	10,110
Income before provision for income taxes	1,581	1,568	5,012	5,308
Provision for income taxes	428	459	1,237	1,718

Net income	$1,153	$1,109	$3,775	$3,590
Basic earnings per share	$0.20	$0.18	$0.64	$0.56
Diluted earnings per share	$0.20	$0.17	$0.64	$0.55
Cash dividends per share	$0.05	$0.05	$0.15	$0.15

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data) For the periods ended September 30,	Three months 2018	Three months 2017	Nine months 2018	Nine months 2017
Net income	$1,153	$1,109	$3,775	$3,590
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on investment securities	(1,606)	(497)	(5,516)	376
Deferred tax benefit (expense)	511	199	1,760	(144)
(Decrease) increase in net unrealized gains (losses) on investment securities, net of tax	(1,095)	(298)	(3,756)	232
Reclassification adjustment for realized gains included in net income	(8)	(19)	(19)	(161)
Tax effect	3	8	6	64
Realized gains, net of tax	(5)	(11)	(13)	(97)
Total other comprehensive (loss) income	(1,100)	(309)	(3,769)	135
Comprehensive income	$53	$800	$6	$3,725

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock			Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Retained Earnings		
Balance, January 1, 2017	6,661,726	$42,484	$40,822	$ 544	$ 83,850
Net income			3,590		3,590
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				135	135
Cash dividends ($0.15 per share)			(975)		(975)
Net restricted stock award activity and related compensation expense	22,032	282			282
Stock options exercised	41,898	351			351
Stock option compensation expense	—	28			28
Retirement of common stock	(333,086)	(5,006)			(5,006)
Balance, September 30, 2017	6,392,570	$38,139	$43,437	$ 679	$ 82,255
Balance, January 1, 2018	6,132,362	34,463	42,779	(321)	76,921
Net income			3,775		3,775
Other comprehensive loss, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				(3,769)	(3,769)
Cash dividends ($0.15 per share)			(895)		(895)
Net restricted stock award activity and related compensation expense	17,859	212	1		213
Stock options exercised	13,359	123			123
Stock option compensation expense	—	21			21
Retirement of common stock	(298,778)	(4,654)			(4,654)
Balance, September 30, 2018	5,864,802	$30,165	$45,660	$ (4,090)	$ 71,735

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)
For the nine months ended September 30,

	2018	2017
Cash flows from operating activities:		
Net income	$3,775	$3,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	50	300
(Decrease) increase in deferred loan origination fees, net	(53)	5
Depreciation and amortization	201	255
Gain on sale and call of investment securities, net	(19)	(161)
Amortization of investment security premiums and discounts, net	1,969	2,447
Increase in cash surrender values of life insurance policies	(228)	(238)
Stock based compensation expense	234	310
Gain on sale of other real estate owned	—	(8)
Decrease (increase) in accrued interest receivable and other assets	163	(581)
Decrease in accrued interest payable and other liabilities	(182)	(347)
Net cash provided by operating activities	5,910	5,572
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	24,753	31,288
Proceeds from matured available-for-sale investment securities	—	1,930
Proceeds from called available-for-sale investment securities	1,499	145
Purchases of available-for-sale investment securities	(81,850)	(63,061)
Proceeds from principal repayments for available- for-sale investment securities	33,196	31,768
Proceeds from principal repayments for held-to- maturity investment securities	67	79
Net increase in interest-bearing deposits in banks	—	(249)
Net (increase) decrease in loans	(2,956)	1,543
Proceed from sale of loans	1,349	—
Proceeds from sale of other real estate	—	395
Net increase in FHLB stock	—	(153)
Purchases of equipment	(115)	(119)
Net cash (used in) provided by investing activities	(24,057)	3,566

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)
For the nine months ended September 30,

	2018	2017
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	$22,420	$8,825
Net decrease in time deposits	(2,680)	(2,689)
Net increase (decrease) in short-term borrowings	3,000	(1,500)
Net (decrease) increase to long-term borrowings	(3,000)	1,500
Proceeds from stock option exercise	123	351
Cash dividends paid	(895)	(975)
Cash paid to repurchase common stock	(4,654)	(5,006)
Net cash provided by financing activities	$14,314	$506
(Decrease) increase in cash and cash equivalents	(3,833)	9,644
Cash and cash equivalents at beginning of year	38,467	27,589
Cash and cash equivalents at end of period	$34,634	$37,233

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the “Company”) at September 30, 2018 and December 31, 2017, the results of its operations and statement of comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017, its cash flows for the nine-month periods ended September 30, 2018 and 2017 and its statement of changes in shareholders’ equity for the nine months ended September 30, 2018 and 2017 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2017. The results of operations for the three-month and nine-month periods ended September 30, 2018 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch office of American River Bank, all branch offices are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate all of the branch offices and report them as a single operating segment. No client accounts for more than ten percent (10%) of revenues for the Company or American River Bank.

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 18,041 options remain outstanding at September 30, 2018. At September 30, 2018, under the 2010 Plan, there were 31,008 stock options and 41,457 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,290,590. The 2010 Plan provides for the following types of stock-based awards: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted performance stock, unrestricted Company stock, and performance units. Awards under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonqualified option agreements, restricted stock agreements, and other awards agreements. The unvested restricted stock under the 2010 Plan have dividend and voting rights. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is awarded. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options may be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

The award date fair value of awards is determined by the market price of the Company's common stock on the date of award and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock awarded pursuant to such agreements vest in increments over one to five years from the date of award. The shares awarded to employees and directors under the restricted stock agreements vest on the applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated.

Equity Compensation

For the three-month periods ended September 30, 2018 and 2017, the compensation cost recognized for equity compensation was $83,000 and $109,000, respectively and the recognized tax benefit for equity compensation expense was $21,000 and $40,000, respectively, for the same three-month periods ended. For the nine-month periods ended September 30, 2018 and 2017, the compensation cost recognized for equity compensation was $233,000 and $310,000, respectively and the recognized tax benefit for equity compensation expense was $57,000 and $113,000, respectively, for the same nine-month periods.

At September 30, 2018, the total unrecognized pre-tax compensation cost related to nonvested stock option awards not yet recorded was $29,000. This amount will be recognized over the next 1.8 years and the weighted average period of recognizing these costs is expected to be 1.4 years. At September 30, 2018, the total compensation cost related to restricted stock awards not yet recorded was $444,000. This amount will be recognized over the next 4.7 years and the weighted average period of recognizing these costs is expected to be 1.4 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month and nine-month periods ended September 30, 2018 or September 30, 2017. A summary of option activity under the Plans as of September 30, 2018 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2018	97,543	$ 11.26	3.1 years	$ 419
Awarded	—	—	—	—
Exercised	(13,359)	9.23	—	—
Expired, forfeited or cancelled	(35,135)	15.67	—	—
Outstanding at September 30, 2018	49,049	$ 8.65	3.6 years	$ 327
Vested at September 30, 2018	41,913	$ 8.54	3.2 years	$ 284
Non-vested at September 30, 2018	7,136	$ 9.29	6.2 years	$ 43

Restricted Stock

There were no shares of restricted stock awarded during the three-month periods ended September 30, 2018 and 2017. There were 22,514 and 24,982 shares of restricted stock awarded during the nine-month periods ended September 30, 2018 and 2017, respectively.

There were no restricted share awards that were fully vested during the three-month periods ended September 30, 2018 and 2017. There were 25,455 restricted share awards that were fully vested during the nine-month period ended September 30, 2018 and 14,382 restricted share awards that were fully vested during the nine-month period ended September 30, 2017. There were zero and 4,655 restricted share awards forfeited during the three-month and nine-month periods ended September 30, 2018, respectively. There were zero and 2,950 restricted share awards forfeited during the three-month and nine-month periods ended September 30, 2017, respectively. The intrinsic value of nonvested restricted shares at September 30, 2018 was $635,000.

Restricted Stock	Shares	Weighted Average Award Date Fair Value
Nonvested at January 1, 2018	49,053	$ 12.27
Awarded	22,514	15.44
Less: Vested	(25,455)	10.84
Less: Expired, forfeited or cancelled	(4,655)	13.69
Nonvested at September 30, 2018	41,457	$ 10.61

Other Equity Awards

There were no stock appreciation rights, restricted performance stock, unrestricted Company stock, or performance units awarded during the three-month or nine-month month periods ended September 30, 2018 or 2017 or outstanding at September 30, 2018 or December 31, 2017.

The intrinsic value used for stock options and restricted stock awards was derived from the market price of the Company’s common stock of $15.32 as of September 30, 2018.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately $30,266,000 and standby letters of credit of approximately $121,000 at September 30, 2018 and loan commitments of approximately $10,923,000 and standby letters of credit of approximately $121,000 at December 31, 2017. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2018 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory, insurance programs, performance obligations to government agencies, or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at September 30, 2018 or December 31, 2017.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (5,823,345 and 5,886,977 shares for the three-month and nine-month periods ended September 30, 2018, and 6,299,914 and 6,402,647 shares for the three-month and nine-month periods ended September 30, 2017). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 41,482 and 38,700, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2018 and 66,118 and 78,922, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2017. For the three-month periods ended September 30, 2018 and 2017, there were zero and 32,448 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. For the nine-month periods ended September 30, 2018 and 2017, there were zero and 32,448 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of Available-for-Sale and Held-to-Maturity investment securities at September 30, 2018 and December 31, 2017 consisted of the following (dollars in thousands):

Available-for-Sale

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$256,018	$ 360	$ (6,088)	$250,290
Obligations of states and political subdivisions	15,791	120	(370)	15,541
Corporate bonds	6,492	51	(68)	6,475
U.S. Treasury securities	4,969	—	(6)	4,963
	$283,270	$ 531	$ (6,532)	$277,269

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$233,956	$ 1,184	$ (2,271)	$232,869
Obligations of states and political subdivisions	22,281	528	(94)	22,715
Corporate bonds	6,490	160	(24)	6,626
Equity securities:				
Corporate stock	51	61	—	112
	$262,778	$ 1,933	$ (2,389)	$262,322

Net unrealized losses on available-for-sale investment securities totaling $6,001,000 were recorded, net of $1,911,000 in tax benefits, as accumulated other comprehensive losses within shareholders' equity at September 30, 2018. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $10,310,000 and $8,000, respectively, for the three-month period ended September 30, 2018 and for the nine-month period ended September 30, 2018, proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $26,252,000 and $19,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and nine-month periods ended September 30, 2018.

Net unrealized losses on available-for-sale investment securities totaling $456,000 were recorded, net of $135,000 in tax benefits, as accumulated other comprehensive income within shareholders' equity at December 31, 2017. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $22,730,000 and $19,000, respectively, for the three-month period ended September 30, 2017 and for the nine-month period ended September 30, 2017, proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $31,433,000 and $161,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and nine-month periods ended September 30, 2017.

Held-to-Maturity

September 30, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 311	$ 17	$ —	$ 328

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 378	$ 26	$ —	$ 404

There were no sales or transfers of held-to-maturity investment securities for the periods ended September 30, 2018 and September 30, 2017. Investment securities with unrealized losses at September 30, 2018 and December 31, 2017 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

September 30, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Entities	$127,137	$ (2,321)	$100,217	$ (3,767)	$227,354	$ (6,088)
Obligations of states and political subdivisions	5,554	(98)	5,518	(272)	11,072	(370)
Corporate bonds	498	(2)	1,926	(66)	2,424	(68)
U.S. Treasury securities	4,963	(6)	—	—	4,963	(6)
	$138,152	$ (2,427)	$107,661	$ (4,105)	$245,813	$ (6,532)

December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
US Government Agencies and Sponsored Entities	$119,455	$ (1,148)	$49,258	$ (1,123)	$168,713	$ (2,271)
Obligations of states and political subdivisions	1,130	(9)	4,654	(85)	5,784	(94)
Corporate bonds	1,967	(24)	—	—	1,967	(24)
	$122,552	$ (1,181)	$53,912	$ (1,208)	$176,464	$ (2,389)

There were no held-to-maturity investment securities with unrealized losses as of September 30, 2018 or December 31, 2017. At September 30, 2018, the Company held 218 securities of which 79 were in a loss position for less than twelve months and 71 were in a loss position for twelve months or more. Of the 79 securities in a loss position for less than twelve months, 70 were U.S. Government Agencies and Sponsored Entities securities, six were obligations of states or political subdivisions, two were US treasuries, and one was a corporate bond and of the 71 securities that were in a loss position for greater than twelve months, 65 were U.S. Government Agencies and Sponsored Entities securities, five were obligations of states or political subdivisions, and one was a corporate bond.

At December 31, 2017, the Company held 217 securities of which 64 were in a loss position for less than twelve months and 35 were in a loss position for twelve months or more. Of the 35 securities in a loss position for greater than twelve months at December 31, 2017, four were municipal securities and 31 were US Government Agencies and Sponsored Agencies securities.

The unrealized loss on the Company's investment securities is primarily driven by interest rates. Because the decline in market value is attributable to a change in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be until maturity, management does not consider these investments to be other-than-temporarily impaired.

The amortized cost and estimated fair values of investment securities at September 30, 2018 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$4,969	$4,963		
After one year through five years	5,145	5,109		
After five years through ten years	12,980	12,818		
After ten years	4,158	4,089		
	27,252	26,979		
Investment securities not due at a single maturity date:				
US Government Agencies and Sponsored Entities	256,018	250,290	$ 311	$ 328
	$283,270	$277,269	$ 311	$ 328

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

6. IMPAIRED AND NONPERFORMING LOANS AND LEASES AND OTHER REAL ESTATE OWNED

At September 30, 2018 and December 31, 2017, the recorded investment in nonperforming loans and leases was approximately $376,000 and $1,892,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the original loan agreement. At September 30, 2018, the recorded investment in loans and leases that were considered to be impaired totaled $9,261,000, which includes $346,000 in nonaccrual loans and leases and $8,915,000 in performing loans and leases. Of the total impaired loans of $9,261,000, loans totaling $6,348,000 were deemed to require no specific reserve and loans totaling $2,913,000 were deemed to require a related valuation allowance of $181,000. At December 31, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $13,757,000, which includes $1,892,000 in nonaccrual loans and leases and $11,865,000 in performing loans and leases. Of the total impaired loans of $13,757,000, loans totaling $7,601,000 were deemed to require no specific reserve and loans totaling $6,156,000 were deemed to require a related valuation allowance of $355,000.

At September 30, 2018 and December 31, 2017, the recorded investment in other real estate owned ("OREO") was $961,000. At September 30, 2018 the Company did not own any residential OREO properties nor were there any residential properties in the process of foreclosure. During the first nine months of 2018, the Company did not add any new or sell any of the OREO properties, nor did we decrease the book value on any of the properties. The September 30, 2018 OREO balance of $961,000 consisted of one parcel of land zoned for commercial use. Nonperforming assets at September 30, 2018 and December 31, 2017 are summarized as follows:

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(dollars in thousands)	September 30, 2018	December 31, 2017
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$ 30	$ 1,603
Nonaccrual loans and leases that are past due	346	289
Loans and leases past due 90 days and accruing interest	—	—
Other real estate owned	961	961
Total nonperforming assets	$ 1,337	$ 2,853
Nonperforming loans and leases to total loans and leases	0.12 %	0.60 %
Total nonperforming assets to total assets	0.20 %	0.44 %

Impaired loans and leases as of and for the periods ended September 30, 2018 and December 31, 2017 are summarized as follows:

(dollars in thousands)	As of September 30, 2018			As of December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$—	$ —	$ —	$ 1,598	$ 2,671	$ —
Real estate-commercial	5,955	6,189	—	5,674	5,907	—
Real estate-residential	325	412	—	329	416	—
Consumer	68	68	—	—	—	—
Subtotal	$ 6,348	$ 6,669	$ —	$ 7,601	$ 8,994	$ —
With an allowance recorded:						
Real estate-commercial	$ 2,181	$ 2,262	$ 118	$ 4,396	$ 4,483	$ 261
Real estate-multi-family	—	—	—	474	474	21
Real estate-residential	732	732	63	1,286	1,286	73
Subtotal	$ 2,913	$ 2,994	$ 181	$ 6,156	$ 6,243	$ 355
Total:						
Commercial	$—	$ —	$ —	$ 1,598	$ 2,671	$ —
Real estate-commercial	8,136	8,451	118	10,070	10,390	261
Real estate-multi-family	—	—	—	474	474	21
Real estate-residential	1,057	1,144	63	1,615	1,702	73
Consumer	68	68	—	—	—	—
	$ 9,261	$ 9,663	$ 181	$ 13,757	$ 15,237	$ 355

The following table presents the average balance related to impaired loans and leases for the periods indicated (dollars in thousands):

	Average Recorded Investments for the three months ended		Average Recorded Investments for the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Commercial	$ —	$ 2,369	$ —	$ 2,391
Real estate-commercial	6,289	13,139	6,010	13,220
Real estate-multi-family	—	477	—	479
Real estate-residential	326	1,973	327	2,003
Consumer	68	—	69	—
Total	$ 6,683	$ 17,958	$ 6,406	$ 18,093

The following table presents the interest income recognized on impaired loans and leases for the periods indicated (dollars in thousands):

	Interest Income Recognized for the three months ended		Interest Income Recognized for the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Commercial	$ —	$ 115	$ —	$ 114
Real estate-commercial	85	320	243	503
Real estate-multi-family	—	17	—	25
Real estate-residential	5	39	14	76
Consumer	1	2	2	2
Total	$ 91	$ 493	$ 259	$ 720

7. TROUBLED DEBT RESTRUCTURINGS

During the three and nine-month periods ended September 30, 2018, there was one $18,000 commercial loan that was modified as a troubled debt restructuring. The loan was a term out of a line of credit to an amortizing loan with a rate reduction. During the three and nine-month periods ended September 30, 2017, there was one loan that was modified as a troubled debt restructuring. The modification of the terms of the loan included a reduction of the stated interest rate for eighteen months according to a bankruptcy court-order as part of a debtor-in-possession financing agreement. The loan had a pre-modification and post-modification outstanding recorded investment of $2,692,000. After principal payments of $57,000 and charge-downs of $1,073,000, the June 30, 2018 balance was $1,562,000. Subsequent to modification the loan went into payment default. During the third quarter of 2018 the loan was written-down by an additional $213,000 and sold with no further loss. There were no payment defaults on troubled debt restructurings within 12 months following the modification for the three-month and nine-month periods ended September 30, 2018 and September 30, 2017, other than the modified loan that went into payment default mentioned above. At September 30, 2018 and December 31, 2017, there were no unfunded commitments on those loans considered troubled debt restructures. See also “Impaired Loans and Leases” in Item 2.

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of September 30, 2018 and December 31, 2017 are summarized below:

September 30, 2018 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$24,389	$172,951	$ 61,458	$ 7,486	$ 15,393
Watch	107	16,202	3,854	—	1,304
Special mention	—	1,247	—	—	—
Substandard	30	277	—	—	—
Total	$24,526	$190,677	$ 65,312	$ 7,486	$ 16,697

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$61	$4,591	$ 5,234	$ 291,563
Watch	—	—	148	21,615
Special mention	—	—	2	1,249
Substandard	—	—	68	375
Total	$61	$4,591	$ 5,452	$ 314,802

December 31, 2017 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$23,617	$164,815	$ 73,644	$ 5,863	$ 13,767
Watch	96	18,083	4,381	—	1,507
Special mention	66	2,265	—	—	539
Substandard	—	289	—	—	—
Doubtful	1,598	—	—	—	—
Total	$25,377	$185,452	$ 78,025	$ 5,863	$ 15,813

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$205	$1,713	$ 713	$ 284,337
Watch	—	—	155	24,222
Special mention	—	—	70	2,940

Substandard	—	—	7	296
Doubtful	—	—	—	1,598
Total	$205	$1,713	$ 945	$ 313,393

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The allocation of the Company's allowance for loan and lease losses and by portfolio segment and by impairment methodology are summarized below:

September 30, 2018 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2018	$ 447	$ 2,174	$ 1,047	$ 269	$ 205	$ —	$ 31	$ 14	$ 291	$ 4,478
Provision for loan losses	300	(208)	(307)	89	35	(1)	64	80	(2)	50
Loans charged-off	(213)	—	—	—	—	—	—	—	—	(213)
Recoveries	10	6	—	—	—	1	—	—	—	17
Ending balance, September 30, 2018	$ 544	$ 1,972	$ 740	$ 358	$ 240	$ —	$ 95	$ 94	$ 289	$ 4,332
Ending balance: Individually evaluated for impairment	$ —	$ 118	$ —	$ —	$ 63	$ —	$ —	$ —	$ —	$ 181
Ending balance: Collectively evaluated for impairment	$ 544	$ 1,854	$ 740	$ 358	$ 177	$ —	$ 95	$ 94	$ 289	$ 4,151
Loans										
Ending balance	$ 24,526	$ 190,677	$ 65,312	$ 7,486	$ 16,697	$ 61	$ 4,591	$ 5,452	$ —	$ 314,802
Ending balance: Individually evaluated for impairment	$ —	$ 8,136	$ —	$ —	$ 1,057	$ —	$ —	$ 68	$ —	$ 9,261

Ending balance: Collectively evaluated for impairment	$ 24,526	$ 182,541	$ 65,312	$ 7,486	$ 15,640	$ 61	$ 4,591	$ 5,384	$ —	$ 305,541
Allowance for Loan and Lease Losses										
Beginning balance, June 30, 2018	$ 669	$ 2,100	$ 839	$ 298	$ 239	$—	$ 49	$ 11	$ 287	$ 4,492
Provision for loan losses	87	(130)	(99)	60	1	—	46	83	2	50
Loans charged off	(213)	—	—	—	—	—	—	—	—	(213)
Recoveries	1	2	—	—	—	—	—	—	—	3
Ending balance, September 30, 2018	$ 544	$ 1,972	$ 740	$ 358	$ 240	$—	$ 95	$ 94	$ 289	$ 4,332

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December 31, 2017 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Ending balance: Individually evaluated for impairment	$ —	$ 261	$ 21	$ —	$ 73	$ —	$ —	$ —	$ —	$ 355
Ending balance: Collectively evaluated for impairment	$ 447	$ 1,913	$ 1,026	$ 269	$ 132	$ —	$ 31	$ 14	$ 291	$ 4,123
Loans										
Ending balance	$ 25,377	$ 185,452	$ 78,025	$ 5,863	$ 15,813	$ 205	$ 1,713	$ 945	$ —	$ 313,393
Ending balance: Individually evaluated for impairment	$ 1,598	$ 10,070	$ 474	$ —	$ 1,615	$ —	$ —	$ —	$ —	$ 13,757
Ending balance: Collectively evaluated for impairment	$ 23,779	$ 175,382	$ 77,551	$ 5,863	$ 14,198	$ 205	$ 1,713	$ 945	$ —	$ 299,636

September 30, 2017 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2017	$ 855	$ 2,050	$ 851	$ 446	$ 253	$ 1	$ 64	$ 24	$ 278	$ 4,822
Provision for loan losses	240	(16)	147	34	(22)	(40)	(35)	(11)	3	300

Loans charged-off	(673)	—	—	—	—	—	—	—	—	(673)
Recoveries	5	54	—	—	—	39	—	4	—	102
Ending balance, September 30, 2017	$ 427	$ 2,088	$ 998	$ 480	$ 231	$—	$ 29	$ 17	$ 281	$4,551
<u>Allowance for Loan and Lease Losses</u>										
Beginning balance, June 30, 2017	$ 916	$ 2,091	$ 789	$ 457	$ 268	$ 1	$ 59	$ 19	$ 281	$4,881
Provision for loan losses	182	(4)	209	23	(37)	(40)	(30)	(3)	—	300
Loans charged off	(673)	—	—	—	—	—	—	—	—	(673)
Recoveries	2	1	—	—	—	39	—	1	—	43
Ending balance, September 30, 2017	$ 427	$ 2,088	$ 998	$ 480	$ 231	$—	$ 29	$ 17	$ 281	$4,551

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The Company's aging analysis of the loan and lease portfolio at September 30, 2018 and December 31, 2017 are summarized below:

September 30, 2018 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$ —	$ —	$ —	$ —	$24,526	$ 24,526	$ —	$ 30
Real estate:								
Commercial	278	—	—	278	190,399	190,677	—	278
Multi-family	—	—	—	—	65,312	65,312	—	—
Construction	—	—	—	—	7,486	7,486	—	—
Residential	3,273	499	—	3,772	12,925	16,697	—	—
Other:								
Leases	—	—	—	—	61	61	—	—
Agriculture	—	—	—	—	4,591	4,591	—	—
Consumer	—	—	68	68	5,384	5,452	—	68
Total	$ 3,551	$ 499	$ 68	$ 4,118	$310,684	$ 314,802	$ —	$ 376

December 31, 2017 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$ —	$ —	$ —	$ —	$25,377	$ 25,377	$ —	$ 1,597
Real estate:								
Commercial	—	—	289	289	185,163	185,452	—	289
Multi-family	—	—	—	—	78,025	78,025	—	—
Construction	—	—	—	—	5,863	5,863	—	—
Residential	146	—	—	146	15,667	15,813	—	—
Other:								
Leases	—	—	—	—	205	205	—	—
Agriculture	—	—	—	—	1,713	1,713	—	—
Consumer	1	—	—	1	944	945		