People's Utah Bancorp
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

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 001-37416

PEOPLE’S UTAH BANCORP

(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	87-0622021 (IRS Employer Identification No.)
1 East Main Street, American Fork, Utah (Address of principal executive offices)	84003 (Zip Code)

(801) 642-3998

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

The number of shares of Registrant’s common stock outstanding on July 31, 2018 was 18,705,736. No preferred shares are issued or outstanding.

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PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$33,484	$36,235
Interest bearing deposits	17,930	13,158
Federal funds sold	908	1,634
Total cash and cash equivalents	52,322	51,027
Investment securities:		
Available-for-sale, at fair value	236,699	263,056
Held-to-maturity, at historical cost	67,922	74,654
Total investment securities	304,621	337,710
Non-marketable equity securities	6,151	3,706
Loans held for sale	11,058	10,871
Loans:		
Loans held for investment	1,691,959	1,627,444
Allowance for loan losses	(22,308)	(18,303)
Total loans held for investment, net	1,669,651	1,609,141
Premises and equipment, net	29,335	30,399
Goodwill	25,673	26,008
Bank-owned life insurance	26,120	23,566
Deferred income tax assets	10,764	8,827
Accrued interest receivable	7,658	7,594
Other intangibles	3,633	3,854
Other real estate owned	-	994
Other assets	14,784	9,832
Total assets	$2,161,770	$2,123,529
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Non-interest bearing deposits	$646,574	$641,124
Interest bearing deposits	1,135,366	1,173,508
Total deposits	1,781,940	1,814,632
Short-term borrowings	90,000	40,000
Accrued interest payable	369	353
Other liabilities	17,862	11,126
Total liabilities	1,890,171	1,866,111
Shareholders’ equity:		
Preferred shares, $0.01 par value: 3,000,000 shares authorized, no shares issued	-	-
Common shares, $0.01 par value: 30,000,000 shares authorized; 18,683,883 and 18,511,797 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	187	185

Additional paid-in capital	85,620	84,532
Retained earnings	190,735	174,804
Accumulated other comprehensive loss	(4,943)	(2,103)
Total shareholders’ equity	271,599	257,418
Total liabilities and shareholders’ equity	$2,161,770	$2,123,529

See accompanying notes to the unaudited consolidated financial statements.

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PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Interest income				
Interest and fees on loans	$27,073	$17,923	$52,856	$34,767
Interest and dividends on investments	1,683	1,802	3,339	3,507
Total interest income	28,756	19,725	56,195	38,274
Interest expense	1,778	749	3,273	1,515
Net interest income	26,978	18,976	52,922	36,759
Provision for loan losses	1,475	900	3,525	1,100
Net interest income after provision for loan losses	25,503	18,076	49,397	35,659
Non-interest income				
Mortgage banking	1,505	1,960	3,143	3,939
Card processing	799	692	1,522	1,287
Service charges on deposit accounts	704	578	1,377	1,114
Net gain (loss) on sale of investment securities	333	1	335	(10)
Other operating	725	606	1,407	1,099
Total non-interest income	4,066	3,837	7,784	7,429
Non-interest expense				
Salaries and employee benefits	10,196	7,762	20,619	15,729
Occupancy, equipment and depreciation	1,411	1,088	2,954	2,205
Data processing	1,063	661	1,933	1,336
Marketing and advertising	321	349	767	611
FDIC premiums	299	130	628	256
Acquisition-related costs	1	175	350	175
Other	2,532	1,670	4,620	3,437
Total non-interest expense	15,823	11,835	31,871	23,749
Income before income tax expense	13,746	10,078	25,310	19,339
Income tax expense	3,279	3,584	5,839	6,324
Net income	$10,467	$6,494	$19,471	$13,015
Earnings per common share:				
Basic	$0.56	$0.36	$1.04	$0.73
Diluted	$0.55	$0.35	$1.03	$0.71
Weighted average common shares outstanding:				
Basic	18,679,908	17,937,926	18,639,397	17,911,125
Diluted	18,989,176	18,351,531	18,963,549	18,334,028

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Net income	$10,467	$6,494	$19,471	$13,015
Other comprehensive income				
Unrealized holding (losses)/gains on securities available-for-sale	(1,319)	375	(3,787)	438
Income tax benefit/(expense)	330	(143)	947	(168)
Unrealized holding (losses)/gains on securities available-for-sale, net of tax	(989)	232	(2,840)	270
Total comprehensive income	$9,478	$6,726	$16,631	$13,285

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except share and per share data)	Common Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of January 1, 2017	17,819,538	$ 178	$ 68,657	$ 160,692	$ (1,010)	$ 228,517
Comprehensive income	-	-	-	13,015	270	13,285
Cash dividends ($0.16 per share)	-	-	-	(2,867)	-	(2,867)
Share-based compensation	-	-	218	-	-	218
Exercise of stock options	128,809	1	748	-	-	749
Balance as of June 30, 2017	17,948,347	$ 179	$ 69,623	$ 170,840	$ (740)	$ 239,902
Balance as of January 1, 2018	18,511,797	$ 185	$ 84,532	$ 174,804	$ (2,103)	$ 257,418
Comprehensive income	-	-	-	19,471	(2,840)	16,631
Cash dividends ($0.19 per share)	-	-	-	(3,540)	-	(3,540)
Share-based compensation	-	-	370	-	-	370
Exercise of stock options	172,086	2	718	-	-	720
Balance as of June 30, 2018	18,683,883	$ 187	$ 85,620	$ 190,735	$ (4,943)	$ 271,599

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$19,471	$13,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,525	1,100
Depreciation and amortization	1,538	1,267
Deferred income taxes	(990)	(214)
Net amortization of securities discounts and premiums	1,312	1,501
Increase in cash surrender value of bank owned life insurance	(304)	(256)
Share-based compensation	370	218
Gain on sale of loans held for sale	(2,047)	(2,838)
Originations of loans held for sale	(108,638)	(115,621)
Proceeds from sale of loans held for sale	110,498	131,630
Net changes in:		
Accrued interest receivable	(64)	(59)
Other assets	(4,611)	517
Accrued interest payable	16	(36)
Other liabilities	6,736	4,964
Net cash provided by operating activities	26,812	35,188
Cash flows from investing activities:		
Net change in loans held for investment	(63,290)	(82,558)
Purchase of available-for-sale securities	-	(24,599)
Purchase of held-to-maturity securities	-	(12,198)
Proceeds from maturities/sales of available-for-sale securities	21,645	34,350
Proceeds from maturities of held-to-maturity securities	6,345	7,939
Purchase of bank-owned life insurance	(2,250)	-
Purchase of premises and equipment	(448)	(2,758)
Proceeds from sale of other real estate owned, net of improvements	438	302
Net change of non-marketable equity securities	(2,445)	(132)
Net cash used in investing activities	(40,005)	(79,654)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(32,692)	35,978
Proceeds related to exercise of stock options	720	749
Net change in short-term borrowings	50,000	103
Cash dividends paid	(3,540)	(2,867)
Net cash provided by financing activities	14,488	33,963
Net change in cash and cash equivalents	1,295	(10,503)
Cash and cash equivalents, beginning of period	51,027	67,938
Cash and cash equivalents, end of period	$52,322	$57,435
Supplemental disclosures of cash flow information:		
Cash paid for interest	$3,257	$1,551

Income taxes paid	$6,869	$6,217
Supplemental disclosures of non-cash investing transactions:		
Reclassifications from loans to other real estate owned	$-	$468
Unrealized gains / (losses) on securities available-for-sale	$(3,787)	$438
Measurement period adjustment to goodwill	$(335)	$-

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE’S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

Nature of Operations and basis of consolidation — People’s Utah Bancorp, Inc. (“PUB” or the “Company”) is a Utah corporation headquartered in American Fork, Utah. The Company operates all business activities through its wholly-owned banking subsidiary, People’s Intermountain Bank (“PIB” or the “Bank”), which was organized in 1913. The Bank is a Utah State chartered bank. The Bank operates under the jurisdiction of the Utah Department of Financial Institutions, and its deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). The Bank is not a member of the Federal Reserve System; however, PUB is operated as a bank holding company under the Federal Bank Holding Company Act of 1956 and is the sole shareholder of the Bank. Both PUB and the Bank are subject to periodic examination by applicable federal and state regulatory agencies and file periodic reports and other information with the agencies.

PIB is a community bank that provides highly personalized retail and commercial banking products and services to small and medium sized businesses and individuals. Products and services are offered primarily through 26 retail branches located throughout Utah and southern Idaho. PIB has three banking divisions, Bank of American Fork, Lewiston State Bank, and People’s Town & Country Bank; a leasing division, GrowthFunding Equipment Finance; and a mortgage division, People’s Intermountain Bank Mortgage. The Bank offers a full range of short-term to long-term commercial, personal and mortgage loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans to finance automobiles, home improvements, education, and personal investments. The Bank also offers mortgage loans secured by personal residences. The Bank offers a full range of deposit services typically available in most financial institutions, including checking accounts, savings accounts, and time deposits. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental entities.

The interim condensed consolidated financial statements include the accounts of the Company together with its subsidiary Bank. All intercompany transactions and balances have been eliminated.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. These financial statements and the accompanying notes should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2017, which are included in the Company’s 2017 Form 10-K. Operating results for the three months and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or any other period.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired through foreclosure, deferred tax assets, and share-based compensation.

Earnings per share — Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares include shares that may be issued by the Company for outstanding stock options determined using the treasury stock method and for all outstanding restricted stock units (“RSU”).

Note 1 — Basis of Presentation – Continued

Earnings per common share have been computed based on the following:

(Dollars in thousands, except share and per share data)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Numerator				
Net income	$10,467	$6,494	$19,471	$13,015
Denominator				
Weighted-average number of common shares outstanding	18,679,908	17,937,926	18,639,397	17,911,125
Incremental shares assumed for stock options and RSUs	309,268	413,605	324,152	422,903
Weighted-average number of dilutive shares outstanding	18,989,176	18,351,531	18,963,549	18,334,028
Basic earnings per common share	$0.56	$0.36	$1.04	$0.73
Diluted earnings per common share	$0.55	$0.35	$1.03	$0.71

Reclassifications — Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's presentation.

Impact of Recent Authoritative Accounting Guidance —The Accounting Standards Codification™ ("ASC") is the Financial Accounting Standards Board's ("FASB") officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities. Periodically, the FASB will issue Accounting Standard Updates ("ASU") to its ASC. Rules and interpretive releases of the SEC under the authority of the federal securities laws are also sources of authoritative GAAP for us as an SEC registrant. All other accounting literature is non-authoritative.

In February 2018, the FASB issued ASU 2018-02, Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU gives businesses the option of reclassifying to retained earnings the so-called "stranded tax effects" left in accumulated other comprehensive income ("AOCI") because of the reduction to the corporate income tax rate. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The FASB said that businesses and organizations should apply the amendments either in the period of adoption or retrospectively to each period in which the effect of the change in the tax rate is recognized. The Company early adopted this ASU on December 31, 2017.

In March 2017, FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The ASU requires entities to amortize the premium on certain purchased callable debt securities to the earliest call date, which more closely aligns the amortization period of premiums and discounts to expectations incorporated in the market prices. Entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased debt security held at a premium. The ASU does not require any accounting change for debt securities held at a discount; therefore the discount will continue to be amortized as an adjustment of yield over the contractual life of the investment. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted for all entities. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2017, FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The ASU removes the requirement to compare the implied fair value of goodwill with its carrying value as required in Step 2 of the goodwill impairment test. Under the ASU, registrants would perform their goodwill impairment test and recognize an impairment charge for any amount the carrying value exceeds the reporting unit's fair value, but limited by the amount of goodwill allocated to that reporting unit. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities after January 1, 2017. The Company early adopted this ASU on December 31, 2017 and adoption did not have a material effect on the Company's Consolidated Financial Statements.

In January 2017, FASB issued ASU 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)." The ASU amends the Codification for SEC staff announcements made at recent Emerging Issues Task Force (EITF) meetings. The SEC guidance that specifically relates to our Consolidated Financial Statements was from the September 2016 meeting, where the SEC staff expressed their expectations about the extent of disclosures registrants should make about the effects of the new FASB guidance as well as any amendments issued prior to adoption, on revenue (ASU 2014-09), leases (ASU 2016-02) and credit losses on financial instruments (ASU 2016-13) in accordance with SAB Topic 11.M. Registrants are required to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. In cases where a registrant cannot reasonably estimate the impact of the adoption, then additional qualitative disclosures should be considered. The ASU incorporates these SEC staff views into ASC 250 and adds references to that guidance in the transition paragraphs of each of the three new standards. The Company has adopted the amendments in this ASU and appropriate disclosures have been included in this Note for each recently issued accounting standard.

Note 1 — Basis of Presentation – Continued

In December 2016, FASB issued ASU No. 2016-19, "Technical Corrections and Improvements" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." On November 10, 2010, FASB added a standing project that will facilitate the FASB Accounting Standards Codification ("Codification") updates for technical corrections, clarifications, and improvements. These amendments are referred to as Technical Corrections and Improvements. Maintenance updates include non-substantive corrections to the Codification, such as editorial corrections, various link-related changes, and changes to source fragment information. These updates contain amendments that will affect a wide variety of Topics in the Codification. The amendments in these ASUs will apply to all reporting entities within the scope of the affected accounting guidance and generally fall into one of four categories: amendments related to differences between original guidance and the Codification, guidance clarification and reference corrections, simplification, and minor improvements. In summary, the amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Transition guidance varies based on the amendments in the ASUs. The amendments that require transition guidance are effective for fiscal years and interim reporting periods after December 15, 2016. Early adoption is permitted including adoption in an interim period. All other amendments are effective upon the issuance of these ASUs. Neither ASU 2016-19 nor ASU 2016-20 had a material impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The ASU amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows and is intended to reduce the diversity in practice. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for all entities beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-15 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of identifying required changes to the loan loss estimation models and processes and evaluating the impact of this new guidance. Once adopted, we expect our allowance for loan losses to increase, however, until our evaluation is complete the magnitude of the increase will be unknown.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)." The guidance in this ASU requires most leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. This ASU is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our Consolidated Financial Statements and the timing of adoption. The Company will compile an inventory of all leased assets to determine the impact of ASU 2016-02 on its financial condition and results of operations. Once adopted, we expect to report higher assets and liabilities on our Consolidated Balance Sheets as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, which currently are not reflected in our Consolidated Balance Sheets. We do not expect the guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Changes in Shareholders' Equity.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU includes the following changes: i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) requires the use of exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (iv) allows an equity investment that does not have readily determinable fair values, to be measured 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 of the same issuer; (v) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and (vii) clarifies that a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the organization's other deferred tax assets. This ASU is effective for interim and annual periods beginning after December 15, 2017. The Company adopted ASU No. 2016-01 effective January 1, 2018, and the adoption did not have a material impact on the Company's Consolidated Financial Statements.

Note 1 — Basis of Presentation – Continued

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)", which defers the effective date of Accounting Standard Update ASU No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 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. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company adopted this standard on January 1, 2018 using the full retrospective method.

A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Revenue streams reported as deposit fees and other service charges. which include transaction based deposit fees, and interchange fees on credit and debit cards, are within the scope of Topic 606. The Company completed its assessment of revenue streams and associated incremental costs of contracts affected by the standard. The Company's adoption of this standard did not change the timing or the amount of revenue recognized in prior periods, however the presentation of certain costs associated with card processing will now be offset against card processing revenue in non-interest income. The change in presentation resulted in $1.2 million of expenses for the six months ended June 30, 2018 being netted against card processing income and reported in non-interest income instead of as payment and card processing expenses in non-interest expense. In addition, to conform to the current period presentation, $1.0 million of card processing related expenses for the six months ended June 30, 2017, were reclassified from payment and card processing expense in non-interest expense to being netted against card processing revenue in non-interest income. The Company elected to apply the practical expedient and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Company to expense costs related to obtaining a contract as incurred when the amortization period would have been one year or less.

The following table presents the impact of adopting of the new revenue standard on our Statements of Income for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
(Dollars in thousands, except share and per share data)	As Reported	Balance without Adoption of ASC 606	Effect of Change	As Reported	Balance without Adoption of ASC 606	Effect of Change
Non-interest income						
Card Processing	$ 1,522	$ 2,749	$ (1,227)	$ 1,287	$ 2,332	$ (1,045)

Service charges on deposit accounts	1,377	1,377	-	1,114	1,114	-
Non-interest Expense						
Card Processing	$-	$ 1,227	$(1,227)	$-	$ 1,045	$(1,045)

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Note 2 — Investment Securities

Amortized cost and estimated fair value of investment securities available-for-sale are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Fair Value
As of June 30, 2018					
U.S. Government-sponsored securities	$ 48,953	$ -	$ (327)	$ (590)	$ 48,036
Municipal securities	11,977	107	(65)	(27)	11,992
Mortgage-backed securities	177,360	27	(2,376)	(3,110)	171,901
Corporate securities	5,000	-	(12)	(218)	4,770
	$ 243,290	$ 134	$ (2,780)	$ (3,945)	$ 236,699
As of December 31, 2017					
U.S. Government-sponsored securities	$ 48,950	$ 13	$ (6)	$ (453)	$ 48,504
Municipal securities	13,310	184	(22)	(18)	13,454
Mortgage-backed securities	198,100	71	(1,145)	(1,764)	195,262
Corporate securities	5,500	573	-	(237)	5,836
	$ 265,860	$ 841	$ (1,173)	$ (2,472)	$ 263,056

Amortized cost and estimated fair value of investment securities held-to-maturity are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Fair Value
As of June 30, 2018					
Municipal securities	$ 67,922	$ 17	$ (543)	$ (337)	$ 67,059
As of December 31, 2017					
Municipal securities	$ 74,654	$ 167	$ (293)	$ (227)	$ 74,301

Note 2 — Investment Securities – continued

At June 30, 2018 and December 31, 2017, the gross unrealized losses and the fair value for securities available-for-sale and held-to-maturity was as follows:

	June 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
U.S. Government-sponsored securities	$14,628	$ (327)	$33,407	$ (590)	$48,035	$ (917)
Municipal securities	4,783	(65)	810	(27)	5,593	(92)
Mortgage-backed securities	80,778	(2,376)	88,267	(3,110)	169,045	(5,486)
Corporate securities	1,987	(12)	2,783	(218)	4,770	(230)
	$102,176	$ (2,780)	$125,267	$ (3,945)	$227,443	$ (6,725)
Held-to Maturity						
Municipal securities	$48,014	$ (543)	$9,196	$ (337)	$57,210	$ (880)

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
U.S. Government-sponsored securities	$5,087	$ (6)	$33,543	$ (453)	$38,630	$ (459)
Municipal securities	3,523	(22)	830	(18)	4,353	(40)
Mortgage-backed securities	112,878	(1,145)	72,859	(1,764)	185,737	(2,909)
Corporate securities	-	-	4,763	(237)	4,763	(237)
	$121,488	$ (1,173)	$111,995	$ (2,472)	$233,483	$ (3,645)
Held-to Maturity						
Municipal securities	$39,380	$ (293)	$10,389	$ (227)	$49,769	$ (520)

The amortized cost and estimated fair value of investment securities that are available-for-sale and held-to-maturity at June 30, 2018, by contractual maturity, are as follows:

	Available-For-Sale		Held-To-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities maturing in:				
One year or less	$2,528	$2,545	$8,388	$8,370
After one year through five years	75,740	74,398	38,735	38,430
After five years through ten years	52,157	50,523	15,153	14,725
After ten years	112,865	109,233	5,646	5,534
	$243,290	$236,699	$67,922	$67,059

Actual maturities may differ from contractual maturities because issuers may have the right to call obligations with or without penalties and other securities may experience pre-payments.

As of June 30, 2018, the Company held 327 investment securities with fair value less than amortized cost compared to 304 at December 31, 2017. Management evaluated these investment securities and determined that the decline in value is temporary and related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Company anticipates full recovery of the amortized cost with respect to these securities at maturity, or sooner in the event of a more favorable market interest rate environment.

Note 2 — Investment Securities – continued

The Company had sales of available-for-sale securities totaling $500,000 during the six months ended June 30, 2018, which resulted in a net gain of $335,000. There were no sales of available-for-sale securities for the six months ended June 30, 2017. There were no available-for-sale securities in a nonaccrual status at June 30, 2018 or December 31, 2017.

The Company had no sales of held-to-maturity securities during the six months ended June 30, 2018, compared to $204,000 during the six months ended June 30, 2017, which resulted in a net loss of $13,000. The company had no held-to-maturity securities in a nonaccrual status at June 30, 2018 or December 31, 2017.

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Loans held for investment:		
Commercial real estate loans:		
Real estate term	$842,352	$784,148
Construction and land development	373,845	369,590
Total commercial real estate loans	1,216,197	1,153,738
Commercial and industrial loans	310,228	294,085
Consumer loans:		
Residential and home equity	153,084	158,591
Consumer and other	16,978	25,591
Total consumer loans	170,062	184,182
Total gross loans	1,696,487	1,632,005
Net deferred loan fees	(4,528)	(4,561)
Total loans held for investment	1,691,959	1,627,444
Allowance for loan losses	(22,308)	(18,303)
Total loans held for investment, net	$1,669,651	$1,609,141

Changes in the allowance for loan losses ("ALLL") are as follows:

	Three Months Ended June 30, 2018					
(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$7,249	$ 6,808	$ 5,962	$ 642	$ 70	$20,731
Additions: Provisions for loan losses	1,779	(65)	(258)	(37)	56	1,475
Deductions:						

Gross loan charge-offs	-	-	(97)	-	(107)	(204)
Recoveries	-	46	173	54	33	306
Net loan (charge-offs) / recoveries	-	46	76	54	(74)	102
Balance at end of period	$9,028	$ 6,789	$ 5,780	$ 659	$ 52	$22,308

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Note 3 — Loans and Allowance for Loan Losses – Continued

	Three Months Ended June 30, 2017					
(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$7,149	$ 4,683	$ 4,222	$ 529	$ 61	$16,644
Additions: Provisions for loan losses	181	394	342	(28)	11	900
Deductions:						
Gross loan charge-offs	(350)	-	(114)	-	(48)	(512)
Recoveries	177	-	39	2	21	239
Net loan (charge-offs) / recoveries	(173)	-	(75)	2	(27)	(273)
Balance at end of period	$7,157	$ 5,077	$ 4,489	$ 503	$ 45	$17,271

	Six Months Ended June 30, 2018					
(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$6,706	$ 6,309	$ 4,314	$ 815	$ 159	$18,303
Additions: Provisions for loan losses	2,310	409	1,067	(237)	(24)	3,525
Deductions:						
Gross loan charge-offs	-	-	(290)	-	(172)	(462)
Recoveries	12	71	689	81	89	942
Net loan (charge-offs) / recoveries	12	71	399	81	(83)	480
Balance at end of period	$9,028	$ 6,789	$ 5,780	$ 659	$ 52	$22,308

	Six Months Ended June 30, 2017					
(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$6,770	$ 5,449	$ 3,718	$ 617	$ 161	$16,715
Additions: Provisions for loan losses	556	(451)	966	84	(55)	1,100
Deductions:						
Gross loan charge-offs	(350)	-	(272)	(338)	(113)	(1,073)
Recoveries	181	79	77	140	52	529
Net loan (charge-offs) / recoveries	(169)	79	(195)	(198)	(61)	(544)
Balance at end of period	$7,157	$ 5,077	$ 4,489	$ 503	$ 45	$17,271

Note 3 — Loans and Allowance for Loan Losses – Continued

Non-accrual loans are summarized as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Non-accrual loans, not troubled debt restructured:		
Real estate term	$1,580	$ -
Construction and land development	320	-
Commercial and industrial	1,539	223
Residential and home equity	728	-
Consumer and other	39	-
Total non-accrual loans, not troubled debt restructured	4,206	223
Troubled debt restructured loans, non-accrual:		
Real estate term	1,556	-
Construction and land development	-	-
Commercial and industrial	195	-
Residential and home equity	-	-
Consumer and other	-	-
Total troubled debt restructured loans, non-accrual	1,751	-
Total non-accrual loans	$5,957	$ 223

Troubled debt restructured loans are summarized as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Accruing troubled debt restructured loans	$2,495	$ 3,307
Non-accrual troubled debt restructured loans	1,751	-
Total troubled debt restructured loans	$4,246	$ 3,307

A restructured loan is considered a troubled debt restructured loan (“TDR”), if the Company, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession in terms or a below-market interest rate to the debtor that it would not otherwise consider. Each TDR loan is separately negotiated with the borrower and includes terms and conditions that reflect the borrower’s prospective ability to service the debt as modified.

Loans totaling $1.8 million were classified as TDR’s during the six months ended June 30, 2018. No new TDRs occurred during the six months ended June 30, 2017. In addition, there were no TDRs which incurred a payment default within twelve months of the restructure date during the six-month periods ended June 30, 2018 and 2017.

Current and past due loans held for investment (accruing and non-accruing) are summarized as follows:

	June 30, 2018						
(Dollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Purchased Credit Impaired	Total Loans
Commercial real estate:							
Real estate term	$836,191	$2,659	$ -	$3,136	$5,795	$ 366	$842,352
Construction and land development	367,187	5,920	-	320	6,240	418	373,845
Total commercial real estate	1,203,378	8,579	-	3,456	12,035	784	1,216,197
Commercial and industrial	299,280	1,932	322	1,734	3,988	6,960	310,228
Consumer:							
Residential and home equity	151,450	906	-	728	1,634	-	153,084
Consumer and other	16,684	241	14	39	294	-	16,978
Total consumer	168,134	1,147	14	767	1,928	-	170,062
Total gross loans	$1,670,792	$11,658	$336	$5,957	$17,951	$ 7,744	$1,696,487

Note 3 — Loans and Allowance for Loan Losses – Continued

	December 31, 2017						
(Dollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Purchased Credit Impaired	Total Loans
Commercial real estate:							
Real estate term	$780,895	$2,243	$ -	$ -	$2,243	$ 1,010	$784,148
Construction and land development	361,845	7,095	-	-	7,095	650	369,590
Total commercial real estate	1,142,740	9,338	-	-	9,338	1,660	1,153,738
Commercial and industrial	282,638	4,210	-	223	4,433	7,014	294,085
Consumer:							
Residential and home equity	156,379	2,212	-	-	2,212	-	158,591
Consumer and other	25,307	283	1	-	284	-	25,591
Total consumer	181,686	2,495	1	-	2,496	-	184,182
Total gross loans	$1,607,064	$16,043	$ 1	$ 223	$16,267	$ 8,674	$1,632,005

Credit Quality Indicators:

In addition to past due and non-accrual criteria, the Company also analyzes loans using a loan grading system. Performance-based grading follows the Company's definitions of Pass, Special Mention, Substandard and Doubtful, which are consistent with published definitions of regulatory risk classifications.

Definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

Pass: A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention: A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the Company is currently protected and loss is considered unlikely and not imminent.

Substandard: A Substandard asset is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the Company may sustain some loss if deficiencies are not corrected.

Doubtful: A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

For Consumer loans, the Company generally assigns internal risk grades similar to those described above based on payment performance.

Outstanding loan balances (accruing and non-accruing) categorized by these credit quality indicators are summarized as follows:

	June 30, 2018					
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total Loans	Total Allowance
Commercial real estate:						
Real estate term	$813,802	$18,401	$ 10,149	$ -	$842,352	$ 9,028
Construction and land development	370,273	1,614	1,958	-	373,845	6,789
Total commercial real estate	1,184,075	20,015	12,107	-	1,216,197	15,817
Commercial and industrial	287,284	5,707	17,237	-	310,228	5,780
Consumer loans:						
Residential and home equity	148,554	1,497	3,033	-	153,084	659
Consumer and other	16,863	46	57	12	16,978	52
Total consumer	165,417	1,543	3,090	12	170,062	711
Total	$1,636,776	$27,265	$ 32,434	$ 12	$1,696,487	$ 22,308

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Note 3 — Loans and Allowance for Loan Losses – Continued

	December 31, 2017					
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total Loans	Total Allowance
Commercial real estate:						
Real estate term	$758,575	$13,055	$ 12,518	$ -	$784,148	$ 6,706
Construction and land development	358,766	7,227	3,597	-	369,590	