People's Utah Bancorp
Form 10-Q
May 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 March 31, 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 April 30, 2018 was 18,679,512. No preferred shares are issued or outstanding.

TABLE OF CONTENTS

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	March 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$32,267	$36,235
Interest bearing deposits	9,268	13,158
Federal funds sold	338	1,634
Total cash and cash equivalents	41,873	51,027
Investment securities:		
Available-for-sale, at fair value	249,534	263,056
Held-to-maturity, at historical cost	73,888	74,654
Total investment securities	323,422	337,710
Non-marketable equity securities	5,711	3,706
Loans held for sale	10,618	10,871
Loans:		
Loans held for investment	1,687,530	1,627,444
Allowance for loan losses	(20,731)	(18,303)
Total loans held for investment, net	1,666,799	1,609,141
Premises and equipment, net	29,734	30,399
Goodwill	25,344	26,008
Bank-owned life insurance	25,964	23,566
Deferred income tax assets	10,005	8,827
Accrued interest receivable	7,616	7,594
Other intangibles	3,744	3,854
Other real estate owned	-	994
Other assets	12,608	9,832
Total assets	$2,163,438	$2,123,529
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	$664,438	$641,124
Interest bearing deposits	1,141,887	1,173,508
Total deposits	1,806,325	1,814,632
Short-term borrowings	79,000	40,000
Accrued interest payable	354	353
Other liabilities	13,960	11,126
Total liabilities	1,899,639	1,866,111
Commitments and contingencies		
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; 18,674,232 and 18,511,797 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	187	185

Additional paid-in capital	85,430	84,532
Retained earnings	182,136	174,804
Accumulated other comprehensive loss	(3,954)	(2,103)
Total shareholders’ equity	263,799	257,418
Total liabilities and shareholders’ equity	$2,163,438	$2,123,529

See accompanying notes to the unaudited condensed consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)	Three Months Ended March 31, 2018	2017
Interest income		
Interest and fees on loans	$25,810	$16,853
Interest and dividends on investments	1,656	1,705
Total interest income	27,466	18,558
Interest expense	1,495	766
Net interest income	25,971	17,792
Provision for loan losses	2,050	200
Net interest income after provision for loan losses	23,921	17,592
Non-interest income		
Mortgage banking	1,638	1,979
Card processing	1,326	1,124
Service charges on deposit accounts	673	536
Net loss on sale of investment securities	-	(13)
Other operating	657	486
Total non-interest income	4,294	4,112
Non-interest expense		
Salaries and employee benefits	10,423	7,967
Occupancy, equipment and depreciation	1,543	1,117
Data processing	870	675
Card processing	603	529
Marketing and advertising	446	262
FDIC premiums	329	126
Acquisition-related costs	349	-
Other	2,088	1,767
Total non-interest expense	16,651	12,443
Income before income tax expense	11,564	9,261
Income tax expense	2,560	2,740
Net income	$9,004	$6,521
Earnings per common share:		
Basic	$0.48	$0.36
Diluted	$0.48	$0.36
Weighted average common shares outstanding:		
Basic	18,598,436	17,884,026
Diluted	18,937,637	18,316,331

See accompanying notes to the unaudited condensed consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Net income	$9,004	$6,521
Other comprehensive income		
Unrealized holding (losses)/gains on securities available-for-sale	(2,468)	63
Income tax benefit/(expense)	617	(25)
Unrealized holding (losses)/gains on securities available-for-sale, net of tax	(1,851)	38
Total comprehensive income	$7,153	$6,559

See accompanying notes to the unaudited condensed consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except 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	-	-	-	6,521	38	6,559
Cash dividends ($0.08 per share)	-	-	-	(1,431)	-	(1,431)
Share-based compensation	-	-	109	-	-	109
Exercise of stock options	105,746	1	490	-	-	491
Balance as of March 31, 2017	17,925,284	$ 179	$ 69,256	$ 165,782	$ (972)	$ 234,245
Balance as of January 1, 2018	18,511,797	$ 185	$ 84,532	$ 174,804	$ (2,103)	$ 257,418
Comprehensive income	-	-	-	9,004	(1,851)	7,153
Cash dividends ($0.09 per share)	-	-	-	(1,672)	-	(1,672)
Share-based compensation	-	-	216	-	-	216
Exercise of stock options	162,435	2	682	-	-	684
Balance as of March 31, 2018	18,674,232	$ 187	$ 85,430	$ 182,136	$ (3,954)	$ 263,799

See accompanying notes to the unaudited condensed consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$9,004	$6,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,050	200
Depreciation and amortization	738	629
Deferred income taxes	(561)	43
Net amortization of securities discounts and premiums	682	772
Increase in cash surrender value of bank owned life insurance	(148)	(128)
Share based compensation	216	109
Gain on sale of loans held for sale	(1,150)	(1,403)
Originations of loans held for sale	(56,474)	(59,690)
Proceeds from sale of loans held for sale	57,877	68,866
Net changes in:		
Accrued interest receivable	(22)	(222)
Other assets	(2,217)	32
Accrued interest payable	1	(26)
Other liabilities	2,834	2,201
Net cash provided by operating activities	12,830	17,904
Cash flows from investing activities:		
Net change in loans held for investment	(58,963)	(32,424)
Purchase of available-for-sale securities	-	(16,680)
Purchase of held-to-maturity securities	-	(6,195)
Proceeds from maturities/sales of available-for-sale securities	10,566	17,508
Proceeds from maturities of held-to-maturity securities	572	1,489
Purchase of bank-owned life insurance	(2,250)	-
Purchase of premises and equipment	(47)	(1,404)
Proceeds from sale of other real estate owned, net of improvements	438	-
Net change of non-marketable equity securities	(2,005)	(132)
Net cash used in investing activities	(51,689)	(37,838)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(8,307)	43,591
Proceeds related to exercise of stock options	684	491
Net change in short-term borrowings	39,000	173
Cash dividends paid	(1,672)	(1,431)
Net cash provided by financing activities	29,705	42,824
Net change in cash and cash equivalents	(9,154)	22,890
Cash and cash equivalents, beginning of period	51,027	67,938
Cash and cash equivalents, end of period	$41,873	$90,828
Supplemental disclosures of cash flow information:		

Cash paid for interest	$1,494	$792
Income taxes paid	$-	$-
Supplemental disclosures of non-cash investing transactions:		
Reclassifications from loans to other real estate owned	$(745)	$-
Unrealized gains on securities available-for-sale	$(2,468)	$63
Measurement period adjustment to goodwill	$(664)	$-

See accompanying notes to the unaudited condensed consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED 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 ended March 31, 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”).

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

	Three Months Ended March 31,	
(Dollars in thousands, except share and per share data)	2018	2017
Numerator		
Net income	$9,004	$6,521
Denominator		
Weighted-average number of common shares outstanding	18,598,436	17,884,026
Incremental shares assumed for stock options and RSUs	339,201	432,305
Weighted-average number of dilutive shares outstanding	18,937,637	18,316,331
Basic earnings per common share	$0.48	$0.36
Diluted earnings per common share	$0.48	$0.36

Note 1 — Basis of Presentation – Continued

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.

3In 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.

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

Note 1 — Basis of Presentation – Continued

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. 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. 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 method in which we recognized revenue. The Company adopted this standard on January 1, 2018.

Note 2 — Investment Securities

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

			Gross Unrealized Losses		
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Less Than 12 Months	12 Months or Longer	Fair Value
As of March 31, 2018					
U.S. Government-sponsored securities	$ 48,952	$ -	$ (253)	$ (569)	$ 48,130
Municipal securities	12,638	122	(57)	(27)	12,676
Mortgage-backed securities	187,716	34	(2,538)	(2,315)	182,897
Corporate securities	5,500	601	-	(270)	5,831
	$ 254,806	$ 757	$ (2,848)	$ (3,181)	$ 249,534
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

12

Note 2 — Investment Securities – continued

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 March 31, 2018					
Municipal securities	$ 73,888	$ 22	$(575)	$ (322)	$73,013
As of December 31, 2017					
Municipal securities	$ 74,654	$ 167	$(293)	$ (227)	$74,301

The amortized cost and estimated fair value of investment securities that are available-for-sale and held-to-maturity at March 31, 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	$2,869	$2,891	$8,367	$8,354
After one year through five years	64,487	63,550	42,976	42,626
After five years through ten years	66,485	64,761	16,882	16,456
After ten years	120,965	118,332	5,663	5,577
	$254,806	$249,534	$73,888	$73,013

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 March 31, 2018, the Company held 329 investment securities with fair value less than amortized cost. 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.

13

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Loans held for investment:		
Commercial real estate loans:		
Real estate term	$817,143	$784,148
Construction and land development	387,301	369,590
Total commercial real estate loans	1,204,444	1,153,738
Commercial and industrial loans	313,511	294,085
Consumer loans:		
Residential and home equity	150,638	158,591
Consumer and other	23,409	25,591
Total consumer loans	174,047	184,182
Total gross loans	1,692,002	1,632,005
Net deferred loan fees	(4,472)	(4,561)
Total loans held for investment	1,687,530	1,627,444
Allowance for loan losses	(20,731)	(18,303)
Total loans held for investment, net	$1,666,799	$1,609,141

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

	Three Months Ended March 31, 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	531	474	1,325	(200)	(80)	2,050
Deductions:						
Gross loan charge-offs	-	-	(193)	-	(65)	(258)
Recoveries	12	25	516	27	56	636
Net loan charge-offs	12	25	323	27	(9)	378
Balance at end of period	$7,249	$ 6,808	$ 5,962	$ 642	$ 70	$20,731

	Three Months Ended March 31, 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	375	(845)	624	112	(66)	200
Deductions:						
Gross loan charge-offs	-	-	(158)	(338)	(65)	(561)
Recoveries	4	79	38	138	31	290
Net loan charge-offs	4	79	(120)	(200)	(34)	(271)
Balance at end of period	$7,149	$ 4,683	$ 4,222	$ 529	$ 61	$16,644

Note 3 — Loans and Allowance for Loan Losses – Continued

Non-accrual loans are summarized as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Non-accrual loans, not troubled debt restructured:		
Real estate term	$1,287	$ 644
Construction and land development	535	355
Commercial and industrial	3,723	1,578
Residential and home equity	-	-
Consumer and other		