SB ONE BANCORP
Form 10-Q
August 09, 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 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 0-29030

SB ONE BANCORP
(Exact name of registrant as specified in its charter)

New Jersey	22-3475473
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Enterprise Drive, Suite 700, Rockaway, NJ	07866
(Address of principal executive offices)	(Zip Code)

(844) 256-7328
(Registrant's telephone number, including area code)

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting 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 x	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company

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

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

As of August 2, 2018 there were 7,929,613 shares of common stock, no par value, outstanding.

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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Quarterly Report on Form 10-Q contains “forward-looking statements” which may be identified by the use of such words as “believe,” “project,” “expect,” “anticipate,” “should,” “may,” “will,” “intend,” “planned,” “estimated,” “potential” or similar expressions. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- changes in the regulatory environment;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation (“FDIC”) deposit insurance premiums and assessments, which could adversely affect our financial condition;
- changes in technology used in the banking business;
- the soundness of other financial services institutions, which may adversely affect our credit risk;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services, which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- the effect on our operations of recent legislative and regulatory initiatives that were or may be enacted in response to the ongoing financial crisis;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business;
- the inability to realize expected cost savings or to implement integration plans and other adverse consequences associated with the Community Merger (as defined herein);
- failure to complete the proposed Enterprise Merger (as defined herein), the imposition of adverse regulatory conditions in connection with regulatory approval of the proposed Enterprise Merger, disruption to the parties' businesses as a result of the announcement and pendency of the Enterprise Merger, the inability to realize expected cost savings or to implement integration plans and other adverse consequences associated with the Enterprise Merger; and
- other factors detailed from time to time in our filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I – FINANCIAL INFORMATION
Item 1 – Financial Statements
SB ONE BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$6,651	$ 3,270
Interest-bearing deposits with other banks	12,245	8,376
Cash and cash equivalents	18,896	11,646
Interest bearing time deposits with other banks	200	100
Securities available for sale, at fair value	174,525	98,730
Securities held to maturity, at amortized cost (fair value of $5,508 and $5,430 at June 30, 2018 and December 31, 2017, respectively)	5,418	5,304
Other Bank Stock, at cost	10,066	4,925
Loans receivable, net of unearned income	1,136,546	820,700
Less: allowance for loan losses	8,264	7,335
Net loans receivable	1,128,282	813,365
Foreclosed real estate	3,414	2,275
Premises and equipment, net	18,734	8,389
Accrued interest receivable	3,906	2,472
Goodwill and intangibles	26,048	2,820
Bank-owned life insurance	30,390	22,054
Other assets	17,423	7,303
Total Assets	$1,437,302	$ 979,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$232,862	$ 146,167
Interest bearing	828,737	616,324
Total deposits	1,061,599	762,491
Short-term borrowings	157,940	55,350
Long-term borrowings	30,000	35,000
Accrued interest payable and other liabilities	11,087	4,501
Subordinated debentures	27,853	27,848
Total Liabilities	1,288,479	885,190
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	—	—
Common stock, no par value, 10,000,000 shares authorized; 7,929,613 and 6,040,564 shares issued outstanding at June 30, 2018 and December 31, 2017, respectively	117,500	65,274
Deferred compensation obligation under Rabbi Trust	1,582	1,399

Retained earnings	30,763	27,532
Accumulated other comprehensive income	560	1,387
Stock held by Rabbi Trust	(1,582)	(1,399)
Total Stockholders' Equity	148,823	94,193
Total Liabilities and Stockholders' Equity	$1,437,302	$ 979,383

See Notes to Consolidated Financial Statements

SB ONE BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands except per share data)	2018	2017	2018	2017
INTEREST INCOME				
Loans receivable, including fees	$12,562	$7,876	$24,462	$15,474
Securities:				
Taxable	804	344	1,540	685
Tax-exempt	449	316	830	629
Interest bearing deposits	16	6	46	22
Total Interest Income	13,831	8,542	26,878	16,810
INTEREST EXPENSE				
Deposits	1,659	852	3,117	1,569
Borrowings	874	479	1,380	960
Subordinated debentures	313	316	628	637
Total Interest Expense	2,846	1,647	5,125	3,166
Net Interest Income	10,985	6,895	21,753	13,644
PROVISION FOR LOAN LOSSES	398	380	906	787
Net Interest Income after Provision for Loan Losses	10,587	6,515	20,847	12,857
OTHER INCOME				
Service fees on deposit accounts	311	285	639	538
ATM and debit card fees	250	200	463	380
Bank-owned life insurance	188	128	373	234
Insurance commissions and fees	1,839	1,143	3,734	2,890
Investment brokerage fees	41	—	63	3
Net gain on sales of securities	36	(30)	36	77
Net gain on disposal of premises and equipment	9	—	9	—
Other	207	92	421	173
Total Other Income	2,881	1,818	5,738	4,295
OTHER EXPENSES				
Salaries and employee benefits	5,411	3,677	10,469	7,235
Occupancy, net	727	456	1,329	956
Data processing	939	521	1,730	1,078
Furniture and equipment	326	234	607	474
Advertising and promotion	285	89	341	195
Professional fees	290	198	619	475
Director fees	142	89	289	196
FDIC assessment	100	93	210	144
Insurance	52	66	147	132
Stationary and supplies	89	44	146	76
Merger-related expenses	446	481	3,739	481
Loan collection costs	89	28	150	52
Net expenses and write-downs related to foreclosed real estate	1	32	208	77
Amortization of intangible assets	60	—	121	—
Other	623	518	1,069	932
Total Other Expenses	9,580	6,526	21,174	12,503
Income before Income Taxes	3,888	1,807	5,411	4,649

EXPENSE FOR INCOME TAXES	896	603	1,111	1,434
Net Income	2,992	1,204	4,300	3,215
OTHER COMPREHENSIVE INCOME:				
Unrealized (loss) gain on available for sale securities arising during the period	(353)	1,144	(2,520)	1,820
Fair value adjustments on derivatives	328	(455)	1,435	(415)
Reclassification adjustment for net (gain) on securities transactions included in net income	(36)	30	(36)	(77)
Income tax related to items of other comprehensive (loss) income	17	(287)	294	(531)
Other comprehensive (loss) income, net of income taxes	(44)	432	(827)	797
Comprehensive income	$2,948	$1,636	$3,473	$4,012
EARNINGS PER SHARE				
Basic	$0.38	$0.25	$0.55	$0.68
Diluted	$0.38	$0.25	$0.55	$0.67

See Notes to Consolidated Financial Statements

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SB ONE BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2018 and 2017
(Unaudited)

(Dollars in Thousands)	Number of Shares Outstanding	Common Stock	Deferred Compensation Obligation Under Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held by Rabbi Trust	Total Stockholders' Equity
Balance December 31, 2016	4,741,068	$36,538	1,383	$23,291	$ 243	(1,383)	$ 60,072
Net income	—	—	—	3,215	—	—	3,215
Other comprehensive income	—	—	—	—	797	—	797
Funding of Supplemental Director Retirement Plan	—	—	(31)			31	—
Net proceeds of capital raise	1,249,999	28,313	—	—	—	—	28,313
Restricted stock granted	53,170	—	—	—	—	—	—
Restricted stock forfeited	(3,235)	—	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	348	—	—	—	—	348
Dividends declared on common stock ($0.10 per share)	—	—	—	(478)	—	—	(478)
Balance June 30, 2017	6,041,002	$65,199	$ 1,352	$26,028	$ 1,040	$(1,352)	$ 92,267
Balance December 31, 2017	6,040,564	$65,274	1,399	$27,532	$ 1,387	(1,399)	$ 94,193
Net income	—	—	—	4,300	—		4,300
Other comprehensive loss	—	—	—	—	(827)	—	(827)
Shares issued in merger	1,873,028	51,883	—	—	—	—	51,883
Funding of Supplemental Director Retirement Plan	—	—	183	—	—	(183)	—
Restricted stock granted	20,169	—	—	—	—		—
Restricted stock forfeited	(4,148)	—	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	343	—	—	—		343
Dividends declared on common stock ($0.135 per share)	—	—	—	(1,069)	—		(1,069)
Balance June 30, 2018	7,929,613	$117,500	$ 1,582	$30,763	$ 560	$(1,582)	$ 148,823

See Notes to Consolidated Financial Statements

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SB ONE BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Cash Flows from Operating Activities		
Net income	$4,300	$3,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	906	787
Depreciation and amortization	904	538
Net amortization of securities premiums and discounts	1,049	849
Amortization of subordinated debt issuance costs	5	3
Net realized gain on sale of securities	(36)	(77)
Net realized loss on disposal of premises and equipment	(9)	—
Net realized gain on sale of foreclosed real estate	(4)	(13)
Write-downs of and provisions for foreclosed real estate	140	49
Deferred income tax expense (benefit)	459	(342)
Earnings on bank-owned life insurance	(373)	(234)
Compensation expense for stock options and stock awards	343	348
(Increase) decrease in assets:		
Accrued interest receivable	(610)	(212)
Other assets	(7,262)	135
Increase (decrease) in accrued interest payable and other liabilities	5,987	(10)
Net Cash Provided by Operating Activities	5,799	5,036
Cash Flows from Investing Activities		
Net cash acquired in acquisition	6,693	—
Securities available for sale:		
Purchases	(88,680)	(33,658)
Sales	80,496	20,709
Maturities, calls and principal repayments	4,750	4,477
Securities held to maturity:		
Purchases	(240)	(105)
Maturities, calls and principal repayments	105	3,056
Net increase in loans	(79,753)	(77,473)
Proceeds from the sale of foreclosed real estate	101	618
Purchases of bank premises and equipment	(560)	(114)
Proceeds from the sale of premises and equipment	53	—
Purchase of bank owned life insurance	—	(5,000)
Net increase in Federal Home Loan Bank stock	(3,986)	(280)
Net Cash Used in Investing Activities	(81,021)	(87,770)
Cash Flows from Financing Activities		
Net (decrease) increase in deposits	(2,049)	49,566
Net increase in short-term borrowed funds	90,590	9,345
Repayment of long-term borrowings	(5,000)	(11,000)
Net proceeds from capital raise	—	28,313
Dividends paid	(1,069)	(478)
Net Cash Provided by Financing Activities	82,472	75,746
Net increase (decrease) in Cash and Cash Equivalents	7,250	(6,988)

Cash and Cash Equivalents - Beginning	11,646	14,638
Cash and Cash Equivalents - Ending	$18,896	$7,650
Supplementary Cash Flows Information		
Interest paid	$5,000	$3,169
Income taxes paid	$1,852	$1,828
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	$—	$133

See Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SB One Bancorp, formerly Sussex Bancorp, (“we,” “us,” “our” or the “company”) and our wholly owned subsidiary SB One Bank, formerly Sussex Bank (the “Bank”). The corporate name change was voted and approved during the shareholder meeting on April 25, 2018. The name changes were a part of a larger rebrand effort undertaken by Sussex Bank which merged with Community Bank of Bergen County, NJ earlier this year. The Bank’s wholly owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, GFR Maywood, LLC, PPD Holding Company, LLC, Community Investing Company, Inc., and SB One Insurance Agency Inc. ("SB One Insurance Agency"), formerly Tri-State Insurance Agency, Inc., a full service insurance agency located in Sussex County, New Jersey with a satellite office located in Bergen County, New Jersey. SB One Insurance Agency’s operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. The Bank operates fourteen banking offices: eight located in Sussex County, New Jersey, four located in Bergen County, New Jersey, one located in Warren County, New Jersey, and one in Queens County, New York.

We are subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “FRB”). The Bank’s deposits are insured by the Deposit Insurance Fund (“DIF”) of the FDIC up to applicable limits. The operations of the company and the Bank are subject to the supervision and regulation of the FRB, the FDIC and the New Jersey Department of Banking and Insurance (the “Department”) and the operations of SB One Insurance Agency are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

New Accounting Standards

In May 2014, the FASB issued an Accounting Standard Update (“ASU”) 2014-09 to amend its guidance on “Revenue from Contracts with Customers, (Topic 606). The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. In August 2015, the FASB issued an amendment (ASU 2015-14) which defers the effective date of this new guidance by one year. More detailed implementation guidance on Topic 606 was issued in March 2016 (ASU 2016-08), April 2016 (ASU 2016-10), May 2016 (ASU 2016-12), December 2016 (ASU 2016-20), February 2017 (ASU 2017-05) and September 2017 (ASU 2017-13), and the effective date and transition requirements for these ASUs are the same as the effective date and transition requirements of ASU 2014-09. The amendments in Topic 606 are effective for public business entities for annual periods beginning after December 15, 2017. Approximately 83% of the Company’s revenue for the quarter ended June 30, 2018, was comprised of interest income on financial assets, which are explicitly excluded from the scope of Topic 606. With respect to our non-interest income, management has identified revenue streams within the scope of the guidance, primarily service fees on deposits, ATM and debit card fees and insurance commissions and fees which are discussed below.

Topic 606 states that revenue should be recognized when the entity satisfies a performance obligation by transferring goods or services to the customer. An asset is considered transferred when the customer obtains control of the asset and is able to use and obtain substantially all of the benefits of the asset. The entity then has to determine whether the performance obligation was satisfied over time or at a point in time to determine when to recognize revenue. The Company determined based on the criteria presented in Topic 606 that the performance obligations were satisfied at a point in time since the customer obtains immediate control of the deposit accounts, ATM/Debit Card and insurance policy and there are no additional obligations that the Company performs over time; therefore, the revenue would be recognized as received.

The Company recognized $639 thousand in income for Service fees on deposit accounts and $3.7 million in insurance commissions and fees for the six months ended June 30, 2018. The Company currently presents the revenue and associated costs on a gross basis. ASU 2014-09 and related amendments were adopted effective January 1, 2018, using the cumulative effect approach. Under this alternative, the Company applied the new revenue standard only to contracts that were incomplete under legacy U.S. GAAP at the date of initial application and evaluated the cumulative effect of the new standard as a potential adjustment to the opening balance of retained earnings. The Company`s adoption of the ASU on January 1, 2018 did not significantly change the recognition of revenue on the Company's consolidated financial statements and, as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

Service fees on deposit accounts represent account analysis fees, monthly service fees, check ordering fees and other deposit related fees. Revenue is recognized when the performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed.

Insurance commissions and fees represent insurance policies that our insurance agency, SB One Insurance Agency, arranges between the policy holder and the related insurance agency. SB One Insurance Agency acts solely as an insurance broker that provides the service of connection between a policy holder and carrier. SB One Insurance Agency’s performance obligation is satisfied once the policy becomes active therefore no other performance obligation is required. Revenues for the commissions to SB One Insurance Agency’s insurance contracts will generally be recognized as of the effective date of the insurance policy or the date on which the policy premium is processed into our systems, whichever is later. Commission revenues related to installment billings are recognized on the latter of effective or invoiced date. Subsequent commission adjustments are recognized upon our receipt of notification from insurance companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is generally when such commissions are received from insurance companies, or when we receive formal notification of the amount of such payments.

The Company recognized $463 thousand in ATM and debit card fees for the six months ended June 30, 2018. ATM and debit card fees are primarily comprised of debit and credit card income (interchange fees), ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company’s debit and credit cards are processed through our card payment network. The Company currently presents the revenue and associated costs with debit and credit card income on a net basis. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, agency fee income, and other services. The Company’s performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or within one month.

Under Topic 606, a contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity’s obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company’s non-interest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any significant contract balances.

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

In January 2016, FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods 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; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity 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 when the entity 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 on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. In addition, the amendments in this ASU require an entity to disclose the fair value of its financial instruments using the exit price notion. Exit price is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has updated the fair value disclosure on Note 12 Fair Value of Financial Instruments in this report to reflect adoption of this standard, to include using the exit price notion in the fair value disclosure of financial instruments. The Company`s adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases which was issued to clarify and correct untended application of the guidance in ASU 2016-02 (Topic 842). The amendments in this ASU affect aspects of the guidance issued in ASU 2016-02 and provide clarification to related topics; such as, 1) Rate implicit in the lease; 2) Reassessment of leases; 3) Transition guidance; and 4) Impairment of net investment in the lease. In July 2018, the FASB also issued ASU 2018-11 Leases (Topic 842) Targeted Improvements, which provides guidance related to comparative reporting requirements for initial adoption and separating lease and non-lease components. Currently, entities are required to adopt the new standard utilizing the modified retrospective approach. This amendment provides entities with an additional transition method which allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Currently, ASU 2016-02, provides a practical expedient to lessees to allow them to not separate non-lease components from lease components; however, it does not provide a similar practical expedient to lessors. This amendment provides a practical expedient to lessors which allows them the option to not separate non-lease components from the associated lease components. However, the Lessor practical expedient is limited to circumstances in which the non-lease components would otherwise be account for under the new revenue guidance (Topic 606). In addition, both of the following conditions must be met: 1) the timing and pattern of transfer are the same for non-lease components and associated lease components 2) the lease component, if accounted for separately, would be classified as an operating lease. An entity that elects the lessor practical expedient is also required to provide certain disclosures. For entities that early adopted Topic 842 the amendments in these ASUs are effective upon issuance. For entities that haven’t adopted Topic 842 the effective date and transition requirement are the same as Topic 842. The Company is currently assessing the impact of the new guidance on its consolidated financial statements by reviewing its existing lease contracts and service contracts that may include embedded leases. The Company expects to record an increase in assets and liabilities as a result of recognizing a right-of-use asset and a lease liability for its operating lease commitments.

In June, 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. This ASU will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities will have one additional year. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements. The Company has taken steps to prepare for implementation when it becomes effective, such as evaluating the potential use of outside professionals for an updated model.

In August 2016, FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force), which addresses eight classification issues related to the statement of cash flows: (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon bonds, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Entities should apply this ASU using a retrospective transition method to each period presented. If it is impracticable for an entity to apply the ASU retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. The Company`s adoption of the ASU did not have a significant impact on the Company's consolidated financial statements.

In January 2017, FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). The main objective of this ASU is to simplify the accounting for goodwill impairment by requiring impairment charges be based upon the first step in the current two-step impairment test under Accounting Standards Codification (ASC) 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). This ASU’s objective is to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The standard will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20). The update shortens the amortization period for premiums on purchased callable debt securities to the earliest call date. The amendment will apply only to callable debt securities with explicit, noncontingent call features that are callable at fixed prices and on preset dates, apply to all premiums on callable debt securities, regardless of how they were generated, and require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. The ASU does not require an accounting change for securities held at a discount. The discount continues to be amortized to maturity and does not apply when the investor has already incorporated prepayments into the calculation of its effective yield under other GAAP. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company's adoption of the ASU will not have a significant impact on the Company's consolidated financial statements.

In August 2017, FASB issued ASU 2017-12 Derivatives and Hedging (Topic 815). The objective of the ASU is to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and to make improvements to simplify the application of hedge accounting guidance in current GAAP. The amendments in the ASU will, among other things, 1) permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risks; 2) change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk; 3) modify disclosures to include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges; and 4) eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments. These changes will more closely align the results of cash flow and fair value hedge accounting with risk management activities and the presentation of hedge results in the financial statements. ASU 2017-12 will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the ASU will be effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the update with all transition requirements and elections being applied to hedging relationships existing on the date of adoption. The Company's adoption of the ASU will not have a significant impact on the Company's consolidated financial statements.

In June 2018, FASB issued ASU 2018-07 Compensation - Stock Compensation (Topic 718). The main objective of this ASU is to simplify the accounting for share-based payment transactions in current GAAP by expanding the scope to include nonemployee share-based payment transactions. This ASU will apply to all share-based payment transactions in which a grantor acquires goods or services to be used in their own operations by issuing share-based payments. This ASU does not apply to share-based payments used to provide financing to the issuer or awards issued in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in the ASU will require an entity to, among other things, 1) measure nonemployee share-based payment awards at the fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered; 2) measure equity classified nonemployee share-based payment awards at the grant date; and 3) take into consideration the probability of satisfying performance conditions when accounting for nonemployee share-based payment awards with such conditions. ASU 2018-07 will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted; however, an entity’s adoption date shall not be earlier than the entity’s adoption date of Topic 606. Per review of the ASU, the Company determined that it does not pertain to our current operations; therefore, no evaluation regarding adoption is required.

NOTE 2 – ACQUISITIONS

On June 20, 2018, the Company announced the signing of a definitive agreement and plan of merger pursuant to which the Company will acquire Enterprise Bank N.J. (“Enterprise Bank”) in an all-stock transaction valued at approximately $48.2 million (the “Enterprise Merger”). Subject to the terms of the merger agreement, Enterprise Bank will merge with and into SB One Bank and each outstanding share of Enterprise Bank common stock will be exchanged for 0.4538 shares of the Company’s common stock. Based on financials as of March 31, 2018, the combined company will have approximately $1.6 billion in assets, $1.3 billion in gross loans, and $1.2 billion in deposits upon completion of the Enterprise Merger. The Enterprise Merger is expected to enhance and expand the Company's presence in Union, Middlesex and Essex Counties, New Jersey with the addition of 4 full service branch locations in those counties. The Enterprise Merger is expected to be completed in the fourth quarter of 2018. The consummation of the Enterprise Merger is subject to receipt of the requisite approval of Enterprise Bank’s shareholders, receipt of all required regulatory approvals, and other customary closing conditions.

On January 4, 2018 the Company announced the successful closing of the merger with Community Bank of Bergen County, NJ, a New Jersey-chartered bank (“Community”) in an all-stock transaction (the “Community Merger”). The Community Merger enhances and expands Sussex Bank’s presence in Bergen County, New Jersey with the addition of 3 full service branch locations in that county, which will complement Sussex Bank’s existing location in Oradell, New Jersey. Under the terms of the agreement, Community merged with and into SB One Bank, with SB One Bank being the surviving entity and each outstanding share of Community common stock was exchanged for 0.97 shares of SB One Bancorp's common stock. The Company issued 1,873,028 shares of its common stock, having an aggregate fair value of $51.9 million in the Community Merger and paid approximately $2 thousand in cash for fractional shares. Outstanding Community stock options were paid out in cash, by the Company, for a total payment of $140 thousand.

The Community acquisition was accounted for under the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed in the acquisition were recorded at their estimated fair values based on management's best estimate using information available at the date of the acquisition, including the use of a third party valuation specialist. The following table summarized the estimated fair value of the acquired assets and liabilities assumed at the date of acquisition for Community.

(Dollars in thousands)	January 4, 2018
Cash and cash equivalents	$6,693
Interest bearing time deposits with other banks	100
Securities available for sale	75,909
Other bank stock	1,155
Loans	236,070
Foreclosed real estate	1,376
Premises and equipment, net	10,612
Accrued interest receivable	824
Goodwill	22,018
Intangibles assets	1,331
Bank-owned life insurance	7,963
Other assets	1,588
Total Assets	$365,639
Deposits	$(301,157)
Borrowings	(12,000)
Other liabilities	(599)

Total Liabilities	$(313,756)
Net consideration paid - common shares issued	$51,883

The core deposit intangible totaled $1.3 million and is being amortized over its estimated useful life of approximately 10 years using an accelerated method of the sum of the years digits. The goodwill will be evaluated annually for impairment. The goodwill is not deductible for tax purposes. The goodwill recognized from the merger with Community was created based on the consideration paid by the Company for enhancing its presence in the Bergen County, NJ area in addition to our expected synergies from the combined operations of the Company and Community.

The fair values of deposit liabilities with no stated maturities such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

The Company has finalized the accounting as a result of the merger with Community.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Investment securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities, U.S. government agencies and municipal bonds, were determined using open market pricing provided by multiple independent securities brokers. Management reviewed the open market quotes used in pricing the securities. A fair value discount of $261 thousand was recorded on the investments.

Loans

Loans acquired in the Community acquisition were recorded at fair value, and there was no carryover related allowance for loan and lease losses. The fair values of loans acquired from Community were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The fair value of the acquired loans receivable had a gross amortized cost basis of $242.5 million. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired. The credit adjustment on purchased credit impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that has been deemed uncollectible based on the Company’s expectations of future cash flows for each respective loan on a level yield amortization over 3.5 years.

(Dollars in thousands)	
Gross amortized cost basis at January 4, 2018	$242,471
Fair value adjustment on general pooled loans	(3,737)
Credit fair value adjustment on purchased credit impaired loans	(2,664)
Fair value of acquired loans at January 4, 2018	$236,070

For loans acquired without evidence of credit quality deterioration, the Company prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into general pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value premium of $324 thousand.

Additionally for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. The expected lifetime losses were calculated using historical losses observed at the Bank, Community and peer banks. The Company also estimated an environmental factor to apply to each loan type. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of $4.1 million was determined. Both the interest rate and credit fair value adjustments relate to performing loans and loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the weighted average life of the loans of 4 years.

The following is a summary of the loans accounted for in accordance with ASC 310-30 that were acquired in the Community acquisition as of the closing date.

(Dollars in thousands)	Acquired Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 6,289
Contractual cash flows not expected to be collected (non-accretable difference)	1,819
Expected cash flows at acquisition	4,470
Interest component of expected cash flows (accretable difference)	846
Fair value of acquired loans	$ 3,624

Bank Premises

The Company acquired three branches of Community, all of which were owned by Community, at a premium of $3.5 million. The fair value of Community’s premises was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located which will be amortized on a straight line basis over 40 years.

Core Deposit Intangible

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through national brokered CD offering rates. The projected cash flows were developed using projected deposit attrition rates. The core deposit intangible will be amortized over ten years using the sum-of-years digits method.

Time Deposits

The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately $965 thousand is being amortized into income on a level yield amortization method over the contractual life of the deposits of 22.5 months and a weighted average life of 16.5 months.

Bank Owned Life Insurance

Community's bank-owned life insurance book value was $8.0 million with no fair value adjustment.

The following table presents certain pro forma information as if Community had been acquired on January 1, 2017. These results combine the historical results of the Company in the Company’s Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2017. In particular, no adjustments have been made to eliminate the amount of Community’s provision for loan losses that would not have been necessary had the acquired loans been recorded at fair value as of January 1, 2017. The Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below:

(Dollars in thousands)	For the Year Ended December 31, 2017
Total revenues (net interest income plus non-interest income)	$ 47,280
Net Income	6,257
Net earnings applicable to common stockholders	$ 0.79

The following table presents certain pro forma information as if Community had been acquired on January 1, 2018. These results combine the historical results of the Company in the Company's Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2018. The Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below:

(Dollars in thousands)	For the Six Months Ended June 30, 2018
Total revenues (net interest income plus non-interest income)	$27,491
Net Income	4,312
Net earnings applicable to common stockholders	$0.55

Following the closing of the Community Merger on January 4, 2018, the Company reported the results of the combined Company. The Company cannot disaggregate the additional revenue and income before extraordinary items provided by Community since the Company operates as one consolidated entity on its internal systems. The cumulative effect to the Company's net income and net income per share are reported on a consolidated basis for the period ended June 30, 2018.

NOTE 3 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of June 30, 2018 and December 31, 2017 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
U.S. government agencies	$28,000	$ 16	$(247)	$27,769
U.S. government-sponsored enterprises	17,490	13	(86)	17,417
State and political subdivisions	59,650	309	(699)	59,260
Mortgage-backed securities -				
U.S. government-sponsored enterprises	69,492	35	(1,471)	68,056
Corporate Debt	2,000	23	—	2,023
	$176,632	$ 396	$(2,503)	$174,525
December 31, 2017				
U.S. government agencies	$18,799	$90	$(28)	$18,861
U.S. government-sponsored enterprises	6,054	8	(1)	6,061
State and political subdivisions	40,470	896	(132)	41,234
Mortgage-backed securities -				
U.S. government-sponsored enterprises	30,958	65	(479)	30,544
Corporate Debt	2,000	—	(18)	1,982

$98,281	$1,089	$(640)	$98,730

Securities with a carrying value of approximately $3.1 million and $17.3 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and for borrowings at the Federal Reserve Bank as required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at June 30, 2018 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments which pay principal on a periodic basis are not included in the maturity categories.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	4,952	4,936
Due after ten years	56,698	56,347
Total bonds and obligations	61,650	61,283
U.S. government agencies	28,000	27,769
U.S. government-sponsored enterprises	17,490	17,417
Mortgage-backed securities:		
U.S. government-sponsored enterprises	69,492	68,056
Total available for sale securities	$ 176,632	$ 174,525

Gross realized gains on sales of securities available for sale were $46 thousand and gross realized losses were $10 thousand for the three months ended June 30, 2018. Gross realized gains on sales of securities available for sale were $19 thousand and gross losses were $49 thousand for the three months ended June 30, 2017.

Gross realized gains on sales of securities available for sale were $46 thousand and $165 thousand and gross realized losses were $10 thousand and $88 thousand for the six months ended June 30, 2018 and 2017, respectively.

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual available for sale securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
U.S. government agencies	$21,676	$ (229)	$1,289	$ (18)	$22,965	$ (247)
U.S. government-sponsored enterprises	14,904	(86)	—	—	14,904	(86)
State and political subdivisions	33,618	(546)	3,605	(153)	37,223	(699)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	49,731	(908)	14,170	(563)	63,901	(1,471)
Total temporarily impaired securities	$119,929	$ (1,769)	$19,064	$ (734)	$138,993	$ (2,503)
December 31, 2017						
U.S. government agencies	$5,280	$(28)	$—	$—	$5,280	$(28)
U.S. government-sponsored enterprises	3,469	(1)	—	—	3,469	(1)
State and political subdivisions	5,212	(42)	3,701	(90)	8,913	(132)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	8,403	(212)	12,935	(267)	21,338	(479)
Total temporarily impaired securities	$22,364	$(283)	$16,636	$(357)	$39,000	$(640)

For each security whose fair value is less than its amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of June 30, 2018, we reviewed our available for sale securities portfolio for indications of impairment. This review included analyzing the length of time and the extent to which the fair value was lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt and equity securities are evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position.

U.S. Government Agencies
At June 30, 2018 and December 31, 2017, the declines in fair value and the unrealized losses for our U.S. government agencies securities were primarily due to changes in spreads and market conditions and not credit quality. At June 30, 2018, there were seventeen securities with a fair value of $23.0 million that had an unrealized loss that amounted to $247 thousand. As of June 30, 2018, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government agency securities at June 30, 2018 were deemed to be other-than-temporarily impaired (“OTTI”).

At December 31, 2017, there were three securities with a fair value of $5.3 million that had an unrealized loss that amounted to $28 thousand.

U.S. Government Sponsored Agencies
At June 30, 2018 and December 31, 2017, the decline in fair value and the unrealized losses for our U.S. government sponsored agencies securities were primarily due to changes in spreads and market conditions and not credit quality. At June 30, 2018, there were seven securities with a fair value of $14.9 million that had an unrealized loss that amounted to $86 thousand. As of June 30, 2018, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government sponsored agency securities at June 30, 2018, were deemed to be OTTI.

At December 31, 2017, there were two securities with a fair value of $3.5 million that had an unrealized loss that amounted to $1 thousand.

State and Political Subdivisions
At June 30, 2018 and December 31, 2017, the decline in fair value and the unrealized losses for our state and political subdivisions securities were caused by changes in interest rates and spreads and were not the result of credit quality. At June 30, 2018, there were thirty-five securities with a fair value of $37.2 million that had an unrealized loss that amounted to $699 thousand. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates.

At December 31, 2017, there were nine securities with a fair value of $8.9 million that had an unrealized loss that amounted to $132 thousand.

Mortgage-Backed Securities
At June 30, 2018 and December 31, 2017, the decline in fair value and the unrealized losses for our mortgage-backed securities guaranteed by U.S. government-sponsored enterprises were primarily due to changes in spreads and market conditions and not credit quality. At June 30, 2018, there were thirty-nine securities with a fair value of $63.9 million that had an unrealized loss that amounted to $1.5 million. As of June 30, 2018, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our mortgage-backed securities at June 30, 2018 were deemed to be OTTI.

At December 31, 2017, there were sixteen securities with a fair value of $21.3 million that had an unrealized loss that amounted to $479 thousand.

Corporate Debt
At June 30, 2018, there were no securities that had an unrealized loss. These securities typically have maturity dates greater than 5 years and the fair values are more sensitive to changes in market interest rates. As of June 30, 2018, we

did not intend to sell and it was more-likely-than-no that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our corporate debt as June 30, 2018, were deemed to be OTTI.

At December 31, 2017, there were no securities with an unrealized loss.

Held to Maturity Securities

The amortized cost and approximate fair value of securities held to maturity as of June 30, 2018 and December 31, 2017 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
State and political subdivisions	$ 5,418	$ 91	$ (1)	$5,508
December 31, 2017				
State and political subdivisions	$ 5,304	$ 127	$ (1)	$5,430

The amortized cost and carrying value of securities held to maturity at June 30, 2018 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 2,605	$2,614
Due after one year through five years	253	252
Due after five years through ten years	2,031	2,090
Due after ten years	529	552
Total held to maturity securities	$ 5,418	$5,508

Temporarily Impaired Securities

For each security whose fair value is less than its amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of June 30, 2018, there were two securities with a fair value of $771 thousand that had an unrealized loss of $1 thousand. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt securities is evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred.

At December 31, 2017, there was one security with a fair value of $254 thousand that had an unrealized loss of $1 thousand.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
State and political subdivisions	$771	$ (1)	$ —	$ —	$771	$ (1)
Total temporarily impaired securities	$771	$ (1)	$ —	$ —	$771	$ (1)

December 31, 2017

State and political subdivisions	$254	$	(1	)	$	—	$	—	$254	$	(1	)
Total temporarily impaired securities	$254	$	(1	)	$	—	$	—	$254	$	(1	)

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NOTE 4 – LOANS

The composition of net loans receivable at June 30, 2018 and December 31, 2017 is as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Commercial and industrial	$62,418	$ 54,759
Construction	62,135	42,484
Commercial real estate	687,810	551,445
Residential real estate	322,983	171,844
Consumer and other	2,205	1,130
Total loans receivable	1,137,551	821,662
Unearned net loan origination fees	(1,005)	(962)
Allowance for loan losses	(8,264)	(7,335)
Net loans receivable	$1,128,282	$ 813,365

Mortgage loans serviced for others are not included in the accompanying balance sheets. The total amount of loans serviced for the benefit of others was approximately $234 thousand and $239 thousand at June 30, 2018 and December 31, 2017, respectively.

Purchased Credit Impaired Loans

The carrying value of loans acquired in the Community acquisition and accounted for in accordance with ASC Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” was $3.6 million at June 30, 2018, which was $10 thousand more than the balance at the time of acquisition on January 4, 2018. Under ASC Subtopic 310-30, these loans, referred to as purchased credit impaired (“PCI”) loans, may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairments through a loss provision and an increase in the allowance for loan and lease losses. Valuation allowances (recognized in the allowance for loan and lease losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The following table presents changes in the accretable yield for PCI loans:

(Dollars in thousands)	Six months ended June 30, 2018
Accretable yield, beginning balance	$ —

Acquisition of impaired loans	846
Accretable yield amortized to interest income	(152)
Reclassification from non-accretable difference	—
Accretable yield, ending balance	$ 694

There were no PCI loans in 2017.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY OF FINANCING RECEIVABLES

The following table presents changes in the allowance for loan losses disaggregated by the class of loans receivable for the three and six months ended June 30, 2018 and 2017:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended:							
June 30, 2018							
Beginning balance	$ 389	$ 345	$ 5,801	$ 972	$ 31	$ 290	$7,828
Charge-offs	—	—	—	(10)	(31)	—	(41)
Recoveries	1	—	5	62	11	—	79
Provision	50	57	(317)	114	16	478	398
Ending balance	$ 440	$ 402	$ 5,489	$ 1,138	$ 27	$ 768	$8,264
June 30, 2017							
Beginning balance	$ 92	$ 425	$ 4,025	$ 925	$ 17	$ 1,313	$6,797
Charge-offs	—	—	—	(8)	(8)	—	(16)
Recoveries	—	—	2	1	1	—	4
Provision	109	53	216	(1)	10	(7)	380
Ending balance	$ 201	$ 478	$ 4,243	$ 917	$ 20	$ 1,306	$7,165
Six Months Ended:							
June 30, 2018							
Beginning balance	$ 208	336	$ 5,185	$ 1,032	$ 26	$ 548	$7,335
Charge-offs	(11)	—	—	(22)	(42)	—	(75)
Recoveries	2	—	6	72	18	—	98
Provision	241	66	298	56	25	220	906
Ending balance	$ 440	$ 402	$ 5,489	$ 1,138	$ 27	$ 768	$8,264
June 30, 2017							
Beginning balance	$ 110	359	$ 3,932	$ 899	$ 19	$ 1,377	$6,696
Charge-offs	(13)	—	(266)	(42)	(13)	—	(334)
Recoveries	—	—	4	9	3	—	16
Provision	104	119	573	51	11	(71)	787
Ending balance	$ 201	$ 478	$ 4,243	$ 917	$ 20	$ 1,306	$7,165

The following table presents the balance of the allowance of loan losses and loans receivable by class at June 30, 2018 and December 31, 2017 disaggregated on the basis of our impairment methodology.

	Allowance for Loan Losses			Loans Receivable		
(Dollars in thousands)	Balance	Balance Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
June 30, 2018						
Commercial and industrial	$440	$ 78	$ 362	$62,418	$ 189	$62,229
Construction	402	—	402	62,135	—	62,135
Commercial real estate	5,489	27	5,462	687,810	13,736	674,074
Residential real estate	1,138	—	1,138	322,983	3,936	319,047
Consumer and other loans	27	—	27	2,205	—	2,205
Unallocated	768	—	—	—	—	—
Total	$8,264	$ 105	$ 7,391	$1,137,551	$ 17,861	$1,119,690
December 31, 2017						
Commercial and industrial	$208	$—	$208	$54,759	$20	$54,739
Construction	336	—	336	42,484	—	42,484
Commercial real estate	5,185	28	5,157	551,445	4,763	546,682
Residential real estate	1,032	10	1,022	171,844	2,064	169,780
Consumer and other loans	26	—	26	1,130	—	1,130
Unallocated	548	—	—	—	—	—
Total	$7,335	$38	$6,749	$821,662	$6,847	$814,815

An age analysis of loans receivable, which were past due as of June 30, 2018 and December 31, 2017, is as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days (a)	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
June 30, 2018							
Commercial and industrial	$—	$104	$189	$293	$62,125	$62,418	$ —
Construction	—	—	—	—	62,135	62,135	—
Commercial real estate	1,387	487	13,891	15,765	672,045	687,810	—
Residential real estate	683	53	4,521	5,257	317,726	322,983	—
Consumer and other	154	—	—	154	2,051	2,205	—
Total	$2,224	$644	$18,601	$21,469	$1,116,082	$1,137,551	$ —
December 31, 2017							