AMERICAN RIVER BANKSHARES
Form 10-Q
August 08, 2017

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, 2017

or

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

For the transition period from to

Commission File Number: 0-31525

AMERICAN RIVER BANKSHARES
(Exact name of registrant as specified in its

charter)

California	68-0352144
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 Zinfandel Drive, Suite 450, Rancho Cordova, California	95670
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically 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 x No o

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

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

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

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

Yes o No x

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

No par value Common Stock – 6,391,520 shares outstanding at August 8, 2017.

AMERICAN RIVER BANKSHARES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$22,004	$ 27,589
Interest-bearing deposits in banks	1,248	999
Investment securities:		
Available-for-sale, at fair value	257,471	254,020
Held-to-maturity, at amortized cost	429	483
Loans and leases, less allowance for loan and lease losses of $4,881 at June 30, 2017 and $4,822 at December 31, 2016	316,146	324,086
Premises and equipment, net	1,275	1,362
Federal Home Loan Bank stock	3,932	3,779
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	1,348	1,348
Bank owned life insurance	14,962	14,805
Accrued interest receivable and other assets	6,469	6,658
	$641,605	$ 651,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$196,212	$ 201,113
Interest-bearing	341,668	343,693
Total deposits	537,880	544,806
Short-term borrowings	2,000	3,500
Long-term borrowings	13,500	12,000
Accrued interest payable and other liabilities	6,852	7,294
Total liabilities	560,232	567,600
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none outstanding		
Common stock, no par value; 20,000,000 shares authorized;issued and outstanding – 6,357,767 shares at June 30, 2017 and 6,661,726 shares at December 31, 2016	37,739	42,484
Retained earnings	42,646	40,822
Accumulated other comprehensive income, net of taxes	988	544

Total shareholders' equity	81,373	83,850
	$641,605	$ 651,450

See Notes to Unaudited Consolidated Financial Statements

3

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended June 30,	Three months		Six months	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans:				
Taxable	$3,458	$3,445	$6,888	$6,807
Exempt from Federal income taxes	133	173	266	345
Interest on deposits in banks	3	2	5	3
Interest and dividends on investment securities:				
Taxable	1,363	1,441	2,686	2,993
Exempt from Federal income taxes	159	162	316	346
Dividends	5	6	13	11
Total interest income	5,121	5,229	10,174	10,505
Interest expense:				
Interest on deposits	203	182	397	366
Interest on borrowings	49	39	97	89
Total interest expense	252	221	494	455
Net interest income	4,869	5,008	9,680	10,050
Provision for loan and lease losses	—	—	—	—
Net interest income after provision for loan and lease losses	4,869	5,008	9,680	10,050
Noninterest income:				
Service charges on deposit accounts	114	127	231	256
Gain (loss) on sale, call, or impairment of securities	86	(1)	142	281
Rental income from other real estate owned	—	—	—	106
Other noninterest income	239	237	485	474
Total noninterest income	439	363	858	1,117
Noninterest expense:				
Salaries and employee benefits	2,064	2,101	4,234	4,261
Occupancy	262	292	531	590
Furniture and equipment	147	163	298	328
Federal Deposit Insurance Corporation assessments	52	76	105	156
Expenses related to other real estate owned	12	20	32	360
Other expense	831	763	1,598	1,511
Total noninterest expense	3,368	3,415	6,798	7,206
Income before provision for income taxes	1,940	1,956	3,740	3,961
Provision for income taxes	643	652	1,259	1,285
Net income	$1,297	$1,304	$2,481	$2,676

Basic earnings per share	$0.20	$0.19	$0.38	$0.39
Diluted earnings per share	$0.20	$0.19	$0.38	$0.39
Cash dividends per share	$0.05	$0.00	$0.10	$0.00

See notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)				
For the periods ended June 30,	Three months		Six months	
	2017	2016	2017	2016
Net income	$1,297	$1,304	$2,481	$2,676
Other comprehensive income:				
Increase in net unrealized gains on investment securities	412	810	873	3,712
Deferred tax expense	(166)	(324)	(344)	(1,485)
Increase in net unrealized gains on investment securities, net of tax	246	486	529	2,227
Reclassification adjustment for realized (gains) losses included in net income	(86)	1	(142)	(281)
Tax effect	35	—	57	112
Realized (gains) losses, net of tax	(51)	1	(85)	(169)
Total other comprehensive gain income	195	487	444	2,058
Comprehensive income	$1,492	$1,791	$2,925	$4,734

See Notes to Unaudited Consolidated Financial Statements

5

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2016	7,343,649	$49,554	$34,418	$ 2,103	$ 86,075
Net income			2,676		2,676
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				2,058	2,058
Net restricted stock award activity and related compensation expense	28,728	147			147
Stocks option exercised and compensation expense	500	24			24
Retirement of common stock	(716,897)	(7,414)			(7,414)
Balance, June 30, 2016	6,655,980	$42,311	$37,094	$ 4,161	$ 83,566
Balance, January 1, 2017	6,661,726	$42,484	$40,822	$ 544	$ 83,850
Net income			2,481		2,481
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				444	444
Cash dividends ($0.10 per share)			(657)		(657)
Net restricted stock award activity and related compensation expense	22,032	181			181
Stock options exercised	7,095	60			60
Stock option compensation expense	—	20			20
Retirement of common stock	(333,086)	(5,006)			(5,006)
Balance, June 30, 2017	6,357,767	$37,739	$42,646	$ 988	$ 81,373

See Notes to Unaudited Consolidated Financial Statements

6

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)
For the six months ended June 30,

	2017	2016
Cash flows from operating activities:		
Net income	$2,481	$2,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	—
Increase in deferred loan origination fees, net	3	26
Depreciation and amortization	173	220
Gain on sale, call, and impairment of investment securities, net	(142)	(281)
Amortization of investment security premiums and discounts, net	1,648	1,422
Increase in cash surrender values of life insurance policies	(157)	(160)
Stock based compensation expense	201	167
Loss on sale or write-down of other real estate owned	—	259
(Increase) decrease in accrued interest receivable and other assets	(98)	621
Decrease in accrued interest payable and other liabilities	(442)	(1,563)
Net cash provided by operating activities	3,667	3,387
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	17,605	8,287
Proceeds from matured available-for-sale investment securities	1,930	600
Proceeds from called available-for-sale investment Securities	145	
Purchases of available-for-sale investment securities	(45,419)	(8,875)
Proceeds from principal repayments for available-for-sale investment securities	21,513	21,612
Proceeds from principal repayments for held-to-maturity investment securities	54	83
Net increase in interest-bearing deposits in banks	(249)	(249)
Net decrease (increase) in loans	7,937	(14,326)
Proceeds from sale of other real estate	—	710
Net increase in FHLB stock	(153)	—
Purchases of equipment	(86)	(118)
Net cash provided by investing activities	3,277	7,724

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)
For the six months ended June 30,

	2017	2016
Cash flows from financing activities:		
Net decrease in demand, interest-bearing and savings deposits	$(4,771)	$(2,785)
Net decrease in time deposits	(2,155)	(1,972)
Net (decrease) increase in short-term borrowings	(1,500)	1,500
Net increase (decrease) in long-term borrowings	1,500	(1,500)
Proceeds from stock option exercise	60	4
Cash dividends paid	(657)	—
Cash paid to repurchase common stock	(5,006)	(7,414)
Net cash used in financing activities	$(12,529)	$(12,167)
Decrease in cash and cash equivalents	(5,585)	(1,056)
Cash and cash equivalents at beginning of year	27,589	23,727
Cash and cash equivalents at end of period	$22,004	$22,671

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the “Company”) at June 30, 2017 and December 31, 2016, the results of its operations and statement of comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, its cash flows for the six-month periods ended June 30, 2017 and 2016 and its statement of changes in shareholders’ equity for the six months ended June 30, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2016. The results of operations for the three-month and six-month periods ended June 30, 2017 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes, the valuation of goodwill and the estimated fair value of investment securities, impaired loans and other real estate owned.

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

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 64,134 options remain outstanding at June 30, 2017. At June 30, 2017, under the 2010 Plan, there were 76,461 stock options and 79,474 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,362,437. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonqualified option agreements, restricted stock agreements, and other awards agreements. The unvested restricted stock under the 2010 Plan have dividend and voting rights. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is awarded. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

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

Equity Compensation

For the three-month periods ended June 30, 2017 and 2016, the compensation cost recognized for equity compensation was $100,000 and $85,000, respectively. The recognized tax benefit for equity compensation expense was $36,000 and $30,000, respectively, for the three-month periods ended June 30, 2017 and 2016. For the six-month periods ended June 30, 2017 and 2016, the compensation cost recognized for equity compensation was $201,000 and $167,000, respectively. The recognized tax benefit for equity compensation expense was $73,000 and $59,000, respectively, for the six-month periods ended June 30, 2017 and 2016.

At June 30, 2017, the total unrecognized pre-tax compensation cost related to nonvested stock option awards was $79,000. This amount will be recognized over the next 3.0 years and the weighted average period of recognizing these costs is expected to be 1.7 years. At June 30, 2017, the total unrecognized pre-tax compensation cost related to restricted stock awards was $579,000. This amount will be recognized over the next 4.9 years and the weighted average period of recognizing these costs is expected to be 1.6 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month and six-month periods ended June 30, 2017 and June 30, 2016. A summary of option activity under the Plans as of June 30, 2017 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2017	186,023	$ 12.92	3.7 years	$ 741
Awarded	—	—	—	—
Exercised	(7,095)	8.50	—	—
Expired, forfeited or cancelled	(38,333)	21.70	—	—
Outstanding at June 30, 2017	140,595	$ 10.42	4.2 years	$ 629
Vested at June 30, 2017	111,648	$ 10.73	3.4 years	$ 477
Non-vested at June 30, 2017	28,947	$ 9.24	7.4 years	$ 153

Restricted Stock

There were 9,949 and 24,982 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2017, respectively. There were 11,923 and 29,756 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2016, respectively.

Restricted Stock	Shares	Weighted Average Award Date Fair Value
Nonvested at January 1, 2017	71,824	$ 9.69
Awarded	24,982	14.65
Less: Vested	14,387	9.76
Less: Expired, forfeited or cancelled	2,949	10.01
Nonvested at June 30, 2017	79,474	$ 11.22

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three-month or six-month month periods ended June 30, 2017 or 2016 or outstanding at June 30, 2017 or December 31, 2016.

The intrinsic value used for stock options and restricted stock awards was derived from the market price of the Company's common stock of $14.51 as of June 30, 2017.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately $10,658,000 and standby letters of credit of approximately $191,000 at June 30, 2017 and loan commitments of approximately $19,728,000 and standby letters of credit of approximately $238,000 at December 31, 2016. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2017 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory, insurance programs, performance obligations to government agencies, or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2017 or December 31, 2016.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (6,346,650 and 6,454,864 shares for the three-month and six-month periods ended June 30, 2017 and 6,717,456 and 6,906,620 shares for the three-month and six-month periods ended June 30, 2016). Using the treasury stock method, diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 81,372 and 85,801, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2017 and 28,643 and 26,818, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2016. For the three-month periods ended June 30, 2017 and 2016, there were 32,448 and 105,844 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. For the six-month periods ended June 30, 2017 and 2016, there were 32,448 and 138,549 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

Accounting Standards Codification ("ASC") 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends as a separate class of securities in calculating earnings per share. The Company has granted and expects to continue to grant to directors and employees restricted stock grants that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, the Company is required to include these grants in the calculation of basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company has calculated earnings per share using the two-class method and has determined that there was no difference in earnings per share using the two-class method versus the treasury stock method and therefore the two-class method will not be presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of Available-for-Sale and Held-to-Maturity investment securities at June 30, 2017 and December 31, 2016 consisted of the following (dollars in thousands):

Available-for-Sale

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$227,252	$ 2,078	$ (1,065)	$228,265
Obligations of states and political subdivisions	22,032	664	(171)	22,525
Corporate bonds	6,489	113	(13)	6,589
Equity securities:				
Corporate stock	51	41	—	92
	$255,824	$ 2,896	$ (1,249)	$257,471

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$229,118	$ 2,150	$ (1,483)	$229,785
Obligations of states and political subdivisions	22,436	559	(383)	22,612
Corporate bonds	1,501	18	—	1,519
Equity securities:				
Corporate stock	49	55	—	104
	$253,104	$ 2,782	$ (1,866)	$254,020

Net unrealized gains on available-for-sale investment securities totaling $1,647,000 were recorded, net of $659,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 30, 2017. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended

June 30, 2017 totaled $9,133,000 and $86,000, respectively, and for the six-month period ended June 30, 2017 proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $17,605,000 and $142,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 30, 2017.

Net unrealized gains on available-for-sale investment securities totaling $916,000 were recorded, net of $372,000 in tax liabilities, as accumulated other comprehensive income within shareholders’ equity at December 31, 2016. There were no sales or calls of available-for-sale investment securities for the three-month period ended June 30, 2016, however, there was an impairment loss of one security resulting in the write-down of the remaining balance of $1,000, and for the six-month period ended June 30, 2016 proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $8,287,000 and $281,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 30, 2016.

Held-to-Maturity

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 429	$ 33	$ —	$ 462

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 483	$ 38	$ —	$ 521

There were no sales or transfers of held-to-maturity investment securities for the periods ended June 30, 2017 and June 30, 2016. Investment securities with unrealized losses at June 30, 2017 and December 31, 2016 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

June 30, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Entities	$ 101,497	$ (1,023)	4,817	(42)	$ 106,314	$ (1,065)
Obligations of states and political subdivisions	4,646	(130)	985	(41)	5,631	(171)
Corporate bonds	1,976	(13)			1,976	(13)
	$ 108,119	$ (1,166)	$ 5,802	$ (83)	$ 113,921	$ (1,249)

December 31, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
US Government Agencies and Sponsored Entities	$ 111,870	$ (1,415)	$ 5,010	$ (68)	$ 116,880	$ (1,483)
Obligations of states and political subdivisions	8,319	(383)	—	—	8,319	(383)
	$ 120,189	$ (1,798)	$ 5,010	$ (68)	$ 125,199	$ (1,866)

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2017 or December 31, 2016.

13

At June 30, 2017, the Company held 222 securities of which 67 were in a loss position for less than twelve months and four were in a loss position for twelve months or more. Of the 67 securities in a loss position for less than twelve months, 62 were U.S. Government Agencies and Sponsored Entities securities, four were obligations of states or political subdivisions, and one was a corporate bond and of the four securities that were in a loss position for greater than twelve months, three were U.S. Government Agencies and Sponsored Entities securities and one was an obligation of states or political subdivisions.

At December 31, 2016, the Company held 219 securities of which 70 were in a loss position for less than twelve months and three were in a loss position for twelve months or more. Of the three securities that were in a loss position for greater than twelve months, all were US Government Agencies and Sponsored Entities.

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

The amortized cost and estimated fair values of investment securities at June 30, 2017 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$—	$—		
After one year through five years	4,974	5,026		
After five years through ten years	18,268	18,839		
After ten years	5,279	5,249		
	28,521	29,114		
Investment securities not due at a single maturity date:				
US Government Agencies and Sponsored Entities	227,252	228,265	$ 429	$ 462
Corporate stock	51	92	—	—
	$255,824	$257,471	$ 429	$ 462

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

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

At June 30, 2017 and December 31, 2016, the recorded investment in nonperforming loans and leases was approximately $12,000 and $19,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the original loan agreement. At June 30, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $16,998,000, which includes

$12,000 in nonaccrual loans and leases and $16,986,000 in performing loans and leases. Of the total impaired loans of $16,998,000, loans totaling $9,088,000 were deemed to require no specific reserve and loans totaling $7,910,000 were deemed to require a related valuation allowance of $505,000. At December 31, 2016, the recorded investment in loans and leases that were considered to be impaired totaled $17,297,000 with a related valuation allowance of $421,000.

At June 30, 2017 and December 31, 2016, the balance in other real estate owned ("OREO") was $1,348,000. During the first and second quarters of 2017, the Company did not add any new, impair, or sell any of the OREO properties. The June 30, 2017 OREO balance of $1,348,000 consists of two properties, one of which is commercial real estate in the amount of $386,000 and the other is commercial land in the amount of $962,000.

Nonperforming assets at June 30, 2017 and December 31, 2016 are summarized as follows:

(dollars in thousands)	June 30, 2017		December 31, 2016	
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$ 12		$ 19	
Nonaccrual loans and leases that are past due	—		—	
Loans and leases past due 90 days and accruing interest	—		—	
Other real estate owned	1,348		1,348	
Total nonperforming assets	$ 1,360		$ 1,367	
Nonperforming loans and leases to total loans and leases	0.00	%	0.01	%
Total nonperforming assets to total assets	0.21	%	0.21	%

Impaired loans and leases as of and for the periods ended June 30, 2017 and December 31, 2016 are summarized as follows:

(dollars in thousands)	As of June 30, 2017			As of December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Real estate-commercial	$8,757	$9,337	$ —	$10,910	$11,540	$ —
Real estate-residential	331	417	—	334	421	—
Subtotal	$9,088	$9,754	$ —	$11,244	$11,961	$ —
With an allowance recorded:						
Commercial	$—	$—	$ —	$157	$157	$ 11
Real estate-commercial	4,975	5,064	317	3,244	3,336	246
Real estate-multi-family	478	478	20	482	482	2
Real estate-residential	2,106	2,106	140	1,813	1,813	133
Agriculture	351	351	28	357	357	29
Subtotal	$7,910	$7,999	$ 505	$6,053	$6,145	$ 421
Total:						
Commercial	$—	$—	$ —	$157	$157	$ 11
Real estate-commercial	13,732	14,401	317	14,154	14,876	246
Real estate-multi-family	478	478	20	482	482	2
Real estate-residential	2,437	2,523	140	2,147	2,234	133
Agriculture	351	351	28	357	357	29
	$16,998	$17,753	$ 505	$17,297	$18,106	$ 421

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

	Average Recorded Investments for the three months ended		Average Recorded Investments for the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Commercial	$ 16	$ 80	$ —	$ 100
Real estate-commercial	14,067	16,878	13,732	17,021
Real estate-multi-family	481	491	478	495
Real estate-residential	2,296	2,216	2,437	2,236
Agriculture	357	373	351	378
Consumer	—	76	—	77
Total	$ 17,217	$ 20,114	$ 16,998	$ 20,307

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

	Interest Income Recognized for the three months ended		Interest Income Recognized for the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Commercial	$ —	$ 2	$ 1	$ 3
Real estate-commercial	179	259	356	444
Real estate-multi-family	8	2	16	10
Real estate-residential	37	31	63	52
Agriculture	4	5	9	10
Consumer	—	—	—	—
Total	$ 228	$ 299	$ 445	$ 519

7. TROUBLED DEBT RESTRUCTURINGS

During the three and six-month periods ended June 30, 2017 and 2016, there were no loans that were modified as troubled debt restructurings.

There were no payment defaults on troubled debt restructurings within 12 months following the modification for the three-month and six-month periods ended June 30, 2017 and June 30, 2016. At June 30, 2017 and December 31, 2016, there were no unfunded commitments on those loans considered troubled debt restructures. See also “Impaired Loans and Leases” in Item 2.

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of June 30, 2017 and December 31, 2016 are summarized below:

June 30, 2017 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$24,647	$163,362	$ 66,608	$ 7,479	$ 14,864
Watch	123	24,782	478	2,373	1,463
Special mention	1,267	2,197	3,945	—	720
Substandard	2,719	—	—	—	456
Doubtful	—	—	—	—	—
Total	$28,756	$190,341	$ 71,031	$ 9,852	$ 17,503

	Credit Risk Profile by Internally Assigned Grade			
	Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$ 297	$ 1,762	$ 972	$279,991
Watch	—	351	240	29,810
Special mention	—	—	133	8,262
Substandard	—	—	14	3,189
Doubtful	—	—	—	—
Total	$ 297	$ 2,113	$ 1,359	$321,252

December 31, 2016 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$31,733	$166,769	$ 68,615	$ 6,770	$ 12,773
Watch	157	21,328	4,758	2,410	1,773
Special mention	721	3,032	—	—	710
Substandard	2,763	—	—	—	462
Doubtful or loss	—	—	—	—	—
Total	$35,374	$191,129	$ 73,373	$ 9,180	$ 15,718

	Credit Risk Profile by Internally Assigned Grade			
	Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$ 404	$ 1,945	$ 1,093	$290,102
Watch	—	357	316	31,099
Special mention	—	—	219	4,682

Substandard	—	—	22	3,247
Doubtful or loss	—	—	—	—
Total	$ 404	$ 2,302	$ 1,650	$329,130

17

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

June 30, 2017 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2017	$855	$2,050	$851	$446	$253	$1	$64	$24	$278	$4,822
Provision for loan losses	58	(12)	(62)	11	15	—	(5)	(8)	3	—
Loans charged-off	—	—	—	—	—	—	—	—	—	—
Recoveries	3	53	—	—	—	—	—	3	—	59
Ending balance, June 30, 2017	$916	$2,091	$789	$457	$268	$1	$59	$19	$281	$4,881
Ending balance: Individually evaluated for impairment	$—	$317	$20	$—	$140	$—	$28	$—	$—	$505
Ending balance: Collectively evaluated for impairment	$916	$1,774	$769	$457	$128	$1	$31	$19	$281	$4,376
Loans										
Ending balance	$28,756	$190,341	$71,031	$9,852	$17,503	$297	$2,113	$1,359	$—	$321,252
Ending balance: Individually evaluated for impairment	$—	$13,732	$478	$—	$2,437	$—	$351	$—	$—	$16,998
Ending balance: Collectively evaluated for impairment	$28,756	$176,609	$70,553	$9,852	$15,066	$297	$1,762	$1,359	$—	$304,254
Allowance for Loan and Lease Losses										
Beginning balance, March 31, 2017	$836	$2,107	$836	$479	$232	$1	$62	$21	$259	$4,833
	78	(60)	(47)	(22)	36	—	(3)	(4)	22	—

Provision for loan losses										
Loans charged off	—	—	—	—	—	—	—	—	—	—
Recoveries	2	44	—	—	—	—	—	2	—	48
Ending balance, June 30, 2017	$916	$2,091	$789	$457	$268	$1	$59	$19	$281	$4,881

18

December 31, 2016 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Ending balance: Individually evaluated for impairment	$11	$246	$2	$—	$133	$—	$29	$—	$—	$421
Ending balance: Collectively evaluated for impairment	$844	$1,804	$849	$446	$120	$1	$35	$24	$278	$4,401
Loans										
Ending balance	$35,374	$191,129	$73,373	$9,180	$15,718	$404	$2,302	$1,650	$—	$329,130