EVANS BANCORP INC
Form 10-Q
November 01, 2018

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended September 30, 2018

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

For the transition period from to ______

Commission file number 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 16-1332767 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

One Grimsby Drive, Hamburg, NY 14075

(Address of principal executive offices) (Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed

since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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 | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by checkmark 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 Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.50 par value, 4,830,825 shares as of October 30, 2018

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EVANS BANCORP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(in thousands, except share and per share amounts)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 12,621 | $ 13,751 |
| Interest-bearing deposits at banks | 15,501 | 7,579 |
| Securities: | | |
| Available for sale, at fair value (amortized cost: $141,714 at September 30, 2018; $145,232 at December 31, 2017) | 136,539 | 143,818 |
| Held to maturity, at amortized cost (fair value: $1,338 at September 30, 2018; $5,261 at December 31, 2017) | 1,370 | 5,334 |
| Equity securities, at fair value at September 30, 2018; at cost at December 31, 2017 | - | 580 |
| Federal Home Loan Bank common stock, at cost | 1,475 | 4,863 |
| Federal Reserve Bank common stock, at cost | 1,929 | 1,916 |
| Loans held for sale | 1,283 | - |
| Loans, net of allowance for loan losses of $15,213 at September 30, 2018 and $14,019 at December 31, 2017 | 1,139,070 | 1,051,296 |
| Properties and equipment, net of accumulated depreciation of $19,102 at September 30, 2018 and $18,255 at December 31, 2017 | 10,449 | 10,564 |
| Goodwill and intangible assets | 13,104 | 8,553 |
| Bank-owned life insurance | 28,237 | 27,729 |
| Other assets | 19,345 | 19,650 |
| TOTAL ASSETS | $ 1,380,923 | $ 1,295,633 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Demand | $ 236,079 | $ 219,664 |
| NOW | 110,768 | 109,378 |
| Savings | 574,262 | 535,730 |
| Time | 294,514 | 186,457 |
| Total deposits | 1,215,623 | 1,051,229 |

| | | |
|---|---|---|
| Securities sold under agreement to repurchase | 2,979 | 9,289 |
| Other borrowings | 10,000 | 88,250 |
| Other liabilities | 15,331 | 17,193 |
| Junior subordinated debentures | 11,330 | 11,330 |
| Total liabilities | 1,255,263 | 1,177,291 |
| | | |
| CONTINGENT LIABILITIES AND COMMITMENTS | | |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$.50 par value, 10,000,000 shares authorized; 4,829,577 and 4,783,562 shares issued at September 30, 2018 and December 31, 2017, respectively, and 4,827,701 and 4,782,505 outstanding at September 30, 2018 and December 31, 2017, respectively | 2,417 | 2,394 |
| Capital surplus | 60,422 | 59,444 |
| Treasury stock, at cost, 1,876 and 1,057 shares at September 30, 2018 and December 31, 2017, respectively | - | - |
| Retained earnings | 68,902 | 59,921 |
| Accumulated other comprehensive loss, net of tax | (6,081) | (3,417) |
| Total stockholders' equity | 125,660 | 118,342 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,380,923 | \$ 1,295,633 |

See Notes to Unaudited Consolidated Financial Statements

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PART I - FINANCIAL INFORMATION
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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands, except share and per share amounts)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| INTEREST INCOME | | |
| Loans | $ 13,676 | $ 11,659 |
| Interest-bearing deposits at banks | 63 | 7 |
| Securities: | | |
| Taxable | 805 | 706 |
| Non-taxable | 146 | 202 |
| Total interest income | 14,690 | 12,574 |
| INTEREST EXPENSE | | |
| Deposits | 2,412 | 1,252 |
| Other borrowings | 51 | 116 |
| Junior subordinated debentures | 141 | 111 |
| Total interest expense | 2,604 | 1,479 |
| NET INTEREST INCOME | 12,086 | 11,095 |
| PROVISION FOR LOAN LOSSES | 252 | 161 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 11,834 | 10,934 |
| NON-INTEREST INCOME | | |
| Deposit service charges | 571 | 448 |
| Insurance service and fees | 3,215 | 2,169 |
| Loss on sale of equity securities | (98) | - |
| Gain on loans sold | 6 | 61 |
| Bank-owned life insurance | 165 | 128 |
| Loss on tax credit investment | (165) | (1,338) |
| Refundable state historic tax credit | 150 | 972 |
| Interchange fee income | 413 | 379 |
| Other | 507 | 546 |
| Total non-interest income | 4,764 | 3,365 |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | 7,090 | 6,271 |
| Occupancy | 795 | 805 |
| Advertising and public relations | 258 | 311 |
| Professional services | 588 | 514 |
| Technology and communications | 874 | 730 |
| Amortization of intangibles | 112 | 28 |
| FDIC insurance | 295 | 195 |

| | | |
|---|---|---|
| Other | 1,445 | 982 |
| Total non-interest expense | 11,457 | 9,836 |
| INCOME BEFORE INCOME TAXES | 5,141 | 4,463 |
| INCOME TAX PROVISION | 346 | 740 |
| NET INCOME | $ 4,795 | $ 3,723 |
| | | |
| Net income per common share-basic | $ 0.99 | $ 0.78 |
| Net income per common share-diluted | $ 0.97 | $ 0.76 |
| Cash dividends per common share | $ 0.46 | $ 0.40 |
| Weighted average number of common shares outstanding | 4,824,318 | 4,774,602 |
| Weighted average number of diluted shares outstanding | 4,940,822 | 4,896,967 |

See Notes to Unaudited Consolidated Financial Statements

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NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands, except share and per share amounts)

| | Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| INTEREST INCOME | | |
| Loans | $ 39,238 | $ 32,551 |
| Interest-bearing deposits at banks | 88 | 62 |
| Securities: | | |
| Taxable | 2,465 | 1,705 |
| Non-taxable | 512 | 636 |
| Total interest income | 42,303 | 34,954 |
| INTEREST EXPENSE | | |
| Deposits | 5,669 | 3,558 |
| Other borrowings | 509 | 224 |
| Junior subordinated debentures | 391 | 315 |
| Total interest expense | 6,569 | 4,097 |
| NET INTEREST INCOME | 35,734 | 30,857 |
| PROVISION FOR LOAN LOSSES | 1,678 | 136 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 34,056 | 30,721 |
| NON-INTEREST INCOME | | |
| Deposit service charges | 1,605 | 1,266 |
| Insurance service and fees | 7,132 | 6,249 |
| Loss on sale of equity securities | (98) | - |
| Gain on loans sold | 6 | 131 |
| Bank-owned life insurance | 514 | 400 |
| Loss on tax credit investment | (165) | (2,257) |
| Refundable state historic tax credit | 150 | 1,619 |
| Interchange fee income | 1,325 | 1,102 |
| Other | 1,720 | 1,466 |
| Total non-interest income | 12,189 | 9,976 |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | 20,192 | 17,876 |
| Occupancy | 2,280 | 2,355 |
| Advertising and public relations | 708 | 717 |
| Professional services | 1,867 | 1,666 |
| Technology and communications | 2,485 | 2,141 |
| Amortization of intangibles | 168 | 84 |
| FDIC insurance | 773 | 551 |

| | | |
|---|---|---|
| Other | 3,388 | 2,818 |
| Total non-interest expense | 31,861 | 28,208 |
| INCOME BEFORE INCOME TAXES | 14,384 | 12,489 |
| INCOME TAX PROVISION | 2,479 | 3,002 |
| NET INCOME | $ 11,905 | $ 9,487 |
| | | |
| Net income per common share-basic | $ 2.48 | $ 2.01 |
| Net income per common share-diluted | $ 2.41 | $ 1.96 |
| Cash dividends per common share | $ 0.92 | $ 0.80 |
| Weighted average number of common shares outstanding | 4,807,684 | 4,724,774 |
| Weighted average number of diluted shares outstanding | 4,933,485 | 4,845,664 |

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands)

| | Three Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| NET INCOME | $ 4,795 | $ 3,723 |
| OTHER COMPREHENSIVE LOSS, NET OF TAX: | | |
| Unrealized (loss) gain on available-for-sale securities | (738) | (112) |
| Defined benefit pension plans: | | |
| Amortization of prior service cost | 7 | 4 |
| Amortization of actuarial loss | 33 | 28 |
| Total | 40 | 32 |
| OTHER COMPREHENSIVE LOSS, NET OF TAX | (698) | (80) |
| COMPREHENSIVE INCOME | $ 4,097 | $ 3,643 |

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| NET INCOME | $ 11,905 | $ 9,487 |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX: | | |
| Unrealized (loss) gain on available-for-sale securities | (2,782) | 78 |

| | | |
|---|---|---|
| Defined benefit pension plans: | | |
| Amortization of prior service cost | 18 | 19 |
| Amortization of actuarial loss | 100 | 107 |
| Total | 118 | 126 |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX | (2,664) | 204 |
| COMPREHENSIVE INCOME | $ 9,241 | $ 9,691 |

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands, except share and per share amounts)

| | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ 2,153 | $ 44,389 | $ 52,630 | $ (2,424) | $ - | $ 96,748 |
| Net Income | | | 9,487 | | | 9,487 |
| Other comprehensive income | | | | 204 | | 204 |
| Cash dividends ($0.80 per common share) | | | (3,813) | | | (3,813) |
| Stock compensation expense | | 462 | | | | 462 |
| Reissued 741 restricted shares | | | | | | - |
| Issued 440,000 shares in stock offering | 220 | 13,922 | | | | 14,142 |
| Issued 13,936 restricted shares, net of forfeitures | 9 | (9) | | | | - |
| Issued 3,253 shares under Dividend Reinvestment Plan | 2 | 124 | | | | 126 |
| Issued 3,713 shares in Employee Stock Purchase Plan | 2 | 124 | | | | 126 |
| Issued 10,001 shares in stock option exercises | 5 | 140 | | | | 145 |
| Repurchased 9,218 shares in treasury stock | | | | | (342) | (342) |
| Reissued 13,300 shares in stock option exercises | | (135) | | | 342 | 207 |
| Balance, September 30, 2017 | $ 2,391 | $ 59,017 | $ 58,304 | $ (2,220) | $ - | $ 117,492 |
| | | | | | | |
| Balance, December 31, 2017 | $ 2,394 | $ 59,444 | $ 59,921 | $ (3,417) | $ - | $ 118,342 |
| Cumulative-effect adjustment due to change in accounting principle (See Note 1) | | | 1,496 | | | 1,496 |
| Net Income | | | 11,905 | | | 11,905 |
| Other comprehensive income | | | | (2,664) | | (2,664) |
| Cash dividends ($0.92 per common share) | | | (4,420) | | | (4,420) |
| Stock compensation expense | | 597 | | | | 597 |
| Reissued 1,057 restricted shares | | | | | | - |
| | 8 | (8) | | | | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Issued 14,940 restricted shares, net of forfeitures | | | | | | |
| Issued 3,205 shares under Dividend Reinvestment Plan | 2 | 142 | | | | 144 |
| Issued 3,898 shares in Employee Stock Purchase Plan | 2 | 151 | | | | 153 |
| Issued 22,096 shares in stock option exercises | 11 | 96 | | | | 107 |
| Balance, September 30, 2018 | $ 2,417 | $ 60,422 | $ 68,902 | $ (6,081) | $ - | $ 125,660 |

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ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands)

| | Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Interest received | $ 42,157 | $ 34,568 |
| Fees received | 10,897 | 10,095 |
| Interest paid | (6,221) | (4,062) |
| Cash paid to employees and vendors | (30,188) | (27,256) |
| Cash contributed to pension plan | - | (1,000) |
| Income taxes refund (paid) | 475 | (1,733) |
| Proceeds from sale of loans held for resale | 409 | 9,793 |
| Originations of loans held for resale | (1,686) | (9,483) |
| Net cash provided by operating activities | 15,843 | 10,922 |
| INVESTING ACTIVITIES: | | |
| Available for sales securities: | | |
| Purchases | (47,863) | (65,889) |
| Proceeds from maturities, calls, and payments | 54,476 | 12,041 |
| Held to maturity securities: | | |
| Purchases | (156) | (3,355) |
| Proceeds from maturities, calls, and payments | 4,120 | 851 |
| Cash paid for bank-owned life insurance | - | (1,300) |
| Proceeds from bank-owned life insurance claims | 675 | - |
| Additions to properties and equipment | (757) | (358) |
| Proceeds from equity securities sales | 1,960 | - |
| Purchase of tax credit investment | (3,877) | (2,380) |
| Insurance agency acquisitions | (5,000) | (275) |
| Net increase in loans | (90,665) | (54,724) |
| Net cash used in investing activities | (87,087) | (115,389) |
| FINANCING ACTIVITIES: | | |
| (Repayments) proceeds of short-term borrowings, net | (84,560) | 4,621 |
| Net increase in deposits | 164,394 | 92,345 |
| Dividends paid | (2,202) | (1,902) |
| Repurchase of treasury stock | - | (342) |
| Issuance of common stock | 404 | 14,509 |
| Reissuance of treasury stock | - | 207 |

| | | |
|---|---|---|
| Net cash provided by financing activities | 78,036 | 109,438 |
| Net increase in cash and cash equivalents | 6,792 | 4,971 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 21,330 | 13,084 |
| End of period | $ 28,122 | $ 18,055 |

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income | $ 11,905 | $ 9,487 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,352 | 1,333 |
| Deferred tax expense | 414 | 830 |
| Provision for loan losses | 1,678 | 136 |
| Loss on tax credit investment | 165 | 2,257 |
| Refundable state historic tax credit received (accrued) | 2,101 | (1,619) |
| Loss on sales of equity securities | 98 | - |
| Gain on loans sold | (6) | (131) |
| Change in fair value of equity securities | (245) | - |
| Stock compensation expense | 597 | 462 |
| Proceeds from sale of loans held for resale | 409 | 9,793 |
| Originations of loans held for resale | (1,686) | (9,483) |
| Cash contributed to pension plan | - | (1,000) |
| Changes in assets and liabilities affecting cash flow: | | |
| Other assets | (3,262) | (1,944) |
| Other liabilities | 2,323 | 801 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 15,843 | $ 10,922 |

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PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the "Company"), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the "Bank"), and the Bank's subsidiaries, Evans National Leasing, Inc. ("ENL"), and Evans National Holding Corp. ("ENHC"); and (ii) Evans National Financial Services, LLC ("ENFS"), and ENFS's subsidiary, The Evans Agency, LLC ("TEA"), and TEA's subsidiaries, Frontier Claims Services, Inc. ("FCS") and ENB Associates Inc. ("ENBA"), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles ("GAAP") and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the "Company."

The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017 ("10-K"). The Company's significant accounting policies are disclosed in Note 1 to the 10-K.

The Company adopted multiple accounting standards as of January 1, 2018 that impacted its consolidated financial statements. The impact on the Company's equity as depicted in the Statement of Changes in Stockholders' Equity is as follows:

| | | As of January 1, 2018 |
|---|---|---|
| Impact of adoption of ASU 2014-09: | | |
| Increase in accounts receivable | 551 | |
| Tax effect | (142) | |
| Total | | 409 |

| | | |
|---|---|---|
| Impact of adoption of ASU 2016-01 | | |
| Increase in fair value of equity securities | 1,234 | |
| Tax effect | (147) | |
| Total | | 1,087 |
| | | |
| Total cumulative-effect adjustment due to change in accounting principles | | 1,496 |

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"), which creates a single framework for recognizing revenue from contracts with customers that fall within its scope. The Company used the modified retrospective method with a cumulative-effect adjustment to retained earnings. The Company's implementation efforts included the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts. The majority of the Company's revenues come from interest income on loans and securities that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include insurance services fees, deposit service charges, and interchange income. Further detail on the Company's performance obligations and revenue recognition for these revenue streams is provided in Note 11 to these Unaudited Consolidated Financial Statements.

The Company did identify one revenue source, variable profit-sharing revenue for TEA, which will be accounted for differently in 2018 and beyond. Profit-sharing revenue is variable consideration that TEA earns based on the loss ratio of its customers at insurance companies. TEA typically receives payment in the year following the year in which the profit-sharing revenue is earned, with most payments received in the first quarter. Prior to January 1, 2018, the Company recognized profit-sharing revenue when the payment was received. Beginning with the results reported for periods in 2018 included in these financial statements, the Company will estimate this variable consideration based on past performance and loss experience known during the year and make subsequent adjustments to revenue when the uncertainty associated with the variable revenue is resolved. As of January 1, 2018, the Company recorded accounts

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receivable of $551 thousand and the tax effect of $142 thousand through a cumulative-effect adjustment to beginning retained earnings, representing the profit sharing revenue earned in 2017 and expected to be received in 2018.

The Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities and ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities on January 1, 2018 with a cumulative-effect adjustment to retained earnings. This ASU requires equity securities to be measured at fair value with changes in the fair value recognized through net income. As of December 31, 2017, the Company had an investment in the equity securities of another financial institution valued at the historical cost of $0.6 million. The Company used the cost method of accounting because its ownership of the financial institution was less than 5% of the outstanding shares. With the adoption of ASU 2016-01, the cost method is no longer an acceptable accounting principle. On January 1, 2018 the Company recorded an increase in the value of the investment of $1.2 million based on observable prices obtained from orderly transactions between market participants through opening retained earnings. While the financial institution is not publicly traded on a major stock exchange and is fairly illiquid, there is transaction activity that can be used by the Company to determine the fair value. The Company recognized an increase in fair value of $0.2 million for the six-month period ended June 30, 2018 based on observable prices obtained from the latest orderly transactions, with the increase being recorded in earnings. During the three-month period ended September 30, 2018, the Company sold its entire equity interest in this entity and recorded a loss of $0.1 million on the sale.

ASU 2016-01 also contains other provisions impacting the Company's disclosures, including using the exit price notion when measuring the fair value of financial instruments for disclosure purposes and eliminating the requirement for public business entities to disclose the methods and significant assumptions to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Further details regarding the Company's fair value measurements and corresponding disclosures are provided in Note 3 to these Unaudited Consolidated Financial Statements.

The Company adopted ASU 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost effective January 1, 2018. The update requires that an employer report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost such as interest cost, expected return on plan assets, gain or loss, and amortization of prior service cost are required to be presented in the income statement separately from the service cost component. If a separate line item is used to present the other components of net benefit cost, that line item must be appropriately described. Prior to adoption of this update, the Company presented all components of net periodic pension cost in its "salaries and benefits expense" on its income statement. The Company is presenting its income statement for the three and nine-month periods ended September 30, 2018 and 2017 with service cost as part of the "salaries and benefits expense" and the other components in "other expense." Further details regarding the Company's net periodic pension cost are provided in Note 9 to these Unaudited Consolidated Financial Statements.

ASU 2016-15 Classification of Certain Cash Receipts and Cash Payments: This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows. The update had no impact on how the Company was already reporting or presenting its statement of cash flows.

ASU 2016-18 Restricted Cash: This update requires that a statement of cash flows explains the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. Previous to the update, there had been some diversity in practice. Given that the Company had already classified restricted cash such as cash reserves at the Federal Reserve as part of cash and cash equivalents on the cash flow statement, the update had no impact on how the Company was already reporting and presenting its statement of cash flows.

ASU 2017-01 Clarifying the Definition of a Business: This update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation.

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2. SECURITIES

The amortized cost of securities and their approximate fair value at September 30, 2018 and December 31, 2017 were as follows:

| | September 30, 2018 (in thousands) | | | |
|---|---|---|---|---|
| | Amortized | Unrealized | | Fair |
| | Cost | Gains | Losses | Value |
| Available for Sale: | | | | |
| Debt securities: | | | | |
| U.S. government agencies | $ 36,640 | $ - | $ (1,359) | $ 35,281 |
| States and political subdivisions | 22,665 | 53 | (136) | 22,582 |
| Total debt securities | $ 59,305 | $ 53 | $ (1,495) | $ 57,863 |
| | | | | |
| Mortgage-backed securities: | | | | |
| FNMA | $ 30,417 | $ 20 | $ (1,273) | $ 29,164 |
| FHLMC | 15,119 | 11 | (636) | 14,494 |
| GNMA | 1,721 | 5 | (48) | 1,678 |
| SBA | 9,432 | - | (416) | 9,016 |
| CMO | 25,720 | - | (1,396) | 24,324 |
| Total mortgage-backed securities | $ 82,409 | $ 36 | $ (3,769) | $ 78,676 |
| | | | | |
| Total securities designated as available for sale | $ 141,714 | $ 89 | $ (5,264) | $ 136,539 |
| | | | | |
| Held to Maturity: | | | | |
| Debt securities | | | | |
| States and political subdivisions | $ 1,370 | $ 5 | $ (37) | $ 1,338 |
| | | | | |
| Total securities designated as held to maturity | $ 1,370 | $ 5 | $ (37) | $ 1,338 |

| | December 31, 2017 (in thousands) | | | |
|---|---|---|---|---|
| | Amortized | Unrealized | | Fair |
| | Cost | Gains | Losses | Value |

| | | | | |
|---|---|---|---|---|
| Available for Sale: | | | | |
| Debt securities: | | | | |
| U.S. government agencies | $ 28,407 | $ 22 | $ (376) | $ 28,053 |
| States and political subdivisions | 29,169 | 246 | (42) | 29,373 |
| Total debt securities | $ 57,576 | $ 268 | $ (418) | $ 57,426 |
| | | | | |
| Mortgage-backed securities: | | | | |
| FNMA | $ 31,835 | $ 69 | $ (350) | $ 31,554 |
| FHLMC | 14,708 | 22 | (190) | 14,540 |
| GNMA | 2,105 | 18 | (21) | 2,102 |
| SBA | 10,309 | 9 | (103) | 10,215 |
| CMO | 28,699 | 26 | (744) | 27,981 |
| Total mortgage-backed securities | $ 87,656 | $ 144 | $ (1,408) | $ 86,392 |
| | | | | |
| Total securities designated as available for sale | $ 145,232 | $ 412 | $ (1,826) | $ 143,818 |
| | | | | |
| Held to Maturity: | | | | |
| Debt securities | | | | |
| States and political subdivisions | $ 5,334 | $ 1 | $ (74) | $ 5,261 |
| | | | | |
| Total securities designated as held to maturity | $ 5,334 | $ 1 | $ (74) | $ 5,261 |

Available for sale securities with a total fair value of $124 million and $138 million at September 30, 2018 and December 31, 2017, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

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The scheduled maturities of debt and mortgage-backed securities at September 30, 2018 and December 31, 2017 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| | (in thousands) | | (in thousands) | |
| Debt securities available for sale: | | | | |
| Due in one year or less | $ 7,181 | $ 7,178 | $ 5,974 | $ 5,990 |
| Due after one year through five years | 22,911 | 22,580 | 24,063 | 24,068 |
| Due after five years through ten years | 29,029 | 27,918 | 25,584 | 25,385 |
| Due after ten years | 184 | 187 | 1,955 | 1,983 |
| | 59,305 | 57,863 | 57,576 | 57,426 |
| Mortgage-backed securities available for sale | 82,409 | 78,676 | 87,656 | 86,392 |
| Total available for sale securities | $ 141,714 | $ 136,539 | $ 145,232 | $ 143,818 |
| Debt securities held to maturity: | | | | |
| Due in one year or less | $ 267 | $ 267 | $ 4,077 | $ 4,053 |
| Due after one year through five years | 846 | 830 | 690 | 661 |
| Due after five years through ten years | 169 | 163 | 473 | 464 |
| Due after ten years | 88 | 78 | 94 | 83 |
| | 1,370 | 1,338 | 5,334 | 5,261 |
| Total held to maturity securities | $ 1,370 | $ 1,338 | $ 5,334 | $ 5,261 |

Contractual maturities of the Company’s mortgage-backed securities generally exceed ten years; however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities.

Information regarding unrealized losses within the Company’s available for sale securities at September 30, 2018 and December 31, 2017 is summarized below. The securities are primarily U.S. government-guaranteed agency securities or municipal securities.

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| | September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Available for Sale: | | | | | | |
| Debt securities: | | | | | | |
| U.S. government agencies | $ 14,013 | $ (324) | $ 19,268 | $ (1,035) | $ 33,281 | $ (1,359) |
| States and political subdivisions | 14,178 | (103) | 1,438 | (33) | 15,616 | (136) |
| Total debt securities | $ 28,191 | $ (427) | $ 20,706 | $ (1,068) | $ 48,897 | $ (1,495) |
| | | | | | | |
| Mortgage-backed securities: | | | | | | |
| FNMA | $ 7,914 | $ (240) | $ 20,484 | $ (1,033) | $ 28,398 | $ (1,273) |
| FHLMC | 3,592 | (130) | 10,435 | (506) | 14,027 | (636) |
| GNMA | - | - | 929 | (48) | 929 | (48) |
| SBA | 3,432 | (125) | 5,584 | (291) | 9,016 | (416) |
| CMO | 2,215 | (63) | 22,109 | (1,333) | 24,324 | (1,396) |
| Total mortgage-backed securities | $ 17,153 | $ (558) | $ 59,541 | $ (3,211) | $ 76,694 | $ (3,769) |
| | | | | | | |
| Held to Maturity: | | | | | | |
| Debt securities: | | | | | | |
| States and political subdivisions | $ 559 | $ (7) | $ 489 | $ (30) | $ 1,048 | $ (37) |
| | | | | | | |
| Total temporarily impaired securities | $ 45,903 | $ (992) | $ 80,736 | $ (4,309) | $ 126,639 | $ (5,301) |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Available for Sale: | | | | | | |
| Debt securities: | | | | | | |
| U.S. government agencies | $ 15,151 | $ (239) | $ 6,863 | $ (137) | $ 22,014 | $ (376) |
| States and political subdivisions | 7,288 | (28) | 894 | (14) | 8,182 | (42) |
| Total debt securities | $ 22,439 | $ (267) | $ 7,757 | $ (151) | $ 30,196 | $ (418) |
| | | | | | | |
| Mortgage-backed securities: | | | | | | |
| FNMA | $ 20,087 | $ (207) | $ 6,517 | $ (143) | $ 26,604 | $ (350) |
| FHLMC | 12,984 | (147) | 960 | (43) | 13,944 | (190) |
| GNMA | - | - | 1,212 | (21) | 1,212 | (21) |
| SBA | 4,516 | (43) | 1,769 | (60) | 6,285 | (103) |
| CMO | 11,023 | (216) | 14,753 | (528) | 25,776 | (744) |
| Total mortgage-backed securities | $ 48,610 | $ (613) | $ 25,211 | $ (795) | $ 73,821 | $ (1,408) |
| | | | | | | |
| Held to Maturity: | | | | | | |
| Debt securities: | | | | | | |
| States and political subdivisions | $ 4,548 | $ (37) | $ 626 | $ (37) | $ 5,174 | $ (74) |
| | | | | | | |
| Total temporarily impaired securities | $ 75,597 | $ (917) | $ 33,594 | $ (983) | $ 109,191 | $ (1,900) |

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Management has assessed the securities available for sale in an unrealized loss position at September 30, 2018 and December 31, 2017 and determined the decline in fair value below amortized cost to be temporary.  In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises).  In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost.  Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company has not recorded any other-than-temporary impairment ("OTTI") charges as of September 30, 2018 and did not record any OTTI charges during 2017.  The credit worthiness of the Company's portfolio is largely reliant on the ability of U.S. government sponsored agencies such as Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations.  In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio.  The stable past performance is not a guarantee for similar performance of the Company's securities portfolio in future periods.

## 3.  FAIR VALUE MEASUREMENT

Fair value is defined in ASC Topic 820 "Fair Value Measurement" as 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.

There are three levels of inputs to fair value measurement:

- Level 1 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, respectively:

| (in thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| September 30, 2018 | | | | |
| Securities available-for-sale: | | | | |
| US government agencies | $ - | $ 35,281 | $ - | $ 35,281 |
| States and political subdivisions | - | 22,582 | - | 22,582 |
| Mortgage-backed securities | - | 78,676 | - | 78,676 |
| Mortgage servicing rights | - | - | 642 | 642 |
| December 31, 2017 | | | | |
| Securities available-for-sale: | | | | |
| US government agencies | $ - | $ 28,053 | $ - | $ 28,053 |
| States and political subdivisions | - | 29,373 | - | 29,373 |
| Mortgage-backed securities | - | 86,392 | - | 86,392 |
| Mortgage servicing rights | - | - | 586 | 586 |

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Securities available for sale

Fair values for securities are determined using independent pricing services and market-participating brokers.  The Company's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data.  Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.  In addition, model processes, such as the Option Adjusted Spread model, are used to assess interest rate impact and develop prepayment scenarios.  The models and the process take into account market convention.  For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.  The Company's service provider may occasionally determine that it does not have sufficient verifiable information to value a particular security.  In these cases the Company will utilize valuations from another pricing service.

Management believes that it has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control.  On a quarterly basis, the Company reviews changes in the market value of its security portfolio.  Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities.  Additionally, on an annual basis, the Company has its entire security portfolio priced by a second pricing service to determine consistency with another market evaluator.  If, during the Company's review or when comparing with another servicer, a material difference between pricing evaluations were to exist, the Company would submit an inquiry to the service provider regarding the data used to value a particular security.  If the Company determines it has market information that would support a different valuation than the initial evaluation it can submit a challenge for a change to that security's valuation.

Securities available for sale are classified as Level 2 in the fair value hierarchy as the valuation provided by the third-party provider uses observable market data.

Equity securities

At December 31, 2017 the Company held equity securities in another financial institution.  Since the ownership level was less than 5% of the outstanding shares of that financial institution, the investment was recorded on the Company's balance sheet at historical cost, under the cost method of accounting.  As noted in Note 1 to the Unaudited Consolidated Financial Statements, on January 1, 2018, the Company adopted ASU 2016-01, which resulted in the Company adopting an accounting policy to mark the investment to its fair value with a cumulative-effect adjustment to retained earnings.  As of the end of each reporting period presented after January 1, 2018, equity securities will be presented at fair value, with changes in fair value during the period being recorded in the income statement.

The equity securities of the financial institution are classified as Level 3 in the fair value hierarchy because the primary inputs in measuring the fair value are unobservable to the public. The shares of the institution are not publicly traded on a major stock exchange, but rather through private sales between shareholders. Trading in the securities is fairly limited as the institution’s total trading volume for 2017 was approximately 1% of the outstanding common shares. Trading activity in the first nine months of 2018 was at a similar low volume. The institution tracks the sales and the Company obtained the sales information from the institution to calculate the fair value of the equity securities as of the end of the reporting period. The fair value recorded in the Company’s financial statements is based on observable prices obtained from the latest orderly transactions in the quarter.

Due to the adoption of ASU 2016-01 and the designation of the financial institution’s equity securities as Level 3 on the fair value hierarchy, there was a transfer into Level 3 for the institution’s equity securities during the first quarter of 2018. The Company sold its entire equity interest in this financial institution during the third quarter of 2018.

| | Three months ended September 30, | |
|---|---|---|
| (in thousands) | 2018 | 2017 |
| Equity securities - July 1 | $ 2,058 | $ 580 |
| Loss on sale of equity securities | (98) | - |
| Proceeds from equity securities sales | 1,960 | - |
| Equity securities - September 30 | $ - | $ 580 |

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| (in thousands) | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| Equity securities - December 31 | $ 580 | $ 580 |
| Increase in recorded value due to adoption of ASU 2016-01 through beginning retained earnings | 1,234 | - |
| Fair value change included in earnings | 244 | - |
| Loss on sale of equity securities | (98) | - |
| Proceeds from equity securities sales | 1,960 | - |
| Equity securities - September 30 | $ - | $ 580 |

Mortgage servicing rights

Mortgage servicing rights ("MSRs") do not trade in an active, open market with readily observable prices. Accordingly, the Company obtains the fair value of the MSRs using a third-party pricing provider. The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio. The valuation model used by the provider considers market loan prepayment predictions and other economic factors which management considers to be significant unobservable inputs. The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease. Management has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of MSRs to enable management to maintain an appropriate system of internal control. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

The following table summarizes the changes in fair value for mortgage servicing rights during the three and nine month periods ended September 30, 2018 and 2017, respectively:

| (in thousands) | Three months ended September 30, 2018 | 2017 |
|---|---|---|
| Mortgage servicing rights - July 1 | $ 635 | $ 555 |
| Gains/(Losses) included in earnings | 3 | (25) |
| Additions from loan sales | 4 | 41 |
| Mortgage servicing rights - September 30 | $ 642 | $ 571 |

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| (in thousands) | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| Mortgage servicing rights - January 1 | $ 586 | $ 527 |
| Gains/(Losses) included in earnings | 52 | (46) |
| Additions from loan sales | 4 | 90 |
| Mortgage servicing rights - September 30 | $ 642 | $ 571 |

Quantitative information about the significant unobservable inputs used in the fair value measurement of MSRs at the respective dates is as follows:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Servicing fees | 0.25 % | 0.25 % |
| Discount rate | 9.00 % | 9.50 % |
| Prepayment rate (CPR) | 7.10 % | 10.56 % |

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis at September 30, 2018 and December 31, 2017:

| (in thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| September 30, 2018 | | | | |
| Collateral dependent impaired loans | $ - | $ - | $ 24,290 | $ 24,290 |
| December 31, 2017 | | | | |
| Collateral dependent impaired loans | $ - | $ - | $ 14,464 | $ 14,464 |

Collateral dependent impaired loans

The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a special mention or a substandard depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are graded substandard or worse on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Impaired loans had a gross value of $25.5 million, with an allowance for loan loss of $1.2 million, at September 30, 2018 compared with $15.5 million and $1.1 million, respectively, at December 31, 2017.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

With the adoption of ASU 2016-01, the Company is no longer required to disclose the methods and significant assumptions used in estimating the fair value of financial instruments measured at amortized cost on the balance sheet. The amendments in the ASU also require the Company to measure the fair value of financial instruments using the exit price notion consistent with ASC Topic 820, Fair Value Measurement. Prior to adoption on January 1, 2018, loans were calculated using an entry price notion.

The table below depicts the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | (in thousands) | |
| Financial assets: | | | | |
| Level 1: | | | | |
| Cash and cash equivalents | $ 28,122 | $ 28,122 | $ 21,330 | $ 21,330 |
| Level 2: | | | | |
| Available for sale securities | 136,539 | 136,539 | 143,818 | 143,818 |
| FHLB and FRB stock | 3,404 | 3,404 | 6,779 | 6,779 |
| Level 3: | | | | |
| Equity securities | - | - | 580 | 1,814 |
| Held to maturity securities | 1,370 | 1,338 | 5,334 | 5,261 |
| Loans, net | 1,140,353 | 1,123,794 | 1,051,296 | 1,047,967 |
| Mortgage servicing rights | 642 | 642 | 586 | 586 |
| | | | | |
| Financial liabilities: | | | | |
| Level 1: | | | | |
| Demand deposits | $ 236,079 | $ 236,079 | $ 219,664 | $ 219,664 |
| NOW deposits | 110,768 | 110,768 | 109,378 | 109,378 |
| Savings deposits | 574,262 | 574,262 | 535,730 | 535,730 |
| Level 2: | | | | |
| Securities sold under agreement to | | | | |

| | | | | |
|---|---|---|---|---|
| repurchase | 2,979 | 2,979 | 9,289 | 9,289 |
| Other borrowed funds | 10,000 | 9,804 | 88,250 | 88,132 |
| Junior subordinated debentures | 11,330 | 11,330 | 11,330 | 11,330 |
| Level 3: | | | | |
| Time deposits | 294,514 | 292,738 | 186,457 | 187,782 |

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## 4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

### Loan Portfolio Composition

The following table presents selected information on the composition of the Company's loan portfolio as of the dates indicated:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Mortgage loans on real estate: | (in thousands) | |
| Residential mortgages | $ 156,701 | $ 131,208 |
| Commercial and multi-family | 575,195 | 519,902 |
| Construction-Residential | 48 | 2,134 |
| Construction-Commercial | 103,386 | 107,274 |
| Home equities | 70,113 | 69,745 |
| Total real estate loans | 905,443 | 830,263 |
| | | |
| Commercial and industrial loans | 247,141 | 232,211 |
| Consumer and other loans | 1,391 | 1,654 |
| Net deferred loan origination costs | 1,591 | 1,187 |
| Total gross loans | 1,155,566 | 1,065,315 |
| | | |
| Allowance for loan losses | (15,213) | (14,019) |
| | | |
| Loans, net | $ 1,140,353 | $ 1,051,296 |

The Bank sells certain fixed rate residential mortgages to FNMA while maintaining the servicing rights for those mortgages. In the three month and nine month periods ended September 30, 2018, the Bank sold mortgages to FNMA totaling $0.4 million, compared with $4.4 million and $9.7 million mortgages sold during the three month and nine month periods ended September 30, 2017, respectively. At September 30, 2018, the Bank had a loan servicing portfolio principal balance of $72 million upon which it earned servicing fees, compared with $78 million at December 31, 2017. The value of the mortgage servicing rights for that portfolio was $0.6 million at each of the periods September 30, 2018 and December 31, 2017. At September 30, 2018 there were $1.3 million in residential mortgages held for sale. No loans were held for sale at December 31, 2017. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud.

As noted in Note 1, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. Disclosures related to the basis for accounting for loans, the method for recognizing interest income on loans, the policy for placing loans on nonaccrual status and the subsequent recording of payments and resuming accrual of interest, the policy for determining past due status, a description of the Company's accounting policies and methodology used to estimate the allowance for loan losses, the policy for charging-off loans, the accounting policies for impaired loans, and more descriptive information on the Company's credit risk ratings are all contained in the Notes to the Audited Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Unless otherwise noted in this Form 10-Q, the policies and methodology described in the Annual Report for the year ended December 31, 2017 are consistent with those utilized by the Company in the three and nine month periods ended September 30, 2018.

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Credit Quality Indicators

The Bank monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for its commercial mortgage and commercial and industrial ("C&I") portfolios is the individual loan's credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for loan losses:

- Acceptable or better
- Watch
- Special Mention
- Substandard
- Doubtful
- Loss

The Company's consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company's loan review process. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

The following tables provide data, at the class level, of credit quality indicators of certain loans for the dates specified:

September 30, 2018
(in thousands)

| Corporate Credit Exposure – By Credit Rating | Commercial Real Estate Construction | Commercial and Multi-Family Mortgages | Total Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|---|
| Acceptable or better | $ 56,295 | $ 457,897 | $ 514,192 | $ 183,500 |
| Watch | 38,323 | 97,470 | 135,793 | 48,717 |
| Special Mention | - | 10,790 | 10,790 | 10,831 |
| Substandard | 8,768 | 9,038 | 17,806 | 3,402 |

| | | | | |
|---|---|---|---|---|
| Doubtful/Loss | - | - | - | 691 |
| Total | $ 103,386 | $ 575,195 | $ 678,581 | $ 247,141 |

December 31, 2017
(in thousands)

| Corporate Credit Exposure – By Credit Rating | Commercial Real Estate Construction | Commercial and Multi-Family Mortgages | Total Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|---|
| Acceptable or better | $ 83,203 | $ 418,819 | $ 502,022 | $ 158,181 |
| Watch | 24,071 | 87,746 | 111,817 | 57,827 |
| Special Mention | - | 4,106 | 4,106 | 13,247 |
| Substandard | - | 9,231 | 9,231 | 2,134 |
| Doubtful/Loss | - | - | - | 822 |
| Total | $ 107,274 | $ 519,902 | $ 627,176 | $ 232,211 |

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Past Due Loans

The following tables provide an analysis of the age of the recorded investment in loans that are past due as of the dates indicated:

September 30, 2018
(in thousands)

| | Current Balance | 30-59 days | 60-89 days | 90+ days | Non-accruing Loans | Total Balance |
|---|---|---|---|---|---|---|
| Commercial and industrial | $ 241,462 | $ 2,136 | $ 1,080 | $ 12 | $ 2,451 | $ 247,141 |
| Residential real estate: | | | | | | |
| Residential | 154,874 | 500 | - | - | 1,327 | 156,701 |
| Construction | 48 | - | - | - | - | 48 |
| Commercial real estate: | | | | | | |
| Commercial | 565,525 | 399 | - | 513 | 8,758 | 575,195 |
| Construction | 94,480 | - | 138 | - | 8,768 | 103,386 |
| Home equities | 68,562 | 177 | 113 | - | 1,261 | 70,113 |
| Consumer and other | 1,389 | 1 | 1 | - | - | 1,391 |
| Total Loans | $ 1,126,340 | $ 3,213 | $ 1,332 | $ 525 | $ 22,565 | $ 1,153,975 |

Note: Loan balances do not include $1.6 million in net deferred loan origination costs as of September 30, 2018.

December 31, 2017
(in thousands)

| | Current Balance | 30-59 days | 60-89 days | 90+ days | Non-accruing Loans | Total Balance |
|---|---|---|---|---|---|---|
| Commercial and industrial | $ 225,915 | $ 4,019 | $ 163 | $ 365 | $ 1,749 | $ 232,211 |
| Residential real estate: | | | | | | |
| Residential | 129,251 | 731 | - | - | 1,226 | 131,208 |
| Construction | 2,134 | - | - | - | - | 2,134 |
| Commercial real estate: | | | | | | |
| Commercial | 508,044 | 2,611 | - | 309 | 8,938 | 519,902 |
| Construction | 102,109 | 3,239 | 1,926 | - | - | 107,274 |
| Home equities | 68,415 | 171 | 40 | - | 1,119 | 69,745 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer and other | 1,628 | 11 | 6 | - | 9 | 1,654 |
| Total Loans | $ 1,037,496 | $ 10,782 | $ 2,135 | $ 674 | $ 13,041 | $ 1,064,128 |

Note: Loan balances do not include $1.2 million in net deferred loan origination costs as of December 31, 2017.

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Allowance for loan losses

The following tables present the activity in the allowance for loan losses according to portfolio segment for the nine month periods ended September 30, 2018 and 2017:

September 30, 2018

| (in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 5,204 | $ 7,409 | $ 109 | $ 950 | $ 347 | $ 14,019 |
| Charge-offs | (67) | (262) | (83) | (86) | (11) | (509) |
| Recoveries | 18 | - | 6 | - | 1 | 25 |
| Provision (Credit) | (574) | 1,923 | 50 | 290 | (11) | 1,678 |
| Ending balance | $ 4,581 | $ 9,070 | $ 82 | $ 1,154 | $ 326 | $ 15,213 |
| | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 113 | $ 950 | $ 23 | $ 70 | $ - | $ 1,156 |
| Collectively evaluated for impairment | 4,468 | 8,120 | 59 | 1,084 | 326 | 14,057 |
| Total | $ 4,581 | $ 9,070 | $ 82 | $ 1,154 | $ 326 | $ 15,213 |
| | | | | | | |
| Loans: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 2,925 | $ 18,267 | $ 23 | $ 2,687 | $ 1,907 | $ 25,809 |
| Collectively evaluated for impairment | 244,216 | 660,314 | 1,368 | 154,062 | 68,206 | 1,128,166 |
| Total | $ 247,141 | $ 678,581 | $ 1,391 | $ 156,749 | $ 70,113 | $ 1,153,975 |

* Includes construction loans

Note: Loan balances do not include $1.6 million in net deferred loan origination costs as of September 30, 2018.

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September 30, 2017

| (in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 4,813 | $ 7,890 | $ 96 | $ 769 | $ 348 | $ 13,916 |
| Charge-offs | (51) | (127) | (50) | - | (1) | (229) |
| Recoveries | 335 | - | 22 | - | 2 | 359 |
| Provision (Credit) | (74) | 21 | 41 | 143 | 5 | 136 |
| Ending balance | $ 5,023 | $ 7,784 | $ 109 | $ 912 | $ 354 | $ 14,182 |
| | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 808 | $ 877 | $ 35 | $ 17 | $ - | $ 1,737 |
| Collectively evaluated for impairment | 4,215 | 6,907 | 74 | 895 | 354 | 12,445 |
| Total | $ 5,023 | $ 7,784 | $ 109 | $ 912 | $ 354 | $ 14,182 |
| | | | | | | |
| Loans: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 2,898 | $ 13,693 | $ 35 | $ 2,545 | $ 1,577 | $ 20,748 |
| Collectively evaluated for impairment | 204,212 | 579,445 | 1,486 | 125,251 | 65,766 | 976,160 |
| Total | $ 207,110 | $ 593,138 | $ 1,521 | $ 127,796 | $ 67,343 | $ 996,908 |

* Includes construction loans

Note: Loan balances do not include $1.1 million in net deferred loan origination costs as of September 30, 2017.

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The following tables present the activity in the allowance for loan losses according to portfolio segment for the three month periods ended September 30, 2018 and 2017:

September 30, 2018

| ($ in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 4,341 | $ 9,445 | $ 90 | $ 1,025 | $ 334 | $ 15,235 |
| Charge-offs | - | (262) | (19) | - | - | (281) |
| Recoveries | 5 | - | 2 | - | - | 7 |
| Provision (Credit) | 235 | (113) | 9 | 129 | (8) | 252 |
| Ending balance | $ 4,581 | $ 9,070 | $ 82 | $ 1,154 | $ 326 | $ 15,213 |

September 30, 2017

| ($ in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 4,970 | $ 7,899 | $ 104 | $ 832 | $ 373 | $ 14,178 |
| Charge-offs | (18) | (127) | (17) | - | (1) | (163) |
| Recoveries | 4 | - | 1 | - | 1 | 6 |
| Provision (Credit) | 67 | 12 | 21 | 80 | (19) | 161 |
| Ending balance | $ 5,023 | $ 7,784 | $ 109 | $ 912 | $ 354 | $ 14,182 |

*Includes construction loans

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Impaired Loans

The following tables provide data, at the class level, for impaired loans as of the dates indicated:

| | At September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With no related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 2,567 | $ 3,729 | $ - | $ 2,710 | $ 115 | $ 66 |
| Residential real estate: | | | | | | |
| Residential | 2,051 | 2,228 | - | 2,086 | 27 | 48 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 3,099 | 3,254 | - | 3,180 | 70 | 81 |
| Construction | 138 | 138 | - | 161 | - | 9 |
| Home equities | 1,907 | 2,050 | - | 1,951 | 57 | 27 |
| Consumer and other | - | - | - | - | - | - |
| Total impaired loans | $ 9,762 | $ 11,399 | $ - | $ 10,088 | $ 269 | $ 231 |

| | At September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With a related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 358 | $ 385 | $ 113 | $ 371 | $ 17 | $ 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential real estate: | | | | | | |
| Residential | 636 | 660 | 70 | 638 | 21 | 3 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,262 | 6,672 | 102 | 6,475 | 219 | - |
| Construction | 8,768 | 8,975 | 848 | 8,872 | 245 | 113 |
| Home equities | - | - | - | - | - | - |
| Consumer and other | 23 | 28 | 23 | 24 | - | 1 |
| Total impaired loans | $ 16,047 | $ 16,720 | $ 1,156 | $ 16,380 | $ 502 | $ 122 |

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| | At September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| Total: | (in thousands) | | | | | |
| Commercial and industrial | $ 2,925 | $ 4,114 | $ 113 | $ 3,081 | $ 132 | $ 71 |
| Residential real estate: | | | | | | |
| Residential | 2,687 | 2,888 | 70 | 2,724 | 48 | 51 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 9,361 | 9,926 | 102 | 9,655 | 289 | 81 |
| Construction | 8,906 | 9,113 | 848 | 9,033 | 245 | 122 |
| Home equities | 1,907 | 2,050 | - | 1,951 | 57 | 27 |
| Consumer and other | 23 | 28 | 23 | 24 | - | 1 |
| Total impaired loans | $ 25,809 | $ 28,119 | $ 1,156 | $ 26,468 | $ 771 | $ 353 |

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With no related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 1,023 | $ 1,917 | $ - | $ 1,704 | $ 92 | $ 28 |
| Residential real estate: | | | | | | |
| Residential | 2,415 | 2,594 | - | 2,456 | 46 | 83 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 2,336 | 2,469 | - | 2,449 | 134 | 32 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Construction | 187 | 187 | - | 218 | - | 13 |
| Home equities | 1,785 | 1,892 | - | 1,828 | 62 | 33 |
| Consumer and other | - | - | - | - | - | - |
| Total impaired loans | $ 7,746 | $ 9,059 | $ - | $ 8,655 | $ 334 | $ 189 |

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| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With a related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 1,240 | $ 1,431 | $ 372 | $ 1,279 | $ 79 | $ 12 |
| Residential real estate: | | | | | | |
| Residential | 196 | 196 | 28 | 196 | 6 | 3 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,689 | 6,819 | 643 | 6,755 | 156 | 129 |
| Construction | - | - | - | - | - | - |
| Home equities | - | - | - | - | - | - |
| Consumer and other | 34 | 59 | 34 | 37 | 3 | 2 |
| Total impaired loans | $ 8,159 | $ 8,505 | $ 1,077 | $ 8,267 | $ 244 | $ 146 |

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| Total: | (in thousands) | | | | | |
| Commercial and industrial | $ 2,263 | $ 3,348 | $ 372 | $ 2,983 | $ 171 | $ 40 |
| Residential real estate: | | | | | | |
| Residential | 2,611 | 2,790 | 28 | 2,652 | 52 | 86 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 9,025 | 9,288 | 643 | 9,204 | 290 | 161 |
| Construction | 187 | 187 | - | 218 | - | 13 |
| Home equities | 1,785 | 1,892 | - | 1,828 | 62 | 33 |
| | 34 | 59 | 34 | 37 | 3 | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer and other | | | | | | |
| Total impaired loans | $ 15,905 | $ 17,564 | $ 1,077 | $ 16,922 | $ 578 | $ 335 |

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Troubled debt restructurings

The following tables summarize the loans that were classified as troubled debt restructurings as of the dates indicated:

| | September 30, 2018 (in thousands) | | | |
|---|---|---|---|---|
| | Total | Nonaccruing | Accruing | Related Allowance |
| Commercial and industrial | $ 732 | $ 258 | $ 474 | $ 52 |
| Residential real estate: | | | | |
| Residential | 1,620 | 260 | 1,360 | 3 |
| Construction | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial and multi-family | 4,393 | 3,652 | 741 | 102 |
| Construction | 8,768 | 8,768 | - | 848 |
| Home equities | 771 | 125 | 646 | - |
| Consumer and other | 23 | - | 23 | 23 |
| Total TDR loans | $ 16,307 | $ 13,063 | $ 3,244 | $ 1,028 |

| | December 31, 2017 (in thousands) | | | |
|---|---|---|---|---|
| | Total | Nonaccruing | Accruing | Related Allowance |
| Commercial and industrial | $ 734 | $ 220 | $ 514 | $ 8 |
| Residential real estate: | | | | |
| Residential | 1,656 | 271 | 1,385 | - |
| Construction | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial and multi-family | 3,854 | 3,767 | 87 | 236 |
| Construction | 187 | - | 187 | - |
| Home equities | 794 | 128 | 666 | - |
| Consumer and other | 25 | - | 25 | 24 |
| Total TDR loans | $ 7,250 | $ 4,386 | $ 2,864 | $ 268 |

Any TDR that is placed on non-accrual is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable.  All of the Company’s restructurings were allowed in an effort to maximize its ability to collect on loans where borrowers were experiencing financial difficulty.

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective interest rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent.  This reserve methodology is used because all TDR loans are considered impaired.  As of September 30, 2018, there were no commitments to lend additional funds to debtors owing on loans whose terms have been modified in TDRs.

The Company's TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the borrower time to improve cash flow or sell the property.  Other common concessions leading to the designation of a TDR are lines of credit that are termed-out and/or extensions of maturities at rates that are less than the prevailing market rates given the risk profile of the borrower.

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The following tables show the data for TDR activity by the type of concession granted to the borrower for the three month and nine month periods ended September 30, 2018 and 2017:

| | Three months ended September 30, 2018 (Recorded Investment in thousands) | | | Three months ended September 30, 2017 (Recorded Investment in thousands) | | |
|---|---|---|---|---|---|---|
| Troubled Debt Restructurings by Type of Concession | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial and Industrial: | | | | | | |
| Deferral of principal | - | $ - | $ - | 1 | $ 874 | $ 874 |
| Extension of maturity | 1 | 46 | 46 | - | - | - |
| Residential Real Estate & Construction: | | | | | | |
| Extension of maturity | - | - | - | 1 | 133 | 151 |
| Commercial Real Estate & Construction: | | | | | | |
| Deferral of principal | 1 | 8,768 | 8,768 | - | - | - |
| Combination of concessions | - | - | - | 1 | 4,179 | 3,397 |
| Home Equities | - | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - | - |

| | Nine months ended September 30, 2018 (Recorded Investment in thousands) | Nine months ended September 30, 2017 (Recorded Investment in thousands) |
|---|---|---|

| Troubled Debt Restructurings by Type of Concession | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|---|---|---|
| Commercial and Industrial: | | | | | | |
| Deferral of principal | - | $ - | $ - | 1 | $ 874 | 874 |
| Extension of maturity | 1 | 46 | 46 | - | - | - |
| Term-out line of credit | 1 | 29 | 29 | 1 | 180 | $ 180 |
| Combination of concessions | 1 | 63 | 63 | - | - | - |
| Residential Real Estate & Construction: | | | | | | |
| Extension of maturity | - | - | - | 1 | 133 | 151 |
| Commercial Real Estate & Construction: | | | | | | |
| Deferral of principal | 1 | 8,768 | 8,768 | - | - | - |
| Extension of maturity | 1 | 181 | 181 | 3 | 5,073 | 5,073 |
| Combination of concessions | 1 | 154 | 154 | 1 | 4,179 | 3,397 |
| Home Equities: | | | | | | |
| Deferral of principal | 1 | 100 | 100 | - | - | - |
| Extension of maturity and interest rate reduction | - | - | - | 1 | 20 | 20 |
| Consumer and other loans | - | - | - | - | - | - |

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The general practice of the Bank is to work with borrowers so that they are able to repay their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off. There were no loans which were classified as TDRs during the previous 12 months which defaulted during the three month or nine month periods ended September 30, 2018 and 2017.

## 5. COMMON EQUITY AND EARNINGS PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. For the three and nine month periods ended September 30, 2018, the Company had an average of 116,504 and 125,801 dilutive shares outstanding, respectively. The Company had an average of 122,365 and 120,890 dilutive shares outstanding for the three and nine month periods ended September 30, 2017, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three and nine month periods ended September 30, 2018 there were no anti-dilutive shares outstanding. For the three month period ended September 30, 2017 there were no anti-dilutive shares outstanding. For the nine month period ended September 30, 2017, there was an average of 23,593 potentially anti-dilutive shares outstanding, that were not included in calculating diluted earnings per share.

## 6. OTHER COMPREHENSIVE INCOME

The following tables summarize the changes in the components of accumulated other comprehensive income (loss) during the three and nine month periods ended September 30, 2018 and 2017:

| | Balance at June 30, 2018 | Net Change | Balance at September 30, 2018 |
|---|---|---|---|
| | (in thousands) | | |
| Net unrealized loss on investment securities | $ (3,093) | $ (738) | $ (3,831) |
| Net defined benefit pension plan adjustments | (2,290) | 40 | (2,250) |
| Total | $ (5,383) | $ (698) | $ (6,081) |

| | Balance at June 30, 2017 | Net Change | Balance at September 30, 2017 |
|---|---|---|---|
| | (in thousands) | | |

| | | | |
|---|---|---|---|
| Net unrealized loss on investment securities | $ (175) | $ (112) | $ (287) |
| Net defined benefit pension plan adjustments | (1,965) | 32 | (1,933) |
| Total | $ (2,140) | $ (80) | $ (2,220) |

| | Balance at December 31, 2017 | Net Change | Balance at September 30, 2018 |
|---|---|---|---|
| | (in thousands) | | |
| Net unrealized loss on investment securities | $ (1,049) | $ (2,782) | $ (3,831) |
| Net defined benefit pension plan adjustments | (2,368) | 118 | (2,250) |
| Total | $ (3,417) | $ (2,664) | $ (6,081) |

| | Balance at December 31, 2016 | Net Change | Balance at September 30, 2017 |
|---|---|---|---|
| | (in thousands) | | |
| Net unrealized (loss) gain on investment securities | $ (365) | $ 78 | $ (287) |
| Net defined benefit pension plan adjustments | (2,059) | 126 | (1,933) |
| Total | $ (2,424) | $ 204 | $ (2,220) |

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| | Three months ended September 30, 2018 (in thousands) | | | Three months ended September 30, 2017 (in thousands) | | |
|---|---|---|---|---|---|---|
| | Before-Tax Amount | Income Tax (Provision) Benefit | Net-of-Tax Amount | Before-Tax Amount | Income Tax (Provision) Benefit | Net-of-Tax Amount |
| Unrealized (loss) gain on investment securities: | | | | | | |
| Unrealized (loss) gain on investment securities | $ (1,002) | $ 264 | $ (738) | $ (186) | $ 74 | $ (112) |
| Defined benefit pension plan adjustments: | | | | | | |
| Reclassifications from accumulated other comprehensive income for gains | | | | | | |
| Amortization of prior service cost (a) | $ 8 | $ (1) | $ 7 | $ 7 | $ (3) | $ 4 |
| Amortization of actuarial loss (a) | 43 | (10) | 33 | 44 | (16) | 28 |
| Net change | 51 | (11) | 40 | 51 | (19) | 32 |
| Other Comprehensive (Loss) Income | $ (951) | $ 253 | $ (698) | $ (135) | $ 55 | $ (80) |

(a) Included in net periodic pension cost, as described in Note 9 – “Net Periodic Benefit Costs”

| Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|