Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended 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 001-37416

PEOPLE’S UTAH BANCORP
(Exact name of registrant as specified in its charter)

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

(801) 642-3998
Registrant’s telephone number, including area code

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☒		

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

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

The number of shares of Registrant's common stock outstanding on October 31, 2018 was 18,719,496. No preferred shares are issued or outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
Item 1 – Financial Statements	
Unaudited Consolidated Balance Sheets	3
Unaudited Consolidated Statements of Income	4
Unaudited Consolidated Statements of Comprehensive Income	5
Unaudited Consolidated Statements of Changes in Shareholders’ Equity	6
Unaudited Consolidated Statements of Cash Flows	7
Notes to Unaudited Consolidated Financial Statements	8
Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3 – Quantitative and Qualitative Disclosures about Market Risk	43
Item 4 – Controls and Procedures	43
PART II. OTHER INFORMATION	
Item 1 – Legal Proceedings	44
Item 1A – Risk Factors	44
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3 – Defaults upon Senior Securities	44
Item 4 – Mine Safety Disclosures	44
Item 5 – Other Information	44
Item 6 – Exhibits	45
Signatures	46

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 27,231	$ 36,235
Interest bearing deposits	23,005	13,158
Federal funds sold	4,697	1,634
Total cash and cash equivalents	54,933	51,027
Investment securities:		
Available-for-sale, at fair value	255,021	263,056
Held-to-maturity, at historical cost	67,148	74,654
Total investment securities	322,169	337,710
Non-marketable equity securities	4,231	3,706
Loans held for sale	8,467	10,871
Loans:		
Loans held for investment	1,718,403	1,627,444
Allowance for loan losses	(23,309)	(18,303)
Total loans held for investment, net	1,695,094	1,609,141
Premises and equipment, net	36,683	30,399
Goodwill	25,673	26,008
Bank-owned life insurance	26,276	23,566
Deferred income tax assets, net	11,224	8,827
Accrued interest receivable	8,766	7,594
Other intangibles	3,523	3,854
Other real estate owned	2,985	994
Other assets	12,829	9,832
Total assets	$ 2,212,853	$ 2,123,529
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	$ 677,379	$ 641,124
Interest bearing deposits	1,194,553	1,173,508
Total deposits	1,871,932	1,814,632
Short-term borrowings	42,000	40,000
Accrued interest payable	424	353
Other liabilities	18,865	11,126
Total liabilities	1,933,221	1,866,111
Shareholders' equity:		
Preferred shares, $0.01 par value: 3,000,000 shares authorized, no shares issued	-	-
Common shares, $0.01 par value: 30,000,000 shares authorized; 18,719,496 and 18,511,797 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	187	185
Additional paid-in capital	86,098	84,532
Retained earnings	199,161	174,804
Accumulated other comprehensive loss	(5,814)	(2,103)
Total shareholders' equity	279,632	257,418
Total liabilities and shareholders' equity	$ 2,212,853	$ 2,123,529

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest income				
Interest and fees on loans	$ 27,420	$ 18,843	$ 80,276	$ 53,610
Interest and dividends on investments	1,679	1,820	5,018	5,327
Total interest income	29,099	20,663	85,294	58,937
Interest expense	1,917	754	5,190	2,269
Net interest income	27,182	19,909	80,104	56,668
Provision for loan losses	1,925	900	5,450	2,000
Net interest income after provision for loan losses	25,257	19,009	74,654	54,668
Non-interest income				
Mortgage banking	1,668	1,686	4,811	5,625
Card processing	826	704	2,347	1,991
Service charges on deposit accounts	737	636	2,114	1,750
Net gain (loss) on sale of investment securities	-	(486)	336	(499)
Other	563	500	1,970	1,602
Total non-interest income	3,794	3,040	11,578	10,469
Non-interest expense				
Salaries and employee benefits	9,885	8,813	30,504	24,542
Occupancy, equipment and depreciation	1,476	1,164	4,430	3,369
Data processing	890	650	2,823	1,986
Marketing and advertising	342	343	1,109	954
FDIC premiums	239	135	867	391
Acquisition-related costs	(118)	484	232	660
Other	2,566	1,525	7,186	4,961
Total non-interest expense	15,280	13,114	47,151	36,863
Income before income tax expense	13,771	8,935	39,081	28,274
Income tax expense	3,288	2,697	9,127	9,021
Net income	$ 10,483	$ 6,238	$ 29,954	$ 19,253
Earnings per common share:				
Basic	$ 0.56	$ 0.35	$ 1.60	$ 1.07
Diluted	$ 0.55	$ 0.34	$ 1.58	$ 1.05
Weighted average common shares outstanding:				
Basic	18,713,410	17,976,066	18,664,339	17,933,010
Diluted	19,010,600	18,396,664	18,979,405	18,355,136

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Net income	$ 10,483	$ 6,238	$ 29,954	$ 19,253
Other comprehensive income / (loss)				
Unrealized holding (losses)/gains on securities available-for-sale	(1,161)	349	(4,948)	787
Income tax benefit/(expense)	290	(133)	1,237	(301)
Unrealized holding (losses)/gains on securities available-for-sale, net of tax	(871)	216	(3,711)	486
Total comprehensive income	$ 9,612	$ 6,454	$ 26,243	$ 19,739

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except share and per share data)	Common Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of January 1, 2017	17,819,538	$ 178	$ 68,657	$ 160,692	$ (1,010)	$ 228,517
Comprehensive income	-	-	-	19,253	486	19,739
Cash dividends ($0.25 per share)	-	-	-	(4,483)	-	(4,483)
Share-based compensation	-	-	382	-	-	382
Exercise of stock options	203,113	2	1,268	-	-	1,270
Balance as of September 30, 2017	18,022,651	$ 180	$ 70,307	$ 175,462	$ (524)	$ 245,425
Balance as of January 1, 2018	18,511,797	$ 185	$ 84,532	$ 174,804	$ (2,103)	$ 257,418
Comprehensive income	-	-	-	29,954	(3,711)	26,243
Cash dividends ($0.30 per share)	-	-	-	(5,597)	-	(5,597)
Share-based compensation	-	-	683	-	-	683
Exercise of stock options	207,699	2	883	-	-	885
Balance as of September 30, 2018	18,719,496	$ 187	$ 86,098	$ 199,161	$ (5,814)	$ 279,632

See accompanying notes to the unaudited consolidated financial statements.

PEOPLE'S UTAH BANCORP AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 29,954	$ 19,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,450	2,000
Depreciation and amortization	2,401	1,926
Deferred income taxes	(1,160)	(736)
Net amortization of securities discounts and premiums	1,991	2,188
Increase in cash surrender value of bank-owned life insurance	(460)	(382)
Share-based compensation	683	382
Gain on sale of loans held for sale	(3,099)	(4,061)
Originations of loans held for sale	(162,308)	(172,397)
Proceeds from sale of loans held for sale	167,811	186,542
Net changes in:		
Accrued interest receivable	(1,172)	(629)
Other assets	(2,546)	(1,071)
Accrued interest payable	71	(46)
Other liabilities	7,739	3,612
Net cash provided by operating activities	45,355	36,581
Cash flows from investing activities:		
Net change in loans held for investment	(93,643)	(97,227)
Purchase of available-for-sale securities	(30,832)	(24,599)
Purchase of held-to-maturity securities	-	(12,198)
Proceeds from maturities/sales of available-for-sale securities	32,504	132,578
Proceeds from maturities of held-to-maturity securities	6,930	9,323
Purchase of bank-owned life insurance	(2,250)	-
Purchase of premises and equipment	(8,659)	(6,137)
Proceeds from sale of other real estate owned, net of improvements	438	270
Net change of non-marketable equity securities	(525)	(132)
Net cash (used in) provided by investing activities	(96,037)	1,878
Cash flows from financing activities:		
Net increase in deposits	57,300	103,107
Proceeds related to exercise of stock options	885	1,270
Net change in short-term borrowings	2,000	574
Cash dividends paid	(5,597)	(4,483)
Net cash provided by financing activities	54,588	100,468
Net change in cash and cash equivalents	3,906	138,927
Cash and cash equivalents, beginning of period	51,027	67,938
Cash and cash equivalents, end of period	$ 54,933	$ 206,865
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 5,119	$ 2,315
Income taxes paid	$ 11,032	$ 10,724
Supplemental disclosures of non-cash investing transactions:		
Reclassifications from loans to other real estate owned	$ 2,985	$ 425
Unrealized (losses) / gains on securities available-for-sale	$ (4,948)	$ 787
Measurement period adjustment to goodwill	$ (335)	$ -

See accompanying notes to the unaudited consolidated financial statements.

Note 1 — Basis of Presentation

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

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

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

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

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

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

Note 1 — Basis of Presentation – Continued

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

(Dollars in thousands, except share and per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Numerator				
Net income	$ 10,483	$ 6,238	$ 29,954	$ 19,253
Denominator				
Weighted-average number of common shares outstanding	18,713,410	17,976,066	18,664,339	17,933,010
Incremental shares assumed for stock options and RSUs	297,190	420,598	315,066	422,126
Weighted-average number of dilutive shares outstanding	19,010,600	18,396,664	18,979,405	18,355,136
Basic earnings per common share	$ 0.56	$ 0.35	$ 1.60	$ 1.07
Diluted earnings per common share	$ 0.55	$ 0.34	$ 1.58	$ 1.05

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

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

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

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

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

Note 1 — Basis of Presentation – Continued

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606)”, which defers the effective date of Accounting Standard Update ASU No. 2014-09 one year. ASU No. 2014-09 created Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. ASU No. 2015-14 is effective for interim and annual periods beginning after December 15, 2017. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company adopted this standard on January 1, 2018 using the full retrospective method.

A significant amount of the Company’s revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. Revenue streams reported as deposit fees and other service charges, which include transaction based deposit fees, and interchange fees on credit and debit cards, are within the scope of Topic 606. The Company completed its assessment of revenue streams and associated incremental costs of contracts affected by the standard. The Company’s adoption of this standard did not change the timing or the amount of revenue recognized in prior periods. However, the presentation of certain costs associated with card processing will now be offset against card processing revenue in non-interest income. The change in presentation resulted in $1.8 million of expenses for the nine months ended September 30, 2018 being netted against card processing income and reported in non-interest income instead of as payment and card processing expenses in non-interest expense. In addition, to conform to the current period presentation, $1.6 million of card processing related expenses for the nine months ended September 30, 2017, were reclassified from payment and card processing expense in non-interest expense to being netted against card processing revenue in non-interest income. The Company elected to apply the practical expedient and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Company to expense costs related to obtaining a contract as incurred when the amortization period would have been one year or less.

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

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
(Dollars in thousands, except share and per share data)	As Reported	Balance without Adoption of ASC 606	Effect of Change	As Reported	Balance without Adoption of ASC 606	Effect of Change
Non-interest income						
Card Processing	$ 2,347	$ 4,177	$ (1,830)	$ 1,991	$ 3,579	$ (1,588)
Service charges on deposit accounts	2,114	2,114	-	1,750	1,750	-
Non-interest Expense						
Card Processing	$ -	$ 1,830	$ (1,830)	$ -	$ 1,588	$ (1,588)

Note 2 — Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less Than 12 Months	Gross Unrealized Losses: 12 Months or Longer	Fair Value
As of September 30, 2018					
U.S. Government-sponsored securities	$ 48,954	$ -	$ (418)	$ (561)	$ 47,975
Municipal securities	11,341	68	(66)	(41)	11,302
Mortgage-backed securities	197,478	19	(2,615)	(3,914)	190,968
Corporate securities	5,000	-	(6)	(218)	4,776
	$ 262,773	$ 87	$ (3,105)	$ (4,734)	$ 255,021
As of December 31, 2017					
U.S. Government-sponsored securities	$ 48,950	$ 13	$ (6)	$ (453)	$ 48,504
Municipal securities	13,310	184	(22)	(18)	13,454
Mortgage-backed securities	198,100	71	(1,145)	(1,764)	195,262
Corporate securities	5,500	573	-	(237)	5,836
	$ 265,860	$ 841	$ (1,173)	$ (2,472)	$ 263,056

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less Than 12 Months	Gross Unrealized Losses: 12 Months or Longer	Fair Value
As of September 30, 2018					
Municipal securities	$ 67,148	$ 10	$ (656)	$ (452)	$ 66,050
As of December 31, 2017					
Municipal securities	$ 74,654	$ 167	$ (293)	$ (227)	$ 74,301

Note 2 — Investment Securities – continued

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

	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
U.S. Government-sponsored securities	$ 14,537	$ (418)	$ 33,437	$ (561)	$ 47,974	$ (979)
Municipal securities	4,319	(66)	1,558	(41)	5,877	(107)
Mortgage-backed securities	90,052	(2,615)	99,170	(3,914)	189,222	(6,529)
Corporate securities	1,994	(6)	2,782	(218)	4,776	(224)
	$ 110,902	$ (3,105)	$ 136,947	$ (4,734)	$ 247,849	$ (7,839)
Held-to Maturity						
Municipal securities	$ 42,342	$ (656)	$ 16,359	$ (452)	$ 58,701	$ (1,108)

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

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

	Available-For-Sale		Held-To-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities maturing in:				
One year or less	$ 13,314	$ 13,181	$ 9,876	$ 9,851
After one year through five years	64,991	63,569	37,334	36,900
After five years through ten years	49,367	47,589	14,859	14,360
After ten years	135,101	130,682	5,079	4,939
	$ 262,773	$ 255,021	$ 67,148	$ 66,050

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

As of September 30, 2018, the Company held 336 investment securities with fair value less than amortized cost compared to 304 at December 31, 2017. Management evaluated these investment securities and determined that the decline in value is temporary and related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Company anticipates full recovery of the amortized cost with respect to these securities at maturity, or sooner in the event of a more favorable market interest rate environment.

Note 2 — Investment Securities – continued

The Company had sales of available-for-sale securities totaling $500,000 during the nine months ended September 30, 2018, which resulted in a net gain of $336,000 compared with $126.2 million during the nine months ended September 30, 2017, which resulted in a net loss of $486,000. There were no available-for-sale securities in a nonaccrual status at September 30, 2018 or December 31, 2017.

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

Note 3 — Loans and Allowance for Loan Losses

Loans are summarized as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Loans held for investment:		
Commercial real estate loans:		
Real estate term	$ 856,247	$ 784,148
Construction and land development	382,254	369,590
Total commercial real estate loans	1,238,501	1,153,738
Commercial and industrial loans	314,395	294,085
Consumer loans:		
Residential and home equity	153,406	158,591
Consumer and other	16,597	25,591
Total consumer loans	170,003	184,182
Total gross loans	1,722,899	1,632,005
Net deferred loan fees	(4,496)	(4,561)
Total loans held for investment	1,718,403	1,627,444
Allowance for loan losses	(23,309)	(18,303)
Total loans held for investment, net	$ 1,695,094	$ 1,609,141

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

	Three Months Ended September 30, 2018					
(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
Balance at beginning of period	$ 9,028	$ 6,789	$ 5,780	$ 659	$ 52	$ 22,308
Additions: Provisions for loan losses	469	892	455	14	95	1,925
Deductions:						
Gross loan charge-offs	(294)	-	(945)	-	(105)	(1,344)
Recoveries	46	6	312	2	54	420
Net loan (charge-offs) / recoveries	(248)	6	(633)	2	(51)	(924)
Balance at end of period	$ 9,249	$ 7,687	$ 5,602	$ 675	$ 96	$ 23,309

Note 3 — Loans and Allowance for Loan Losses – Continued

(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
	Three Months Ended September 30, 2017					
Balance at beginning of period	$ 7,157	$ 5,077	$ 4,489	$ 503	$ 45	$ 17,271
Additions: Provisions for loan losses	(303)	409	770	(44)	68	900
Deductions:						
Gross loan charge-offs	-	-	(621)	-	(46)	(667)
Recoveries	23	2	46	7	27	105
Net loan (charge-offs) / recoveries	23	2	(575)	7	(19)	(562)
Balance at end of period	$ 6,877	$ 5,488	$ 4,684	$ 466	$ 94	$ 17,609

(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
	Nine Months Ended September 30, 2018					
Balance at beginning of period	$ 6,706	$ 6,309	$ 4,314	$ 815	$ 159	$ 18,303
Additions: Provisions for loan losses	2,779	1,301	1,522	(223)	71	5,450
Deductions:						
Gross loan charge-offs	(294)	-	(1,235)	-	(277)	(1,806)
Recoveries	58	77	1,001	83	143	1,362
Net loan (charge-offs) / recoveries	(236)	77	(234)	83	(134)	(444)
Balance at end of period	$ 9,249	$ 7,687	$ 5,602	$ 675	$ 96	$ 23,309

(Dollars in thousands)	Real Estate Term	Construction and Land Development	Commercial and Industrial	Residential and Home Equity	Consumer and Other	Total
	Nine Months Ended September 30, 2017					
Balance at beginning of period	$ 6,770	$ 5,449	$ 3,718	$ 617	$ 161	$ 16,715
Additions: Provisions for loan losses	253	(42)	1,736	40	13	2,000
Deductions:						
Gross loan charge-offs	(350)	-	(893)	(338)	(159)	(1,740)
Recoveries	204	81	123	147	79	634
Net loan (charge-offs) / recoveries	(146)	81	(770)	(191)	(80)	(1,106)
Balance at end of period	$ 6,877	$ 5,488	$ 4,684	$ 466	$ 94	$ 17,609

Note 3 — Loans and Allowance for Loan Losses – Continued

Non-accrual loans are summarized as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Non-accrual loans, not troubled debt restructured:		
Real estate term	$ 310	$ -
Construction and land development	98	-
Commercial and industrial	1,455	223
Residential and home equity	-	-
Consumer and other	5	-
Total non-accrual loans, not troubled debt restructured	1,868	223
Troubled debt restructured loans, non-accrual:		
Real estate term	1,495	-
Construction and land development	-	-
Commercial and industrial	169	-
Residential and home equity	-	-
Consumer and other	-	-
Total troubled debt restructured loans, non-accrual	1,664	-
Total non-accrual loans	$ 3,532	$ 223

Troubled debt restructured loans are summarized as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Accruing troubled debt restructured loans	$ 2,423	$ 3,307
Non-accrual troubled debt restructured loans	1,664	-
Total troubled debt restructured loans	$ 4,087	$ 3,307

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

Loans totaling $4.1 million were classified as TDR's during the nine months ended September 30, 2018. No new TDRs occurred during the nine months ended September 30, 2018. In addition, there were no TDRs which incurred a payment default within twelve months of the restructure date during the nine-month periods ended September 30, 2018 and 2017.

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

	September 30, 2018						
(Dollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Purchased Credit Impaired	Total Loans
Commercial real estate:							
Real estate term	$ 850,094	$ 1,040	$ -	$ 1,805	$ 2,845	$ 3,308	$ 856,247
Construction and land development	380,306	1,517	-	98	1,615	333	382,254
Total commercial real estate	1,230,400	2,557	-	1,903	4,460	3,641	1,238,501
Commercial and industrial	307,873	2,346	-	1,624	3,970	2,552	314,395
Consumer:							
Residential and home equity	152,518	888	-	-	888	-	153,406
Consumer and other	16,355	220	17	5	242	-	16,597
Total consumer	168,873	1,108	17	5	1,130	-	170,003
Total gross loans	$ 1,707,146	$ 6,011	$ 17	$ 3,532	$ 9,560	$ 6,193	$ 1,722,899

Note 3 — Loans and Allowance for Loan Losses – Continued

	December 31, 2017						
(Dollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Non-accrual	Total Past Due	Purchased Credit Impaired	Total Loans
Commercial real estate:							
Real estate term	$ 777,746	$ 2,243	$ -	$ -	$ 2,243	$ 4,159	$ 784,148
Construction and land development	361,847	7,095	-	-	7,095	648	369,590
Total commercial real estate	1,139,593	9,338	-	-	9,338	4,807	1,153,738
Commercial and industrial	285,785	4,210	-	223	4,433	3,867	294,085
Consumer:							
Residential and home equity	156,379	2,212	-	-	2,212	-	158,591
Consumer and other	25,307	283	1	-	284	-	25,591
Total consumer	181,686	2,495	1	-	2,496	-	184,182
Total gross loans	$ 1,607,064	$ 16,043	$ 1	$ 223	$ 16,267	$ 8,674	$ 1,632,005

Credit Quality Indicators:

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

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

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

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

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

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

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

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

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	September 30, 2018					
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total Loans	Total Allowance
Commercial real estate:						
Real estate term	$ 827,297	$ 17,896	$ 11,054	$ -	$ 856,247	$ 9,249
Construction and land development	378,895	1,596	1,763	-	382,254	7,687
Total commercial real estate	1,206,192	19,492	12,817	-	1,238,501	16,936
Commercial and industrial	295,243	6,186	12,966	-	314,395	5,602
Consumer loans:						
Residential and home equity	149,310	1,701	2,395	-	153,406	675
Consumer and other	16,543	27	27	-	16,597	