EMCLAIRE FINANCIAL CORP
Form 10-Q
May 15, 2018

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

or

¨ 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: 001-34527

EMCLAIRE FINANCIAL CORP
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
612 Main Street, Emlenton, Pennsylvania	16373
(Address of principal executive offices)	(Zip Code)

(844) 767-2311
(Registrant’s telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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 x Emerging growth company ¨

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

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

The number of shares outstanding of the Registrant’s common stock was 2,271,139 at May 14, 2018.

EMCLAIRE FINANCIAL CORP

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp
Consolidated Balance Sheets (Unaudited)
As of March 31, 2018 and December 31, 2017
(Dollar amounts in thousands, except share and per share data)

	March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	$2,529	$ 3,072
Interest earning deposits with banks	14,648	11,302
Cash and cash equivalents	17,177	14,374
Securities - available for sale	96,216	99,350
Securities - equity investments	659	1,817
Loans held for sale	239	504
Loans receivable, net of allowance for loan losses of $5,935 and $6,127	584,242	577,234
Federal bank stocks, at cost	4,329	4,662
Bank-owned life insurance	11,808	11,724
Accrued interest receivable	2,236	2,217
Premises and equipment, net	17,911	18,010
Goodwill	10,288	10,288
Core deposit intangible, net	413	481
Prepaid expenses and other assets	10,290	9,423
Total Assets	$755,808	$ 750,084
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$129,159	$ 126,263
Interest bearing	537,576	528,380
Total deposits	666,735	654,643
Short-term borrowed funds	2,050	2,500
Long-term borrowed funds	18,250	23,500
Accrued interest payable	367	413
Accrued expenses and other liabilities	9,529	9,937
Total Liabilities	696,931	690,993
Commitments and Contingent Liabilities	—	—
Stockholders' Equity:		
	2,966	2,966

Common stock, $1.25 par value, 12,000,000 shares authorized; 2,373,156 and 2,373,156 shares issued; 2,271,139 and 2,271,139 shares outstanding, respectively		
Additional paid-in capital	31,106	31,031
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	33,639	32,726
Accumulated other comprehensive loss	(6,720)	(5,518)
Total Stockholders' Equity	58,877	59,091
Total Liabilities and Stockholders' Equity	$755,808	$ 750,084

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
Consolidated Statements of Net Income (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands, except share and per share data)

	For the three months ended March 31,	
	2018	2017
Interest and dividend income:		
Loans receivable, including fees	$6,337	$ 5,565
Securities:		
Taxable	408	395
Exempt from federal income tax	152	143
Federal bank stocks	64	53
Interest earning deposits with banks	33	16
Total interest and dividend income	6,994	6,172
Interest expense:		
Deposits	991	703
Borrowed funds	158	313
Total interest expense	1,149	1,016
Net interest income	5,845	5,156
Provision for loan losses	380	162
Net interest income after provision for loan losses	5,465	4,994
Noninterest income:		
Fees and service charges	437	408
Net realized loss on sales of securities	(29)	—
Net gain on sales of loans	22	6
Earnings on bank-owned life insurance	104	101
Other	365	341
Total noninterest income	899	856
Noninterest expense:		
Compensation and employee benefits	2,453	2,323
Premises and equipment	770	758
Intangible asset amortization	69	60
Professional fees	216	202
Federal deposit insurance	137	108
Other	1,091	1,170
Total noninterest expense	4,736	4,621
Income before provision for income taxes	1,628	1,229
Provision for income taxes	266	273

Net income	$1,362	$ 956
Basic earnings per common share	$0.60	$ 0.44
Diluted earnings per common share	0.60	0.44
Average common shares outstanding - basic	2,271,139	2,152,358
Average common shares outstanding - diluted	2,285,315	2,168,014

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Net income	$1,362	$956
Other comprehensive income		
Unrealized gains/(losses) on securities available for sale:		
Unrealized holding gain (loss) arising during the period	(1,314)	391
Reclassification adjustment for losses included in net income	29	—
	(1,285)	391
Tax effect	270	(133)
Net of tax	(1,015)	258
Comprehensive income	$347	$1,214

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands)

	For the three months ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	$1,362	$956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	294	292
Provision for loan losses	380	162
Amortization of premiums, net	120	158
Amortization of intangible assets and mortgage servicing rights	81	77
Realized losses on sales of securities, net	29	—
Net gains on sales of loans	(22)	(6)
Net loss on foreclosed real estate	41	—
Gain on sale of premises and equipment	(25)	—
Loans originated for sale	(1,237)	(1,791)
Proceeds from the sale of loans originated for sale	1,524	1,865
Stock compensation expense	75	55
Increase in bank-owned life insurance, net	(84)	(83)
Increase in accrued interest receivable	(19)	(120)
(Increase) decrease in prepaid expenses and other assets	(215)	168
Increase in accrued interest payable	(46)	14
Decrease in accrued expenses and other liabilities	(407)	(435)
Net cash provided by operating activities	1,851	1,312
Cash flows from investing activities		
Loan originations and principal collections, net	(7,992)	(20,102)
Securities:		
Sales	6,531	—
Maturities, repayments and calls	1,902	3,821
Purchases	(5,667)	(983)
Redemption of federal bank stocks	333	235
Proceeds from the sale of bank premises and equipment	155	—
Proceeds from the sale of foreclosed real estate	129	100
Purchases of premises and equipment	(195)	(86)
Net cash used in investing activities	(4,804)	(17,015)
Cash flows from financing activities		
Net increase in deposits	12,092	21,166
Repayments on long-term debt	(5,250)	—
Net change in short-term borrowings	(450)	(7,250)
Dividends paid	(636)	(581)
Net cash provided by financing activities	5,756	13,335

Increase (decrease) in cash and cash equivalents	2,803	(2,368)
Cash and cash equivalents at beginning of period	14,374	17,568
Cash and cash equivalents at end of period	$17,177	$15,200
Supplemental information:		
Interest paid	$1,195	$1,002
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	498	29

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
Consolidated Statements of Changes in Stockholders’ Equity (Unaudited)
For the three months ended March 31, 2018 and 2017
(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2017	$ 2,818	$ 27,900	$ (2,114)	$ 29,960	$ (4,491)	$ 54,073
Net income				956		956
Other comprehensive income					258	258
Stock compensation expense		55				55
Cash dividends declared on common stock ($0.27 per share)				(581)		(581)
Balance at March 31, 2017	$ 2,818	$ 27,955	$ (2,114)	$ 30,335	$ (4,233)	$ 54,761
Balance at January 1, 2018, as previously presented	$ 2,966	$ 31,031	$ (2,114)	$ 32,726	$ (5,518)	$ 59,091
Cumulative effect of change in accounting principle for marketable equity securities, net of tax				187	(187)	—
Balance at January 1, 2018, as adjusted	2,966	31,031	(2,114)	32,913	(5,705)	59,091
Net income				1,362		1,362
Other comprehensive loss					(1,015)	(1,015)
Stock compensation expense		75				75
Cash dividends declared on common stock ($0.28 per share)				(636)		(636)
Balance at March 31, 2018	$ 2,966	$ 31,106	$ (2,114)	$ 33,639	$ (6,720)	$ 58,877

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclaire Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in western Pennsylvania and northern West Virginia. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank and the Title Company. All significant intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation’s consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission’s (SEC’s) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2017, as contained in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year’s financial statement presentation.

2. Earnings per Common Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

The factors used in the Corporation's earnings per common share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the three months ended March 31,	
	2018	2017
Earnings per common share - basic		
Net income	$1,362	$ 956
Average common shares outstanding	2,271,139	2,152,358
Basic earnings per common share	$0.60	$ 0.44
Earnings per common share - diluted		
Net income	$1,362	$ 956
Average common shares outstanding	2,271,139	2,152,358
Add: Dilutive effects of assumed issuance of restricted stock and exercise of stock options	14,176	15,656
Average shares and dilutive potential common shares	2,285,315	2,168,014
Diluted earnings per common share	$0.60	$ 0.44
Stock options not considered in computing earnings per share because they were antidilutive	—	—

3. Securities

Equity Securities

The Corporation held equity securities with fair values of $659,000 and $1.8 million at March 31, 2018 and December 31, 2017, respectively. Beginning January 1, 2018, with the adoption of ASU 2016-01, changes in the fair value are included in other income on the consolidated statements of net income as opposed in accumulated other comprehensive loss on the consolidated balance sheets. During the three months ended March 31, 2018, the Corporation recognized a loss of $5,000 on the equity securities held at March 31, 2018. The Corporation sold $961,000 of equity securities with a realized net loss of $23,000 in the three month period ending March 31, 2018.

Debt Securities - Available for Sale

The following table summarizes the Corporation's debt securities as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018:				
U.S. Treasury and federal agency	$ 4,538	$ —	$ (111)	$ 4,427
U.S. government sponsored entities and agencies	14,126	—	(387)	13,739
U.S. agency mortgage-backed securities: residential	23,957	4	(495)	23,466
U.S. agency collateralized mortgage obligations: residential	22,204	33	(904)	21,333
State and political subdivisions	25,265	10	(480)	24,795
Corporate debt securities	8,508	15	(67)	8,456
	$ 98,598	$ 62	$ (2,444)	$ 96,216
December 31, 2017:				
U.S. Treasury and federal agency	4,541	—	(69)	4,472
U.S. government sponsored entities and agencies	14,136	2	(212)	13,926
U.S. agency mortgage-backed securities: residential	20,904	7	(153)	20,758
U.S. agency collateralized mortgage obligations: residential	22,607	25	(708)	21,924
State and political subdivisions	29,249	87	(96)	29,240
Corporate debt securities	9,009	38	(17)	9,030
	$ 100,446	$ 159	$ (1,255)	$ 99,350

The following table summarizes scheduled maturities of the Corporation's debt securities as of March 31, 2018. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 3,350	$ 3,336
Due after one year through five years	26,768	26,231
Due after five through ten years	18,825	18,454
Due after ten years	3,494	3,396
Mortgage-backed securities: residential	23,957	23,466

Collateralized mortgage obligations: residential	22,204	21,333
	$98,598	$96,216

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3. Securities (continued)

Information pertaining to debt securities with gross unrealized losses at March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2018:						
U.S. Treasury and federal agency	$—	$ —	$4,427	$ (111)	$4,427	$ (111)
U.S. government sponsored entities and agencies	4,866	(125)	8,873	(262)	13,739	(387)
U.S. agency mortgage-backed securities: residential	13,565	(289)	6,256	(206)	19,821	(495)
U.S. agency collateralized mortgage obligations: residential	1,935	(7)	17,567	(897)	19,502	(904)
State and political subdivisions	18,824	(412)	2,387	(68)	21,211	(480)
Corporate debt securities	2,942	(65)	500	(2)	3,442	(67)
	$42,132	$ (898)	$40,010	$ (1,546)	$82,142	$ (2,444)
December 31, 2017:						
U.S. Treasury and federal agency	$—	$ —	$4,472	$ (69)	$4,472	$ (69)
U.S. government sponsored entities and agencies	3,447	(42)	8,975	(170)	12,422	(212)
U.S. agency mortgage-backed securities: residential	9,659	(48)	6,581	(105)	16,240	(153)
U.S. agency collateralized mortgage obligations: residential	954	(16)	19,147	(692)	20,101	(708)
State and political subdivisions	10,510	(60)	3,487	(36)	13,997	(96)
Corporate debt securities	2,992	(16)	999	(1)	3,991	(17)
	$27,562	$ (182)	$43,661	$ (1,073)	$71,223	$ (1,255)

Losses on sales of securities for the three months ended March 31 were as follows:

(Dollar amounts in thousands)	For the three months ended March 31,	
	2018	2017
Proceeds	$6,531	$ —
Losses	(29)	—
Tax provision related to losses	(6)	—

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

3. Securities (continued)

There were 123 debt securities in an unrealized loss position as of March 31, 2018, of which 51 were in an unrealized loss position for more than 12 months. Of these 51 securities, 24 were government-backed collateralized mortgage obligations, 8 were U.S. government sponsored entity and agency securities, 7 were state and political subdivision securities, 6 were mortgage-backed securities, 5 were U.S. Treasury securities and 1 was a corporate security. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that would likely result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider these debt securities with unrealized losses as of March 31, 2018 to be other-than-temporarily impaired.

4. Loans Receivable and Related Allowance for Loan Losses

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	March 31, 2018	December 31, 2017
Mortgage loans on real estate:		
Residential first mortgages	$224,690	$ 221,823
Home equity loans and lines of credit	100,241	99,940
Commercial real estate	196,788	193,068
	521,719	514,831
Other loans:		
Commercial business	59,200	58,941
Consumer	9,258	9,589
	68,458	68,530
Total loans, gross	590,177	583,361
Less allowance for loan losses	5,935	6,127
Total loans, net	$584,242	$ 577,234

Included in total loans above are net deferred costs of $1.6 million and $1.5 million at March 31, 2018 and December 31, 2017, respectively.

An allowance for loan losses (ALL) is maintained to absorb probable incurred losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience and the amount of nonperforming loans.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The allowance for loan losses is based on estimates and actual losses may vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

At March 31, 2018, there was no allowance for loan losses allocated to loans acquired in the April 2016 acquisition of United American Savings Bank or the September 2017 acquisition of Northern Hancock Bank and Trust Co.

4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table details activity in the ALL and the recorded investment by portfolio segment based on impairment method:

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
Three months ended March 31, 2018:						
Allowance for loan losses:						
Beginning Balance	$2,090	$646	$2,753	$585	$53	$6,127
Charge-offs	(62)	(19)	(385)	—	(119)	(585)
Recoveries	3	1	2	1	6	13
Provision	(112)	23	381	(26)	114	380
Ending Balance	$1,919	$651	$2,751	$560	$54	$5,935
At March 31, 2018:						
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$6	$—	$—	$—	$—	$6
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	1,913	651	2,751	560	54	5,929
Total	$1,919	$651	$2,751	$560	$54	$5,935
Total loans:						
Individually evaluated for impairment	$419	$8	$336	$555	$—	$1,318
Acquired loans collectively evaluated for impairment	19,418	10,429	25,716	2,342	1,570	59,475
Originated loans collectively evaluated for impairment	204,853	89,804	170,736	56,303	7,688	529,384
Total	$224,690	$100,241	$196,788	$59,200	$9,258	$590,177
At December 31, 2017:						
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$7	$—	$—	$—	$—	$7
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	2,083	646	2,753	585	53	6,120
Total	$2,090	$646	$2,753	$585	$53	$6,127
Total loans:						

Individually evaluated for impairment	$425	$8	$914	$569	$—	$1,916
Acquired loans collectively evaluated for impairment	20,300	10,873	27,404	1,451	2,893	62,921
Originated loans collectively evaluated for impairment	201,098	89,059	164,750	56,921	6,696	518,524
Total	$221,823	$99,940	$193,068	$58,941	$9,589	$583,361
Three months ended March 31, 2017:						
Allowance for loan losses:						
Beginning Balance	$1,846	$633	$2,314	$700	$52	$5,545
Charge-offs	(26)	(1)	—	—	(19)	(46)
Recoveries	—	19	2	—	6	27
Provision	136	(3)	133	(117)	13	162
Ending Balance	$1,956	$648	$2,449	$583	$52	$5,688

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4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2018:

(Dollar amounts in thousands)

	Impaired Loans with Specific Allowance					
	As of March 31, 2018			For the three months ended March 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$75	$ 75	$ 6	$75	$ 1	$ 1
Home equity and lines of credit	8	8	—	8	—	—
Commercial real estate	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$83	$ 83	$ 6	$83	$ 1	$ 1

	Impaired Loans with No Specific Allowance				
	As of March 31, 2018		For the three months ended March 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$456	$ 344	$347	$ 1	$ 1
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	336	336	625	—	—
Commercial business	555	555	562	1	1
Consumer	—	—	—	—	—
Total	$1,347	$ 1,235	$1,534	$ 2	$ 2

4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2017:

(Dollar amounts in thousands)

	Impaired Loans with Specific Allowance					
	As of December 31, 2017			For the year ended December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$75	$ 75	$ 7	$88	$ 3	$ 3
Home equity and lines of credit	8	8	—	2	—	—
Commercial real estate	—	—	—	111	—	—
Commercial business	—	—	—	118	—	—
Consumer	—	—	—	—	—	—
Total	$83	$ 83	$ 7	$319	$ 3	$ 3

	Impaired Loans with No Specific Allowance				
	As of December 31, 2017		For the year ended December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$461	$ 350	$289	$ 8	$ 8
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	1,089	914	855	3	3
Commercial business	569	569	498	3	3
Consumer	—	—	—	—	—
Total	$2,119	$ 1,833	$1,642	$ 14	$ 14

4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of March 31, 2017:
(Dollar amounts in thousands)

	Impaired Loans with Specific Allowance					
	As of March 31, 2017			For the three months ended March 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$77	$ 77	$ 10	$106	$ 1	$ 1
Home equity and lines of credit	—	—	—	—	—	—
Commercial real estate	—	—	—	279	—	—
Commercial business	—	—	—	294	—	—
Consumer	—	—	—	—	—	—
Total	$77	$ 77	$ 10	$679	$ 1	$ 1

	Impaired Loans with No Specific Allowance				
	As of March 31, 2017		For the three months ended March 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$409	$ 372	$186	$ 7	$ 7
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	1,165	991	724	1	1
Commercial business	641	641	369	—	—
Consumer	—	—	—	—	—
Total	$2,215	$ 2,004	$1,279	$ 8	$ 8

Unpaid principal balance includes any loans that have been partially charged off but not forgiven. Accrued interest is not included in the recorded investment in loans presented above or in the tables that follow based on the amounts not being material.

Troubled debt restructurings (TDR). The Corporation has certain loans that have been modified in order to maximize collection of loan balances. If, for economic or legal reasons related to the customer’s financial difficulties, management grants a concession compared to the original terms and conditions of the loan that it would not have otherwise considered, the modified loan is classified as a TDR. Concessions related to TDRs generally do not include forgiveness of principal balances. The Corporation generally does not extend additional credit to borrowers with loans classified as TDRs.

At March 31, 2018 and December 31, 2017, the Corporation had $427,000 and $433,000, respectively, of loans classified as TDRs, which are included in impaired loans above. The Corporation had allocated $6,000 and $7,000 of specific allowance for these loans at March 31, 2018 and December 31, 2017, respectively.

During the three month period ended March 31, 2018 , the Corporation did not modify any loans as TDRs. During the three month period ended March 31, 2017, the Corporation modified one residential mortgage loan with a recorded investment of $323,000 due to a bankruptcy order. At March 31, 2017, the Corporation did not have any specific allowance for loan losses allocated to this specific loan.

4. Loans Receivable and Related Allowance for Loan Losses (continued)

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the three month periods ended March 31, 2018 and 2017, the Corporation did not have any loans which were modified as TDRs for which there was a payment default within twelve months following the modification.

Credit Quality Indicators. Management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors.

Commercial real estate and commercial business loans not identified as impaired are evaluated as risk rated pools of loans utilizing a risk rating practice that is supported by a quarterly special asset review. In this review process, strengths and weaknesses are identified, evaluated and documented for each criticized and classified loan and borrower, strategic action plans are developed, risk ratings are confirmed and the loan's performance status is reviewed.

Management has determined certain portions of the loan portfolio to be homogeneous in nature and assigns like reserve factors for the following loan pool types: residential real estate, home equity loans and lines of credit, and consumer installment and personal lines of credit.

The reserve allocation for risk rated loan pools is developed by applying the following factors:

Historic: Management utilizes a computer model to develop the historical net charge-off experience which is used to formulate the assumptions employed in the migration analysis applied to estimate losses in the portfolio. Outstanding balance and charge-off information are input into the model and historical loss migration rate assumptions are developed to apply to pass, special mention, substandard and doubtful risk rated loans. A twelve-quarter rolling weighted-average is utilized to estimate probable incurred losses in the portfolios.

Qualitative: Qualitative adjustment factors for pass, special mention, substandard and doubtful ratings are developed and applied to risk rated loans to allow for: quality of lending policies and procedures; national and local economic and business conditions; changes in the nature and volume of the portfolio; experiences, ability and depth of lending management; changes in trends, volume and severity of past due, nonaccrual and classified loans and loss and recovery trends; quality of loan review systems; concentrations of credit and other external factors.

Management uses the following definitions for risk ratings:

Pass: Loans classified as pass typically exhibit good payment performance and have underlying borrowers with acceptable financial trends where repayment capacity is evident. These borrowers typically would have a sufficient cash flow that would allow them to weather an economic downturn and the value of any underlying collateral could withstand a moderate degree of depreciation due to economic conditions.

Special Mention: Loans classified as special mention are characterized by potential weaknesses that could jeopardize repayment as contractually agreed. These loans may exhibit adverse trends such as increasing leverage, shrinking profit margins and/or deteriorating cash flows. These borrowers would inherently be more vulnerable to the application of economic pressures.

Substandard: Loans classified as substandard exhibit weaknesses that are well-defined to the point that repayment is jeopardized. Typically, the Corporation is no longer adequately protected by both the apparent net worth and repayment capacity of the borrower.

Doubtful: Loans classified as doubtful have advanced to the point that collection or liquidation in full, on the basis of currently ascertainable facts, conditions and value, is highly questionable or improbable.

4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the Corporation's internal risk rating system as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)

	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2018:						
Residential first mortgages	$223,500	$—	$—	$ 1,190	$ —	$224,690
Home equity and lines of credit	99,447	—	—	794	—	100,241
Commercial real estate	—	185,187	4,193	7,408	—	196,788
Commercial business	—	57,240	394	1,566	—	59,200
Consumer	9,184	—	—	74	—	9,258
Total	$332,131	$242,427	$ 4,587	$ 11,032	$ —	$590,177
December 31, 2017:						
Residential first mortgages	$220,730	$—	$—	$ 1,093	$ —	$221,823
Home equity and lines of credit	98,946	—	—	994	—	99,940
Commercial real estate	—	182,460	2,744	7,864	—	193,068
Commercial business	—	56,960	477	1,504	—	58,941
Consumer	9,443	—	—	146	—	9,589
Total	$329,119	$239,420	$ 3,221	$ 11,601	$ —	$583,361

4. Loans Receivable and Related Allowance for Loan Losses (continued)

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonperforming loans as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)

	Performing			Nonperforming		
	Accruing Loans Not Past Due	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccrual	Total
March 31, 2018:						
Residential first mortgages	$221,330	$ 1,979	$ 268	$231	$ 882	$224,690
Home equity and lines of credit	98,455	923	182	—	681	100,241
Commercial real estate	194,368	1,465	199	255	501	196,788
Commercial business	58,399	41	198	—	562	59,200
Consumer	8,959	182	72	—	45	9,258
Total loans	$581,511	$ 4,590	$ 919	$486	$ 2,671	$590,177
December 31, 2017:						
Residential first mortgages	$218,515	$ 1,936	$ 357	$159	$ 856	$221,823
Home equity and lines of credit	98,112	598	370	334	526	99,940
Commercial real estate	190,451	1,026	430	197	964	193,068
Commercial business	58,058	74	225	—	584	58,941
Consumer	9,162	273	81	—	73	9,589
Total loans	$574,298	$ 3,907	$ 1,463	$690	$ 3,003	$583,361

4. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents the Corporation's nonaccrual loans by aging category as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)

	Not Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total
March 31, 2018:					
Residential first mortgages	$361	$75	$ —	$446	$882
Home equity and lines of credit	8	—	—	673	681
Commercial real estate	330	96	—	75	501
Commercial business	555	—	—	7	562
Consumer	—	—	—	45	45
Total loans	$1,254	$171	$ —	$1,246	$2,671
December 31, 2017:					
Residential first mortgages	366	—	75	415	856
Home equity and lines of credit	8	—	—	518	526
Commercial real estate	341	—	—	623	964
Commercial business	569	—	—	15	584
Consumer	—	—	—	73	73
Total loans	$1,284	$—	$ 75	$1,644	$3,003

5. Goodwill and Intangible Assets

The following table summarizes the Corporation's acquired goodwill and intangible assets as of March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	March 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$10,288	$ —	$10,288	$ —
Core deposit intangibles	4,426	4,013	4,426	3,945
Total	$14,714	$ 4,013	$14,714	$ 3,945