SI Financial Group, Inc.
Form 10-Q
August 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017
OR

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

For the Transition Period from _______ to ______
Commission File Number: 0-54241
SI FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	80-0643149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

803 Main Street, Willimantic, Connecticut	06226
(Address of principal executive offices)	(Zip Code)

(860) 423-4581
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o
	Emerging growth company o

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

Act. o

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

As of August 4, 2017, there were 12,231,845 shares of the registrant’s common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
SI FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts / Unaudited)

	June 30, 2017	December 31, 2016
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	$ 15,412	$ 18,225
Interest-bearing	79,890	54,961
Total cash and cash equivalents	95,302	73,186
Available for sale securities, at fair value	175,270	159,367
Loans held for sale	1,588	1,393
Loans receivable (net of allowance for loan losses of $12,147 at June 30, 2017 and $11,820 at December 31, 2016)	1,227,741	1,220,323
Federal Home Loan Bank stock, at cost	12,231	12,162
Federal Reserve Bank stock, at cost	3,631	3,624
Bank-owned life insurance	21,555	21,293
Premises and equipment, net	19,805	19,884
Goodwill and other intangibles	17,193	17,494
Accrued interest receivable	4,526	4,435
Deferred tax asset, net	9,507	9,658
Other real estate owned, net	1,043	1,466
Other assets	7,108	6,605
Total assets	$ 1,596,500	$ 1,550,890
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 216,919	$ 201,598
Interest-bearing	983,877	929,087
Total deposits	1,200,796	1,130,685
Mortgagors' and investors' escrow accounts	4,884	4,388
Federal Home Loan Bank advances	187,102	217,759
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	26,448	25,083
Total liabilities	1,427,478	1,386,163
Shareholders' Equity:		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued)	—	—
Common stock ($.01 par value; 35,000,000 shares authorized; 12,226,345 and 12,212,904 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively)	122	122
Additional paid-in-capital	126,168	125,628
Unallocated common shares held by ESOP	(2,928)	(3,168)
Unearned restricted shares	(260)	(341)
Retained earnings	46,446	43,167

Accumulated other comprehensive loss	(526)	(681)
Total shareholders' equity	169,022	164,727
Total liabilities and shareholders' equity	$ 1,596,500	$ 1,550,890

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts / Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$12,282	$11,506	$24,432	$23,077
Securities:				
Taxable interest	831	907	1,574	1,746
Tax-exempt interest	14	14	28	28
Dividends	177	171	354	333
Other	194	77	312	133
Total interest and dividend income	13,498	12,675	26,700	25,317
Interest expense:				
Deposits	1,883	1,655	3,633	3,204
Federal Home Loan Bank advances	875	816	1,775	1,690
Subordinated debt and other borrowings	59	48	113	93
Total interest expense	2,817	2,519	5,521	4,987
Net interest income	10,681	10,156	21,179	20,330
Provision for loan losses	170	582	330	893
Net interest income after provision for loan losses	10,511	9,574	20,849	19,437
Noninterest income:				
Service fees	1,758	1,569	3,442	3,213
Wealth management fees	192	302	519	601
Increase in cash surrender value of bank-owned life insurance	132	136	262	277
Mortgage banking	466	399	621	669
Net gain on fair value of derivatives	—	16	—	15
Net loss on disposal of equipment	—	(35)	—	(36)
Other	1,091	199	1,304	549
Total noninterest income	3,639	2,586	6,148	5,288
Noninterest expenses:				
Salaries and employee benefits	5,225	4,643	10,433	9,821
Occupancy and equipment	1,700	1,703	3,476	3,446
Computer and electronic banking services	1,290	1,476	2,670	2,944
Outside professional services	392	379	793	1,014
Marketing and advertising	217	238	407	451
Supplies	128	121	262	289
FDIC deposit insurance and regulatory assessments	218	253	412	525
Core deposit intangible amortization	151	150	301	301
Other real estate owned operations	257	69	367	125
Other	445	548	1,244	930

Total noninterest expenses	10,023	9,580	20,365	19,846
Income before income tax provision	4,127	2,580	6,632	4,879
Income tax provision	1,285	852	2,071	1,610
Net income	$2,842	$1,728	$4,561	$3,269
Earnings per share:				
Basic	$0.24	$0.15	$0.39	$0.28
Diluted	$0.24	$0.15	$0.38	$0.28

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands / Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$2,842	$1,728	$4,561	$3,269
Other comprehensive income, net of tax:				
Net unrealized holding gains on available for sale securities	125	310	155	1,356
Other comprehensive income	125	310	155	1,356
Comprehensive income	$2,967	$2,038	$4,716	$4,625

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2017
(In Thousands, Except Share Data / Unaudited)

	Common Stock			Unallocated				
	Shares	Dollars	Additional Paid-in Capital	Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2016	12,212,904	$ 122	$ 125,628	$ (3,168)	$ (341)	$ 43,167	$ (681)	$ 164,727
Comprehensive income	—	—	—	—	—	4,561	155	4,716
Cash dividends declared ($0.10 per share)	—	—	—	—	—	(1,185)	—	(1,185)
Equity incentive plans compensation	—	—	178	—	81	—	—	259
Allocation of 24,318 ESOP shares	—	—	121	240	—	—	—	361
Stock options exercised	33,544	—	444	—	—	—	—	444
Common shares repurchased	(20,103)	—	(203)	—	—	(97)	—	(300)
Balance at June 30, 2017	12,226,345	$ 122	$ 126,168	$ (2,928)	$ (260)	$ 46,446	$ (526)	$ 169,022

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands / Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$4,561	$3,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	330	893
Employee stock ownership plan expense	361	336
Equity incentive plan expense	259	461
Excess tax benefit from share-based compensation	—	(8)
Amortization of investment premiums and discounts, net	519	384
Amortization of loan premiums and discounts, net	588	736
Depreciation and amortization of premises and equipment	1,101	1,234
Amortization of core deposit intangible	301	301
Net gain on fair value of derivatives	—	(15)
Deferred income tax provision (benefit)	72	(81)
Loans originated for sale	(23,019)	(19,198)
Proceeds from sale of loans held for sale	23,127	16,073
Net gain on sales of loans held for sale	(466)	(532)
Net loss on disposal of equipment	—	36
Net loss on sales or write-downs of other real estate owned	392	2
Increase in cash surrender value of bank-owned life insurance	(262)	(277)
Change in operating assets and liabilities:		
Accrued interest receivable	(91)	59
Other assets	(340)	(40)
Accrued expenses and other liabilities	1,365	(1,440)
Net cash provided by operating activities	8,798	2,193
Cash flows from investing activities:		
Purchases of available for sale securities	(32,053)	(24,401)
Proceeds from maturities of and principal repayments on available for sale securities	15,865	13,070
Purchases of Federal Home Loan Bank stock	(69)	—
Purchases of Federal Reserve Bank stock	(7)	(3)
Redemption of Federal Home Loan Bank stock	—	504
Loan principal originations, net	10,811	21,503
Purchases of loans	(19,276)	(11,858)
Proceeds from sales of other real estate owned	160	270
Purchases of premises and equipment	(1,022)	(542)
Proceeds from bank-owned life insurance	—	1,201
Net cash used in investing activities	(25,591)	(256)

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)
(In Thousands / Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from financing activities:		
Net increase in deposits	70,111	58,815
Net increase in mortgagors' and investors' escrow accounts	496	627
Proceeds from Federal Home Loan Bank advances	14,500	3,000
Repayments of Federal Home Loan Bank advances	(45,157)	(29,681)
Excess tax benefit from share-based compensation	—	8
Cash dividends on common stock	(1,185)	(945)
Stock options exercised	281	37
Common shares repurchased	(137)	(37)
Net cash provided by financing activities	38,909	31,824
Net change in cash and cash equivalents	22,116	33,761
Cash and cash equivalents at beginning of period	73,186	40,778
Cash and cash equivalents at end of period	$95,302	$74,539
Supplemental cash flow information:		
Interest paid	$5,534	$5,015
Income taxes paid, net	4,270	1,450
Transfer of loans to other real estate owned	129	350
Stock options exercised by net-share settlement	163	—

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016 AND DECEMBER 31, 2016

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business
SI Financial Group, Inc. (the “Company”) is the holding company for Savings Institute Bank and Trust Company (the “Bank”). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its 24 offices in eastern Connecticut and Rhode Island. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, life insurance and annuities are offered to individuals and businesses through the Bank’s offices. The Company does not conduct any material business other than owning all of the stock of the Bank and making payments on the subordinated debentures held by the Company.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank’s wholly-owned subsidiaries, SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation
The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, the instructions to Form 10-Q and Rule 10.01 of Regulation S-X of the Securities and Exchange Commission and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes for the year ended December 31, 2016 contained in the Company’s Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the periods covered herein. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the operating results for the year ending December 31, 2017 or for any other period.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheets and reported amounts of revenues and expenses for the periods presented. 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, deferred income taxes and the impairment of long-lived assets.

Reclassifications

Amounts in the Company's prior year consolidated financial statements are reclassified to conform to the current year presentation. Such reclassifications had no effect on net income.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016 AND DECEMBER 31, 2016

Loans Receivable

Loans receivable are stated at current unpaid principal balances, net of the allowance for loan losses and deferred loan origination fees and costs. Management has the ability and intent to hold its loans receivable for the foreseeable future or until maturity or pay-off.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan by loan basis for residential and commercial mortgage loans and commercial business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not typically identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring ("TDR") agreement.

Troubled Debt Restructurings

The Company periodically may agree to modify the contractual terms of loans due to the borrower's financial condition. When a loan is modified and concessions have been made to the original contractual terms that would not otherwise be considered for a borrower with similar risk characteristics, such as reductions of interest rates, deferral of interest or principal payments, or maturity extensions due to the borrower’s financial condition, the modification is considered a TDR. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is handled by the Company’s Collections Department for resolution, which may result in foreclosure.

Management considers all nonaccrual loans, with the exception of certain consumer loans, to be impaired. Also, all TDRs are initially classified as impaired and follow the Company's nonaccrual policy. However, if the loan was current prior to modification, nonaccrual status would not be required. If the loan was on nonaccrual prior to modification or if the payment amount significantly increases, the loan will remain on nonaccrual for a period of at least six months. Loans qualify for return to accrual status once the borrower has demonstrated the willingness and the ability to perform in accordance with the restructured terms of the loan agreement for a period of not less than six consecutive months. In most cases, loan payments less than 90 days past due are considered minor collection delays and the related loans are generally not considered impaired.

Impaired classification may be removed after a year following the restructure if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar risk characteristics at the time of restructuring.

Allowance for Loan Losses

The allowance for loan losses, a material estimate which could change significantly in the near-term, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance for loan losses when management believes the

uncollectibility of the principal loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses when received.

Management's judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a monthly basis by management and is based on the evaluation of the known and inherent risk characteristics and size and composition of the loan portfolio, the assessment of current economic

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and real estate market conditions, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, historical loan loss experience, the amount and trends of nonperforming loans, delinquencies, classified assets and loan charge-offs and evaluations of loans and other relevant factors.

The allowance for loan losses consists of the following key elements:

- Specific allowance for identified impaired loans. For loans identified as impaired, an allowance is established when the present value of expected cash flows, or observable market price of the loan or fair value of the collateral if the loan is collateral dependent, of the impaired loan is lower than the carrying value of that loan. In the determination of the allowance for loan losses, management may obtain independent appraisals for significant properties, when necessary.

- General valuation allowance. The general component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are segregated by category and assigned an allowance percentage based on historical loan loss experience adjusted for qualitative factors stratified by the following loan segments: residential one- to four-family, multi-family and commercial real estate, construction, commercial business and consumer. Management uses a rolling average of historical losses based on the time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices; changes in national, regional and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments; changes in the size and composition of the loan portfolio and in the terms of the loans; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due loans, the volume of nonaccrual loans and the volume and severity of adversely classified or graded loans; changes in the quality of the loan review system; changes in the underlying collateral for collateral-dependent loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the portfolio.

The qualitative factors are determined based on the following various risk characteristics for each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

- Residential – One to Four Family – The Bank primarily originates conventional loans with loan-to-value ratios less than 95% and generally originates loans with loan-to-value ratios in excess of 80% only when secured by first liens on owner-occupied one- to four-family residences. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

- Multi-family and Commercial – Loans in this segment are originated to acquire, develop, improve or refinance multi-family and commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The underlying cash flows generated by the properties

can be impacted by the economy as evidenced by increased vacancy rates. Payments on loans secured by income-producing properties often depend on the successful operation and management of the properties. Management continually monitors the cash flows of these loans.

- Construction – This segment includes loans to individuals and, to a lesser extent, builders to finance the construction of residential dwellings. The Bank also originates construction loans for commercial

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development projects. Upon the completion of construction, the loan generally converts to a permanent mortgage loan. Credit risk is affected by cost overruns, whether estimates of the sale price of the property are correct, time to sell at an adequate price and market conditions.

- Commercial Business – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and reduced viability of the industry in which the customer operates will have a negative impact on the credit quality in this segment. The Bank provides loans to investors in the time share industry, which are secured by consumer receivables, and provides loans for capital improvements to condominium associations, which are secured by the assigned rights to levy special assessments to condominium owners. Additionally, the Bank purchases loans primarily out of our market area from a company specializing in medical loan originations, which are secured by medical equipment.

- Consumer – Loans in this segment primarily include home equity lines of credit (representing both first and second liens), indirect automobile loans and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. Consumer loan collections depend on the borrower’s continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

In computing the allowance for loan losses, we do not assign a general valuation allowance to the Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) loans that we purchase as such loans are fully guaranteed. These loans are included in commercial business loans.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut and Rhode Island. To a lesser extent, certain commercial real estate loans are secured by collateral located outside of our primary market area with concentrations in Massachusetts and New Hampshire. Accordingly, the collateral value of a substantial portion of the Company's loan portfolio and real estate acquired through foreclosure is susceptible to changes in local market conditions.

Although management believes it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and the Company’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan losses in conformity with GAAP, our regulators, in reviewing the loan portfolio, may request us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate or increases may be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses would adversely affect the Company’s financial condition and results of operations.

Interest and Fees on Loans
Interest on loans is accrued and included in net interest income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectibility of the loan or loan interest becomes uncertain. Subsequent recognition of income occurs only to the extent payment is received subject to management's

assessment of the collectibility of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and the borrower has made regular payments in accordance with the terms of the loan over a period of at least six months. Interest collected on nonaccrual loans is recognized only to the extent cash payments are

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received, and may be recorded as a reduction to principal if the collectibility of the principal balance of the loan is unlikely.

Loan origination fees, direct loan origination costs and loan purchase premiums are deferred, and the net amount is recognized as an adjustment of the related loan's yield utilizing the interest method over the contractual life of the loan. In addition, discounts related to fair value adjustments for loans receivable acquired in a business combination or asset purchase are accreted into earnings over the contractual term as an adjustment of the related loan's yield. The Company periodically evaluates the cash flows expected to be collected for loans acquired with deteriorated credit quality. Changes in the expected cash flows compared to the expected cash flows as of the date of acquisition may impact the accretable yield or result in a charge to the provision for loan losses to the extent of a shortfall.

Common Share Repurchases
The Company is chartered in Maryland. Maryland law does not provide for treasury shares, rather shares repurchased by the Company constitute authorized but unissued shares. GAAP states that accounting for treasury stock shall conform to state law. Therefore, the cost of shares repurchased by the Company is allocated to common stock, additional paid-in capital and retained earnings balances.

Recent Accounting Pronouncements
Revenue from Contracts with Customers (Topic 606): In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that improves the revenue recognition requirements for contracts with customers. The core principle of the guidance is that an entity should recognize 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. To achieve the core principle, a company should apply a five step approach to revenue recognition. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or entered into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. Accordingly, the guidance does not apply to, among other things, the following: receivables (i.e. loans), debt and equity investments, equity method investments, joint ventures, derivatives and hedging, financial instruments and transfers and servicing. As significantly all of the Company's revenues are excluded from the scope of the guidance, adoption is not expected to have a material impact on the Company's consolidated financial statements. In August 2015, the FASB delayed the effective date for this guidance for one year to fiscal years beginning after December 15, 2017.

Financial Instruments (Subtopic 825-10): In January 2016, the FASB issued guidance addressing certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Targeted improvements to GAAP include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Leases (Topic 842): In February 2016, the FASB issued amended guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects

to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. It is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date; however, based on the current level of long-term leases in place, this is not expected to be material to the Company's consolidated financial statements.

Compensation - Stock Compensation (Topic 718): In March 2016, the FASB issued guidance to simplify the accounting for share-based payment transactions, including the income tax consequences of such transactions. Under the provisions of the update, the income tax consequences of excess tax benefits and deficiencies should be recognized in income tax expense in the reporting period in which the awards vest. Currently, excess tax benefits or deficiencies impact shareholders' equity directly to the extent there is a cumulative excess tax benefit. In the event that a tax deficiency has occurred during the reporting period and a cumulative tax benefit does not exist, the tax deficiency is recognized in income tax expense under current GAAP. The update also provides entities may continue to estimate forfeitures in accounting for stock based compensation or recognize them as they occur. The provisions of this update became effective for interim and annual periods beginning after December 15, 2016. The adoption of this guidance on January 1, 2017 did not have a material impact on Company's consolidated financial statements.

Financial Instruments - Credit Losses (Topic 326): In June 2016, the FASB issued guidance that significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The update will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to (1) financial assets subject to credit losses and measured at amortized cost and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. The CECL model does not apply to available for sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to current accounting guidance, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The update also simplifies the accounting model for purchased credit-impaired debt securities and loans. Disclosure requirements under the update have been expanded to include the entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by year of origination. The update is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual periods beginning after December 15, 2018. The update requires a modified retrospective transition under which a cumulative effect to equity will be recognized in the period of adoption. Management has developed a focus team that is reviewing and monitoring additional developments and accounting guidance to determine the impact to the Company's consolidated financial statements. Management began evaluating the models and related requirements and is developing an implementation plan.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230): In August 2016, the FASB issued guidance to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update provides guidance on eight specific cash flow

issues. The update is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this update should be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Business Combinations - Clarifying the Definition of a Business (Topic 805): In January 2017, the FASB issued guidance to clarify the definition of a business. The amendments in this update provide a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The amendments in this update are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this update should be applied prospectively on or after the effective date. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment (Topic 350): In January, 2017, the FASB issued guidance aimed at simplifying the subsequent measurement of goodwill. Under these amendments, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from tax deductible goodwill on the carrying amount of a reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this update should be applied on a prospective basis and are effective for annual and goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): In March 2017, the FASB issued guidance shortening the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Compensation - Stock Compensation (Topic 718): In May 2017, the FASB issued guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award

immediately before the original award is modified; and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied prospectively to an award modified on or after the adoption date.

The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. Unvested restricted shares are considered outstanding in the computation of basic earnings per share since the shares participate in dividends and the rights to the dividends are non-forfeitable. Diluted earnings per share is computed in a manner similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. The Company’s common stock equivalents relate solely to stock options. Repurchased common shares and unallocated common shares held by the Bank’s ESOP are not deemed outstanding for earnings per share calculations.

Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the weighted average market value for the periods presented, and are not considered in diluted earnings per share calculations. The Company had anti-dilutive common shares outstanding of 130,000 for the three and six months ended June 30, 2017 and 157,391 and 151,391 for the three and six months ended June 30, 2016, respectively.

The computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in Thousands, Except Per Share Amounts)			
Net income	$2,842	$ 1,728	$4,561	$ 3,269
Weighted average common shares outstanding:				
Basic	11,847,905	11,803,156	11,838,075	11,796,099
Effect of dilutive stock options	92,734	58,813	89,893	59,386
Diluted	11,940,639	11,861,969	11,927,968	11,855,485
Earnings per share:				
Basic	$0.24	$ 0.15	$0.39	$ 0.28
Diluted	$0.24	$ 0.15	$0.38	$ 0.28

NOTE 3. SECURITIES

Available for Sale Securities

The amortized cost, gross unrealized gains and losses and fair values of available for sale securities at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$ 72,784	$ 42	$ (608)	$ 72,218
Government-sponsored enterprises	9,235	77	(2)	9,310
Mortgage-backed securities:[1]				
Agency - residential	88,739	392	(762)	88,369
Non-agency - residential	84	—	(5)	79
Collateralized debt obligation	1,097	10	—	1,107
Obligations of state and political subdivisions	1,000	—	—	1,000
Tax-exempt securities	3,129	58	—	3,187
Total available for sale securities	$ 176,068	$ 579	$ (1,377)	$ 175,270

[1] Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises ("GSEs"). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by any of the GSEs or the U.S. Government.

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government	$ 64,894	$ 132	$ (730)	$ 64,296

and agency obligations				
Government-sponsored enterprises	11,267	97	—	11,364
Mortgage-backed securities:[1]				
Agency - residential	78,843	475	(1,016)	78,302
Non-agency - residential	93	—	(6)	87
Collateralized debt obligation	1,157	—	—	1,157
Obligations of state and political subdivisions	1,000	—	—	1,000
Tax-exempt securities	3,145	22	(6)	3,161
Total available for sale securities	$ 160,399	$ 726	$ (1,758)	$ 159,367

[1] Agency securities refer to debt obligations issued or guaranteed by government corporations or GSEs. Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by any of the GSEs or the U.S. Government.

The amortized cost and fair value of debt securities by contractual maturities at June 30, 2017 are presented below. Maturities are based on the final contractual payment dates and do not reflect the impact of potential prepayments or early redemptions. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$13,481	$13,485
After 1 but within 5 years	21,640	21,665
After 5 but within 10 years	7,575	7,486
After 10 years	44,549	44,186
	87,245	86,822
Mortgage-backed securities	88,823	88,448
Total debt securities	$176,068	$175,270

There were no sales of available for sale securities for the three and six months ended June 30, 2017 and 2016.

The following tables present information pertaining to securities with gross unrealized losses at June 30, 2017 and December 31, 2016, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position.

June 30, 2017	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$25,603	$ 102	$26,982	$ 506	$52,585	$ 608
Government sponsored enterprises	299	2	—	—	299	2
Mortgage-backed securities:						
Agency - residential	51,795	522	12,558	240	64,353	762
Non-agency - residential	—	—	79	5	79	5
Total	$77,697	$ 626	$39,619	$ 751	$117,316	$ 1,377

December 31, 2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$21,531	$ 227	$19,272	$ 503	$40,803	$ 730
Mortgage-backed securities:						
Agency - residential	49,961	756	9,585	260	59,546	1,016
Non-agency - residential	—	—	87	6	87	6

Tax-exempt securities	1,121	6	—	—	1,121	6
Total	$72,613	$ 989	$28,944	$ 769	$101,557	$ 1,758

At June 30, 2017, 60 debt securities with gross unrealized losses had an aggregate depreciation of 1.16% of the Company's amortized cost basis. The unrealized losses are primarily related to the Company's U.S. Government and agency obligations and agency mortgage-backed securities. There were no investments deemed other-than-temporarily impaired for the three and six months ended June 30, 2017 and 2016. The following summarizes, by

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security type, the basis for management's determination during the preparation of the financial statements of whether the applicable investments within the Company's securities portfolio were not other-than-temporarily impaired at June 30, 2017.

U.S. Government and Agency Obligations and Mortgage-backed Securities - Agency - Residential. The unrealized losses on the Company's U.S. Government and agency obligations and mortgage-backed agency-residential securities related primarily to a widening of the rate spread to comparable treasury securities. The Company does not expect these securities to settle at a price less than the par value of the securities.

Mortgage-backed Securities - Non-Agency - Residential. The unrealized losses on the Company's non-agency-residential mortgage-backed securities relate to one investment which has been evaluated by management and no potential credit loss was identified.

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loan Portfolio
The composition of the Company's loan portfolio at June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017	December 31, 2016
	(In Thousands)	
Real estate loans:		
Residential - 1 to 4 family	$408,717	$417,064
Multi-family and commercial	448,692	421,668
Construction	25,838	36,026
Total real estate loans	883,247	874,758
Commercial business loans:	102,640	116,383

SBA and USDA guaranteed		
Time share	48,907	51,083
Condominium association	26,207	23,531
Medical loans	26,787	27,180
Other	92,906	79,524
Total commercial business loans	297,447	297,701
Consumer loans:		
Home equity	54,895	55,228
Indirect automobile	213	501
Other	1,689	1,687
Total consumer loans	56,797	57,416
Total loans	1,237,491	1,229,875
Deferred loan origination costs, net of fees	2,397	2,268
Allowance for loan losses	(12,147)	(11,820)
Loans receivable, net	$ 1,227,741	$ 1,220,323

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The Company purchased commercial loans totaling $19.3 million during the six months ended June 30, 2017. For the twelve months ended December 31, 2016, the Company purchased commercial loans totaling $37.7 million.

Allowance for Loan Losses
Changes in the allowance for loan losses for the three and six months ended June 30, 2017 and 2016 are as follows:

Three Months Ended June 30, 2017	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,189	$ 6,139	$ 541	$ 3,397	$ 734	$12,000
Provision (credit) for loan losses	14	91	21	46	(2)	170
Loans charged-off	(22)	—	—	(14)	(1)	(37)
Recoveries of loans previously charged-off	—	—	—	10	4	14
Balance at end of period	$1,181	$ 6,230	$ 562	$ 3,439	$ 735	$12,147

Six Months Ended June 30, 2017	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,149	$ 5,724	$ 952	$ 3,266	$ 729	$11,820
Provision (credit) for loan losses	51	506	(390)	162	1	330
Loans charged-off	(22)	—	—	(14)	(1)	(37)
Recoveries of loans previously charged-off	3	—	—	25	6	34
Balance at end of period	$1,181	$ 6,230	$ 562	$ 3,439	$ 735	$12,147

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Three Months Ended June 30, 2016	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,033	$ 5,202	$ 573	$ 2,674	$ 651	$10,133
Provision for loan losses	54	109	225	22	172	582
Loans charged-off	(61)	—	—	(35)	(117)	(213)
Recoveries of loans previously charged-off	—	109	—	32	—	141
Balance at end of period	$1,026	$ 5,420	$ 798	$ 2,693	$ 706	$10,643

Six Months Ended June 30, 2016	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,036	$ 5,033	$ 516	$ 2,625	$ 653	$9,863
Provision for loan losses	44	302	282	92	173	893
Loans charged-off	(82)	(24)	—	(68)	(120)	(294)
Recoveries of loans previously charged-off	28	109	—	44	—	181
Balance at end of period	$1,026	$ 5,420	$ 798	$ 2,693	$ 706	$10,643

Further information pertaining to the allowance for loan losses at June 30, 2017 and December 31, 2016 is as follows:

June 30, 2017	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$320	$ 260	$ —	$ 1	$ 53	$634
Allowance for loans individually or collectively evaluated and not deemed to be impaired	861	5,970	562	3,438	682	11,513
Allowance for loans acquired with deteriorated credit quality	—	—	—	—	—	—
Total loan loss allowance	$1,181	$ 6,230	$ 562	$ 3,439	$ 735	$12,147
Loans individually evaluated and deemed to be impaired	$5,568	$ 6,978	$ —	$ 797	$ 364	$13,707
Loans individually or collectively evaluated and not deemed to be impaired	402,761	439,373	25,838	296,650	56,433	1,221,055
Amount of loans acquired with deteriorated credit quality	388	2,341	—	—	—	2,729

Total loans	$408,717	$ 448,692	$ 25,838	$ 297,447	$ 56,797	$1,237,491

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December 31, 2016	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$306	$ 240	$ —	$ 95	$ 52	$693
Allowance for loans individually or collectively evaluated and not deemed to be impaired	843	5,484	952	3,171	677	11,127
Allowance for loans acquired with deteriorated credit quality	—	—	—	—	—	—
Total loan loss allowance	$1,149	$ 5,724	$ 952	$ 3,266	$ 729	$11,820
Loans individually evaluated and deemed to be impaired	$6,450	$ 7,257	$ —	$ 607	$ 453	$14,767
Loans individually or collectively evaluated and not deemed to be impaired	410,221	411,637	36,026	297,094	56,963	1,211,941
Amount of loans acquired with deteriorated credit quality	393	2,774	—	—	—	3,167
Total loans	$417,064	$ 421,668	$ 36,026	$ 297,701	$ 57,416	$1,229,875

Past Due Loans

The following represents an aging of loans at June 30, 2017 and December 31, 2016:

June 30, 2017	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
(In Thousands)						
Real Estate:						
Residential - 1 to 4 family	$51	$294	$1,446	$1,791	$406,926	$408,717
Multi-family and	—	—	27	27	448,665	448,692

commercial						
Construction	—	—	—	—	25,838	25,838
Commercial Business:						
SBA and USDA guaranteed	—	577	—	577	102,063	102,640
Time share	—	—	—	—	48,907	48,907
Condominium association	—	—	—	—	26,207	26,207
Medical loans	—	14	—	14	26,773	26,787
Other	11	—	313	324	92,582	92,906
Consumer:						
Home equity	261	—	179	440	54,455	54,895
Indirect automobile	5	—	—	5	208	213
Other	1	—	—	1	1,688	1,689
Total	$329	$885	$1,965	$3,179	$1,234,312	$1,237,491

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December 31, 2016	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
(In Thousands)						
Real Estate:						
Residential - 1 to 4 family	$4,781	$1,128	$1,547	$7,456	$409,608	$417,064
Multi-family and commercial	2,752	250	351	3,353	418,315	421,668
Construction	—	—	—	—	36,026	36,026
Commercial Business:						
SBA and USDA guaranteed	1,628	—	—	1,628	114,755	116,383
Time share	—	—	—	—	51,083	51,083
Condominium association	—	—	—	—	23,531	23,531
Medical loans	—	—	—	—	27,180	27,180
Other	431	—	593	1,024	78,500	79,524
Consumer:						
Home equity	182	—	179	361	54,867	55,228
Indirect automobile	9	—	—	9	492	501
Other	4	2	5	11	1,676	1,687
Total	$9,787	$1,380	$2,675	$13,842	$1,216,033	$1,229,875

The Company did not have any loans that were past due 90 days or more and still accruing interest at June 30, 2017 or December 31, 2016.

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Impaired and Nonaccrual Loans

The following is a summary of impaired loans and nonaccrual loans at June 30, 2017 and December 31, 2016:

	Impaired Loans[1]			
June 30, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	$ 3,224	$ 3,260	$ —	$ 2,278
Multi-family and commercial	5,055	5,055	—	654
Commercial Business:				
Medical loans	14	28	—	14
Other	756	756	—	744
Consumer:				
Home equity	185	185	—	85
Other	—	—	—	4
Total impaired loans without valuation allowance	9,234	9,284	—	3,779
Impaired loans with valuation				

allowance:				
Real Estate:				
Residential - 1 to 4 family	2,344	2,344	320	623
Multi-family and commercial	3,838	3,838	260	95
Commercial business - Other	27	27	1	27
Consumer - Home equity	179	277	53	179
Total impaired loans with valuation allowance	6,388	6,486	634	924
Total impaired loans	$ 15,622	$ 15,770	$ 634	$ 4,703

[1] Includes loans acquired with deteriorated credit quality from the Newport Federal Savings Bank ("Newport") merger and performing troubled debt restructurings. Some loans acquired with deteriorated credit quality have not been included as a result of sustained performance. These loans amounted to $814,000 at June 30, 2017.

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	Impaired Loans[(1)]			
December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	$3,960	$4,013	$ —	$ 2,753
Multi-family and commercial	5,807	5,807	—	885
Commercial business - Other	512	512	—	498
Consumer - Home equity	174	174	—	174
Consumer - Indirect automobile	—	—	—	6
Total impaired loans without valuation allowance	10,453	10,506	—	4,316
Impaired loans with				

valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	2,489	2,489	306	672
Multi-family and commercial	3,789	3,789	240	171
Commercial business - Other	95	95	95	95
Consumer - Home equity	280	378	52	179
Total impaired loans with valuation allowance	6,653	6,751	693	1,117
Total impaired loans	$ 17,106	$ 17,257	$ 693	$ 5,433

(1) Includes loans acquired with deteriorated credit quality from the Newport merger and performing troubled debt restructurings. Some loans acquired with deteriorated credit quality have not been included as a result of sustained performance. These loans amounted to $828,000 at December 31, 2016.

The Company reviews and establishes, if necessary, an allowance for certain impaired loans for the amount by which the present value of expected cash flows (or observable market price of loan or fair value of the collateral if the loan is collateral dependent) are lower than the carrying value of the loan. At June 30, 2017 and December 31, 2016, the Company concluded that certain impaired loans required no valuation allowance as a result of management's measurement of impairment. No additional funds are advanced to those borrowers whose loans are deemed impaired without prior approval of the Loan Committee or the Board of Directors.

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Additional information related to impaired loans is as follows:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$5,985	$ 31	$ 3	$6,188	$ 70	$ 9
Multi-family and commercial	8,016	102	—	8,858	226	11
Commercial business:						
Medical loans	7	—	—	3	—	—
Other	1,415	36	27	1,118	44	27
Consumer:						
Home equity	381	1	—	422	3	1
Other	5	—	—	—	—	—
Total	$15,809	$ 170	$ 30	$16,591	$ 343	$ 48

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$5,736	$ 27	$ —	$5,930	$ 51	$ —
Multi-family and commercial	8,762	64	—	7,738	148	—
Commercial business - Other	680	—	—	637	—	—
Consumer - Home equity	327	1	—	222	2	1
Total	$15,505	$ 92	$ —	$14,527	$ 201	$ 1

Credit Quality Information

The Company utilizes an eight-grade internal loan rating system for all loans in the portfolio, with the exception of its purchased SBA and USDA commercial business loans that are fully guaranteed by the U.S. government, as follows:

- Pass (Ratings 1-4): Loans in these categories are considered low to average risk.
- Special Mention (Rating 5): Loans in this category are starting to show signs of potential weakness and are being closely monitored by management.
- Substandard (Rating 6): Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the

Company will sustain some loss if the weakness is not corrected.

- o Doubtful (Rating 7): Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.
- o Loss (Rating 8): Loans in this category are considered uncollectible and of such little value that their continuance as assets is not warranted.

Management periodically reviews the ratings described above and the Company's internal audit function reviews components of the credit files, including the assigned risk ratings, of certain commercial loans as part of its loan review.

The following tables present the Company's loans by risk rating at June 30, 2017 and December 31, 2016:

June 30, 2017	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)						
Real Estate:							
Residential - 1 to 4 family	$ —	$ 400,139	$ 1,534	$ 7,044	$ —	$ —	$ 408,717
Multi-family and commercial	—	424,819	13,121	10,752	—	—	448,692
Construction	—	25,838	—	—	—	—	25,838
Total real estate loans	—	850,796	14,655	17,796	—	—	883,247
Commercial Business:							
SBA and USDA guaranteed	102,640	—	—	—	—	—	102,640
Time share	—	48,907	—	—	—	—	48,907
Condominium association	—	26,207	—	—	—	—	26,207
Medical loans	—	26,773	—	14	—	—	26,787
Other	—	86,725	3,857	2,324	—	—	92,906
Total commercial business loans	102,640	188,612	3,857	2,338	—	—	297,447
Consumer:							
Home equity	—	54,413	37	445	—	—	54,895
Indirect automobile	—	213	—	—	—	—	213
Other	—	1,570	115	4	—	—	1,689
Total consumer loans	—	56,196	152	449	—	—	