INDEPENDENT BANK CORP /MI/
Form 10-Q
August 03, 2018

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2018

Commission file number 0-7818

INDEPENDENT BANK CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-2032782
(State or jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

4200 East Beltline, Grand Rapids, Michigan 49525
(Address of principal executive offices)

(616) 527-5820
(Registrant's telephone number, including area code)

NONE
Former name, address and fiscal year, if changed since last report.

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, smaller reporting company or an emerging growth company.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

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

Common stock, no par value	24,150,855
Class	Outstanding at August 3, 2018

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Statements in this report that are not statements of historical fact, including statements that include terms such as ‘‘will,’’ ‘‘may,’’ ‘‘should,’’ ‘‘believe,’’ ‘‘expect,’’ ‘‘forecast,’’ ‘‘anticipate,’’ ‘‘estimate,’’ ‘‘project,’’ ‘‘intend,’’ ‘‘likely,’’ ‘‘optimistic about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive.

In addition, factors that may cause actual results to differ from expectations regarding the April 1, 2018 acquisition of TCSB Bancorp, Inc. include, but are not limited to, the reaction to the transaction of the companies’ customers, employees and counterparties; customer disintermediation; inflation; expected synergies, cost savings and other financial benefits of the transaction might not be realized within the expected timeframes or might be less than projected; credit and interest rate risks associated with the parties' respective businesses, customers, borrowings, repayment, investment, and deposit practices; general economic conditions, either nationally or in the market areas in which the parties operate or anticipate doing business, are less favorable than expected; new regulatory or legal requirements or obligations; and other risks.

The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1. INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

	June 30, 2018 (unaudited)	December 31, 2017
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 36,433	$ 36,994
Interest bearing deposits	22,278	17,744
Cash and Cash Equivalents	58,711	54,738
Interest bearing deposits - time	2,478	2,739
Equity securities at fair value	336	-
Trading securities	-	455
Securities available for sale	450,593	522,925
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	16,321	15,543
Loans held for sale, carried at fair value	50,915	39,436
Loans held for sale, carried at lower of cost or fair value	13,216	-
Loans		
Commercial	1,106,987	853,260
Mortgage	988,622	849,530
Installment	371,708	316,027
Total Loans	2,467,317	2,018,817
Allowance for loan losses	(23,504)	(22,587)
Net Loans	2,443,813	1,996,230
Other real estate and repossessed assets	1,689	1,643
Property and equipment, net	39,660	39,149
Bank-owned life insurance	54,573	54,572
Deferred tax assets, net	11,426	15,089
Capitalized mortgage loan servicing rights	21,848	15,699
Other intangibles	7,004	1,586
Goodwill	29,012	-
Accrued income and other assets	32,927	29,551
Total Assets	$ 3,234,522	$ 2,789,355
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 871,959	$ 768,333
Savings and interest-bearing checking	1,226,492	1,064,391
Reciprocal	66,540	50,979
Time	389,118	374,872
Brokered time	226,407	141,959
Total Deposits	2,780,516	2,400,534
Other borrowings	40,584	54,600
Subordinated debentures	39,354	35,569
Accrued expenses and other liabilities	36,985	33,719
Total Liabilities	2,897,439	2,524,422
Shareholders’ Equity		

Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 24,143,044 shares at June 30, 2018 and 21,333,869 shares at December 31, 2017	389,195	324,986
Accumulated deficit	(42,898)	(54,054)
Accumulated other comprehensive loss	(9,214)	(5,999)
Total Shareholders' Equity	337,083	264,933
Total Liabilities and Shareholders' Equity	$ 3,234,522	$ 2,789,355

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	$29,674	$19,949	$53,027	$39,807
Interest on securities				
Taxable	2,720	2,781	5,355	5,535
Tax-exempt	444	511	923	966
Other investments	265	292	595	604
Total Interest Income	33,103	23,533	59,900	46,912
Interest Expense				
Deposits	3,209	1,478	5,496	2,921
Other borrowings and subordinated debentures	914	563	1,488	1,033
Total Interest Expense	4,123	2,041	6,984	3,954
Net Interest Income	28,980	21,492	52,916	42,958
Provision for loan losses	650	583	965	224
Net Interest Income After Provision for Loan Losses	28,330	20,909	51,951	42,734
Non-interest Income				
Service charges on deposit accounts	3,095	3,175	6,000	6,184
Interchange income	2,504	2,005	4,750	3,927
Net gains (losses) on assets				
Mortgage loans	3,255	3,344	5,826	5,915
Securities	9	(34)	(164)	(7)
Mortgage loan servicing, net	1,235	(158)	3,456	667
Other	2,217	2,114	4,160	4,099
Total Non-interest Income	12,315	10,446	24,028	20,785
Non-interest Expense				
Compensation and employee benefits	15,869	13,380	30,337	27,527
Occupancy, net	2,170	1,920	4,434	4,062
Data processing	2,251	1,937	4,129	3,874
Merger related expenses	3,082	-	3,256	-
Furniture, fixtures and equipment	1,019	1,005	1,986	1,982
Communications	704	678	1,384	1,361
Loan and collection	692	670	1,369	1,083
Interchange expense	661	292	1,259	575
Advertising	543	519	984	1,025
Legal and professional	456	389	834	826
FDIC deposit insurance	250	202	480	400
Credit card and bank service fees	106	136	202	327
Other	1,958	1,633	3,242	3,288
Total Non-interest Expense	29,761	22,761	53,896	46,330
Income Before Income Tax	10,884	8,594	22,083	17,189
Income tax expense	2,067	2,663	4,105	5,284

Net Income	$8,817	$5,931	$17,978	$11,905
Net Income Per Common Share				
Basic	$0.37	$0.28	$0.79	$0.56
Diluted	$0.36	$0.27	$0.78	$0.55
Dividends Per Common Share				
Declared	$0.15	$0.10	$0.30	$0.20
Paid	$0.15	$0.10	$0.30	$0.20

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited) (In thousands)			
Net income	$8,817	$5,931	$17,978	$11,905
Other comprehensive income (loss), before tax				
Securities available for sale				
Unrealized gains (losses) arising during period	(1,198)	4,095	(5,063)	7,718
Change in unrealized gains (losses) for which a portion of other than temporary impairment has been recognized in earnings	(2)	107	(3)	85
Reclassification adjustments for (gains) losses included in earnings	26	(11)	45	(117)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	(1,174)	4,191	(5,021)	7,686
Income tax expense (benefit)	(246)	1,467	(1,054)	2,690
Unrealized gains (losses)recognized in other comprehensive income (loss) on securities available for sale, net of tax	(928)	2,724	(3,967)	4,996
Derivative instruments				
Unrealized gain arising during period	327	-	1,011	-
Reclassification adjustment for income recognized in earnings	(53)	-	(59)	-
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments	274	-	952	-
Income tax expense	58	-	200	-
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments, net of tax	216	-	752	-
Other comprehensive income (loss)	(712)	2,724	(3,215)	4,996
Comprehensive income	$8,105	$8,655	$14,763	$16,901

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2018	2017
	(unaudited - In thousands)	
Net Income	$ 17,978	$ 11,905
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	210,641	189,654
Disbursements for loans held for sale	(214,952)	(193,486)
Provision for loan losses	965	224
Deferred income tax expense	4,518	7,589
Deferred loan fees and costs	(2,457)	(3,002)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	3,192	3,119
Net gains on mortgage loans	(5,826)	(5,915)
Net losses on securities	164	7
Share based compensation	848	916
Increase in accrued income and other assets	(3,377)	(1,627)
Increase in accrued expenses and other liabilities	1,604	3,959
Total Adjustments	(4,680)	1,438
Net Cash From Operating Activities	13,298	13,343
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	31,445	7,830
Proceeds from maturities, prepayments and calls of securities available for sale	88,131	99,634
Purchases of securities available for sale	(47,054)	(69,824)
Proceeds from the sale of interest bearing deposits - time	2,474	-
Proceeds from the maturity of interest bearing deposits - time	1,842	250
Net increase in portfolio loans (loans originated, net of principal payments)	(181,365)	(202,167)
Proceeds from the sale of portfolio loans	16,460	-
Acquisition of TCSB Bancorp Inc., less cash received	23,516	-
Cash received from the sale of Mepco Finance Corporation assets, net	-	33,446
Proceeds from bank-owned life insurance	474	523
Proceeds from the sale of other real estate and repossessed assets	889	3,548
Capital expenditures	(2,033)	(1,904)
Net Cash Used in Investing Activities	(65,221)	(128,664)
Cash Flow From Financing Activities		
Net increase in total deposits	92,273	20,500
Net decrease in other borrowings	(3,093)	(1)
Proceeds from Federal Home Loan Bank Advances	1,044,000	242,000
Payments of Federal Home Loan Bank Advances	(1,069,287)	(165,908)
Dividends paid	(6,823)	(4,266)
Proceeds from issuance of common stock	147	57
Share based compensation withholding obligation	(1,321)	(487)
Net Cash From Financing Activities	55,896	91,895
Net Increase (Decrease) in Cash and Cash Equivalents	3,973	(23,426)
Cash and Cash Equivalents at Beginning of Period	54,738	83,194
Cash and Cash Equivalents at End of Period	$ 58,711	$ 59,768
Cash paid during the period for		
Interest	$ 6,545	$ 3,768

Income taxes	120	499
Transfers to other real estate and repossessed assets	641	1,014
Transfer of loans to held for sale	13,216	-
Purchase of securities available for sale not yet settled	-	4,366

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30,	
	2018	2017
	(unaudited) (In thousands)	
Balance at beginning of period	$264,933	$248,980
Cumulative effect of change in accounting	-	352
Balance at beginning of period, as adjusted	264,933	249,332
Net income	17,978	11,905
Cash dividends declared	(6,823)	(4,266)
Acquisition of TCSB Bancorp, Inc.	64,536	-
Issuance of common stock	147	57
Share based compensation	848	916
Share based compensation withholding obligation	(1,321)	(487)
Net change in accumulated other comprehensive loss, net of related tax effect	(3,215)	4,996
Balance at end of period	$337,083	$262,453

See notes to interim condensed consolidated financial statements (unaudited)

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2017 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2018 and December 31, 2017, and the results of operations for the three and six-month periods ended June 30, 2018 and 2017. The results of operations for the three and six-month periods ended June 30, 2018, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the determination of the allowance for loan losses, the valuation of capitalized mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2017 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". This ASU amends existing guidance related to the accounting for leases. These amendments, among other things, require lessees to account for most leases on the balance sheet while recognizing expense on the income statement in a manner similar to existing guidance. For lessors the guidance modifies the classification criteria and the accounting for sales-type and direct finance leases. This amended guidance is effective for us on January 1, 2019 and is not expected to have a material impact on our consolidated operating results or financial condition. Based on a review of our operating leases that we currently have in place we do not expect a material change in the recognition, measurement and presentation of lease expense or impact on cash flow. While the primary impact will be the recognition of certain operating leases on our Condensed Consolidated Statements of Financial Condition this impact is not expected to be material.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments". This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For securities available for sale, allowances will be recorded rather than reducing the carrying amount as is done under the current other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This amended guidance is effective for us on January 1, 2020. We began evaluating this ASU in 2016 and have formed a committee that includes personnel from various areas of Independent Bank (the "Bank") that meets regularly to discuss the implementation of the ASU. We are currently in the process of gathering data and reviewing loss methodologies and have engaged third party resources that will assist us in the implementation of this ASU. While we have not yet determined what the impact will be on our consolidated operating results or financial condition by the nature of the implementation of an expected loss model compared to an incurred loss approach, we would expect our allowance for loan losses ("AFLL") to increase under this ASU.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities". This new ASU amends the hedge accounting model in Topic 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This amended guidance is effective for us on January 1, 2019, and given our current level of derivatives designated as hedges is not expected to have a material impact on our consolidated operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", ("ASU 2014-09"). This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. We adopted this ASU using the modified retrospective approach with no impact to our accumulated deficit at January 1, 2018. Financial instruments for the most part and related contractual rights and obligations which are the sources of the majority of our operating revenue are excluded from the scope of this amended guidance. Those operating revenue streams that are included in the scope of this amended guidance were not materially impacted. Results for reporting periods beginning after January 1, 2018 are presented under this ASU while prior period amounts continue to be reported in accordance with legacy GAAP. The impact of the adoption of this ASU on our Condensed Consolidated Statements of Operations for the three and six month periods ending June 30, 2018 is summarized in the table below. In addition, see note #17 for further discussion on our accounting policies for operating revenue streams that are included in the scope of this amended guidance.

The impact of the adoption of ASU 2014-09 on our Condensed Consolidated Statement of Operations follows:

	As Reported	Under Legacy GAAP	Impact of ASU 2014-09	
	(In thousands)			
Three months ended June 30, 2018				
Non-interest income - Interchange income	$2,504	$ 2,144	$ 360	(1)
Non-interest expense - interchange expense	$661	$ 301	360	(1)
Impact on net income			$ -	
Six months ended June 30, 2018				
Non-interest income - Interchange income	$4,750	$ 4,082	$ 668	(1)
Non-interest expense - interchange expense	$1,259	$ 591	668	(1)
Impact on net income			$ -	

(1) Represents certain costs charged by payment networks that were previously netted against interchange income.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU amends existing guidance related to the accounting for certain financial assets and liabilities. These amendments, among other things, require 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, require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This amended guidance was effective for us on January 1, 2018. The adoption of this of this ASU did not have a material impact on our consolidated operating results or financial condition. As a result of the adoption of this ASU our equity securities previously classified as trading securities are now classified as equity securities at fair value on our June 30, 2018 Condensed Consolidated Statement of Financial Condition. In addition, this amended guidance impacted certain fair value disclosure items (see note #12).

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805), Clarifying the Definition of a Business". This new ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses which distinction determines whether goodwill is recorded or not. This amended guidance was effective for us on January 1, 2018, and did not have a material impact on our consolidated operating results or financial condition.

In January 2017, the FASB issued ASU 2017-4, "Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment". This new ASU amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit's fair value. This amended guidance is effective for us on January 1, 2020 with early application permitted. Due to our recent acquisition (see note #16) and expectations this ASU will be relevant to us in 2018 we elected to adopt this amended guidance as of January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated operating results or financial condition.

In February 2018, the FASB issued ASU 2018-02, ‘‘Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income’’. This new ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. As a result, this amended guidance eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This amended guidance is effective for us on January 1, 2019, with early application permitted in any period for which financial statements have not yet been issued. We elected to adopt this amended guidance during the fourth quarter of 2017 and it resulted in a $0.04 million reclassification between accumulated other comprehensive loss and accumulated deficit.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
June 30, 2018				
U.S. agency	$23,094	$3	$285	$22,812
U.S. agency residential mortgage-backed	131,317	874	2,190	130,001
U.S. agency commercial mortgage-backed	9,659	1	276	9,384
Private label mortgage-backed	30,593	392	702	30,283
Other asset backed	77,292	170	182	77,280
Obligations of states and political subdivisions	146,941	343	3,205	144,079
Corporate	33,285	64	514	32,835
Trust preferred	1,959	-	61	1,898
Foreign government	2,069	-	48	2,021
Total	$456,209	$1,847	$7,463	$450,593
December 31, 2017				
U.S. Treasury	$898	$-	$-	$898
U.S. agency	25,667	82	67	25,682
U.S. agency residential mortgage-backed	137,785	1,116	983	137,918
U.S. agency commercial mortgage-backed	9,894	36	170	9,760
Private label mortgage-backed	29,011	428	330	29,109
Other asset backed	93,811	202	115	93,898
Obligations of states and political subdivisions	174,073	755	1,883	172,945
Corporate	47,365	578	90	47,853
Trust preferred	2,929	-	127	2,802
Foreign government	2,087	-	27	2,060
Total	$523,520	$3,197	$3,792	$522,925

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
June 30, 2018						
U.S. agency	$13,530	$ 211	$ 7,843	$ 74	$21,373	$ 285
U.S. agency residential mortgage-backed	39,328	988	31,119	1,202	70,447	2,190
U.S. agency commercial mortgage-backed	4,294	57	4,996	219	9,290	276
Private label mortgage- backed	16,797	423	4,107	279	20,904	702
Other asset backed	27,318	109	11,003	73	38,321	182
Obligations of states and political subdivisions	75,486	1,534	38,012	1,671	113,498	3,205
Corporate	20,679	395	3,862	119	24,541	514
Trust preferred	-	-	1,898	61	1,898	61
Foreign government	-	-	2,021	48	2,021	48
Total	$197,432	$ 3,717	$ 104,861	$ 3,746	$302,293	$ 7,463
December 31, 2017						
U.S. agency	$5,466	$ 26	$ 5,735	$ 41	$11,201	$ 67
U.S. agency residential mortgage-backed	22,198	229	40,698	754	62,896	983
U.S. agency commercial mortgage-backed	2,181	34	3,994	136	6,175	170
Private label mortgage-backed	11,390	92	4,396	238	15,786	330
Other asset backed	20,352	40	16,648	75	37,000	115
Obligations of states and political subdivisions	76,574	936	28,246	947	104,820	1,883
Corporate	14,440	33	3,943	57	18,383	90
Trust preferred	-	-	2,802	127	2,802	127
Foreign government	489	10	1,571	17	2,060	27
Total	$153,090	$ 1,400	$ 108,033	$ 2,392	$261,123	$ 3,792

Our portfolio of securities available for sale is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss).

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U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at June 30, 2018, we had 46 U.S. agency, 135 U.S. agency residential mortgage-backed and 18 U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to increases in interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label mortgage backed securities — at June 30, 2018, we had 29 of this type of security whose fair value is less than amortized cost. Unrealized losses are primarily due to credit spread widening and increases in interest rates since their acquisition.

Two private label mortgage-backed securities (included in the securities discussed further below) were reviewed for other than temporary impairment ("OTTI") utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. See further discussion below.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Other asset backed — at June 30, 2018, we had 75 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at June 30, 2018, we had 342 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to wider benchmark pricing spreads and increases in interest rates since acquisition. Tax exempt securities have been negatively impacted by lower federal tax rates signed into law in December, 2017. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at June 30, 2018, we had 30 corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities — at June 30, 2018, we had two trust preferred securities whose fair value is less than amortized cost. Both of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening.

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One of the securities is rated by a major rating agency as investment grade while the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.97 million as of June 30, 2018, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	$935	$ (27)	$ 1,860	$ (69)
Unrated issues	963	(34)	942	(58)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Foreign government — at June 30, 2018, we had two foreign government securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

We recorded no credit related OTTI charges in our Condensed Consolidated Statements of Operations related to securities available for sale during the three and six month periods ended June 30, 2018 and 2017, respectively.

At June 30, 2018, three private label mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
Fair value	$887	$ 873	$ 46	$1,806
Amortized cost	737	704	-	1,441
Non-credit unrealized loss	-	-	-	-
Unrealized gain	150	169	46	365
Cumulative credit related OTTI	757	457	380	1,594

Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. All three of these securities have unrealized gains at June 30, 2018. The original amortized cost (current amortized cost excluding cumulative credit related OTTI) for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for these securities is now less than previously recorded credit related OTTI amounts.

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A roll forward of credit losses recognized in earnings on securities available for sale follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 1,594	$ 1,594	$ 1,594	$ 1,594
Additions to credit losses on securities for which no previous OTTI was recognized	-	-	-	-
Increases to credit losses on securities for which OTTI was previously recognized	-	-	-	-
Balance at end of period	$ 1,594	$ 1,594	$ 1,594	$ 1,594

The amortized cost and fair value of securities available for sale at June 30, 2018, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$16,943	$16,925
Maturing after one year but within five years	79,682	78,851
Maturing after five years but within ten years	61,039	59,771
Maturing after ten years	49,684	48,098
	207,348	203,645
U.S. agency residential mortgage-backed	131,317	130,001
U.S. agency commercial mortgage-backed	9,659	9,384
Private label mortgage-backed	30,593	30,283
Other asset backed	77,292	77,280
Total	$456,209	$450,593

The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the six month periods ending June 30, follows:

		Realized	
	Proceeds	Gains	Losses
	(In thousands)		
2018	$31,445	$81	$ 126
2017	7,830	117	-

Certain preferred stocks have been classified as equity securities at fair value in our Condensed Consolidated Statement of Financial Condition beginning on January 1, 2018. Previously these preferred stocks were classified as trading securities. See note #2. During the six months ended June 30, 2018 and 2017 we recognized losses on these preferred stocks of $0.119 million and $0.124 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. These amounts relate to preferred stock still held at each respective period end.

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4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended June 30, follows:

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
2018					
Balance at beginning of period	$6,026	$8,621	$795	$7,629	$23,071
Additions (deductions)					
Provision for loan losses	(362)	216	138	658	650
Recoveries credited to the allowance	434	177	235	-	846
Loans charged against the allowance	(25)	(718)	(320)	-	(1,063)
Balance at end of period	$6,073	$8,296	$848	$8,287	$23,504
2017					
Balance at beginning of period	$5,088	$8,109	$911	$5,930	$20,038
Additions (deductions)					
Provision for loan losses	(39)	38	73	511	583
Recoveries credited to the allowance	202	191	264	-	657
Loans charged against the allowance	(151)	(193)	(348)	-	(692)
Balance at end of period	$5,100	$8,145	$900	$6,441	$20,586

An analysis of the allowance for loan losses by portfolio segment for the six months ended June 30, follows:

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
2018					
Balance at beginning of period	$5,595	$8,733	$864	$7,395	$22,587
Additions (deductions)					
Provision for loan losses	(497)	363	207	892	965
Recoveries credited to the allowance	1,040	357	463	-	1,860
Loans charged against the allowance	(65)	(1,157)	(686)	-	(1,908)
Balance at end of period	$6,073	$8,296	$848	$8,287	$23,504
2017					
Balance at beginning of period	$4,880	$8,681	$1,011	$5,662	$20,234
Additions (deductions)					
Provision for loan losses	(100)	(661)	206	779	224
Recoveries credited to the allowance	606	677	503	-	1,786
Loans charged against the allowance	(286)	(552)	(820)	-	(1,658)
Balance at end of period	$5,100	$8,145	$900	$6,441	$20,586

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Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
June 30, 2018					
Allowance for loan losses					
Individually evaluated for impairment	$772	$5,302	$ 233	$ -	$6,307
Collectively evaluated for impairment	5,301	2,994	615	8,287	17,197
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance balance	$6,073	$8,296	$ 848	$ 8,287	$23,504
Loans					
Individually evaluated for impairment	$10,708	$49,886			