ESSA Bancorp, Inc.
Form 10-Q
February 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2017

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	20-8023072 (I.R.S. Employer Identification Number)
200 Palmer Street, Stroudsburg, Pennsylvania (Address of Principal Executive Offices)	18360 (Zip Code)

(570) 421-0531

(Registrant’s telephone number)

N/A

(Former name or former address, 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 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 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, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filers," "accelerated filers," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

As of February 7, 2018 there were 11,657,173 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

ESSA Bancorp, Inc.

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements
ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December, 31 2017	September 30, 2017
	(dollars in thousands)	
Cash and due from banks	$33,638	$ 36,008
Interest-bearing deposits with other institutions	5,147	5,675
Total cash and cash equivalents	38,785	41,683
Certificates of deposit	500	500
Investment securities available for sale, at fair value	391,202	390,452
Loans receivable (net of allowance for loan losses of $9,833 and $9,365)	1,276,335	1,236,681
Regulatory stock, at cost	16,845	13,832
Premises and equipment, net	15,736	16,234
Bank-owned life insurance	37,881	37,626
Foreclosed real estate	1,365	1,424
Intangible assets, net	1,700	1,844
Goodwill	13,801	13,801
Deferred income taxes	7,263	10,422
Other assets	21,003	20,719
TOTAL ASSETS	$1,822,416	$ 1,785,218
LIABILITIES		
Deposits	$1,251,021	$ 1,274,861
Short-term borrowings	214,036	137,446
Other borrowings	154,768	174,168
Advances by borrowers for taxes and insurance	11,409	5,163
Other liabilities	11,703	10,853
TOTAL LIABILITIES	1,642,937	1,602,491
STOCKHOLDERS' EQUITY		
Preferred Stock ($0.01 par value; 10,000,000 shares authorized, none issued)	—	—
Common stock ($0.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 11,634,790 and 11,596,263 outstanding at December 31, 2017 and September 30, 2017, respectively)	181	181
Additional paid in capital	180,532	180,764
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(8,604)	(8,720)
Retained earnings	88,546	91,147
Treasury stock, at cost; 6,498,305 and 6,536,832 shares outstanding at December 31, 2017 and September 30, 2017, respectively	(79,420)	(79,891)

Accumulated other comprehensive loss	(1,756)	(754)
TOTAL STOCKHOLDERS' EQUITY	179,479	182,727
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,822,416	$ 1,785,218

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended December 31, 2017	2016
	(dollars in thousands, except per share data)	
INTEREST INCOME		
Loans receivable, including fees	$ 12,783	$ 12,251
Investment securities:		
Taxable	2,058	1,874
Exempt from federal income tax	288	309
Other investment income	247	216
Total interest income	15,376	14,650
INTEREST EXPENSE		
Deposits	2,377	2,012
Short-term borrowings	584	251
Other borrowings	647	755
Total interest expense	3,608	3,018
NET INTEREST INCOME	11,768	11,632
Provision for loan losses	1,000	750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,768	10,882
NONINTEREST INCOME		
Service fees on deposit accounts	883	864
Services charges and fees on loans	369	354
Trust and investment fees	240	150
Earnings on Bank-owned life insurance	255	263
Insurance commissions	171	193
Other	51	33
Total noninterest income	1,969	1,857
NONINTEREST EXPENSE		
Compensation and employee benefits	6,008	6,177
Occupancy and equipment	1,185	1,091
Professional fees	566	745
Data processing	929	934
Advertising	158	305
Federal Deposit Insurance Corporation (FDIC) premiums	189	187

Gain on foreclosed real estate	(36)	(96)
Amortization of intangible assets	144	163
Other	1,139	896
Total noninterest expense	10,282	10,402
Income before income taxes	2,455	2,337
Income taxes	4,093	400
NET (LOSS) INCOME	$(1,638)	$1,937
(Loss) Earnings per share		
Basic	$(0.15)	$0.18
Diluted	$(0.15)	$0.18
Dividends per share	$0.09	$0.09

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(UNAUDITED)

	For the Three Months Ended December 31,	
	2017	2016
	(dollars in thousands)	
Net (loss) income	$(1,638)	$1,937
Other comprehensive income:		
Investment securities available for sale:		
Unrealized holding loss	(1,951)	(10,232)
Tax effect	663	3,479
Net of tax amount	(1,288)	(6,753)
Pension plan adjustment:		
Change in unrealized gains (losses)	—	136
Tax effect	—	(46)
Net of tax amount	—	90
Derivative and hedging activities adjustments:		
Changes in unrealized holding gain on derivative included in net income	457	1,052
Tax effect	(156)	(459)
Reclassification adjustment for gains on derivatives included in net income	(23)	11
Tax effect	8	(4)
Net of tax amount	286	600
Total other comprehensive loss	(1,002)	(6,063)
Comprehensive loss	$(2,640)	$(4,126)

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

	Common Stock Number of Shares	Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(dollars in thousands except per share data)							
Balance, September 30, 2017	11,596,263	$ 181	$ 180,764	$ (8,720)	$ 91,147	$ (79,891)	$ (754)	$ 182,727
Net loss					(1,638)			(1,638)
Other comprehensive loss							(1,002)	(1,002)
Cash dividends declared ($0.09 per share)					(963)			(963)
Stock based compensation			80					80
Allocation of ESOP stock			67	116				183
Allocation of treasury shares to incentive plan	22,994		(281)			281		—
Stock options exercised	15,533		(98)			190		92
Balance, December 31, 2017	11,634,790	$ 181	$ 180,532	$ (8,604)	$ 88,546	$ (79,420)	$ (1,756)	$ 179,479

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the three months ended December 31,	
	2017	2016
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net (loss) income	$(1,638)	$1,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000	750
Provision for depreciation and amortization	305	351
Amortization and accretion of discounts and premiums, net	1,167	1,123
Compensation expense on ESOP	183	166
Stock based compensation	80	66
Increase in accrued interest receivable	(124)	(181)
Increase (decrease) in accrued interest payable	184	(17)
Earnings on bank-owned life insurance	(255)	(263)
Deferred federal income taxes	3,329	78
(Decrease) increase in accrued pension liability	(135)	339
Gain on foreclosed real estate, net	(36)	(96)
Amortization of identifiable intangible assets	144	163
Other, net	1,660	914
Net cash provided by operating activities	5,864	5,330
INVESTING ACTIVITIES		
Certificates of deposit maturities	—	250
Investment securities available for sale:		
Proceeds from principal repayments and maturities	19,254	15,506
Purchases	(22,455)	(27,912)
Increase in loans receivable, net	(41,724)	(6,758)
Redemption of regulatory stock	3,151	5,123
Purchase of regulatory stock	(6,164)	(6,340)
Proceeds from sale of foreclosed real estate	498	867
Sale (purchase) of premises, equipment and software	45	(238)
Net cash used for investing activities	(47,395)	(19,502)
FINANCING ACTIVITIES		
Decrease in deposits, net	(23,840)	(21,879)
Net increase in short-term borrowings	76,590	45,458
Proceeds from other borrowings	14,600	4,750
Repayment of other borrowings	(34,000)	(19,780)
Increase in advances by borrowers for taxes and insurance	6,246	2,763
Dividends on common stock	(963)	(947)

Net cash provided by financing activities	38,633	10,365
Decrease in cash and cash equivalents	(2,898)	(3,807)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,683	43,658
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$38,785	$39,851
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$3,424	$3,035
Income taxes	(2)	(325)
Noncash items:		
Transfers from loans to foreclosed real estate	403	548
Unrealized holding loss	(1,951)	(10,096)

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the “Company”), its wholly owned subsidiary, ESSA Bank & Trust (the “Bank”), and the Bank’s wholly owned subsidiaries, ESSACOR Inc.; Pocono Investments Company; ESSA Advisory Services, LLC; Integrated Financial Corporation; and Integrated Abstract Incorporated, a wholly owned subsidiary of Integrated Financial Corporation. The primary purpose of the Company is to act as a holding company for the Bank. On November 6, 2014, the Company converted its status from a savings and loan holding company to a bank holding company. In addition, the Bank converted from a Pennsylvania-chartered savings association to a Pennsylvania-chartered savings bank. The Bank’s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton, Lehigh, Delaware, Chester, Montgomery, Lackawanna, and Luzerne Counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (the “FDIC”). The investment in the Bank on the parent company’s financial statements is carried at the parent company’s equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank and is currently inactive. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania corporation that provided investment advisory services to the general public and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania corporation that provided title insurance services and is currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management, are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three month period ended December 31, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three month periods ended December 31, 2017 and 2016.

	Three Months Ended	
	December 31, 2017	December 31, 2016
Weighted-average common shares outstanding	18,133,095	18,133,095
Average treasury stock shares	(6,521,843)	(6,720,901)
Average unearned ESOP shares	(854,325)	(899,601)

Average unearned non-vested shares	(39,789)	(37,561)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,717,138	10,475,032
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	—	1,018
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	—	128,022
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,717,138	10,604,072

At December 31, 2017 there were 41,062 shares of nonvested stock outstanding at an average weighted price of $15.98 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At December 31, 2016 there were 20,194 shares of nonvested stock outstanding at an average weighted price of $16.57 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles ("GAAP") and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ from those estimates.

4. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Since the guidance scopes out revenue associated with financial instruments, including loan receivables and investment securities, we do not expect the adoption of the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company's revenue is not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

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 Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires 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; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates 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 on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606), which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company's financial statements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a "set") is 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 a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The amendments in this Update clarify what constitutes a financial asset within the scope of Subtopic 610-20. The amendments also clarify that entities should identify each distinct nonfinancial asset or in substance nonfinancial asset that is promised to a counterparty and to derecognize each asset when the counterparty obtains control. There is also additional guidance provided for partial sales of a nonfinancial asset and when derecognition, and the related gain or loss, should be recognized. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715). The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this Update shorten 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. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update 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. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718), which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivative and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down-round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down-round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down-round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down- round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Accounting Standards Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied either retrospectively to outstanding financial instruments with a down-round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective or retrospectively to outstanding financial instruments with a down-round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 850), the objective of which is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the amendments in this Update make certain targeted improvements to simplify the application and disclosure of the hedge accounting guidance in current general accepted accounting principles. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any period after issuance. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this Update. The amended presentation and disclosure guidance is required only prospectively. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date the entity adopts Topic 842; otherwise, an entity should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. This Update is not expected to have a significant impact on the Company's financial statements.

5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale are summarized as follows (in thousands):

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$121,250	$ 104	$ (1,671)	$119,683
Freddie Mac	100,876	44	(1,281)	99,639
Governmental National Mortgage Association	18,976	40	(346)	18,670
Total mortgage-backed securities	241,102	188	(3,298)	237,992
Obligations of states and political subdivisions	64,262	1,259	(715)	64,806
U.S. government agency securities	17,214	28	(46)	17,196
Corporate obligations	48,947	408	(657)	48,698
Other debt securities	23,008	30	(553)	22,485
Total debt securities	394,533	1,913	(5,269)	391,177
Equity securities - financial services	25	—	—	25
Total	$394,558	$ 1,913	$ (5,269)	$391,202

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$119,333	$ 207	$ (1,203)	$118,337
Freddie Mac	98,668	177	(808)	98,037
Governmental National Mortgage Association	17,609	43	(203)	17,449
Total mortgage-backed securities	235,610	427	(2,214)	233,823
Obligations of states and political subdivisions	64,382	1,522	(546)	65,358

U.S. government agency securities	18,615	61	(5)	18,671
Corporate obligations	49,025	335	(618)	48,742
Other debt securities	24,200	47	(414)	23,833
Total debt securities	391,832	2,392	(3,797)	390,427
Equity securities - financial services	25	—	—	25
Total	$391,857	$ 2,392	$ (3,797)	$390,452

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The amortized cost and fair value of debt securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale Amortized Cost	Fair Value
Due in one year or less	$6,516	$6,515
Due after one year through five years	41,128	41,151
Due after five years through ten years	96,603	96,210
Due after ten years	250,286	247,301
Total	$394,533	$391,177

For the three months ended December 31, 2017 and 2016, the Company realized no gross gains or losses on proceeds from the sale of investment securities.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (dollars in thousands):

	December 31, 2017 Number of Securities	Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Fannie Mae	72	$52,704	$ (413)	$48,871	$ (1,258)	$101,575	$ (1,671)
Freddie Mac	63	55,071	(366)	33,804	(915)	88,875	(1,281)
Governmental National Mortgage Association	12	7,816	(111)	7,173	(235)	14,989	(346)
Obligations of states and political subdivisions	32	14,249	(138)	21,345	(577)	35,594	(715)
U.S. government agency securities	6	13,843	(46)	—	—	13,843	(46)
Corporate obligations	21	13,360	(114)	9,591	(543)	22,951	(657)
Other debt securities	20	2,186	(14)	18,929	(539)	21,115	(553)
Total	226	$159,229	$ (1,202)	$139,713	$ (4,067)	$298,942	$ (5,269)

September 30, 2017

	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	55	$61,852	$ (558)	$20,679	$ (645)	$82,531	$ (1,203)
Freddie Mac	39	38,913	(354)	16,427	(454)	55,340	(808)
Governmental National Mortgage Association	11	6,669	(41)	6,903	(162)	13,572	(203)
Obligations of states and political subdivisions	25	10,944	(59)	17,425	(487)	28,369	(546)
U.S. government agency securities	3	8,995	(5)	—	—	8,995	(5)
Corporate obligations	22	15,119	(104)	8,032	(514)	23,151	(618)
Other debt securities	19	7,141	(104)	13,806	(310)	20,947	(414)
Total	174	$149,633	$ (1,225)	$83,272	$ (2,572)	$232,905	$ (3,797)

The Company's investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, other mortgage backed securities, debt obligations of a U.S. state or political subdivision, U.S. government agency securities, corporate obligations and other debt securities..

The Company reviews its position quarterly and has asserted that at December 31, 2017, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the above securities before their anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

6. Loans Receivable, Net and Allowance for Loan Losses
Loans receivable consist of the following (in thousands):

	December 31, 2017	September 30, 2017
Real estate loans:		
Residential	$ 584,441	$ 586,708
Construction	4,269	3,097
Commercial	356,110	318,323
Commercial	48,750	44,129
Obligations of states and political subdivisions	55,555	58,079
Home equity loans and lines of credit	45,925	46,219
Auto Loans	188,410	186,646
Other	2,708	2,845
	1,286,168	1,246,046
Less allowance for loan losses	9,833	9,365
Net loans	$ 1,276,335	$ 1,236,681

Purchased loans acquired in a business combination are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

Changes in the accretable yield for purchased credit-impaired loans were as follows, since acquisition, for the three months ended December 31, 2017 and 2016 (in thousands):

	For the Three Months Ended December 31, 2017	2016
Balance at beginning of period	$471	$478
Reclassification, new additions and other	596	—
Accretion	(312)	(25)
Balance at end of period	$755	$453

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	December 31, 2017 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)	September 30, 2017 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)
Outstanding balance	$ 5,162	$ 5,490
Carrying amount	$ 4,387	$ 4,388

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The following tables show the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated (in thousands):

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
December 31, 2017				
Real estate loans:				
Residential	$ 584,441	$ 5,623	$ —	$ 578,818
Construction	4,269	—	—	4,269
Commercial	356,110	6,887	3,856	345,367
Commercial	48,750	1,235	207	47,308
Obligations of states and political subdivisions	55,555	—	—	55,555
Home equity loans and lines of credit	45,925	226	324	45,375
Auto loans	188,410	775	—	187,635
Other	2,708	29	—	2,679
Total	$ 1,286,168	$ 14,775	$ 4,387	$ 1,267,006

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2017				
Real estate loans:				
Residential	$ 586,708	$ 6,202	$ —	$ 580,506
Construction	3,097	—	—	3,097
Commercial	318,323	7,211	3,775	307,337
Commercial	44,129	1,385	283	42,461
Obligations of states and political sub divisions	58,079	—	—	58,079
Home equity loans and lines of credit	46,219	176	330	45,713
Auto loans	186,646	572	—	186,074
Other	2,845	30	—	2,815
Total	$ 1,246,046	$ 15,576	$ 4,388	$ 1,226,082

The Company maintains a loan review system that allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable 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 separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring ("TDR") loan when the Company grants a concession to the borrower that it would not otherwise consider because of the borrower's financial condition. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate at the time of modification may be removed from TDR status after one year of performance.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount at the dates indicated, if applicable (in thousands):

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
December 31, 2017			
With no specific allowance recorded:			
Real estate loans			
Residential	$ 4,388	$ 5,833	$ —
Construction	—	—	—
Commercial	6,868	8,901	—
Commercial	1,234	1,477	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	221	305	—
Auto loans	267	436	—
Other	29	35	—
Total	13,007	16,987	—
With an allowance recorded:			
Real estate loans			
Residential	1,235	1,435	144
Construction	—	—	—
Commercial	19	97	16
Commercial	1	13	5
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	5	5	1
Auto loans	508	526	215
Other	—	—	—
Total	1,768	2,076	381
Total:			
Real estate loans			
Residential	5,623	7,268	144
Construction	—	—	—
Commercial	6,887	8,998	16
Commercial	1,235	1,490	5
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	226	310	1
Auto loans	775	962	215
Other	29	35	—
Total Impaired Loans	$ 14,775	$ 19,063	$ 381

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
September 30, 2017			
With no specific allowance recorded:			
Real Estate Loans			
Residential	$ 4,392	$ 5,730	$ —
Construction	—	—	—
Commercial	7,191	9,396	—
Commercial	1,385	1,575	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	176	258	—
Auto Loans	123	237	—
Other	30	36	—
Total	13,297	17,232	—
With an allowance recorded:			
Real Estate Loans			
Residential	1,810	2,264	154
Construction	—	—	—
Commercial	20	1,193	19
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	—	—	—
Auto Loans	449	468	172
Other	—	—	—
Total	2,279	3,925	345
Total:			
Real Estate Loans			
Residential	6,202	7,994	154
Construction	—	—	—
Commercial	7,211	10,589	19
Commercial	1,385	1,575	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	176	258	—
Auto Loans	572	705	172
Other	30	36	—
Total Impaired Loans	$ 15,576	$ 21,157	$ 345

The following tables represent the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired (in thousands):

	For the Three Months Ended December 31,			
	2017 Average Recorded Investment	2016 Average Recorded Investment	2017 Interest Income Recognized	2016 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$4,429	$ 6,526	$ 10	$ 11
Construction	—	—	—	—
Commercial	7,006	10,564	72	105
Commercial	1,289	1,693	27	33
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	206	317	—	—
Auto loans	137	135	1	1
Other	10	8	—	—
Total	13,077	19,243	110	150
With an allowance recorded:				
Real estate loans				
Residential	1,527	2,066	—	—
Construction	—	—	—	—
Commercial	20	348	—	—
Commercial	—	19	—	—
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	2	2	—	—
Auto loans	262	215	—	4
Other	—	—	—	—
Total	1,811	2,650	—	4
Total:				
Real estate loans				
Residential	5,956	8,592	10	11
Construction	—	—	—	—
Commercial	7,026	10,912	72	105
Commercial	1,289	1,712	27	33
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	208	319	—	—
Auto loans	399	350	1	5
Other	10	8	—	—
Total Impaired Loans	$14,888	$ 21,893	$ 110	$ 154

The Company uses a ten-point internal risk-rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as Pass-rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are fundamentally sound yet exhibit potentially unacceptable credit risk or deteriorating trends or characteristics which, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans more than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses inherent in loans classified as Substandard with the added characteristic that their weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the Loss category are considered uncollectible and of little value that their continuance as bankable assets is not warranted. Certain residential real estate loans, construction loans, home equity loans and lines of credit, auto loans and other consumer loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Commercial Loan Officers are responsible for the timely and accurate risk rating recommendation for the loans in their portfolios at origination and on an ongoing basis. The Bank's Commercial Loan Officers perform an annual review of all commercial relationships $750,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank engages an external consultant to conduct loan reviews on at least a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than $1,000,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful or Loss within the internal risk rating system at December 31, 2017 and September 30, 2017 (in thousands):

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
December 31, 2017					
Commercial real estate loans	$344,891	$ 2,144	$ 9,075	$ —	$356,110
Commercial	47,642	12	1,096	—	48,750
Obligations of states and political subdivisions	55,555	—	—	—	55,555
Total	$448,088	$ 2,156	$ 10,171	$ —	$460,415

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
September 30, 2017					
Commercial real estate loans	$300,554	$ 3,376	$ 14,393	$ —	$318,323
Commercial	40,996	32	3,101	—	44,129
Obligations of states and political subdivisions	58,079	—	—	—	58,079
Total	$399,629	$ 3,408	$ 17,494	$ —	$420,531

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing. The following tables present the risk ratings in the consumer categories of performing and non-performing loans at December 31, 2017 and September 30, 2017 (in thousands):

Performing	Non-	Purchased	Total

		performing	Credit Impaired	
December 31, 2017				
Real estate loans:				
Residential	$ 577,708	$ 6,733	$ —	$ 584,441
Construction	4,269	—	—	4,269
Home equity loans and lines of credit	45,274	327	324	45,925
Auto loans	187,616	794	—	188,410
Other	2,675	33	—	2,708
Total	$ 817,542	$ 7,887	$ 324	$ 825,753

	Performing	Non-performing	Purchased Impaired Credit	Total
September 30, 2017				
Real estate loans:				
Residential	$ 580,116	$ 6,592	$ —	$586,708
Construction	3,097	—	—	3,097
Home equity loans and lines of credit	45,576	313	330	46,219
Auto loans	185,910	736	—	186,646
Other	2,807	38	—	2,845
Total	$ 817,506	$ 7,679	$ 330	$825,515

The Company further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2017 and September 30, 2017 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and Accruing	Non–accrual	Total Past Due	Purchased Credit Impaired Accruing	Purchased Credit Impaired Non–accrual	Total Loans
December 31, 2017									
Real estate loans:									
Residential	$574,224	$ 2,490	$ 994	$ —	$ 6,733	$ 10,217	$—	$ —	$584,441
Construction	4,269	—	—	—	—	-	—	—	4,269
Commercial	349,686	146	103	—	2,319	2,568	467	3,389	356,110
Commercial	48,367	—	—	—	176	176	—	207	48,750
Obligations of states and political subdivisions	55,555	—	—	—	—	—	—	—	55,555
Home equity loans and lines of credit	45,215	51	8	—	327	386	—	324	45,925
Auto loans	186,765	788	63	—	794	1,645	—	—	188,410
Other	2,657	15	3	—	33	51	—	—	2,708
Total	$1,266,738	$ 3,490	$ 1,171	$ —	$ 10,382	$ 15,043	$467	$ 3,920	$1,286,168

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and Accruing	Non–accrual	Total Past Due	Purchased Credit Impaired Accruing	Purchased Credit Impaired Non–accrual	Total Loans
September 30, 2017									
Real estate loans:									
Residential	$577,034	$2,661	$ 421	$ —	$ 6,592	$9,674	$—	$ —	$586,708
Construction	3,097	—	—	—	—	—	—	—	3,097
Commercial	312,098	172	—	—	2,278	2,450	612	3,163	318,323
Commercial	43,298	18	—	—	530	548	—	283	44,129
Obligations of states and political subdivisions	58,079	—	—	—	—	—	—	—	58,079
Home equity loans and lines of credit	45,460	101	15	—	313	429	—	330	46,219
Auto loans	185,247	631	32	—	736	1,399	—	—	186,646
Other	2,789	14	4	—	38	56	—	—	2,845
Total	$1,227,102	$3,597	$ 472	$ —	$ 10,487	$14,556	$612	$ 3,776	$1,246,046

The allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. The allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of December 31, 2017 was maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the FDIC and the Pennsylvania Department of Banking and Securities, as an integral part of their examination process, have periodically reviewed our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on its analysis and review of information available to it at the time of its examination.

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

The following table summarizes changes in the primary segments of the ALL for the three month periods ended December 31, 2017 and 2016 (in thousands):

	Real Estate Loans									
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
ALL balance at September 30, 2017	$3,878	$ 23	$ 1,758	$ 987	$ 248	$ 470	$ 1,836	$ 21	$ 144	$9,365
Charge-offs	(43)	—	(1)	(133)	—	—	(536)	(6)	—	(719)
Recoveries	3	—	2	10	—	1	170	1	—	187
Provision	(69)	10	560	190	(35)	(22)	492	5	(131)	1,000
ALL balance at December 31, 2017	$3,769	$ 33	$ 2,319	$ 1,054	$ 213	$ 449	$ 1,962	$ 21	$ 13	$9,833
ALL balance at September 30, 2016	$4,426	$ 13	$ 852	$ 882	$ 215	$ 455	$ 1,880	$ 25	$ 308	$9,056
Charge-offs	(76)	—	(91)	(19)	—	—	(517)	(4)	—	(707)
Recoveries	2	—	10	—	—					