ENTERPRISE BANCORP INC /MA/
Form 10-Q
August 07, 2017

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 June 30, 2017

Commission File Number: 001-33912
Enterprise Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts	04-3308902
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 Merrimack Street, Lowell, Massachusetts	01852
(Address of principal executive offices)	(Zip code)

(978) 459-9000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o 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) x Yes o 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 definition for "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

As of August 2, 2017, there were 11,585,031 shares of the issuer's common stock outstanding- Par Value $0.01 per share.

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PART I-FINANCIAL INFORMATION

Item 1 - Financial Statements
ENTERPRISE BANCORP, INC.
Consolidated Balance Sheets
(Unaudited)

(Dollars in thousands)	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents:		
Cash and due from banks	$51,714	$33,047
Interest-earning deposits	24,049	17,428
Total cash and cash equivalents	75,763	50,475
Investment securities at fair value	388,005	374,790
Federal Home Loan Bank stock	4,364	2,094
Loans held for sale	856	1,569
Loans, less allowance for loan losses of $31,958 at June 30, 2017, and $31,342 at December 31, 2016	2,082,442	1,991,387
Premises and equipment, net	35,162	33,540
Accrued interest receivable	9,157	8,792
Deferred income taxes, net	14,924	17,020
Bank-owned life insurance	29,118	28,765
Prepaid income taxes	1,784	1,344
Prepaid expenses and other assets	9,316	10,837
Goodwill	5,656	5,656
Total assets	$2,656,547	$2,526,269
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$2,353,782	$2,268,921
Borrowed funds	44,255	10,671
Subordinated debt	14,841	14,834
Accrued expenses and other liabilities	15,794	16,794
Accrued interest payable	218	263
Total liabilities	2,428,890	2,311,483
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value per share; 1,000,000 shares authorized; no shares issued	—	—
Common stock $0.01 par value per share; 40,000,000 shares authorized; 11,582,344 shares issued and outstanding at June 30, 2017, and 11,475,742 shares issued and outstanding at December 31, 2016	116	115
Additional paid-in-capital	86,628	85,421
Retained earnings	138,049	130,008
Accumulated other comprehensive income (loss)	2,864	(758)
Total stockholders' equity	227,657	214,786
Total liabilities and stockholders' equity	$2,656,547	$2,526,269

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share data)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Interest and dividend income:				
Loans and loans held for sale	$23,281	$ 21,032	$45,652	$ 41,913
Investment securities	1,964	1,551	3,884	3,091
Other interest-earning assets	93	49	166	93
Total interest and dividend income	25,338	22,632	49,702	45,097
Interest expense:				
Deposits	1,380	1,099	2,608	2,187
Borrowed funds	192	14	253	77
Subordinated debt	231	230	459	461
Total interest expense	1,803	1,343	3,320	2,725
Net interest income	23,535	21,289	46,382	42,372
Provision for loan losses	280	267	405	1,117
Net interest income after provision for loan losses	23,255	21,022	45,977	41,255
Non-interest income:				
Investment advisory fees	1,267	1,327	2,492	2,431
Deposit and interchange fees	1,522	1,276	2,862	2,518
Income on bank-owned life insurance, net	177	191	353	382
Net gains on sales of investment securities	229	63	769	65
Gains on sales of loans	138	105	271	194
Other income	606	620	1,326	1,198
Total non-interest income	3,939	3,582	8,073	6,788
Non-interest expense:				
Salaries and employee benefits	11,792	11,025	24,484	21,510
Occupancy and equipment expenses	1,945	1,781	3,884	3,594
Technology and telecommunications expenses	1,606	1,548	3,188	2,971
Advertising and public relations expenses	797	817	1,416	1,496
Audit, legal and other professional fees	314	375	677	832
Deposit insurance premiums	376	324	759	650
Supplies and postage expenses	245	258	478	487
Other operating expenses	1,679	1,414	3,288	2,871
Total non-interest expense	18,754	17,542	38,174	34,411
Income before income taxes	8,440	7,062	15,876	13,632
Provision for income taxes	2,845	2,291	4,709	4,548
Net income	$5,595	$ 4,771	$11,167	$ 9,084
Basic earnings per share	$0.48	$ 0.45	$0.97	$ 0.87
Diluted earnings per share	$0.48	$ 0.45	$0.96	$ 0.86
Basic weighted average common shares outstanding	11,572,431	10,561,680	11,540,796	10,483,396
Diluted weighted average common shares outstanding	11,652,689	10,629,900	11,625,712	10,550,842

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Net income	$5,595	$4,771	$11,167	$9,084
Other comprehensive income, net of taxes:				
Gross unrealized holding gains on investments arising during the period	4,911	4,054	6,431	7,080
Income tax expense	(1,772)	(1,479)	(2,316)	(2,629)
Net unrealized holding gains, net of tax	3,139	2,575	4,115	4,451
Less: Reclassification adjustment for net gains included in net income				
Net realized gains on sales of securities during the period	229	63	769	65
Income tax expense	(83)	(23)	(276)	(24)
Reclassification adjustment for gains realized, net of tax	146	40	493	41
Total other comprehensive income, net	2,993	2,535	3,622	4,410
Comprehensive income	$8,588	$7,306	$14,789	$13,494

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
Balance at December 31, 2016	$ 115	$ 85,421	$ 130,008	$ (758)	$ 214,786
Net income			11,167		11,167
Cumulative effect adjustment for adoption of new accounting pronouncement		13	(13)		—
Other comprehensive income, net				3,622	3,622
Common stock dividend paid ($0.27 per share)			(3,113)		(3,113)
Common stock issued under dividend reinvestment plan	—	748			748
Common stock issued other	—	37			37
Stock-based compensation, net	1	959			960
Repurchases for tax withholdings on options and restricted stock awards, net of proceeds from exercise of stock options	—	(550)			(550)
Balance at June 30, 2017	$ 116	$ 86,628	$ 138,049	$ 2,864	$ 227,657

See the accompanying notes to the unaudited consolidated interim financial statements.

ENTERPRISE BANCORP, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
(Dollars in thousands)	2017	2016
Cash flows from operating activities:		
Net income	$11,167	$9,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	405	1,117
Depreciation and amortization	3,468	2,873
Stock-based compensation expense	820	905
Mortgage loans originated for sale	(11,610)	(10,682)
Proceeds from mortgage loans sold	12,594	10,614
Net gains on sales of loans	(271)	(194)
Net gains on sales of investments	(769)	(65)
Income on bank-owned life insurance, net	(353)	(382)
Changes in:		
Decrease in other assets	425	218
Decrease in other liabilities	(747)	(1,371)
Net cash provided by operating activities	15,129	12,117
Cash flows from investing activities:		
Proceeds from sales of investment securities	10,438	1,829
Net (purchases) proceeds from FHLB capital stock	(2,270)	1,171
Proceeds from maturities, calls and pay-downs of investment securities	12,986	9,824
Purchase of investment securities	(31,153)	(20,957)
Net increase in loans	(91,460)	(39,004)
Additions to premises and equipment, net	(3,949)	(5,964)
Proceeds from bank-owned life insurance	—	405
Net cash used in investing activities	(105,408)	(52,696)
Cash flows from financing activities:		
Net increase in deposits	84,861	166,282
Net increase (decrease) in borrowed funds	33,584	(53,000)
Cash dividends paid	(3,113)	(2,712)
Proceeds from issuance of common stock	785	20,445
Repurchases for tax withholdings on options and restricted stock awards, net of proceeds from exercise of stock options	(550)	(69)
Net cash provided by financing activities	115,567	130,946
Net increase in cash and cash equivalents	25,288	90,367
Cash and cash equivalents at beginning of period	50,475	51,495
Cash and cash equivalents at end of period	$75,763	$141,862
Supplemental financial data:		
Cash Paid For: Interest	$3,320	$2,749
Cash Paid For: Income Taxes	5,055	5,241
Supplemental schedule of non-cash investing activity:		
Net purchases of investment securities not yet settled	—	5,793

Capital expenditures incurred not yet paid	—	257

See accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Notes to the Unaudited Consolidated Interim Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization of Holding Company and Basis of Presentation

The accompanying unaudited consolidated interim financial statements and these notes should be read in conjunction with the December 31, 2016 audited consolidated financial statements and notes thereto contained in the 2016 Annual Report on Form 10-K of Enterprise Bancorp, Inc. (the "Company," "Enterprise," "we," or "our"), a Massachusetts corporation, as filed with the Securities and Exchange Commission (the "SEC") on March 14, 2017 (the "2016 Annual Report on Form 10-K"). The Company has not changed its accounting policies from those disclosed in its 2016 Annual Report on Form 10-K.

The Company's unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Enterprise Bank and Trust Company (the "Bank"). The Bank is a Massachusetts trust company organized in 1989. Substantially all of the Company's operations are conducted through the Bank and its subsidiaries.

The Bank's subsidiaries include Enterprise Insurance Services, LLC and Enterprise Investment Services, LLC, organized under the laws of the State of Delaware for the purposes of engaging in insurance sales activities and offering non-deposit investment products and services, respectively. In addition, the Bank has the following subsidiaries that are incorporated in the Commonwealth of Massachusetts and classified as security corporations in accordance with applicable Massachusetts General Laws: Enterprise Security Corporation; Enterprise Security Corporation II; and Enterprise Security Corporation III. The security corporations, which hold various types of qualifying securities, are limited to conducting securities investment activities that the Bank itself would be allowed to conduct under applicable laws.

At June 30, 2017, the Company had 23 full service branches serving the Greater Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire (Southern Hillsborough and Rockingham counties). In July 2017, the Company opened its 24th branch, located in Windham, New Hampshire. Through the Bank and its subsidiaries, the Company offers a range of commercial, residential and consumer loan products, deposit products and cash management services, as well as investment advisory and wealth management, trust and insurance services. The services offered through the Bank and its subsidiaries are managed as one strategic unit and represent the Company's only reportable operating segment.

The Federal Deposit Insurance Corporation (the "FDIC") and the Massachusetts Division of Banks (the "Division") have regulatory authority over the Bank. The Bank is also subject to certain regulatory requirements of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and, with respect to its New Hampshire branch operations, the New Hampshire Banking Department. The business and operations of the Company are subject to the regulatory oversight of the Federal Reserve Board. The Division also retains supervisory jurisdiction over the Company.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions for Form 10-Q through the rules and interpretive releases of the SEC under federal securities law. In the opinion of management, the accompanying unaudited consolidated interim financial statements reflect all necessary adjustments consisting of normal recurring accruals for a fair presentation. All significant intercompany balances and transactions have been eliminated in the accompanying unaudited consolidated interim financial statements. Certain previous years' amounts in the consolidated financial statements, and notes thereto, have been reclassified to conform to the current year's presentation. Interim results are not necessarily indicative of results to be expected for the entire year, or any future period.

The Company has evaluated subsequent events and transactions from June 30, 2017 through the date of this Quarterly report on Form 10-Q was filed with the SEC for potential recognition or disclosure as required by GAAP and determined that there were no material subsequent events requiring recognition or disclosure.

(b) Critical Accounting Estimates

In preparing the unaudited consolidated interim financial statements in conformity with GAAP, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. These assumptions and estimates affect the reported values of assets and liabilities as of the balance sheet date and income and expenses for the period then ended. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates should the assumptions and estimates used change over time due to changes in circumstances. Changes in those estimates resulting from continuing change in the economic environment and other factors will be reflected in the financial statements and results of operations in future periods.

As discussed in the Company's 2016 Annual Report on Form 10-K, the three most significant areas in which management applies critical assumptions and estimates are the estimates of the allowance for loan losses, impairment review of investment securities and the impairment review of goodwill. Refer to Note 1, "Summary of Significant Accounting Policies," to the Company's consolidated financial statements included in the Company's 2016 Annual Report on Form 10-K for accounting policies related to these significant estimates. The Company has not changed its significant accounting policies from those disclosed in its 2016 Annual Report on Form 10-K.

(c) Restricted Instruments

Certain of the Company's derivative agreements contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. When the Company has pledged cash as collateral for this purpose, the cash is carried as restricted cash within cash and cash equivalents.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Company is required to purchase certain levels of FHLB capital stock at par value in association with outstanding advances from the FHLB. From time-to-time, the FHLB may initiate the repurchase, at par value, of "excess" levels of its capital stock held by member banks. This stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. FHLB stock represents the only restricted investment held by the Company.

Management regularly reviews its holdings of FHLB stock for other-than-temporary-impairment ("OTTI"). Based on management's periodic review, the Company has not recorded any OTTI charges on this investment to date. If it was determined that a write-down of FHLB stock was required, impairment would be recognized through a charge to earnings.

See Note 2, "Investment Securities," for additional information on management's OTTI review.

(d) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax expense or benefit attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities will be adjusted accordingly through the provision for income taxes.

The Company's policy is to classify interest resulting from underpayment of income taxes as income tax expense in the first period the interest would begin accruing according to the provisions of the relevant tax law. The Company classifies penalties resulting from underpayment of income taxes as income tax expense in the period for which the Company claims or expects to claim an uncertain tax position or in the period in which the Company's judgment changes regarding an uncertain tax position.

The income tax provisions will differ from the expense that would result from applying the federal statutory rate to income before taxes, due primarily to the impact of tax-exempt interest from certain investment securities, loans and bank-owned life insurance.

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at June 30, 2017. The Company is subject to U.S. federal and state income tax examinations by taxing authorities for the 2013 through 2016 tax years.

(e) Recent Accounting Pronouncements

Accounting pronouncements adopted by the Company

In March 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU" or "Update") No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvement to Employee Share-Based Payment Accounting." The new standard was effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years.

The Company adopted ASU No. 2016-09 in the first quarter of 2017. Several aspects of the accounting are simplified including, generally: a) income tax consequences; b) classification of awards as either equity or liabilities; c) accounting for forfeitures; and d) classification on the statement of cash flows. Upon adoption, the most significant impact of this amendment resulted from the prospective application of current excess tax benefits and deficiencies being recognized in income tax expense, which would previously have been recognized in additional paid-in capital, in the reporting period in which they occur. For the six months ended June 30, 2017, this reduced the Company's provision for income taxes, increasing earnings by approximately $788 thousand. For the year ended December 31, 2016, the Company recognized $789 thousand in additional paid-in-capital in this regard, which, if under the new ASU, would have been recognized as income tax benefit in the income statement. This amount, treated as discrete items in the period in which they occur, will vary from year to year as a function of the volume of share-based payments vested or exercised and the then current market price of the Company's stock in comparison to the compensation cost recognized in the financial statements.

Additionally upon adoption, the Company made a policy election to record forfeitures as they occur rather than make use of an estimate. Using a modified retrospective approach, the Company recorded an immaterial cumulative effect adjustment from retained earnings to additional paid-in-capital. The other provisions did not have a material impact on the Company's financial statements upon adoption.

Accounting pronouncements not yet adopted by the Company (in order of effective date of implementation)

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU is intended to create a single source of revenue guidance which is more principles based than current revenue guidance. The guidance affects any entity that either enters into contracts with customers to transfer goods or services, or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" to amend the effective date of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The FASB has since issued additional related ASUs amendments intended to clarify certain aspects and improve understanding of the implementation guidance of Topic 606 but do not change the core principles of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements of Topic 606.

The Company is currently evaluating the potential impact of the ASU and its amendments on the Company's financial statements, results of operations, and disclosures and does not currently plan to early adopt. Based on the Company's preliminary evaluations to date, and because the largest portion of the Company's revenue, interest income and various loan fees, are specifically excluded from the scope of this ASU, and because the Company currently recognizes the majority of the remaining revenue sources in a manner that management believes is consistent with the new ASU, management believes that revenue recognized under the new standard will generally approximate revenue recognized under current GAAP. The foregoing observations are subject to change as management completes their evaluation.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments.

Among other things, the new guidance:

- 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;

- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

The Company is currently evaluating the effects of this ASU on the Company's financial statements, results of operations and disclosures. Based on the Company's evaluation to date, management believes the more significant implications upon adoption of this ASU will be the potential recognition of changes in fair value of the Company's equity portfolio in net income. Under current GAAP, net unrealized appreciation or depreciation on the equity portfolio, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income. The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the mutual funds and individual securities held in the portfolio. For the six months ended June 30, 2017, other comprehensive income, net of taxes, generated from the equity portfolio amounted to $47 thousand, compared to other comprehensive loss of $28 thousand generated for the six months ended June 30, 2016. Any potential future changes in fair value of the equity portfolio will depend on the amount of dollars invested in the portfolio and the potential magnitude of changes in equity market values. The foregoing observations are subject to change as management completes their evaluation.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." The amendments are intended to reduce diversity in practice related to the presentation of eight specific cash flow issues. For public business entities that are SEC filers, such as the Company, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Because this amendment primarily impacts the presentation and classification of information, the Company does not expect this ASU to have an impact on the Company's financial statements and results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash flows-Restricted Cash (Topic 230)." The amendments in this Update clarify the inclusion of restricted cash in the cash and cash equivalents beginning-of-period and end-of period reconciliation on the statement of cash flows. For public business entities that are SEC filers, such as the Company, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Because this amendment primarily impacts the presentation and classification of information, the Company does not expect this ASU to have an impact on the Company's financial statements and results of operations.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this Update outline the presentation, classification and disclosure requirements for service cost and other components of net benefit costs. For public business entities that are SEC filers, such as the Company, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Because this amendment primarily impacts the presentation and classification of information, the Company does not expect this ASU to have an impact on the Company's financial statements and results of operations.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this Update apply to entities that change the terms of an outstanding share-based payment award. The amendments are intended to reduce diversity in practice as well as cost and complexity when applying guidance in Topic 718 to the modification of the terms and conditions of a share-based payment award. This ASU provides guidance on the three modifications to share-based payment awards and conditions that must be met in order to exempt an entity from modification accounting under topic 718. The amendments in this Update apply prospectively to award modifications on or after the adoption date, and are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company currently does not expect that adoption of the ASU will have a material impact on its financial statements, results of operations or disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which supersedes previous leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The Company is currently evaluating the effects of this ASU on the Company's financial statements, results of operations and disclosures. Based on the Company's evaluation to date, management believes the more significant implication of this ASU on the Company relates to operating leases of our facilities, mainly branch leases. As of June 30, 2017, the Company had leases on 17 of its locations, including branches and part of its main campus, and expects that upon adoption of this ASU the balance sheet will reflect both lease liabilities, equal to the present value of lease payments, and right-of-use assets, equal to the lease liability plus payments made to lessors adjusted for prepaid or accrued rent and any initial direct cost incurred. In addition, the Company will recognize lease expense in the income statement on a straight-line basis similar to current operating leases. The straight-line expense will reflect the interest expense on the lease liability (effective interest method) and amortization of the right-of-use asset. Lease expense will be presented as a single line item in the operating expense section of the income statement. Management believes that lease expense under the new standard will generally approximate lease expense under current GAAP. The foregoing observations are subject to change as management completes their evaluation.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments shorten the amortization period to the earliest call date for certain callable debt securities held at a premium. The accretion for securities held at a discount is not affected by this statement and remains unchanged. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective basis is required upon adoption. Early adoption is permitted. The Company has assessed the impact of this ASU and does not expect that it will have a material impact on the Company's financial statements, results of operations and disclosures upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss and generally recognition of the full amount of credit losses was delayed until the loss was probable of occurring. The amendments in this ASU eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The income statement reflects 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. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.

Credit losses on available-for-sale debt securities should be measured in a manner similar to current GAAP. However, the amendments in this Update require that credit losses be presented as an allowance rather than as a write-down. Unlike current GAAP, the ASU provides for reversals of credit losses in future period net income in situations where the estimate of loss declines.

An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). For public business entities that are SEC filers, such as the Company, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption for fiscal years beginning after December 15, 2018 is permitted.

The Company has established an implementation committee and an enterprise-wide implementation plan for this ASU, which will consider the impact to operations, financial results, disclosures and controls. At present, the impact of the adoption of ASU No. 2016-13 on the Company's operations, financial results, disclosures, and controls is unknown.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350)-Simplifying the Test for Goodwill Impairment." The main provision in this ASU eliminated Step 2 of the goodwill impairment test and instead requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount. An impairment charge would be recognized for the amount the carrying value exceeds the reporting unit's fair value as long as the amount recognized doesn't exceed the amount of goodwill allocated to the reporting unit. For public business entities that are SEC filers, such as the Company, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for impairment tests performed on testing dates after January 1, 2017. Goodwill carried on the Company's consolidated financial statements was $5.7 million at both June 30, 2017 and December 31, 2016. This asset is related to the Company's acquisition of two branch offices in July 2000. The Company does not expect the adoption of ASU No. 2017-01 to have a material impact on the Company's financial statements and results of operations.

(2) Investment Securities

The amortized cost and carrying values of investment securities at the dates specified are summarized as follows:

(Dollars in thousands)	June 30, 2017 Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations [1]	$74,736	$ 492	$ 39	$75,189
Residential federal agency MBS [1]	96,307	339	932	95,714
Commercial federal agency MBS[1]	76,800	380	743	76,437
Municipal securities	119,598	2,866	306	122,158
Corporate bonds	11,269	129	31	11,367
Certificates of deposits [2]	950	3	—	953
Total debt securities	379,660	4,209	2,051	381,818
Equity investments	3,884	2,311	8	6,187
Total investment securities, at fair value	$383,544	$ 6,520	$ 2,059	$388,005

(Dollars in thousands)	December 31, 2016 Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations[1]	$74,682	$ 432	$ 45	$75,069
Residential federal agency MBS[1]	94,818	96	1,561	93,353
Commercial federal agency MBS[1]	71,993	15	1,730	70,278
Municipal securities	112,401	922	1,520	111,803
Corporate bonds	10,734	51	90	10,695
Certificates of deposits [2]	950	—	1	949
Total debt securities	365,578	1,516	4,947	362,147
Equity investments	10,413	2,532	302	12,643
Total investment securities, at fair value	$375,991	$ 4,048	$ 5,249	$374,790

(1) These categories may include investments issued or guaranteed by government sponsored enterprises such as Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), Federal Farm Credit Bank ("FFCB"), or one of several Federal Home Loan Banks, as well as, investments guaranteed by Ginnie Mae ("GNMA"), a wholly-owned government entity.

(2) Certificates of deposits ("CDs") represent term deposits issued by banks that are subject to FDIC insurance and purchased on the open market.

Included in the residential and commercial federal agency MBS categories were collateralized mortgage obligations ("CMOs") issued by U.S. agencies with fair values totaling $106.0 million and $107.0 million at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, the equity portfolio consisted of investments in mutual funds, as well as investments in individual common stock of entities in the financial services industry (approximately 46%).

As of the dates reflected in the tables above, all of the Company’s investment securities were classified as available-for-sale and carried at fair value. Net unrealized appreciation and depreciation on investments available-for-sale, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income (loss).

The net unrealized gain or loss in the Company's debt security portfolio fluctuates as market interest rates rise and fall. Due to the predominantly fixed rate nature of this portfolio, as market rates fall, the value of the portfolio rises, and as market rates rise, the value of the portfolio declines. The unrealized gains or losses on debt securities will also decline as the securities approach maturity. Unrealized gains or losses will be recognized in the income statement if the securities are sold. However, if an unrealized loss on a debt security portfolio is deemed to be other than temporary, the credit loss portion is charged to earnings and the noncredit portion is recognized in accumulated other comprehensive income (loss).

The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the mutual funds and individual securities held in the portfolio. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on an equity security is deemed to be other than temporary prior to a sale, the loss is charged to earnings.

The following tables summarize investments (debt and equity) having temporary impairment, due to the fair market values having declined below the amortized costs of the individual investments, and the period that the investments have been temporarily impaired at June 30, 2017 and December 31, 2016.

	June 30, 2017					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses