ESSA Bancorp, Inc.
Form 10-Q
February 11, 2019

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, 2018

OR

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

Commission File 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 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	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 4, 2019, there were 11,819,814 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, 2018	September 30, 2018
	(dollars in thousands)	
Cash and due from banks	$35,849	$39,197
Interest-bearing deposits with other institutions	3,801	4,342
Total cash and cash equivalents	39,650	43,539
Certificates of deposit	500	500
Investment securities available for sale, at fair value	376,054	371,438
Loans receivable (net of allowance for loan losses of $12,221 and $11,688)	1,334,304	1,305,071
Regulatory stock, at cost	15,121	12,973
Premises and equipment, net	14,448	14,601
Bank-owned life insurance	38,874	38,630
Foreclosed real estate	876	1,141
Intangible assets, net	1,291	1,375
Goodwill	13,801	13,801
Deferred income taxes	6,836	8,441
Other assets	21,123	22,280
TOTAL ASSETS	$1,862,878	$1,833,790
LIABILITIES		
Deposits	$1,307,917	$1,336,855
Short-term borrowings	239,824	179,773
Other borrowings	112,373	118,723
Advances by borrowers for taxes and insurance	8,435	6,826
Other liabilities	9,554	12,427
TOTAL LIABILITIES	1,678,103	1,654,604
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; 11,819,814 and 11,782,718 outstanding at December 31, 2018 and September 30, 2018, respectively)	181	181
Additional paid in capital	180,631	180,765
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(8,142)	(8,255)
Retained earnings	96,026	94,112
Treasury stock, at cost; 6,313,281 and 6,350,377 shares outstanding at	(77,259)	(77,707)

December 31, 2018 and September 30, 2018, respectively		
Accumulated other comprehensive loss	(6,662)	(9,910)
TOTAL STOCKHOLDERS' EQUITY	184,775	179,186
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,862,878	$1,833,790

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,	
	2018	2017
	(dollars in thousands, except per share data)	
INTEREST INCOME		
Loans receivable, including fees	$13,907	$12,783
Investment securities:		
Taxable	2,482	2,058
Exempt from federal income tax	136	288
Other investment income	344	247
Total interest income	16,869	15,376
INTEREST EXPENSE		
Deposits	3,388	2,377
Short-term borrowings	1,077	584
Other borrowings	519	647
Total interest expense	4,984	3,608
NET INTEREST INCOME	11,885	11,768
Provision for loan losses	876	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,009	10,768
NONINTEREST INCOME		
Service fees on deposit accounts	863	883
Services charges and fees on loans	330	369
Unrealized losses on equity securities	(2)	—
Trust and investment fees	239	240
Gain on sale of investments, net	4	—
Earnings on Bank-owned life insurance	244	255
Insurance commissions	201	171
Other	247	51
Total noninterest income	2,126	1,969
NONINTEREST EXPENSE		
Compensation and employee benefits	6,124	6,008
Occupancy and equipment	1,026	1,185
Professional fees	524	566
Data processing	903	929

Advertising	155	158
Federal Deposit Insurance Corporation (FDIC) premiums	187	189
Gain on foreclosed real estate	(115)	(36)
Amortization of intangible assets	84	144
Other	764	1,139
Total noninterest expense	9,652	10,282
Income before income taxes	3,483	2,455
Income taxes	474	4,093
NET INCOME (LOSS)	$3,009	$(1,638)
Earnings per share		
Basic	$0.27	$(0.15)
Diluted	$0.27	$(0.15)
Dividends per share	$0.10	$0.09

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the Three Months Ended December 31,	
	2018	2017
	(dollars in thousands)	
Net income (loss)	$3,009	$(1,638)
Other comprehensive income(loss)		
Investment securities available for sale:		
Unrealized holding gain(loss)	5,059	(1,951)
Tax effect	(1,068)	663
Reclassification of gains recognized in net income	(4)	—
Tax effect	1	—
Net of tax amount	3,988	(1,288)
Derivative and hedging activities adjustments:		
Changes in unrealized holding (losses) gains on derivatives included in net income	(725)	457
Tax effect	152	(156)
Reclassification adjustment for gains on derivatives included in net income	(217)	(23)
Tax effect	46	8
Net of tax amount	(744)	286
Total other comprehensive income (loss)	3,244	(1,002)
Comprehensive income (loss)	$6,253	$(2,640)

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 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

	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 share data)							
Balance, September 30, 2018	11,782,718	$ 181	$ 180,765	$ (8,255)	$ 94,112	$ (77,707)	$ (9,910)	$ 179,186
Net income					3,009			3,009
Other comprehensive income							3,244	3,244

Change in accounting principal for adoption of ASU 2016-01					(4)		4	—
Cash dividends declared ($0.10 per share)					(1,091)			(1,091)
Stock based compensation			252					252
Allocation of ESOP stock			62	113				175
Allocation of treasury shares to incentive plan	37,096		(448)			448		—
Balance, December 31, 2018	11,819,814	$ 181	$ 180,631	$ (8,142)	$ 96,026	$ (77,259)	$ (6,662)	$ 184,775

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the three months ended December 31, 2018	2017
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income (loss)	$3,009	$(1,638)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	876	1,000
Provision for depreciation and amortization	286	305
Amortization and accretion of discounts and premiums, net	848	1,167
Net gain on sale of investment securities	(4)	—
Net loss recognized on equity securities- financial	2	—
Compensation expense on ESOP	175	183
Stock based compensation	252	80
Decrease (increase) in accrued interest receivable	379	(124)
Increase in accrued interest payable	119	184
Earnings on bank-owned life insurance	(244)	(255)
Deferred federal income taxes	743	3,329
Decrease in accrued pension liability	(119)	(135)
Gain on foreclosed real estate, net	(115)	(36)
Amortization of identifiable assets	84	144
Other, net	(2,942)	1,660
Net cash provided by operating activities	3,349	5,864
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sale of investment securities	9,931	—
Proceeds from principal repayments and maturities	10,833	19,254
Purchases	(20,729)	(22,455)
Increase in loans receivable, net	(30,601)	(41,724)
Redemption of regulatory stock	4,239	3,151
Purchase of regulatory stock	(6,387)	(6,164)
Proceeds from sale of foreclosed real estate	432	498
Purchase of premises, equipment and software	(237)	45
Net cash used for investing activities	(32,519)	(47,395)
FINANCING ACTIVITIES		
Decrease in deposits, net	(28,938)	(23,840)
Net increase in short-term borrowings	60,051	76,590
Proceeds from other borrowings	20,000	14,600
Repayment of other borrowings	(26,350)	(34,000)

Increase in advances by borrowers for taxes and insurance	1,609	6,246
Dividends on common stock	(1,091)	(963)
Net cash provided by financing activities	25,281	38,633
Decrease in cash and cash equivalents	(3,889)	(2,898)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,539	41,683
CASH AND CASH EQUIVALENTS AT END OF YEAR	$39,650	$38,785
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$4,865	$3,424
Income taxes	—	(2)
Noncash items:		
Transfers from loans to foreclosed real estate	52	403
Unrealized holding gains (losses)	5,055	(1,951)

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, 2018 are not necessarily indicative of the results that may be expected for the year ending September 30, 2019.

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 period ended June 30, 2018 and 2017.

	Three Months Ended	
	December 31, 2018	December 31, 2017
Weighted-average common shares outstanding	18,133,095	18,133,095
Average treasury stock shares	(6,316,361)	(6,521,843)
Average unearned ESOP shares	(809,051)	(854,325)

Average unearned non-vested shares	(56,327)	(39,789)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,951,356	10,717,138
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	—	—
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	—	—
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,951,356	10,717,138

At December 31, 2018 there were 52,272 shares of nonvested stock outstanding at an average weighted price of $15.95 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, 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.

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. Accounting Pronouncements

Adoption of New Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from contracts with customers.” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company 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, 2017, including interim periods within that reporting period. The Company adopted this standard on October 1, 2018. The required disclosures under the new standard are presented in Note 14.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method (s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require 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 (8) clarify 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. The adoption of ASU No. 2016-01 on October 1, 2018 resulted in a cumulative effect adjustment from accumulated other comprehensive loss to retained earnings of $4,000. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of December 31, 2018 using an exit price notion (see Note 10 Fair Value). In accordance with (1) above the Company measured its equity securities at fair value and recognized changes in fair value in net income (see Note 5 Investment Securities).

Recent Accounting Pronouncements

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. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. 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 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 affected 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 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 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 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 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.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718), which simplified the accounting for nonemployee share-based payment transactions. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update improve the following areas of nonemployee share-based payment accounting: (a) the overall measurement objective, (b) the measurement date, (c) awards with performance conditions, (d) classification reassessment of certain equity-classified awards, (e) calculated value (nonpublic entities only), and (f) intrinsic value (nonpublic entities only). The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. 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. This Update is not expected to have a significant impact on the Company’s financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance and effective dates for annual periods beginning after December 15, 2018, for public business entities. This update is not expected to have a significant impact on the Company’s financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments in this ASU affect the amendments in ASU 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of this ASU, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842. This Update is not expected to have a significant impact on the Company’s financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. This Update provides another transition method which allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Entities that elect this approach should report comparative periods in accordance with ASC 840, Leases. In addition, this Update provides a practical expedient under which lessors may elect, by class of underlying assets, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (a) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (b) the lease component, if accounted for separately, would be classified as an operating lease. If the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity should account for the combined component in accordance with ASC 606, Revenue from Contracts with Customers. Otherwise, the entity should account for the combined component as an operating lease in accordance with ASC 842. If a lessor elects the practical expedient, certain disclosures are required. This Update is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. 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. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes the Disclosure Requirements for Fair Value Measurements. The Update removes the requirement to disclose the amount of and reasons for transfers between Level I and Level II of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level III fair value measurements. The Update requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level III fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements. This Update is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits (Topic 715-20). This Update amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The Update eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The Update also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. This Update is effective for public business entities for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. For all other entities, this Update is effective for fiscal years ending after December 15, 2021. This Update is not expected to have a significant impact on the Company's financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815). The amendments in this Update permit use of the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. For entities that have not already adopted Update 2017-12, the amendments in this Update are required to be adopted concurrently with the amendments in Update 2017-12. For public business entities that already have adopted the amendments in Update 2017-12, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities that already have adopted the amendments in Update 2017-12, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted in any interim period upon issuance of this Update if an entity already has adopted Update 2017-12. This Update is not expected to have a significant impact on the Company's financial statements.

In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, which amended the effective date of ASU 2016-13 for entities other than public business entities (PBEs), by requiring non-PBEs to adopt the standard for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Therefore, the revised effective dates of ASU 2016-13 for PBEs that are SEC filers will be fiscal years beginning after December 15, 2019, including interim periods within those years, PBEs other than SEC filers will be for fiscal years beginning after December 15, 2020, including interim periods within those years, and all other entities (non-PBEs) will be for fiscal years beginning after December 15, 2021, including interim periods within those years. The ASU also clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Rather, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The effective date and transition requirements for ASU 2018-19 are the same as those in ASU 2016-13, as amended by ASU 2018-19. This Update is not expected to have a significant impact on the Company's financial statements.

In December 2018, the FASB issued ASU 2018-20, Leases (Topic 842), which addressed implementation questions arising from stakeholders in regard to ASU 2016-02, Leases. Specifically addressed in this Update were issues related to 1) sales taxes and other similar taxes collected from lessees, 2) certain lessor costs, and 3) recognition of variable payments for contracts with lease and nonlease components. The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Update 2016-02 (for example, January 1, 2019, for calendar-year-end public business entities). 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, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$157,353	$ 238	$ (3,764)	$153,827
Freddie Mac	96,057	42	(2,737)	93,362
Governmental National Mortgage Association Securities	21,397	5	(598)	20,804
Total mortgage-backed securities	274,807	285	(7,099)	267,993
Obligations of states and political subdivisions	33,599	207	(882)	32,924
U.S. government agency securities	9,813	18	(42)	9,789
Corporate obligations	47,987	154	(1,297)	46,844
Other debt securities	19,186	22	(704)	18,504
Total debt securities	$385,392	$ 686	$ (10,024)	$376,054

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$147,433	$ 17	$ (5,827)	$141,623
Freddie Mac	99,587	2	(4,415)	95,174
Governmental National Mortgage Association	22,164	—	(838)	21,326
Total mortgage-backed securities	269,184	19	(11,080)	258,123
Obligations of states and political subdivisions	42,090	251	(1,392)	40,949
U.S. government agency securities	5,678	2	(122)	5,558
Corporate obligations	48,559	116	(1,260)	47,415
Other debt securities	20,295	—	(922)	19,373
Total debt securities	385,806	388	(14,776)	371,418
Equity securities - financial services (a)	25	—	(5)	20
Total	$385,831	$ 388	$ (14,781)	$371,438

(a) As of October 1, 2018, the Company adopted ASU 2016-01 resulting in reclassification of equity securities from available for-sale investment securities to other assets. At September 30, 2018, the Company's investment in equity securities was comprised of common stock issued by an unrelated bank holding company.

At December 31, 2018 and September 30, 2018, the Company had $18,000 and $20,000 respectively, in equity securities recorded at fair value. Prior to October 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of AOCI, net of tax. At September 30, 2018, net unrealized loss net of tax of $4,000 had been recognized in AOCI. On October 1, 2018, these unrealized gains and losses were reclassified out of AOCI and into retained earnings with subsequent changes in fair value being recognized in net income. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the three months ended December 31, 2018:

(Dollars in thousands)	Three months ended December 31, 2018
Net gains and (losses) recognized during the period on equity securities	$ (2)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	-
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	$ (2)

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The amortized cost and fair value of debt securities at December 31, 2018, 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	$1	$1
Due after one year through five years	34,074	33,768
Due after five years through ten years	100,036	97,464
Due after ten years	251,281	244,821
Total	$385,392	$376,054

For the three months ended December 31, 2018, the Company realized gross gains of $43,000 and gross losses of $39,000 on proceeds from the sale of investment securities of $9.9 million. For the three months ended December 31, 2017, the Company realized no gross gains or gross 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, 2018						
	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	92	$25,419	$ (163)	$94,531	$ (3,601)	$119,950	$ (3,764)
Freddie Mac	69	246	—	83,010	(2,737)	83,256	(2,737)
Governmental National Mortgage Association	16	5,474	(51)	12,295	(547)	17,769	(598)
Obligations of states and political subdivisions	22	995	(5)	24,867	(877)	25,862	(882)
U.S. government agency securities	1	—	—	1,918	(42)	1,918	(42)
Corporate obligations	38	14,315	(247)	22,978	(1,050)	37,293	(1,297)
Other debt securities	18	—	—	16,142	(704)	16,142	(704)
Total	256	$46,449	$ (466)	$255,741	$ (9,558)	$302,190	$ (10,024)

	September 30, 2018						
	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	100	$63,997	$ (1,442)	$74,783	$ (4,385)	$138,780	$ (5,827)
Freddie Mac	74	28,902	(830)	65,812	(3,585)	94,714	(4,415)
Governmental National Mortgage Association	19	9,776	(142)	11,550	(696)	21,326	(838)
Obligations of states and political subdivisions	25	7,651	(105)	21,004	(1,287)	28,655	(1,392)
U.S. government agency securities	3	5,177	(122)	—	—	5,177	(122)
Corporate obligations	34	20,172	(363)	13,206	(897)	33,378	(1,260)
Other debt securities	20	2,399	(38)	16,974	(884)	19,373	(922)
Equity Securities (a)	1	20	(5)	—	0	20	(5)
Total	276	$138,094	$ (3,047)	$203,329	$ (11,734)	$341,423	$ (14,781)

(a) As of October 1, 2018, the Company adopted ASU 2016-01 resulting in reclassification of equity securities from available for-sale investment securities to other assets. As September 30, 2018, the Company's investment in equity securities was comprised of common stock issued by an unrelated bank holding company.

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, other debt securities and equity securities.

The Company reviews its position quarterly and has asserted that at December 31, 2018, 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, 2018	September 30, 2018
Real estate loans:		
Residential	$600,564	$580,561
Construction	4,755	3,920
Commercial	434,427	416,573
Commercial	57,381	49,479
Obligations of states and political subdivisions	75,041	73,362
Home equity loans and lines of credit	43,271	43,962
Auto Loans	128,216	146,220
Other	2,870	2,682
	1,346,525	1,316,759
Less allowance for loan losses	12,221	11,688
Net loans	$1,334,304	$1,305,071

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.

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

	December 31, 2018 Acquired Loans with Specific	September 30, 2018 Acquired Loans with Specific

	Evidence or Deterioration in Credit Quality (ASC 310-30)	Evidence or Deterioration in Credit Quality (ASC 310-30)
Outstanding balance	$ 1,653	$ 2,497
Carrying amount	$ 1,526	$ 1,802

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, 2018				
Real estate loans:				
Residential	$ 600,564	$ 4,961	$ —	$ 595,603
Construction	4,755	—	—	4,755
Commercial	434,427	2,110		