WEST BANCORPORATION INC
Form 10-Q
October 25, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 0-49677

WEST BANCORPORATION, INC.
(Exact Name of Registrant as Specified in its Charter)

IOWA	42-1230603
(State of Incorporation)	(I.R.S. Employer Identification No.)

1601 22nd Street, West Des Moines, Iowa	50266
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (515) 222-2300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes x No o

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

Large accelerated filer o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of October 24, 2018, there were 16,295,494 shares of common stock, no par value, outstanding.

WEST BANCORPORATION, INC.
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
West Bancorporation, Inc. and Subsidiary
Consolidated Balance Sheets
(unaudited)

(in thousands, except share and per share data)	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 26,406	$ 34,952
Federal funds sold	876	12,997
Cash and cash equivalents	27,282	47,949
Investment securities available for sale, at fair value	470,331	444,219
Investment securities held to maturity, at amortized cost (fair value $45,890 at December 31, 2017)	—	45,527
Federal Home Loan Bank stock, at cost	10,061	9,174
Loans	1,600,817	1,510,500
Allowance for loan losses	(16,673)	(16,430)
Loans, net	1,584,144	1,494,070
Premises and equipment, net	21,722	23,022
Accrued interest receivable	7,782	7,344
Bank-owned life insurance	34,086	33,618
Deferred tax assets, net	6,901	4,645
Other assets	9,357	4,809
Total assets	$ 2,171,666	$ 2,114,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 396,079	$ 395,888
Interest-bearing demand	313,916	395,052
Savings	943,717	850,216
Time of $250 or more	33,752	16,965
Other time	151,828	152,692
Total deposits	1,839,292	1,810,813
Federal funds purchased	26,245	545
Subordinated notes, net	20,422	20,412
Federal Home Loan Bank advances, net	77,501	76,382
Long-term debt	17,582	22,917
Accrued expenses and other liabilities	6,006	5,210
Total liabilities	1,987,048	1,936,279
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; authorized 50,000,000 shares; no shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock, no par value; authorized 50,000,000 shares; 16,295,494 and 16,215,672 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3,000	3,000

Additional paid-in capital	24,391	23,463
Retained earnings	165,741	153,527
Accumulated other comprehensive loss	(8,514)	(1,892)
Total stockholders' equity	184,618	178,098
Total liabilities and stockholders' equity	$ 2,171,666	$ 2,114,377

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Income
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Loans, including fees	$18,347	$15,854	$51,989	$46,865
Investment securities:				
Taxable	2,296	1,489	5,995	3,755
Tax-exempt	1,199	1,081	3,867	2,674
Federal funds sold	78	136	336	223
Total interest income	21,920	18,560	62,187	53,517
Interest expense:				
Deposits	4,768	2,108	11,578	5,084
Federal funds purchased	61	13	140	82
Subordinated notes	287	232	819	667
Federal Home Loan Bank advances	930	972	2,669	2,837
Long-term debt	187	204	579	334
Total interest expense	6,233	3,529	15,785	9,004
Net interest income	15,687	15,031	46,402	44,513
Provision for loan losses	(400)	—	(250)	—
Net interest income after provision for loan losses	16,087	15,031	46,652	44,513
Noninterest income:				
Service charges on deposit accounts	649	715	1,925	1,946
Debit card usage fees	422	435	1,254	1,333
Trust services	445	436	1,465	1,264
Increase in cash value of bank-owned life insurance	158	167	468	484
Gain from bank-owned life insurance	—	—	—	307
Realized investment securities gains (losses), net	(78)	197	(103)	423
Other income	518	314	1,041	983
Total noninterest income	2,114	2,264	6,050	6,740
Noninterest expense:				
Salaries and employee benefits	4,774	4,430	14,062	13,216
Occupancy	1,250	1,087	3,731	3,315
Data processing	670	635	2,020	2,031
FDIC insurance	172	151	499	514
Professional fees	196	184	608	725
Director fees	248	240	758	697
Write-down of premises	—	—	333	—
Other expenses	1,251	1,293	3,795	3,737
Total noninterest expense	8,561	8,020	25,806	24,235
Income before income taxes	9,640	9,275	26,896	27,018
Income taxes	2,507	2,870	5,615	8,142
Net income	$7,133	$6,405	$21,281	$18,876
Basic earnings per common share	$0.44	$0.40	$1.31	$1.17

Diluted earnings per common share	$0.43	$0.39	$1.30	$1.16
Cash dividends declared per common share	$0.20	$0.18	$0.58	$0.53

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Net income	$7,133	$6,405	$21,281	$18,876
Other comprehensive income (loss) :				
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during the period	(4,182)	(1,316)	(12,373)	2,509
Unrealized gains on investment securities transferred from held to maturity to available for sale	—	—	363	—
Plus: reclassification adjustment for net (gains) losses realized in net income	78	(197)	103	(423)
Less: other reclassification adjustment	—	(34)	(36)	(234)
Income tax benefit (expense)	1,026	588	2,988	(704)
Other comprehensive income (loss) on investment securities	(3,078)	(959)	(8,955)	1,148
Unrealized gains (losses) on derivatives:				
Unrealized holding gains (losses) arising during the period	964	(29)	3,512	(376)
Plus: reclassification adjustment for net (gain) loss on derivatives realized in net income	(10)	70	25	239
Plus: reclassification adjustment for amortization of derivative termination costs	24	28	71	82
Income tax benefit (expense)	(246)	(26)	(905)	21
Other comprehensive income (loss) on derivatives	732	43	2,703	(34)
Total other comprehensive income (loss)	(2,346)	(916)	(6,252)	1,114
Comprehensive income	$4,787	$5,489	$15,029	$19,990

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30, 2018						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, June 30, 2018	$ —	16,295,494	$ 3,000	$ 23,653	$ 161,867	$ (6,168)	$ 182,352
Net income	—	—	—	—	7,133	—	7,133
Other comprehensive loss, net of tax	—	—	—	—	—	(2,346)	(2,346)
Cash dividends declared, $0.20 per common share	—	—	—	—	(3,259)	—	(3,259)
Stock-based compensation costs	—	—	—	738	—	—	738
Balance, September 30, 2018	$ —	16,295,494	$ 3,000	$ 24,391	$ 165,741	$ (8,514)	$ 184,618

	Three Months Ended September 30, 2017						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, June 30, 2017	$ —	16,211,161	$ 3,000	$ 22,132	$ 148,766	$ 988	$ 174,886
Net income	—	—	—	—	6,405	—	6,405
Other comprehensive loss, net of tax	—	—	—	—	—	(916)	(916)
Cash dividends declared, $0.18 per common share	—	—	—	—	(2,919)	—	(2,919)
Stock-based compensation costs	—	—	—	709	—	—	709
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	4,511	—	(78)	—	—	(78)
Balance, September 30, 2017	$ —	16,215,672	$ 3,000	$ 22,763	$ 152,252	$ 72	$ 178,087

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity
(unaudited)
(in thousands, except share and per share data)

Nine Months Ended September 30, 2018

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ —	16,215,672	$ 3,000	$ 23,463	$ 153,527	$ (1,892)	$ 178,098
Reclassification of stranded tax effects of rate change	—	—	—	—	370	(370)	—
Net income	—	—	—	—	21,281	—	21,281
Other comprehensive loss, net of tax	—	—	—	—	—	(6,252)	(6,252)
Cash dividends declared, $0.58 per common share	—	—	—	—	(9,437)	—	(9,437)
Stock-based compensation costs	—	—	—	2,004	—	—	2,004
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	79,822	—	(1,076)	—	—	(1,076)
Balance, September 30, 2018	$ —	16,295,494	$ 3,000	$ 24,391	$ 165,741	$ (8,514)	$ 184,618

Nine Months Ended September 30, 2017

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ —	16,137,999	$ 3,000	$ 21,462	$ 141,956	$ (1,042)	$ 165,376
Net income	—	—	—	—	18,876	—	18,876
Other comprehensive income, net of tax	—	—	—	—	—	1,114	1,114
Cash dividends declared, $0.53 per common share	—	—	—	—	(8,580)	—	(8,580)
Stock-based compensation costs	—	—	—	1,932	—	—	1,932
Issuance of common stock upon vesting of restricted stock units, net of shares withheld for payroll taxes	—	77,673	—	(631)	—	—	(631)
Balance, September 30, 2017	$ —	16,215,672	$ 3,000	$ 22,763	$ 152,252	$ 72	$ 178,087

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash Flows from Operating Activities:		
Net income	$21,281	$18,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(250)	—
Net amortization and accretion	3,715	2,921
Investment securities (gains) losses, net	103	(423)
Stock-based compensation	2,004	1,932
Increase in cash value of bank-owned life insurance	(468)	(484)
Gain from bank-owned life insurance	—	(307)
Depreciation	1,053	1,007
Write-down of premises	333	—
Deferred income taxes	(173)	413
Change in assets and liabilities:		
Increase in accrued interest receivable	(438)	(1,315)
Increase in other assets	(1,095)	(125)
Increase (decrease) in accrued expenses and other liabilities	881	(516)
Net cash provided by operating activities	26,946	21,979
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	66,140	74,224
Proceeds from maturities and calls of investment securities	34,883	38,529
Purchases of securities available for sale	(96,170)	(267,133)
Purchases of Federal Home Loan Bank stock	(10,634)	(16,794)
Proceeds from redemption of Federal Home Loan Bank stock	9,747	15,309
Net increase in loans	(89,824)	(56,789)
Purchases of premises and equipment	(86)	(866)
Proceeds of principal and earnings from bank-owned life insurance	—	451
Net cash used in investing activities	(85,944)	(213,069)
Cash Flows from Financing Activities:		
Net increase in deposits	28,479	104,661
Net increase in federal funds purchased	25,700	39,235
Proceeds from long-term debt	—	22,000
Principal payments on long-term debt	(5,335)	(2,934)
Common stock dividends paid	(9,437)	(8,580)
Restricted stock units withheld for payroll taxes	(1,076)	(631)
Net cash provided by financing activities	38,331	153,751
Net decrease in cash and cash equivalents	(20,667)	(37,339)
Cash and Cash Equivalents:		
Beginning	47,949	76,836
Ending	$27,282	$39,497

Supplemental Disclosures of Cash Flow Information:

Cash payments for:		
Interest	$15,471	$8,667
Income taxes	4,822	6,410
Supplemental Disclosure of Noncash Investing Activities:		
Transfer of investment securities held to maturity to available for sale	$45,527	$—

See Notes to Consolidated Financial Statements.

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West Bancorporation, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)
(dollars in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by West Bancorporation, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented understandable, it is suggested that these interim consolidated financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the accompanying consolidated financial statements of the Company contain all adjustments necessary to fairly present its financial position as of September 30, 2018 and December 31, 2017, net income, comprehensive income and changes in stockholders' equity for the three and nine months ended September 30, 2018 and 2017, and cash flows for the nine months ended September 30, 2018 and 2017. The results for these interim periods may not be indicative of results for the entire year or for any other period.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) established by the Financial Accounting Standards Board (FASB). References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the Codification or ASC. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are the fair value of financial instruments and the allowance for loan losses.

The accompanying unaudited consolidated financial statements include the accounts of the Company, West Bank and West Bank's wholly-owned subsidiary WB Funding Corporation (which was liquidated in March 2018). All significant intercompany transactions and balances have been eliminated in consolidation. In accordance with GAAP, West Bancorporation Capital Trust I is recorded on the books of the Company using the equity method of accounting and is not consolidated.

Current accounting developments: In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. The core principle is that a company should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public companies, this update was effective for interim and annual periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. The implementation of the new standard did not result in a change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment to opening retained earnings was recorded. The Company's revenue is primarily composed of interest income on financial instruments, including investment securities and loans, which are excluded from the scope of Topic 606. Also excluded from the scope of Topic 606 is revenue from bank-owned life insurance, loan fees and letter of credit fees. Approximately 90 percent of the Company's revenue is outside the scope of this update. Topic 606 is applicable to deposit account related fees, including general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services. Topic 606 is also applicable to trust services, which include periodic fees earned from trusts and investment management agency accounts, estate administration, custody accounts, individual retirement accounts, and other related services. Fees are charged based on standard agreements or by statute and are recognized over the period of time the Company provides the contracted services.

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. The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by updating certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other changes, the update requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, and clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entities' other deferred tax assets. For public companies, this update was effective for interim and annual periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in the update supersedes the requirements in ASC Topic 840, Leases. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for leases with terms of more than 12 months. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018. The Company currently leases its main location and space for six other branch offices and operational departments under operating leases that will result in recognition of lease assets and lease liabilities on the consolidated balance sheets under the update. The amount of assets and liabilities added to the balance sheet are estimated to be approximately $10,000, which will not have a material impact on the Company's consolidated financial statements. In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements, which amends ASC 842, Leases. This update provides for an adoption option that will not require earlier periods to be restated at the adoption date.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The amendments in this update 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. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial assets. Under the updates, the income statement will reflect 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 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 collectibility of the reported amount of financial assets. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis will be determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses will be added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses will be recorded as a credit loss expense for these assets. Off-balance-sheet arrangements such as commitments to extend credit, guarantees and standby letters of credit that are not considered derivatives under ASC 815 and are not unconditionally cancellable are also within the scope of this update. Credit losses relating to available for sale debt securities should be recorded through an allowance for credit losses. For public companies, the update is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company does not plan to early adopt this standard, but is currently planning for the implementation. It is too early to assess the impact that this guidance will have on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update make targeted changes to the existing hedge accounting model to better align the accounting rules with a company’s risk management activities, and to simplify the application of the hedge accounting model. The update expands the types of transactions eligible for hedge accounting, eliminates the requirement to separately measure and present hedge ineffectiveness, and simplifies the way assessments of hedge ineffectiveness may be performed. The update also permits a one-time reclassification of prepayable debt securities from held to maturity classification to available for sale. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted, including in an interim period. The amendments' presentation and disclosure guidance is required on a prospective basis. The Company adopted the guidance effective January 1, 2018. The requirements of this update related to the Company's hedging activities did not have any impact on the Company's consolidated financial statements. Upon adoption, the Company elected to transfer all its held to maturity securities portfolio to available for sale. The transferred securities had an amortized cost basis of $45,527 and a fair value of $45,890. Upon transfer, the Company recorded an adjustment of $273 to accumulated other comprehensive income (loss), net of deferred income taxes, for the unrealized gains and losses related to the transferred securities.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendment in this update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the December 22, 2017, enactment of Public Law 115-97, commonly known as the Tax Cut and Jobs Act (Tax Act), which reduced the federal corporate income tax rate and became effective in 2018. For public companies, the update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The amendment can be adopted at the beginning of the period or on a retrospective basis. The Company adopted the amendment effective January 1, 2018, using the beginning of period method. The reclassified amount was $370.

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In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The update is effective for interim and annual periods in fiscal years beginning after December 15, 2019, with early adoption permitted for the removed disclosures and delayed adoption until fiscal year 2020 permitted for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis, and the new disclosures will be adopted on a prospective basis. The adoption will not have a material effect on the Company's consolidated financial statements.

2. Earnings per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflect the potential dilution that could occur if the Company's outstanding restricted stock units were vested. The dilutive effect was computed using the treasury stock method, which assumes all stock-based awards were exercised and the hypothetical proceeds from exercise were used by the Company to purchase common stock at the average market price during the period. The incremental shares, to the extent they would have been dilutive, were included in the denominator of the diluted earnings per common share calculation. The calculations of earnings per common share and diluted earnings per common share for the three and nine months ended September 30, 2018 and 2017 are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Net income	$7,133	$6,405	$21,281	$18,876
Weighted average common shares outstanding	16,295	16,213	16,268	16,186
Weighted average effect of restricted stock units outstanding	106	118	132	127
Diluted weighted average common shares outstanding	16,401	16,331	16,400	16,313
Basic earnings per common share	$0.44	$0.40	$1.31	$1.17
Diluted earnings per common share	$0.43	$0.39	$1.30	$1.16
Number of anti-dilutive common stock equivalents excluded from diluted earnings per share computation	137	24	92	14

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Notes to Consolidated Financial Statements
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(dollars in thousands, except per share data)

3. Investment Securities

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of investment securities, by investment security type as of September 30, 2018 and December 31, 2017.

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$161,888	$ 40	$(6,154)	$155,774
Collateralized mortgage obligations (1)	168,296	—	(5,651)	162,645
Mortgage-backed securities (1)	62,225	—	(1,737)	60,488
Asset-backed securities (2)	39,465	—	(694)	38,771
Trust preferred security	2,148	—	(148)	2,000
Corporate notes	51,866	21	(1,234)	50,653
	$485,888	$ 61	$(15,618)	$470,331

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
State and political subdivisions	$146,331	$ 928	$(946)	$146,313
Collateralized mortgage obligations (1)	162,631	28	(2,727)	159,932
Mortgage-backed securities (1)	60,956	20	(547)	60,429
Asset-backed securities (2)	45,539	8	(352)	45,195
Trust preferred security	2,134	—	(128)	2,006
Corporate notes	30,278	331	(265)	30,344
	$447,869	$ 1,315	$(4,965)	$444,219
Securities held to maturity:				
State and political subdivisions	$45,527	$ 460	$(97)	$45,890

(1) All collateralized mortgage obligations and mortgage-backed securities consist of residential mortgage pass-through securities guaranteed by FHLMC or FNMA, real estate mortgage investment conduits guaranteed by FNMA, FHLMC or GNMA, and commercial mortgage pass-through securities guaranteed by the SBA.

(2) Pass-through asset-backed securities guaranteed by the SBA, representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA.

On January 1, 2018, the Company adopted the amendments of ASU No. 2017-12 and, as a result, elected to transfer all securities classified as held to maturity to available for sale. At the date of reclassification, the held to maturity securities portfolio was carried at an amortized cost of $45,527. The reclassification of securities between categories was accounted for at fair value. At the date of reclassification, the securities had a fair value of $45,890 and net unrealized holding gains of $273, which were recorded net of tax in other comprehensive income. The transfer enhanced liquidity and increased flexibility with regard to asset-liability management and balance sheet composition.

Investment securities with an amortized cost of approximately $129,578 and $120,338 as of September 30, 2018 and December 31, 2017, respectively, were pledged to secure access to the Federal Reserve discount window, for public fund deposits, and for other purposes as required or permitted by law or regulation.

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The amortized cost and fair value of investment securities available for sale as of September 30, 2018, by contractual maturity, are shown below. Certain securities have call features that allow the issuer to call the securities prior to maturity. Expected maturities may differ from contractual maturities for collateralized mortgage obligations, mortgage-backed securities and asset-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not included in the maturity categories within the following maturity summary.

	September 30, 2018	
	Amortized Cost	Fair Value
Due in one year or less	$115	$115
Due after one year through five years	3,616	3,562
Due after five years through ten years	83,586	81,587
Due after ten years	128,585	123,163
	215,902	208,427
Collateralized mortgage obligations, mortgage-backed securities and asset-backed securities	269,986	261,904
	$485,888	$470,331

The details of the sales of investment securities available for sale for the three and nine months ended September 30, 2018 and 2017 are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds from sales	$56,924	$21,204	$66,140	$74,224
Gross gains on sales	64	197	98	527
Gross losses on sales	142	—	201	104

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The following tables show the fair value and gross unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous loss position, as of September 30, 2018 and December 31, 2017.

	September 30, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Securities available for sale:						
State and political subdivisions	$102,773					