ARROW FINANCIAL CORP
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018

or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-12507

ARROW FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New York	22-2448962
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

250 GLEN STREET, GLENS FALLS, NEW YORK 12801
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (518) 745-1000

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
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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard 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 x No

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

Class	Outstanding as of July 31, 2018
Common Stock, par value $1.00 per share	14,015,969

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PART I - FINANCIAL INFORMATION
Item 1.
FINANCIAL STATEMENTS
ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	June 30, 2018	December 31, 2017	June 30, 2017
ASSETS			
Cash and Due From Banks	$38,552	$42,562	$39,105
Interest-Bearing Deposits at Banks	22,189	30,276	26,972
Investment Securities:			
Available-for-Sale	325,387	300,200	327,392
Held-to-Maturity (Approximate Fair Value of $292,605 at June 30, 2018; $335,901 at December 31, 2017; and $350,355 at June 30, 2017)	297,885	335,907	348,018
Equity Securities	1,802	—	—
Other Investments	11,089	9,949	11,035
Loans	2,057,862	1,950,770	1,878,632
Allowance for Loan Losses	(19,640)	(18,586)	(17,442)
Net Loans	2,038,222	1,932,184	1,861,190
Premises and Equipment, Net	28,104	27,619	26,565
Goodwill	21,873	21,873	21,873
Other Intangible Assets, Net	2,060	2,289	2,482
Other Assets	58,008	57,606	57,089
Total Assets	$2,845,171	$2,760,465	$2,721,721
LIABILITIES			
Noninterest-Bearing Deposits	$467,048	$441,945	$433,480
Interest-Bearing Checking Accounts	861,959	907,315	905,624
Savings Deposits	735,217	694,573	679,320
Time Deposits over $250,000	70,950	38,147	33,630
Other Time Deposits	169,607	163,136	167,984
Total Deposits	2,304,781	2,245,116	2,220,038
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	60,248	64,966	40,892
Federal Home Loan Bank Overnight Advances	136,000	105,000	122,000
Federal Home Loan Bank Term Advances	45,000	55,000	55,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	20,000
Other Liabilities	19,654	20,780	23,039
Total Liabilities	2,585,683	2,510,862	2,480,969
STOCKHOLDERS' EQUITY			
Preferred Stock, $5 Par Value; 1,000,000 Shares Authorized	—	—	—
Common Stock, $1 Par Value; 20,000,000 Shares Authorized (18,481,301 Shares Issued at June 30, 2018; 18,481,301 at December 31, 2017 and 17,943,201 at June 30, 2017)	18,481	18,481	17,943
Additional Paid-in Capital	292,020	290,219	272,187
Retained Earnings	40,326	28,818	35,739
	(200)	(200)	(400)

Unallocated ESOP Shares (9,643 Shares at June 30, 2018; 9,643 Shares at December 31, 2017 and 19,466 Shares at June 30, 2017)			
Accumulated Other Comprehensive Loss	(11,804)	(8,514)	(6,200)
Treasury Stock, at Cost (4,467,909 Shares at June 30, 2018; 4,541,524 Shares at December 31, 2017 and 4,428,713 Shares at June 30, 2017)	(79,335)	(79,201)	(78,517)
Total Stockholders' Equity	259,488	249,603	240,752
Total Liabilities and Stockholders' Equity	$2,845,171	$2,760,465	$2,721,721

See Notes to Unaudited Interim Consolidated Financial Statements.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	$19,909	$17,295	$38,767	$33,697
Interest on Deposits at Banks	158	78	292	138
Interest and Dividends on Investment Securities:				
Fully Taxable	2,048	2,013	3,941	4,003
Exempt from Federal Taxes	1,475	1,540	3,008	3,085
Total Interest and Dividend Income	23,590	20,926	46,008	40,923
INTEREST EXPENSE				
Interest-Bearing Checking Accounts	388	381	775	712
Savings Deposits	711	316	1,233	607
Time Deposits over $250,000	328	66	532	121
Other Time Deposits	282	233	541	461
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	16	9	32	16
Federal Home Loan Bank Advances	656	506	1,070	951
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	247	188	461	367
Total Interest Expense	2,628	1,699	4,644	3,235
NET INTEREST INCOME	20,962	19,227	41,364	37,688
Provision for Loan Losses	629	422	1,375	780
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,333	18,805	39,989	36,908
NONINTEREST INCOME				
Income From Fiduciary Activities	2,647	2,150	4,844	4,168
Fees for Other Services to Customers	2,570	2,413	4,950	4,670
Insurance Commissions	2,192	2,115	4,095	4,313
Net Gain on Equity Securities	223	—	241	—
Net Gain on Sales of Loans	23	204	61	250
Other Operating Income	256	175	609	351
Total Noninterest Income	7,911	7,057	14,800	13,752
NONINTEREST EXPENSE				
Salaries and Employee Benefits	9,812	9,211	19,181	18,358
Occupancy Expenses, Net	2,420	2,494	4,961	5,038
FDIC Assessments	223	228	440	454
Other Operating Expense	3,737	3,704	7,566	7,262
Total Noninterest Expense	16,192	15,637	32,148	31,112
INCOME BEFORE PROVISION FOR INCOME TAXES	12,052	10,225	22,641	19,548
Provision for Income Taxes	2,322	3,017	4,380	5,709
NET INCOME	$9,730	$7,208	$18,261	$13,839
Average Shares Outstanding [1]:				
Basic	13,975	13,890	13,955	13,889
Diluted	14,058	13,975	14,038	13,989

Per Common Share:				
Basic Earnings	$0.70	$0.52	$1.31	$1.00
Diluted Earnings	0.69	0.52	1.30	0.99

[1] 2017 Share and Per Share Amounts have been restated for the September 28, 2017 3% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$9,730	$7,208	$18,261	$13,839
Other Comprehensive Income, Net of Tax:				
Net Unrealized Securities Holding Gains (Losses) Arising During the Period	(635)	409	(3,120)	456
Amortization of Net Retirement Plan Actuarial Loss	75	72	121	181
Accretion of Net Retirement Plan Prior Service Credit	41	(1)	40	(3)
Other Comprehensive Income (Loss)	(519)	480	(2,959)	634
Comprehensive Income	$9,211	$7,688	$15,302	$14,473

See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallo-cated ESOP Shares	Accumu-lated Other Com-prehensive Loss	Treasury Stock	Total
Balance at December 31, 2017	$18,481	$290,219	$28,818	$ (200)	$ (8,514)	$(79,201)	$249,603
Net Income	—	—	18,261	—	—	—	18,261
Other Comprehensive Loss	—	—	—	—	(2,959)	—	(2,959)
Impact of the Adoption of ASU 2014-09	—	—	(102)	—	—	—	(102)
Impact of the Adoption of ASU 2016-01	—	—	331	—	(331)	—	—
Cash Dividends Paid, $.50 per Share	—	—	(6,982)	—	—	—	(6,982)
Stock Options Exercised, Net (79,001 Shares)	—	804	—	—	—	888	1,692
Shares Issued Under the Directors' Stock Plan (2,705 Shares)	—	72	—	—	—	31	103
Shares Issued Under the Employee Stock Purchase Plan (7,613 Shares)	—	167	—	—	—	85	252
Shares Issued for Dividend Reinvestment Plans (24,305 Shares)	—	580	—	—	—	276	856
Stock-Based Compensation Expense	—	178	—	—	—	—	178
Purchase of Treasury Stock (40,009 Shares)	—	—	—	—	—	(1,414)	(1,414)
Balance at June 30, 2018	$18,481	$292,020	$40,326	$ (200)	$ (11,804)	$(79,335)	$259,488
Balance at December 31, 2016	$17,943	$270,880	$28,644	$ (400)	$ (6,834)	$(77,381)	$232,852
Net Income	—	—	13,839	—	—	—	13,839
Other Comprehensive Income	—	—	—	—	634	—	634
Cash Dividends Paid, $.485 per Share [1]	—	—	(6,744)	—	—	—	(6,744)
Stock Options Exercised, Net (33,062 Shares)	—	322	—	—	—	379	701
Shares Issued Under the Directors' Stock Plan (3,927 Shares)	—	84	—	—	—	43	127
Shares Issued Under the Employee Stock Purchase Plan (7,300 Shares)	—	160	—	—	—	82	242
Shares Issued for Dividend Reinvestment Plans (24,999 Shares)	—	569	—	—	—	276	845
Stock-Based Compensation Expense	—	172	—	—	—	—	172
Purchase of Treasury Stock	—	—	—	—	—	(1,916)	(1,916)

(56,908 Shares)							
Balance at June 30, 2017	$17,943	$272,187	$35,739	$(400)	$(6,200)	$(78,517)	$240,752

[1] Cash dividends paid per share have been adjusted for the September 28, 2017 3% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Six Months Ended June 30,	
Cash Flows from Operating Activities:	2018	2017
Net Income	$18,261	$13,839
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	1,375	780
Depreciation and Amortization	2,408	2,988
Net Gain on Equity Securities	(241)	—
Loans Originated and Held-for-Sale	(2,354)	(7,646)
Proceeds from the Sale of Loans Held-for-Sale	2,198	8,118
Net Gain on the Sale of Loans	(61)	(250)
Net Loss on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	117	122
Contributions to Retirement Benefit Plans	(352)	(459)
Deferred Income Tax Benefit	(261)	(94)
Shares Issued Under the Directors’ Stock Plan	103	127
Stock-Based Compensation Expense	178	172
Tax Benefit from Exercise of Stock Options	160	112
Net (Increase) Decrease in Other Assets	186	(559)
Net Increase (Decrease) in Other Liabilities	(673)	1,378
Net Cash Provided By Operating Activities	21,044	18,628
Cash Flows from Investing Activities:		
Proceeds from the Maturities and Calls of Securities Available-for-Sale	25,035	31,867
Purchases of Securities Available-for-Sale	(56,598)	(12,324)
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	39,616	30,262
Purchases of Securities Held-to-Maturity	(2,105)	(33,435)
Net Increase in Loans	(107,598)	(126,524)
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	644	539
Purchase of Premises and Equipment	(1,395)	(867)
Proceeds from the Sale of a Subsidiary, Net	49	23
Net Increase in Other Investments	(1,140)	(123)
Net Cash Used By Investing Activities	(103,492)	(110,582)
Cash Flows from Financing Activities:		
Net Increase in Deposits	59,665	103,492
Net Increase (Decrease) in Short-Term Federal Home Loan Bank Borrowings	31,000	(1,000)
Net Increase (Decrease) in Short-Term Borrowings	(4,718)	5,056
Repayments of Federal Home Loan Bank Term Advances	(10,000)	—
Purchase of Treasury Stock	(1,414)	(1,916)
Stock Options Exercised, Net	1,692	701
Shares Issued Under the Employee Stock Purchase Plan	252	242
Shares Issued for Dividend Reinvestment Plans	856	845
Cash Dividends Paid	(6,982)	(6,744)
Net Cash Provided By Financing Activities	70,351	100,676
Net (Decrease) Increase in Cash and Cash Equivalents	(12,097)	8,722

Cash and Cash Equivalents at Beginning of Period	72,838	57,355
Cash and Cash Equivalents at End of Period	$60,741	$66,077
Supplemental Disclosures to Statements of Cash Flow Information:		
Interest on Deposits and Borrowings	$4,530	$3,225
Income Taxes	5,294	5,629
Non-cash Investing and Financing Activity:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	402	588

See Notes to Unaudited Interim Consolidated Financial Statements.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. ACCOUNTING POLICIES

In the opinion of the management of Arrow Financial Corporation (Arrow, the Company, we, or us), the accompanying unaudited interim consolidated financial statements contain all of the adjustments necessary to present fairly the financial position as of June 30, 2018, December 31, 2017 and June 30, 2017; the results of operations for the three- and six-month periods ended June 30, 2018 and 2017; the consolidated statements of comprehensive income for the three- and six-month periods ended June 30, 2018 and 2017; the changes in stockholders' equity for the six-month periods ended June 30, 2018 and 2017; and the cash flows for the six-month periods ended June 30, 2018 and 2017. All such adjustments are of a normal recurring nature.

Management’s Use of Estimates -The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Our most significant estimate is the allowance for loan losses. Other estimates include the evaluation of other-than-temporary impairment of investment securities, goodwill impairment, pension and other postretirement liabilities and an analysis of a need for a valuation allowance for deferred tax assets. Actual results could differ from those estimates.
A material estimate that is particularly susceptible to significant change in the near term is the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains appraisals for properties. The allowance for loan losses is management’s best estimate of probable loan losses incurred as of the balance sheet date. While management uses available information to recognize losses on loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions.
The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements of Arrow for the year ended December 31, 2017, included in Arrow's Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted and Recently Issued Accounting Standards

The following accounting standards have been adopted in the first six months of 2018:

ASU 2014-09 "Revenue from Contracts With Customers (Topic 606)" was adopted as of January 1, 2018. For additional information, see Revenue Recognition under Significant Policy Update in this Note.
ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10) significantly changed the income statement impact of equity investments. For Arrow, the standard became effective for the first quarter of 2018, and requires that equity investments be measured at fair value, with changes in fair value recognized in net income. The cumulative effect of the January 1, 2018 adoption was an increase to retained earnings of $331 thousand with a corresponding decrease to Accumulated Other Comprehensive Loss. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax. ASU 2016-01 also emphasized the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans as part of adopting this standard. See Note 9 to our unaudited interim consolidated financial statements entitled Fair Value of Financial Instruments.
ASU 2016-15 "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments" will reduce existing diversity in practice with respect to eight specific cash flow issues. Arrow adopted this ASU in

the first quarter of 2018.
ASU 2017-01 "Business Combinations" (Topic 805) defines when a set of assets and activities constitutes a business for the purposes of determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update allow for a business to consist of inputs, processes, and the ability to create output. For Arrow, the standard became effective in the first quarter of 2018. This update had no effect on our accounting for acquisitions and dispositions of businesses.
ASU 2017-07 "Compensation-Retirement Benefits" (Topic 715) improves the presentation of net periodic pension cost and net periodic post-retirement benefit cost by requiring that an employer disaggregate the service cost component from the other components of net benefit cost. For Arrow, the standard became effective in the first quarter of 2018. In accordance with the practical expedient adoption method, for all periods presented Arrow used the amounts disclosed in the retirement plans footnote for the prior period retrospective reclassification of the non-service cost components out of salaries and benefits and into other operating expenses. The adoption of this change in accounting for pension costs did not have a material impact on our financial position or the results of operations.
ASU 2017-09 "Compensation-Stock Compensation" (Topic 718) provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance highlights the requirements for applying modification accounting and the exception criteria relating to changes in share-based payment terms. For Arrow, the standard became effective in the first quarter of 2018. The adoption of this change in accounting for share-based payment awards did not have a material impact on our financial position or the results of operations in periods subsequent to its adoption.

The following accounting standards have been issued and will become effective for the Company at a future date:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. For a lease with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right-of-use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option or not exercise an option to terminate the lease. In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. ASU 2018-01 was issued to address concerns about the cost and complexity of complying with the transition provisions of ASU 2018-01. Early adoption is permitted in any interim or annual period. For Arrow, the standard becomes effective in the first quarter of 2019. The Company is in the process of reviewing its existing lease portfolios, including service contracts for embedded leases to evaluate the impact of this standard on its consolidated financial statements and the impact on regulatory capital. The Company does not expect that this new accounting standard will have a material impact on it's financial position or the results of operations in periods subsequent to its adoption. As of June 30, 2018, there were less than $2.2 million in minimum lease payments for existing operating leases of branch and insurance locations with varying expiration dates from 2018 to 2031.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses" (Topic 326) which will change the way financial entities measure expected credit losses for financial assets, primarily loans. Under this ASU, the "incurred loss" model will be replaced with an "expected loss" model which will recognize losses over the life of the instrument and requires consideration of a broader range of reasonable and supportable information. Currently, credit losses on available-for-sale securities reduce the carrying value of the instrument and cannot be reversed. Under this ASU, the amount of the credit loss is carried as a valuation allowance and can be reversed. The standard also requires expanded credit quality disclosures. For Arrow, the standard is effective for the first quarter of 2020 and early adoption is allowed in 2019. The Company plans on adopting the standard in the first quarter of 2020, in order to maximize the accumulation of data needed to calculate the new CECL methodologies. The ASU describes several acceptable methodologies for calculating expected losses on a loan or a pool of loans and requires additional disclosures. The initial adjustment will not be reported in earnings, but as the cumulative effect of a change in accounting principle. The FASB’s Transition Research Group for credit losses still has several outstanding unresolved questions, some of which may have a significant impact on CECL calculations. The Company is in the process of assessing the impact of this new accounting standard as required changes to its credit loss estimation process and models are being evaluated. This will likely have the effect of reducing shareholders' equity, but the Company expects to remain a well-capitalized financial institution under current regulatory calculations.

In January 2017, the FASB issued ASU 2017-04 "Intangibles-Goodwill and Other" (Topic 350) simplifies the procedures for evaluating impairment of goodwill. Prior to the adoption of this standard, entities were required to perform procedures to determine the fair value of the underlying assets and liabilities for determining the fair value of assets and liabilities in a business combination. This additional step to impairment testing has been eliminated. Under this ASU, entities will perform goodwill impairment testing by comparing the fair value of a reporting unit to its carrying value. For Arrow, the standard becomes effective in the first quarter of 2019, however, early adoption is permitted. This amendment will not affect our assessment of goodwill impairment since we currently perform the analysis of comparing carrying value to fair value of our reporting units that have goodwill and we have not had to perform a Step 2 Impairment Test to date.

In March 2017, the FASB issued ASU 2017-08 "Receivables-Nonrefundable Fees and Other Costs" amends the amortization period for certain purchased callable debt securities held at a premium. This shortens the amortization period for the premium to the earliest call date. Under GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. For Arrow, the standard becomes effective in the first quarter of 2019. We do not expect that the adoption of this change in accounting for certain callable debt securities will have a material impact on our financial position or the results of operations in periods subsequent to its adoption

Significant Accounting Policy Update:

Revenue Recognition - Accounting Standard Codification ("ASC") Topic 606, Revenue from Contracts with Customers, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services promised to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services as performance obligations are satisfied.

The Company adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective approach, and have identified the recognition of revenue related to specific types of fiduciary activities and specific types of revenue from insurance commissions to be in the scope of this guidance. Regarding fiduciary activities, under prior GAAP, revenue was recognized from settling client estates over the time period the work was performed. With the adoption of Topic 606, revenue is recognized when the performance obligation is completed, which is when the settlement of the client estate is closed. The impact of this change in revenue recognition was not material to our consolidated financial statements. Regarding revenue from property and casualty insurance policies in which the revenue is recorded when the client elected to pay pay premiums in installments, under prior GAAP, revenue was recognized when the client premiums were billed. With the adoption of Topic 606, revenue is required to be recognized when the performance obligation is substantially completed, i.e., when the insurance policy is issued. The impact of recognizing total policy commission revenue versus our current practice of recognizing revenue when the client is billed is not material on our consolidated financial statements. The adoption of Topic 606 related to the previously described fiduciary activity and insurance commission required a cumulative effect adjustment as of January 1, 2018 to decrease retained earnings by $102 thousand.

The majority of the Company's revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as loans and investment securities which are presented in our consolidated income statements as components of net interest income. The following is a description of principal activities from which the Company generates its revenue from noninterest income sources that are within the scope of ASC Topic 606:

Income from Fiduciary Activities: represents revenue derived mainly through the management of client investments which is based on the market value of these assets and the fee schedule contained in the applicable account management agreement. Since the revenue is mainly based on the market value of assets, this amount can be volatile as financial markets increase and decrease based on various economic factors. The terms of the account management agreements generally specify that the performance obligations are completed each quarter. Accordingly, we mainly recognize revenue from fiduciary activities on a quarterly basis.

Fees for Other Services to Customers: represents general service fees for monthly deposit account maintenance and account activity plus fees from other deposit-based services. Revenue is recognized when the performance obligation is completed, which is generally on a monthly basis for account maintenance services, or upon the completion of a deposit-related transaction. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Insurance Commissions: represents commissions and fees paid by insurance carriers for both property and casualty insurance policies, and for services performed for employment benefits clients. Revenue from our property and casualty business is recognized when our performance obligation is satisfied, which is generally the effective date of the bound coverage since there are no significant performance obligations remaining. Revenue from our employment benefit brokerage business is recognized when our benefit servicing performance obligations are satisfied, generally on a monthly basis.

Note 2. INVESTMENT SECURITIES (In Thousands)
Management determines the appropriate classification of securities at the time of purchase. Securities reported as held-to-maturity are those debt securities which Arrow has both the positive intent and ability to hold to maturity and are stated at amortized cost. Securities available-for-sale are reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income or loss, net of taxes. Beginning January 1, 2018, upon adoption of ASU 2016-01, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income. For periods prior to January 1, 2018, equity securities were classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax.

The following table is the schedule of Available-For-Sale Securities at June 30, 2018, December 31, 2017 and June 30, 2017:
Available-For-Sale Securities

	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
June 30, 2018						
Available-For-Sale Securities, at Amortized Cost	$ 60,199	$ 3,377	$ 267,113	$ 1,000	$ —	$ 331,689
Available-For-Sale Securities, at Fair Value	59,615	3,383	261,589	800	—	325,387
Gross Unrealized Gains	—	6	332	—	—	338
Gross Unrealized Losses	584	—	5,856	200	—	6,640
Available-For-Sale Securities, Pledged as Collateral						282,481
Maturities of Debt Securities, at Amortized Cost:						
Within One Year	$ 42,683	$ 2,124	$ 1,447	$ —		$ 46,254
From 1 - 5 Years	17,516	773	135,939	—		154,228
From 5 - 10 Years	—	—	79,608	—		79,608
Over 10 Years	—	480	50,119	1,000		51,599
Maturities of Debt Securities, at Fair Value:						
Within One Year	$ 42,396	$ 2,125	$ 1,458	$ —		$ 45,979
From 1 - 5 Years	17,219	778	131,431	—		149,428
From 5 - 10 Years	—	—	78,552	—		78,552
Over 10 Years	—	480	50,148	800		51,428
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ 17,218	$ 1,797	$ 144,265	$ —	$ —	$ 163,280
12 Months or Longer	42,397	—	72,209	800	—	115,406
Total	$ 59,615	$ 1,797	$ 216,474	$ 800	$ —	$ 278,686
Number of Securities in a Continuous Loss Position	14	6	79	1	—	100

Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ 297	$ —	$ 2,409	$ —	$ —	$ 2,706
12 Months or Longer	287	—	3,447	200	—	3,934
Total	$ 584	$ —	$ 5,856	$ 200	$ —	$ 6,640
Disaggregated Details:						
US Treasury Obligations, at Amortized Cost	$ —					
US Treasury Obligations, at Fair Value	—					
US Agency Obligations, at Amortized Cost	60,199					
US Agency Obligations, at Fair Value	59,615					

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Available-For-Sale Securities

	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
US Government Agency Securities, at Amortized Cost			$ 68,030			
US Government Agency Securities, at Fair Value			68,083			
Government Sponsored Entity Securities, at Amortized Cost			199,083			
Government Sponsored Entity Securities, at Fair Value			193,506			
December 31, 2017						
Available-For-Sale Securities, at Amortized Cost	$ 60,328	$ 10,351	$ 229,077	$ 1,000	$ 1,120	$ 301,876
Available-For-Sale Securities, at Fair Value	59,894	10,349	227,596	800	1,561	300,200
Gross Unrealized Gains	—	9	485	—	441	935
Gross Unrealized Losses	434	11	1,966	200	—	2,611
Available-For-Sale Securities, Pledged as Collateral, at Fair Value						183,052
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ 20,348	$ 8,498	$ 70,930	$ —	$ —	$ 99,776
12 Months or Longer	39,546	—	80,759	800	—	121,105
Total	$ 59,894	$ 8,498	$ 151,689	$ 800	$ —	$ 220,881
Number of Securities in a Continuous Loss Position	14	36	55	1	—	106
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ 172	$ 11	$ 363	$ —	$ —	$ 546
12 Months or Longer	262	—	1,603	200	—	2,065
Total	$ 434	$ 11	$ 1,966	$ 200	$ —	$ 2,611
Disaggregated Details:						
US Treasury Obligations, at Amortized Cost	$ —					
US Treasury Obligations, at Fair Value	—					
US Agency Obligations, at Amortized Cost	60,328					
	59,894					

US Agency Obligations, at Fair Value	
US Government Agency Securities, at Amortized Cost	$40,832
US Government Agency Securities, at Fair Value	40,832
Government Sponsored Entity Securities, at Amortized Cost	188,245
Government Sponsored Entity Securities, at Fair Value	186,764

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Available-For-Sale Securities

	U.S. Government & Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
June 30, 2017						
Available-For-Sale Securities, at Amortized Cost	$ 146,914	$ 15,410	$ 161,324	$ 2,500	$ 1,120	$ 327,268
Available-For-Sale Securities, at Fair Value	147,085	15,441	161,077	2,299	1,490	327,392
Gross Unrealized Gains	252	31	964	—	370	1,617
Gross Unrealized Losses	81	—	1,211	201	—	1,493
Available-For-Sale Securities, Pledged as Collateral						267,912
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ 49,176	$ 543	$ 97,870	$ 1,499	$ —	$ 149,088
12 Months or Longer	—	—	—	800	—	800
Total	$ 49,176	$ 543	$ 97,870	$ 2,299	$ —	$ 149,888
Number of Securities in a Continuous Loss Position	13	2	34	3	—	52
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ 81	$ —	$ 1,211	$ 1	$ —	$ 1,293
12 Months or Longer	—	—	—	200	—	200
Total	$ 81	$ —	$ 1,211	$ 201	$ —	$ 1,493
Disaggregated Details:						
US Treasury Obligations, at Amortized Cost	$ 54,597					
US Treasury Obligations, at Fair Value	$ 54,676					
US Agency Obligations, at Amortized Cost	$ 92,317					
US Agency Obligations, at Fair Value	92,409					
US Government Agency Securities, at Amortized Cost			$ 3,740			
US Government Agency Securities, at Fair Value			3,756			
Government Sponsored Entity Securities, at Amortized Cost			157,584			
Government Sponsored Entity Securities, at Fair Value			157,321			

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The following table is the schedule of Held-To-Maturity Securities at June 30, 2018, December 31, 2017 and June 30, 2017:

Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Total Held-To Maturity Securities
June 30, 2018				
Held-To-Maturity Securities, at Amortized Cost	$ 244,016	$ 53,869	$ —	$ 297,885
Held-To-Maturity Securities, at Fair Value	239,841	52,764	—	292,605
Gross Unrealized Gains	497	—	—	497
Gross Unrealized Losses	4,672	1,105	—	5,777
Held-To-Maturity Securities, Pledged as Collateral				278,627
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	$ 26,037	$ —	$ —	$ 26,037
From 1 - 5 Years	91,235	46,134	—	137,369
From 5 - 10 Years	124,073	7,735	—	131,808
Over 10 Years	2,671	—	—	2,671
Maturities of Debt Securities, at Fair Value:				
Within One Year	$ 26,092	$ —	$ —	$ 26,092
From 1 - 5 Years	90,877	45,207	—	136,084
From 5 - 10 Years	120,206	7,556	—	127,762
Over 10 Years	2,667	—	—	2,667
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ 68,612	$ 49,977	$ —	$ 118,589
12 Months or Longer	90,948	2,787	—	93,735
Total	$ 159,560	$ 52,764	$ —	$ 212,324
Number of Securities in a Continuous Loss Position	465	47	—	512
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ 633	$ 1,021	$ —	$ 1,654
12 Months or Longer	4,039	84	—	4,123
Total	$ 4,672	$ 1,105	$ —	$ 5,777
Disaggregated Details:				
US Government Agency		$ 3,265		

Securities, at Amortized Cost	
US Government Agency Securities, at Fair Value	2,346
Government Sponsored Entity Securities, at Amortized Cost	50,604
Government Sponsored Entity Securities, at Fair Value	50,418

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Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Total Held-To Maturity Securities
December 31, 2017				
Held-To-Maturity Securities, at Amortized Cost	$ 275,530	$ 60,377	$ —	$ 335,907
Held-To-Maturity Securities, at Fair Value	275,353	60,548	—	335,901
Gross Unrealized Gains	1,691	269	—	1,960
Gross Unrealized Losses	1,868	98	—	1,966
Held-To-Maturity Securities, Pledged as Collateral				318,622
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ 55,648	$ 13,764	$ —	$ 69,412
12 Months or Longer	65,152	3,257	—	68,409
Total	$ 120,800	$ 17,021	$ —	$ 137,821
Number of Securities in a Continuous Loss Position	352	14	—	366
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ 442	$ 56	$ —	$ 498
12 Months or Longer	1,425	43	—	1,468
Total	$ 1,867	$ 99	$ —	$ 1,966
Disaggregated Details:				
US Government Agency Securities, at Amortized Cost		$ 2,680		
US Government Agency Securities, at Fair Value		2,661		
Government Sponsored Entity Securities, at Amortized Cost		57,697		
Government Sponsored Entity Securities, at Fair Value		57,887		
June 30, 2017				
Held-To-Maturity Securities, at Amortized Cost	$ 280,485	$ 67,533	$ —	$ 348,018
Held-To-Maturity Securities, at Fair Value	282,157	68,198	—	350,355
Gross Unrealized Gains	3,208	677	—	3,885
Gross Unrealized Losses	1,536	12	—	1,548
Held-To-Maturity Securities, Pledged as Collateral				327,820

Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ 93,046	$ 4,338	$ —	$ 97,384
12 Months or Longer	403	—	—	403
Total	$ 93,449	$ 4,338	$ —	$ 97,787
Number of Securities in a Continuous Loss Position	263	9	—	272
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ 1,534	$ 12	$ —	$ 1,546
12 Months or Longer	2	—	—	2
Total	$ 1,536	$ 12	$ —	$ 1,548

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Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities	Corporate and Other Debt Securities	Total Held-To Maturity Securities
June 30, 2017				
Disaggregated Details:				
US Government Agency Securities, at Amortized Cost		$ 3,106		
US Government Agency Securities, at Fair Value		3,121		
Government Sponsored Entity Securities, at Amortized Cost		64,427		
Government Sponsored Entity Securities, at Fair Value		65,077		

In the tables above, maturities of mortgage-backed securities are included based on their expected average lives. Actual maturities will differ from the table above because issuers may have the right to call or prepay obligations with, or without, prepayment penalties.

Securities in a continuous loss position, in the tables above for June 30, 2018, December 31, 2017 and June 30, 2017, do not reflect any deterioration of the credit worthiness of the issuing entities.

The state and municipal obligations are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. Obligations issued by school districts are supported by state aid. An in-house credit analysis is performed for municipal securities based upon data that has been submitted by the issuers to the New York State Comptroller. That analysis reflects satisfactory credit worthiness of the municipalities. Subsequent to June 30, 2018, and through the date of the filing of this Quarterly Report on Form 10-Q Arrow held no securities with significant credit deterioration.

The unrealized losses on temporarily impaired securities are primarily the result of changes in interest rates for fixed rate securities where the interest rate received is less than the current rate available for new offerings of similar securities, changes in market spreads as a result of shifts in supply and demand, and/or changes in the level of prepayments for mortgage related securities. Because we do not currently intend to sell any temporarily impaired securities, and because it is not more likely-than-not that we would be required to sell the securities prior to recovery, the impairment is considered temporary.

The following table is the schedule of Equity Securities at June 30, 2018. Upon the adoption of ASU 2016-01 effective January 1, 2018, Equity Securities are not included in Securities Available-For-Sale since unrealized gains and losses are now recorded in the Consolidated Statements of Income. Prior to January 1, 2018, Equity Securities were included in Securities Available-For-Sale.

Equity Securities

June 30, 2018	
Equity Securities, at Fair Value	$1,802

The following is a summary of realized and unrealized gains and losses recognized in net income on equity securities during the three- and six-month periods ended June 30, 2018:

	Three months	Six months

	ended June 30, 2018	ended June 30, 2018
Net Gain on Equity Securities	$ 223	$ 241
Less: Net gain (loss) recognized during the reporting period on equity securities sold during the period	—	—
Unrealized net gain recognized during the reporting period on equity securities still held at the reporting date	$ 223	$ 241

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Note 3. LOANS (In Thousands)

Loan Categories and Past Due Loans

The following table presents loan balances outstanding as of June 30, 2018, December 31, 2017 and June 30, 2017 and an analysis of the recorded investment in loans that are past due at these dates. Generally, Arrow considers an amortizing loan past due 30 or more days when the borrower is two payments past due. Loans held-for-sale of $544, $327 and $261 as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively, are included in the residential real estate balances for current loans.

	Commercial	Commercial Real Estate	Consumer	Residential	Total
June 30, 2018					
Loans Past Due 30-59 Days	$ 3	$ —	$ 4,769	$ 2,004	$ 6,776
Loans Past Due 60-89 Days	15	—	720	273	1,008
Loans Past Due 90 or more Days	28	963	231	771	1,993
Total Loans Past Due	46	963	5,720	3,048	9,777
Current Loans	118,835	463,430	656,188	809,632	2,048,085
Total Loans	$ 118,881	$ 464,393	$ 661,908	$ 812,680	$ 2,057,862
Loans 90 or More Days Past Due and Still Accruing Interest	$ —	$ —	$ 28	$ 142	$ 170
Nonaccrual Loans	633	963	459	1,825	3,880
December 31, 2017					
Loans Past Due 30-59 Days	$ 139	$ —	$ 5,891	$ 2,094	$ 8,124
Loans Past Due 60-89 Days	19	—	1,215	509	1,743
Loans Past Due 90 or more Days	99	807	513	1,422	2,841
Total Loans Past Due	257	807	7,619	4,025	12,708
Current Loans	128,992	443,441	595,208	770,421	1,938,062
Total Loans	$ 129,249	$ 444,248	$ 602,827	$ 774,446	$ 1,950,770
Loans 90 or More Days Past Due and Still Accruing Interest	$ —	$ —	$ 6	$ 313	$ 319
Nonaccrual Loans	$ 588	$ 1,530	$ 653	$ 2,755	5,526
June 30, 2017					
Loans Past Due 30-59 Days	$ 138	$ —	$ 4,123	$ 122	$ 4,383
Loans Past Due 60-89 Days	40	865	1,265	2,591	4,761
Loans Past Due 90 or more Days	249	357	391	2,115	3,112
Total Loans Past Due	427	1,222	5,779	4,828	12,256
Current Loans	125,832	440,587	572,975	726,982	1,866,376
Total Loans	$ 126,259	$ 441,809	$ 578,754	$ 731,810	$ 1,878,632
Loans 90 or More Days Past Due and Still Accruing Interest	$ 120	$ 357	$ 75	$ 1,269	$ 1,821
Nonaccrual Loans	$ 653	$ 1,343	$ 419	$ 2,807	5,222

The Company disaggregates its loan portfolio into the following four categories:

Commercial - The Company offers a variety of loan options to meet the specific needs of commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans due to the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and generally have a lower liquidation value than real estate. In the event of default by the borrower, the Company may be required to liquidate collateral at deeply discounted values. To reduce the risk, management usually obtains personal guarantees of the borrowers.

Commercial Real Estate - The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and both owner- and non-owner-occupied facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings, and are generally originated in amounts of no more than 80% of the appraised value of the property. However, the Company also offers commercial construction and land development loans to finance projects, primarily within the communities that we serve. Many projects will ultimately be used by the borrowers' businesses, while others are developed for resale. These real estate loans are also secured by first liens on the real estate, which may include apartments, commercial structures, housing business, healthcare facilities and both owner-occupied and non-owner-occupied facilities. There is enhanced risk during the construction period, since the loan is secured by an incomplete project.

Consumer Loans - The Company offers a variety of consumer installment loans to finance personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to five years, based upon the nature of the collateral and the size of the loan. In addition to installment loans, the Company also offers personal lines of credit and overdraft protection. Several loans are unsecured, which carry a higher risk of loss. Also included in this category are automobile loans. The Company primarily finances the purchases of automobiles indirectly through dealer relationships located throughout upstate New York and Vermont. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to seven years. Indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Residential - Residential real estate loans consist primarily of loans secured by first or second mortgages on primary residences. The Company originates adjustable-rate and fixed-rate one-to-four-family residential real estate loans for the construction, purchase or refinancing of an existing mortgage. These loans are collateralized primarily by owner-occupied properties generally located in the Company’s market area. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 80% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. The Company’s underwriting analysis for residential mortgage loans typically includes credit verification, independent appraisals, and a review of the borrower’s financial condition. Mortgage title insurance and hazard insurance are normally required. It is the Company's general practice to underwrite residential real estate loans to secondary market standards. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period. In addition, the Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. The Company's policy allows for a maximum loan to value ratio of 80%, although periodically higher advances are allowed. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second junior lien position on one-to-four-family residential real estate). Risk is generally reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Allowance for Loan Losses

The following table presents a roll-forward of the allowance for loan losses and other information pertaining to the allowance for loan losses:

Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Roll-forward of the Allowance for Loan Losses for the Quarterly Periods:					

March 31, 2018	$ 1,119	$ 5,412	$ 8,019	$ 4,507	$ 19,057
Charge-offs	—	—	(248)	(16)	(264)
Recoveries	—	3	215	—	218
Provision	(175)	423	351	30	629
June 30, 2018	$ 944	$ 5,838	$ 8,337	$ 4,521	$ 19,640
March 31, 2017	$ 939	$ 5,449	$ 6,702	$ 4,126	$ 17,216
Charge-offs	(23)	—	(277)	(5)	(305)
Recoveries	5	—	104	—	109
Provision	4	(466)	776	108	422
June 30, 2017	$ 925	$ 4,983	$ 7,305	$ 4,229	$ 17,442

Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Roll-forward of the Allowance for Loan Losses for the Year-to-Date Periods:					
December 31, 2017	$ 1,873	$ 4,504	$ 7,604	$ 4,605	$ 18,586
Charge-offs	(16)	—	(595)	(23)	(634)
Recoveries	—	12	301	—	313
Provision	(913)	1,322	1,027	(61)	1,375
June 30, 2018	$ 944	$ 5,838	$ 8,337	$ 4,521	$ 19,640
December 31, 2016	$ 1,017	$ 5,677	$ 6,120	$ 4,198	$ 17,012
Charge-offs	(39)	—	(530)	(6)	(575)
Recoveries	12	—	213	—	225
Provision	(65)	(694)	1,502	37	780
June 30, 2017	$ 925	$ 4,983	$ 7,305	$ 4,229	$ 17,442
June 30, 2018					
Allowance for loan losses - Loans Individually Evaluated for Impairment	$ 88	$ 44	$—	$ 53	$ 185
Allowance for loan losses - Loans Collectively Evaluated for Impairment	856	5,794	8,337	4,468	19,455
Ending Loan Balance - Individually Evaluated for Impairment	489	813	110	1,080	2,492
Ending Loan Balance - Collectively Evaluated for Impairment	$ 118,392	$ 463,580	$ 661,798	$ 811,600	$ 2,055,370
December 31, 2017					
Allowance for loan losses - Loans Individually Evaluated for Impairment	$ 94	$ 2	$—	$ 10	$ 106
Allowance for loan losses - Loans Collectively Evaluated for Impairment	1,779	4,502	7,604	4,595	18,480
Ending Loan Balance - Individually Evaluated for Impairment	489	1,537	95	1,562	3,683
Ending Loan Balance - Collectively Evaluated for Impairment	$ 128,760	$ 442,711	$ 602,732	$ 772,884	$ 1,947,087
June 30, 2017					
Allowance for loan losses - Loans Individually Evaluated for Impairment	$ 112	$—	$—	$ 34	$ 146
Allowance for loan losses - Loans Collectively Evaluated for Impairment	813	4,983	7,305	4,195	17,296
Ending Loan Balance - Individually Evaluated for Impairment	503	1,178	88	1,090	2,859
Ending Loan Balance - Collectively Evaluated for Impairment	$ 125,756	$ 440,631	$ 578,666	$ 730,720	$ 1,875,773

Through the provision for loan losses, an allowance for loan losses is maintained that reflects the best estimate of the inherent risk of loss in the Company’s loan portfolio as of the balance sheet date. Additions are made to the allowance for loan losses through a periodic provision for loan losses. Actual loan losses are charged against the allowance for loan losses when loans are deemed uncollectible and recoveries of amounts previously charged off are recorded as credits to the allowance for loan losses.

Loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with certain criticized and classified commercial-related relationships. In addition, the Company's independent internal loan review department performs periodic reviews of the credit quality indicators on individual loans in the commercial loan portfolio.

A two-step process is utilized to determine the provision for loan losses and the amount of the allowance for loan losses. The Company performs an evaluation of impaired loans on a quarterly basis. Impaired loans are generally nonaccrual loans over $250 thousand and all troubled debt restructured loans. These impaired loans are generally considered to be collateral dependent with the specific reserve, if any, determined based on the value of the collateral less estimated costs to sell.

The remainder of the portfolio is evaluated on a pooled basis, as described below. For each homogeneous loan pool, the Company estimates a total loss factor based on the historical net loss rates adjusted for applicable qualitative factors. The total loss factors assigned to each loan category are updated on a quarterly basis. For the commercial and commercial real estate categories, the loan categories are further segregated by credit risk profile (pools of loans graded pass, special mention and accruing substandard). Additional description of the credit risk classifications is detailed in the Credit Quality Indicators section of this note.

The annualized historical net loss rate is determined for each loan category using a trailing three-year net charge-off average. While historical net loss experience provides a reasonable starting point for analysis, historical net losses, or even recent trends in net losses, do not by themselves form a sufficient basis to determine the appropriate level of the allowance for loan losses. Therefore, the Company also considers and adjusts historical net loss factors for qualitative factors that impact the inherent risk of loss associated with the loan categories within the total loan portfolio. These include:

- Changes in the volume and severity of past due, nonaccrual and adversely classified loans
- Changes in the nature and volume of the portfolio and in the terms of loans
- Changes in the value of the underlying collateral for collateral dependent loans
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses
- Changes in the quality of the loan review system
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio or pool

Credit Quality Indicators

The following table presents the credit quality indicators by loan category at June 30, 2018, December 31, 2017 and June 30, 2017:

Loan Credit Quality Indicators

	Commercial	Commercial Real Estate	Consumer	Residential	Total
June 30, 2018					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 110,911	$ 436,670	$—	$—	$547,581
Special Mention	5,948	—	—	—	5,948
Substandard	2,023	26,915	—	—	28,938
Doubtful	—	807	—	—	807
Credit Risk Profile Based on Payment Activity:					
Performing	$ —	$ —	$661,449	$ 810,855	$1,472,304
Nonperforming	—	—	459	1,825	2,284
December 31, 2017					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 124,961	$ 417,362	$—	$—	$542,323
Special Mention	1,341	177	—	—	1,518
Substandard	2,947	25,902	—	—	28,849
Doubtful	—	807	—	—	807
Credit Risk Profile Based on Payment Activity:					
Performing	$ —	$ —	$602,168	$ 771,584	$1,373,752
Nonperforming	—	—	659	3,068	3,727
June 30, 2017					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 120,388	$ 412,423	$—	$—	$532,811
Special Mention	1,269	1,414	—	—	2,683
Substandard	4,602	27,973	—	—	