LANDMARK BANCORP INC
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**

For the transition period from ________ to ________

Commission File Number 0-33203

LANDMARK BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**43-1930755**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

701 Poyntz Avenue, Manhattan, Kansas 66502

(Address of principal executive offices) (Zip code)

(785) 565-2000

(Registrant's telephone number, including area code)

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

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 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: as of August 7, 2018, the issuer had outstanding 4,162,779 shares of its common stock, $0.01 par value per share.

LANDMARK BANCORP, INC.

Form 10-Q Quarterly Report

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$19,883	$16,584
Investment securities available-for-sale, at fair value	398,137	387,983
Bank stocks, at cost	6,034	5,423
Loans, net of allowance for loans losses of $5,835 at June 30, 2018 and $5,459 at December 31, 2017	461,396	433,743
Loans held for sale, at fair value	11,764	6,535
Premises and equipment, net	21,381	20,824
Bank owned life insurance	24,019	23,698
Goodwill	17,532	17,532
Other intangible assets, net	3,358	3,659
Real estate owned, net	452	436
Accrued interest and other assets	14,224	13,037
Total assets	$978,180	$929,454
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$172,103	$160,496
Money market and checking	373,843	388,311
Savings	96,160	93,474
Time	123,185	123,277
Total deposits	765,291	765,558
Federal Home Loan Bank borrowings	85,600	31,600
Subordinated debentures	21,584	21,484
Other borrowings	8,417	13,509
Accrued interest, taxes, and other liabilities	10,873	9,681
Total liabilities	891,765	841,832
Commitments and contingencies		

Stockholders' equity:		
Preferred stock, $0.01 par value per share, 200,000 shares authorized; none issued	-	-
Common stock, $0.01 par value per share, 7,500,000 shares authorized; 4,147,946 and 4,081,659 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	41	41
Additional paid-in capital	58,356	57,772
Retained earnings	33,514	30,214
Accumulated other comprehensive loss	(5,496)	(405)
Total stockholders' equity	86,415	87,622
Total liabilities and stockholders' equity	$978,180	$929,454

See accompanying notes to consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(Dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest income:				
Loans:				
Taxable	$5,709	$5,246	$11,059	$10,265
Tax-exempt	35	34	64	69
Investment securities:				
Taxable	1,305	1,202	2,502	2,394
Tax-exempt	1,034	974	2,059	1,916
Total interest income	8,083	7,456	15,684	14,644
Interest expense:				
Deposits	631	394	1,172	732
Borrowings	616	486	1,082	968
Total interest expense	1,247	880	2,254	1,700
Net interest income	6,836	6,576	13,430	12,944
Provision for loan losses	250	100	450	150
Net interest income after provision for loan losses	6,586	6,476	12,980	12,794
Non-interest income:				
Fees and service charges	1,808	1,917	3,564	3,632
Gains on sales of loans, net	1,468	1,692	2,629	3,081
Bank owned life insurance	162	119	321	236
Gains on sales of investment securities, net	-	177	35	324
Other	815	296	1,105	569
Total non-interest income	4,253	4,201	7,654	7,842
Non-interest expense:				
Compensation and benefits	3,966	3,918	7,755	7,675
Occupancy and equipment	1,072	1,097	2,150	2,121
Amortization of intangibles	283	328	560	626
Data processing	376	337	741	667
Professional fees	430	476	818	766
Advertising	165	166	332	332
Federal deposit insurance premiums	72	73	144	145
Foreclosure and real estate owned expense	12	49	25	101
Other	1,190	1,108	2,481	2,180
Total non-interest expense	7,566	7,552	15,006	14,613
Earnings before income taxes	3,273	3,125	5,628	6,023
Income tax expense	428	742	684	1,435

Net earnings	$2,845	$2,383	$4,944	$4,588
Earnings per share:				
Basic (1)	$0.69	$0.59	$1.20	$1.13
Diluted (1)	$0.68	$0.58	$1.19	$1.11
Dividends per share (1)	$0.20	$0.19	$0.40	$0.38

(1) Per share amounts for the periods ended June 30, 2017 have been adjusted to give effect to the 5% stock dividend paid during December 2017.

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Unaudited)

(Dollars in thousands)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Net earnings	$2,845	$2,383	$4,944	$4,588
Net unrealized holding (losses) gains on available-for-sale securities	(323)	4,497	(6,699)	5,019
Reclassification adjustment for net gains included in earnings	-	(177)	(35)	(324)
Net unrealized (losses) gains	(323)	4,320	(6,734)	4,695
Income tax effect on net gains included in earnings	-	65	9	120
Income tax effect on net unrealized holding losses (gains)	79	(1,670)	1,641	(1,871)
Other comprehensive (loss) income	(244)	2,715	(5,084)	2,944
Total comprehensive income (loss)	$2,601	$5,098	$(140)	$7,532

See accompanying notes to consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share amounts)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2017	$38	$ 51,968	$34,293	$ (1,348)	$84,951
Net earnings	-	-	4,588	-	4,588
Other comprehensive income	-	-	-	2,944	2,944
Dividends paid ($0.38 per share)	-	-	(1,548)	-	(1,548)
Stock-based compensation	-	77	-	-	77
Exercise of stock options, 2,968 shares	1	22	-	-	23
Balance at June 30, 2017	$39	$ 52,067	$37,333	$ 1,596	$91,035
Balance at January 1, 2018	$41	$ 57,772	$30,214	$ (405)	$87,622
Net earnings	-	-	4,944	-	4,944
Other comprehensive loss	-	-	-	(5,084)	(5,084)
Dividends paid ($0.40 per share)	-	-	(1,651)	-	(1,651)
Stock-based compensation	-	100	-	-	100
Adjustment of common stock investments	-	-	7	(7)	-
Exercise of stock options, 66,287 shares,	-	484	-	-	484
Balance at June 30, 2018	$41	$ 58,356	$33,514	$ (5,496)	$86,415

See accompanying notes to consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net earnings	4,944	$4,588
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	450	150
Valuation allowance on real estate owned	-	67
Amortization of investment security premiums, net	977	944
Amortization of purchase accounting adjustment on loans	(80)	(91)
Amortization of purchase accounting adjustment on subordinated debentures	100	100
Amortization of intangibles	560	626
Depreciation	498	520
Increase in cash surrender value of bank owned life insurance	(321)	(236)
Stock-based compensation	100	77
Deferred income taxes	392	542
Net gains on sales of investment securities	(35)	(324)
Net gain on sales of premises, equipment and real estate owned	(1)	(10)
Net gains on sales of loans	(2,629)	(3,081)
Proceeds from sales of loans	75,613	86,747
Origination of loans held for sale	(78,213)	(87,907)
Changes in assets and liabilities:		
Accrued interest and other assets	(152)	(1,183)
Accrued expenses, taxes, and other liabilities	1,192	(1,201)
Net cash provided by operating activities	3,395	328
Cash flows from investing activities:		
Net increase in loans	(28,096)	(2,662)
Maturities and prepayments of investment securities	25,745	28,501
Purchases of investment securities	(45,117)	(42,164)
Proceeds from sales of investment securities	1,535	13,459
Proceeds from sales of common stock investments	7	-
Redemption of bank stocks	4,516	6,319
Purchase of bank stocks	(5,127)	(6,370)
Proceeds from sales of premises and equipment and foreclosed assets	22	398
Purchases of premises and equipment, net	(1,055)	(51)
Net cash used in investing activities	(47,570)	(2,570)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(267)	3,501
Federal Home Loan Bank advance borrowings	413,190	313,277
Federal Home Loan Bank advance repayments	(359,190)	(321,377)

Proceeds from other borrowings	-	100
Repayments on other borrowings	(5,092)	(1,136)
Proceeds from exercise of stock options	484	23
Payment of dividends	(1,651)	(1,548)
Net cash provided by (used in) financing activities	47,474	(7,160)
Net increase (decrease) in cash and cash equivalents	3,299	(9,402)
Cash and cash equivalents at beginning of period	16,584	19,996
Cash and cash equivalents at end of period	$19,883	$10,594

(Continued)

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

(Unaudited)

(Dollars in thousands)	Six months ended June 30,	
	2018	2017
	(Unaudited)	
Supplemental disclosure of cash flow information:		
Cash (refund) payments for income taxes	$ (1,000)	$ 800
Cash paid for interest	2,079	1,616
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to real estate owned	38	180

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Financial Statements

The unaudited consolidated financial statements of Landmark Bancorp, Inc. (the "Company") and its wholly owned subsidiaries, Landmark National Bank (the "Bank") and Landmark Risk Management Inc., have been prepared in accordance with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements and should be read in conjunction with the Company's most recent Annual Report on Form 10-K, containing the latest audited consolidated financial statements and notes thereto. The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of financial statements have been reflected herein. The results of the six month interim period ended June 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018 or any other future time period. The Company has evaluated subsequent events for recognition and disclosure up to the date the financial statements were issued.

On January 1, 2018, the Company adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of non-financial assets, such as real estate owned. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives that are outside the scope of ASC 606. Services within the scope of ASC 606 include deposit service charges on deposits, interchange income, and the sale of real estate owned. Refer to footnote 7 to the financial statements, Revenue from Contracts with Customers, for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams. As such, no cumulative effect adjustment was recorded.

In January 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Liabilities. The main provisions of the update are to eliminate the available for sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. A practical expedient is provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. The provisions of this update became effective for interim and annual periods beginning after December 15, 2017. The Company adopted ASU 2016-01 effective January 1, 2018. Effective January 1, 2018, changes in the value of the Company's common stock investments are adjustments to the income statement. Additionally, the disclosure of fair value of the loan portfolio is presented using an exit price method instead of the discounted cash method previously utilized. Management has concluded that the requirements of this update did not have a material impact to the Company's financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Payments (a consensus of Emerging Issues Task Force). This ASU attempts to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The purpose of this update is to reduce existing diversity in practice in eight areas addressed by the update. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company adopted ASU 2016-15 effective January 1, 2018. The adoption of ASU 2016-15 did not result in any material changes to the Company's consolidated financial statements and related disclosures.

2. Investments

A summary of investment securities available-for-sale is as follows:

(Dollars in thousands)	As of June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. treasury securities	$ 1,999	$ -	$ (47)	$ 1,952
U. S. federal agency obligations	13,774	3	(100)	13,677
Municipal obligations, tax exempt	182,163	482	(3,106)	179,539
Municipal obligations, taxable	55,284	64	(708)	54,640
Agency mortgage-backed securities	144,416	9	(3,876)	140,549
Certificates of deposit	7,780	-	-	7,780
Total	$ 405,416	$ 558	$ (7,837)	$ 398,137

(Dollars in thousands)	As of December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. treasury securities	$ 1,999	$ -	$ (9)	$ 1,990
U. S. federal agency obligations	16,572	5	(85)	16,492
Municipal obligations, tax exempt	183,846	1,972	(1,080)	184,738
Municipal obligations, taxable	57,783	409	(216)	57,976
Agency mortgage-backed securities	119,096	92	(1,633)	117,555
Certificates of deposit	9,224	-	-	9,224
Common stocks	-	8	-	8
Total	$ 388,520	$ 2,486	$ (3,023)	$ 387,983

The tables above show that some of the securities in the available-for-sale investment portfolio had unrealized losses, or were temporarily impaired, as of June 30, 2018 and December 31, 2017. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which were temporarily impaired are shown below, along with the length of time in a continuous unrealized loss position.

(Dollars in thousands)		As of June 30, 2018					
		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses

U.S. treasury securities	1	$1,952	$ (47)	$-	$ -	$1,952	$ (47)
U.S. federal agency obligations	11	3,723	(31)	9,729	(69)	13,452	(100)
Municipal obligations, tax exempt	301	89,803	(1,508)	33,670	(1,598)	123,473	(3,106)
Municipal obligations, taxable	110	36,430	(531)	10,984	(177)	47,414	(708)
Agency mortgage-backed securities	103	102,870	(2,155)	37,065	(1,721)	139,935	(3,876)
Total	526	$234,778	$ (4,272)	$91,448	$ (3,565)	$326,226	$ (7,837)

(Dollars in thousands)		As of December 31, 2017					
		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. treasury securities	1	$1,990	$ (9)	$-	$ -	$1,990	$ (9)
U. S. federal agency obligations	14	7,989	(24)	8,272	(61)	16,261	(85)
Municipal obligations, tax exempt	178	37,299	(273)	31,930	(807)	69,229	(1,080)
Municipal obligations, taxable	73	18,792	(96)	9,744	(120)	28,536	(216)
Agency mortgage-backed securities	79	68,630	(620)	39,844	(1,013)	108,474	(1,633)
Total	345	$134,700	$ (1,022)	$89,790	$ (2,001)	$224,490	$ (3,023)

The Company’s U.S. treasury portfolio consists of securities issued by the United States Department of the Treasury. The receipt of principal and interest on U.S. treasury securities is guaranteed by the full faith and credit of the U.S. government. Based on these factors, along with the Company’s intent to not sell the security and its belief that it was more likely than not that the Company will not be required to sell the security before recovery of their cost basis, the Company believed that the U.S. treasury security identified in the table above was temporarily impaired as of June 30, 2018 and December 31, 2017.

The Company’s U.S. federal agency portfolio consists of securities issued by the government-sponsored agencies of Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”) and Federal Home Loan Bank (“FHLB”). The receipt of principal and interest on U.S. federal agency obligations is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its U.S. federal agency obligations do not expose the Company to credit-related losses. Based on these factors, along with the Company’s intent to not sell the securities and its belief that it was more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believed that the U.S. federal agency obligations identified in the tables above were temporarily impaired as of June 30, 2018 and December 31, 2017.

The Company’s portfolio of municipal obligations consists of both tax-exempt and taxable general obligations securities issued by various municipalities. The Company did not intend to sell and it was more likely than not that the Company will not be required to sell its municipal obligations in an unrealized loss position until the recovery of their costs. Due to the issuers’ continued satisfaction of the securities’ obligations in accordance with their contractual terms and the expectation that they will continue to do so, the evaluation of the fundamentals of the issuers’ financial condition and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of June 30, 2018 and December 31, 2017.

The Company’s agency mortgage-backed securities portfolio consists of securities underwritten to the standards of and guaranteed by the government-sponsored agencies of FHLMC, FNMA and the Government National Mortgage Association (“GNMA”). The receipt of principal, at par, and interest on agency mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believed that its agency mortgage-backed securities did not expose the Company to credit-related losses. Based on these factors, along with the Company’s intent to not sell the securities and the Company’s belief that it was more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believed that the agency mortgage-backed securities identified in the tables above were temporarily impaired as of June 30, 2018 and December 31, 2017.

The table below sets forth amortized cost and fair value of investment securities at June 30, 2018. The table includes scheduled principal payments and estimated prepayments, based on observable market inputs, for agency mortgage-backed securities. Actual maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(Dollars in thousands)	Amortized cost	Estimated fair value
Due in less than one year	$ 30,042	$ 29,939
Due after one year but within five years	196,229	192,202
Due after five years but within ten years	94,540	92,727
Due after ten years	84,605	83,269
Total	$ 405,416	$ 398,137

Sales proceeds and gross realized gains and losses on sales of available-for-sale securities are as follows:

(Dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales proceeds	$ -	$ 1,917	$ 1,535	$ 13,459
Realized gains	$ -	$ 177	$ 35	$ 348
Realized losses	-	-	-	(24)
Net realized losses	$ -	$ 177	$ 35	$ 324

Securities with carrying values of $248.6 million and $232.5 million were pledged to secure public funds on deposit, repurchase agreements and as collateral for borrowings at June 30, 2018 and December 31, 2017, respectively. Except for U.S. federal agency obligations, no investment in a single issuer exceeded 10% of consolidated stockholders' equity.

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Effective January 1, 2018, the Company changed the classification of its common stock investments from available-for-sale with changes in fair value excluded from earnings and reported as a separate component of stockholders' equity, net of taxes to be carried at fair value with changes in fair value included in net earnings. The Company received $7,000 of proceeds from the sale of its remaining common stock investments during the six months ended June 30, 2018.

3. Loans and Allowance for Loan Losses

Loans consisted of the following as of the dates indicated below:

(Dollars in thousands)	June 30, 2018	December 31, 2017
One-to-four family residential real estate	$138,267	$136,215
Construction and land	26,453	19,356
Commercial real estate	121,946	120,624
Commercial	66,531	54,591
Agriculture	87,901	83,008
Municipal	3,172	3,396
Consumer	22,867	22,046
Total gross loans	467,137	439,236
Net deferred loan costs and loans in process	94	(34)
Allowance for loan losses	(5,835)	(5,459)
Loans, net	$461,396	$433,743

The following tables provide information on the Company’s activity in the allowance for loan losses by loan class:

(Dollars in thousands)	Three and six months ended June 30, 2018							
	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial	Agriculture	Municipal	Consumer	Total
Allowance for loan losses:								
Balance at April 1, 2018	$477	$ 121	$ 1,562	$ 1,484	$ 1,867	$ 7	$ 126	$5,644
Charge-offs	-	-	-	(29)	-	-	(44)	(73)
Recoveries	1	-	-	1	-	-	12	14
Provision for loan losses	(39)	(12)	(96)	237	138	-	22	250
Balance at June 30, 2018	439	109	1,466	1,693	2,005	7	116	5,835
Balance at January 1, 2018	$542	$ 181	$ 1,540	$ 1,226	$ 1,812	$ 8	$ 150	$5,459
Charge-offs	-	-	-	(29)	-	-	(77)	(106)
Recoveries	2	-	1	2	-	2	25	32
Provision for loan losses	(105)	(72)	(75)	494	193	(3)	18	450
Balance at June 30, 2018	439	109	1,466	1,693	2,005	7	116	5,835

(Dollars in thousands)	Three and six months ended June 30, 2017							
	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial	Agriculture	Municipal	Consumer	Total
Allowance for loan losses:								
Balance at April 1, 2017	$493	$ 71	$ 1,740	$ 1,101	$ 1,731	$ 11	$ 180	$5,327
Charge-offs	-	-	(61)	-	-	-	(58)	(119)
Recoveries	7	-	-	1	-	-	10	18
Provision for loan losses	(1)	(1)	30	(21)	41	(1)	53	100
Balance at June 30, 2017	499	70	1,709	1,081	1,772	10	185	5,326
Balance at January 1, 2017	$504	$ 53	$ 1,777	$ 1,119	$ 1,684	$ 12	$ 195	$5,344
Charge-offs	(19)	-	(61)	-	-	-	(165)	(245)
Recoveries	8	-	-	9	1	-	59	77
Provision for loan losses	6	17	(7)	(47)	87	(2)	96	150
Balance at June 30, 2017	499	70	1,709	1,081	1,772	10	185	5,326

The following tables provide information on the Company's activity in the allowance for loan losses by loan class and allowance methodology:

(Dollars in thousands)	As of June 30, 2018							
	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial	Agriculture	Municipal	Consumer	Total
Allowance for loan losses:								
Individually evaluated for loss	85	-	14	728	25	-	1	853
Collectively evaluated for loss	354	109	1,452	965	1,980	7	115	4,982
Total	439	109	1,466	1,693	2,005	7	116	5,835
Loan balances:								
Individually evaluated for loss	651	1,641	3,920	2,032	602	126	46	9,018
Collectively evaluated for loss	137,616	24,812	118,026	64,499	87,299	3,046	22,821	458,119
Total	$ 138,267	$ 26,453	$ 121,946	$ 66,531	$ 87,901	$ 3,172	$ 22,867	$ 467,137

(Dollars in thousands)	As of December 31, 2017							
	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial	Agriculture	Municipal	Consumer	Total
Allowance for loan losses:								
Individually evaluated for loss	73	102	52	391	24	-	-	642
Collectively evaluated for loss	469	79	1,488	835	1,788	8	150	4,817
Total	542	181	1,540	1,226	1,812	8	150	5,459
Loan balances:								
Individually evaluated for loss	747	2,031	3,973	2,002	833	140	34	9,760
Collectively evaluated for loss	135,468	17,325	116,651	52,589	82,175	3,256	22,012	429,476

Total	$136,215	$ 19,356	$ 120,624	$ 54,591	$ 83,008	$ 3,396	$ 22,046	$439,236

The Company’s impaired loans decreased from $9.8 million at December 31, 2017 to $9.0 million at June 30, 2018. The difference between the unpaid contractual principal and the impaired loan balance is a result of charge-offs recorded against impaired loans. The difference in the Company’s non-accrual loan balances and impaired loan balances at June 30, 2018 and December 31, 2017, was related to troubled debt restructurings (“TDR”) that are current and accruing interest, but still classified as impaired. Interest income recognized on a cash basis on impaired loans was immaterial during the three and six month periods ended June 30, 2018 and 2017.

The following tables present information on impaired loans:

(Dollars in thousands)	As of June 30, 2018						
	Unpaid contractual principal	Impaired loan balance	Impaired loans without an allowance	Impaired loans with an allowance	Related allowance recorded	Year-to-date average loan balance	Year-to-date interest income recognized
One-to-four family residential real estate	$651	$651	$ 395	$ 256	$ 85	$ 661	$ 5
Construction and land	3,376	1,641	1,641	-	-	1,736	29
Commercial real estate	3,920	3,920	2,127	1,793	14	3,926	243
Commercial	2,032	2,032	3	2,029	728	2,055	8
Agriculture	817	602	344	258	25	652	27
Municipal	126	126	126	-	-	132	1
Consumer	46	46	40	6	1	46	-
Total impaired loans	$10,968	$9,018	$ 4,676	$ 4,342	$ 853	$ 9,208	$ 313

(Dollars in thousands)	As of December 31, 2017						
	Unpaid contractual principal	Impaired loan balance	Impaired loans without an allowance	Impaired loans with an allowance	Related allowance recorded	Year-to-date average loan balance	Year-to-date interest income recognized
One-to-four family residential real estate	$747	$747	$ 503	$ 244	$ 73	$ 774	$ 8
Construction and land	3,766	2,031	430	1,601	102	2,033	65
Commercial real estate	3,973	3,973	3,888	85	52	3,989	490
Commercial	2,002	2,002	11	1,991	391	2,082	-
Agriculture	1,048	833	545	288	24	912	1
Municipal	140	140	140	-	-	192	5
Consumer	34	34	34	-	-	35	-
Total impaired loans	$11,710	$9,760	$ 5,551	$ 4,209	$ 642	$ 10,017	$ 569

The Company’s key credit quality indicator is a loan’s performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss. Non-accrual loans are those which the Company believes have a higher risk of loss. The accrual of interest on non-performing loans is discontinued at the time the loan is ninety days delinquent, unless the credit is well secured and in process of collection. Loans are placed on non-accrual or are charged off at an earlier date if collection of principal or interest is considered doubtful. There were no loans ninety days or more delinquent and accruing interest at June 30, 2018 or December 31, 2017.

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The following tables present information on the Company's past due and non-accrual loans by loan class:

(Dollars in thousands)	As of June 30, 2018						
	30-59 days delinquent and accruing	60-89 days delinquent and accruing	90 days or more delinquent and accruing	Total past due loans accruing	Non-accrual loans	Total past due and non-accrual loans	Total loans not past due
One-to-four family residential real estate	$ 100	$ 289	$ -	$ 389	$ 463	$ 852	$ 137,415
Construction and land	-	-	-	-	567	567	25,886
Commercial real estate	-	-	-	-	1,793	1,793	120,153
Commercial	48	711	-	759	2,032	2,791	63,740
Agriculture	127	176	-	303	384	687	87,214
Municipal	-	-	-	-	-	-	3,172
Consumer	36	43	-	79	46	125	22,742
Total	$ 311	$ 1,219	$ -	$ 1,530	$ 5,285	$ 6,815	$ 460,322
Percent of gross loans	0.07 %	0.26 %	0.00 %	0.33 %	1.13 %	1.46 %	98.54 %

(Dollars in thousands)	As of December 31, 2017						
	30-59 days delinquent and accruing	60-89 days delinquent and accruing	90 days or more delinquent and accruing	Total past due loans accruing	Non-accrual loans	Total past due and non-accrual loans	Total loans not past due
One-to-four family residential real estate	$ 101	$ 313	$ -	$ 414	$ 552	$ 966	$ 135,249
Construction and land	-	4	-	4	779	783	18,573
Commercial real estate	22	209	-	231	1,841	2,072	118,552
Commercial	-	397	-	397	2,002	2,399	52,192
Agriculture	-	-	-	-	833	833	82,175
Municipal	-	-	-	-	-	-	3,396
Consumer	105	204	-	309	34	343	21,703
Total	$ 228	$ 1,127	$ -	$ 1,355	$ 6,041	$ 7,396	$ 431,840
Percent of gross loans	0.05 %	0.26 %	0.00 %	0.31 %	1.37 %	1.68 %	98.32 %

Under the original terms of the Company's non-accrual loans, interest earned on such loans for the six months ended June 30, 2018 and 2017 would have increased interest income by $132,000 and $63,000, respectively. No interest income related to non-accrual loans was included in interest income for the six months ended June 30, 2018 and 2017.

The Company also categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. Non-classified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those that are assigned a special mention, substandard or doubtful risk rating using the following definitions:

Special Mention: Loans are currently protected by the current net worth and paying capacity of the obligor or of the collateral pledged but such protection is potentially weak. These loans constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. The credit risk may be relatively minor, yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard: Loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The following table provides information on the Company's risk categories by loan class:

(Dollars in thousands)	As of June 30, 2018		As of December 31, 2017	
	Non-classified	Classified	Non-classified	Classified
One-to-four family residential real estate	$137,325	$ 942	$135,475	$ 740
Construction and land	25,886	567	18,577	779
Commercial real estate	111,697	10,249	114,736	5,888
Commercial	58,424	8,107	52,313	2,278
Agriculture	83,390	4,511	76,455	6,553

Municipal	3,172	-	3,396	-
Consumer	22,821	46	22,006	