PENNS WOODS BANCORP INC
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended June 30, 2015.

o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from to .

No. 0-17077
(Commission File Number)

PENNS WOODS BANCORP, INC.
(Exact name of Registrant as specified in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-2226454 (I.R.S. Employer Identification No.)
300 Market Street, P.O. Box 967 Williamsport, Pennsylvania (Address of principal executive offices)	17703-0967 (Zip Code)

(570) 322-1111
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 ý NO o

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 ý NO o

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Small reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý

On August 1, 2015 there were 4,765,526 shares of the Registrant's common stock outstanding.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(In Thousands, Except Share Data)	June 30, 2015	December 31, 2014
ASSETS:		
Noninterest-bearing balances	$20,428	$19,403
Interest-bearing balances in other financial institutions	1,441	505
Total cash and cash equivalents	21,869	19,908
Investment securities, available for sale, at fair value	214,312	232,213
Investment securities, trading	157	—
Loans held for sale	2,107	550
Loans	977,878	915,579
Allowance for loan losses	(11,265)	(10,579)
Loans, net	966,613	905,000
Premises and equipment, net	20,816	21,109
Accrued interest receivable	3,706	3,912
Bank-owned life insurance	26,327	25,959
Investment in limited partnerships	1,229	1,560
Goodwill	17,104	17,104
Intangibles	1,294	1,456
Deferred tax asset	8,772	8,101
Other assets	7,506	8,139
TOTAL ASSETS	$1,291,812	$1,245,011
LIABILITIES:		
Interest-bearing deposits	$762,966	$738,041
Noninterest-bearing deposits	244,502	243,378
Total deposits	1,007,468	981,419
Short-term borrowings	59,026	40,818
Long-term borrowings	75,426	71,176
Accrued interest payable	410	381
Other liabilities	14,484	15,250
TOTAL LIABILITIES	1,156,814	1,109,044
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,003,757 and 5,002,649 shares issued	41,698	41,688
Additional paid-in capital	49,933	49,896
Retained earnings	55,397	53,107
Accumulated other comprehensive loss:		
Net unrealized gain on available for sale securities	1,374	2,930
Defined benefit plan	(4,544)	(4,597)

Treasury stock at cost, 238,478 and 197,834 shares	(8,860)	(7,057)
TOTAL SHAREHOLDERS' EQUITY	134,998	135,967
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,291,812	$1,245,011

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Data)	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$9,752	$8,912	$19,075	$17,725
Investment securities:				
Taxable	885	1,406	1,899	2,864
Tax-exempt	744	892	1,511	1,823
Dividend and other interest income	148	147	441	274
TOTAL INTEREST AND DIVIDEND INCOME	11,529	11,357	22,926	22,686
INTEREST EXPENSE:				
Deposits	785	741	1,528	1,499
Short-term borrowings	28	12	47	27
Long-term borrowings	494	473	1,018	942
TOTAL INTEREST EXPENSE	1,307	1,226	2,593	2,468
NET INTEREST INCOME	10,222	10,131	20,333	20,218
PROVISION FOR LOAN LOSSES	600	300	1,300	785
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,622	9,831	19,033	19,433
NON-INTEREST INCOME:				
Service charges	598	607	1,151	1,202
Securities gains, available for sale	526	487	1,187	880
Securities losses, trading	(4)	—	(4)	—
Bank-owned life insurance	171	181	359	551
Gain on sale of loans	482	421	781	711
Insurance commissions	204	283	438	703
Brokerage commissions	294	251	539	522
Other	786	699	1,866	1,571
TOTAL NON-INTEREST INCOME	3,057	2,929	6,317	6,140
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,301	4,167	8,771	8,670
Occupancy	564	552	1,192	1,182
Furniture and equipment	643	648	1,238	1,319
Pennsylvania shares tax	243	262	467	506
Amortization of investment in limited partnerships	166	166	331	331
Federal Deposit Insurance Corporation deposit insurance	230	201	445	379
Marketing	145	126	274	236
Intangible amortization	80	88	162	180
Other	2,049	2,212	4,009	4,262
TOTAL NON-INTEREST EXPENSE	8,421	8,422	16,889	17,065
INCOME BEFORE INCOME TAX PROVISION	4,258	4,338	8,461	8,508
INCOME TAX PROVISION	825	875	1,673	1,576
NET INCOME	$3,433	$3,463	$6,788	$6,932
EARNINGS PER SHARE - BASIC AND DILUTED	$0.72	$0.72	$1.42	$1.44
	4,779,687	4,820,193	4,790,536	4,819,886

WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED				
DIVIDENDS DECLARED PER SHARE	$0.47	$0.47	$0.94	$0.94

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Net Income	$3,433	$3,463	$6,788	$6,932
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on available for sale securities	(2,379)	3,930	(1,171)	9,258
Tax effect	809	(1,337)	398	(3,148)
Net realized gain included in net income	(526)	(487)	(1,187)	(880)
Tax effect	179	166	404	299
Amortization of unrecognized pension and post-retirement items	80	—	80	—
Tax effect	(27)	—	(27)	—
Total other comprehensive (loss) income	(1,864)	2,272	(1,503)	5,529
Comprehensive income	$1,569	$5,735	$5,285	$12,461

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2013	4,999,929	$ 41,665	$ 49,800	$ 47,554	$ (4,894)	$ (6,310)	$ 127,815
Net income				6,932			6,932
Other comprehensive income					5,529		5,529
Dividends declared, ($0.94 per share)				(4,531)			(4,531)
Common shares issued for employee stock purchase plan	1,293	11	46				57
Balance, June 30, 2014	5,001,222	$ 41,676	$ 49,846	$ 49,955	$ 635	$ (6,310)	$ 135,802

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2014	5,002,649	$ 41,688	$ 49,896	$ 53,107	$ (1,667)	$ (7,057)	$ 135,967
Net income				6,788			6,788
Other comprehensive loss					(1,503)		(1,503)
Dividends declared, ($0.94 per share)				(4,498)			(4,498)
Common shares issued for employee stock purchase plan	1,108	10	37				47
Purchase of treasury stock (40,644 shares)						(1,803)	(1,803)
Balance, June 30, 2015	5,003,757	$ 41,698	$ 49,933	$ 55,397	$ (3,170)	$ (8,860)	$ 134,998

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
(In Thousands)	2015	2014
OPERATING ACTIVITIES:		
Net Income	$6,788	$6,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,642	1,598
Amortization of intangible assets	162	180
Provision for loan losses	1,300	785
Accretion and amortization of investment security discounts and premiums	418	329
Securities gains, net	(1,187)	(880)
Originations of loans held for sale	(27,170)	(21,292)
Proceeds of loans held for sale	26,394	21,802
Gain on sale of loans	(781)	(711)
Securities losses, trading	4	—
Proceeds from the sale of trading securities	230	—
Purchases of trading securities	(391)	—
Earnings on bank-owned life insurance	(359)	(551)
Decrease in deferred tax asset	131	233
Other, net	(1,672)	(1,246)
Net cash provided by operating activities	5,509	7,179
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	31,693	70,431
Proceeds from calls and maturities of available for sale securities	9,873	3,582
Purchases of available for sale securities	(23,987)	(39,578)
Net increase in loans	(63,150)	(40,239)
Acquisition of premises and equipment	(483)	(1,571)
Proceeds from the sale of foreclosed assets	1,547	475
Purchase of bank-owned life insurance	(27)	(25)
Proceeds from bank-owned life insurance death benefit	—	367
Proceeds from redemption of regulatory stock	5,162	1,072
Purchases of regulatory stock	(6,429)	(992)
Net cash used for investing activities	(45,801)	(6,478)
FINANCING ACTIVITIES:		
Net increase (decrease) in interest-bearing deposits	24,925	(2,557)
Net increase in noninterest-bearing deposits	1,124	11,381
Proceeds from long-term borrowings	15,000	—
Repayment of long-term borrowings	(10,750)	—
Net increase (decrease) in short-term borrowings	18,208	(4,790)
Dividends paid	(4,498)	(4,531)
Issuance of common stock	47	57
Purchases of treasury stock	(1,803)	—
Net cash provided by (used for) provided by financing activities	42,253	(440)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,961	261
CASH AND CASH EQUIVALENTS, BEGINNING	19,908	24,606

CASH AND CASH EQUIVALENTS, ENDING	$21,869	$24,867
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$2,564	$2,474
Income taxes paid	1,600	1,665
Transfer of loans to foreclosed real estate	237	134

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the "Company") and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., Luzerne Bank, and Jersey Shore State Bank (Jersey Shore State Bank and Luzerne Bank are referred to together as the "Banks") and Jersey Shore State Bank's wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group ("The M Group"). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited, but in the opinion of management reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 39 through 45 of the Form 10-K for the year ended December 31, 2014.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component as of June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
(In Thousands)	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$3,291	$(4,597)	$(1,306)	$1,088	$(2,725)	$(1,637)
Other comprehensive (loss) income before reclassifications	(1,570)	—	(1,570)	2,593	—	2,593
Amounts reclassified from accumulated other comprehensive (loss) income	(347)	53	(294)	(321)	—	(321)
Net current-period other comprehensive (loss) income	(1,917)	53	(1,864)	2,272	—	2,272
Ending balance	$1,374	$(4,544)	$(3,170)	$3,360	$(2,725)	$635

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
(In Thousands)	Net Unrealized Gain	Defined Benefit	Total	Net Unrealized Gain	Defined Benefit	Total

	(Loss) on Available for Sale Securities	Plan		(Loss) on Available for Sale Securities	Plan	
Beginning balance	$2,930	$(4,597)	$(1,667)	$(2,169)	$(2,725)	$(4,894)
Other comprehensive (loss) income before reclassifications	(773)	—	(773)	6,110	—	6,110
Amounts reclassified from accumulated other comprehensive (loss) income	(783)	53	(730)	(581)	—	(581)
Net current-period other comprehensive (loss) income	(1,556)	53	(1,503)	5,529	—	5,529
Ending balance	$1,374	$(4,544)	$(3,170)	$3,360	$(2,725)	$635

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The reclassifications out of accumulated other comprehensive income (loss) as of June 30, 2015 and 2014 were as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	
Net unrealized gain on available for sale securities	$ 526	$ 487	Securities gains, net
Income tax effect	(179)	(166)	Income tax provision
Total reclassifications for the period	$ 347	$ 321	Net of tax
Net unrecognized pension costs	$ (80)	$ —	Salaries and employee benefits
Income tax effect	27	—	Income tax provision
Total reclassifications for the period	$ (53)	$ —	Net of tax

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statement of Income
	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	
Net unrealized gain on available for sale securities	$ 1,187	$ 880	Securities gains, net
Income tax effect	(404)	(299)	Income tax provision
Total reclassifications for the period	$ 783	$ 581	Net of tax
Net unrecognized pension costs	$ (80)	$ —	Salaries and employee benefits
Income tax effect	27	—	Income tax provision
Total reclassifications for the period	$ (53)	$ —	Net of tax

Note 3. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this update are effective for public

business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This ASU did not have an impact on the Company’s financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. The Company has provided the necessary disclosures in Note 7. Loans.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The update’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operation.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This ASU did not have an impact on the Company’s financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This ASU is not expected to have a significant impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40). The amendments in this update require that a mortgage loan be de-recognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This ASU did not have an impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The amendments in this update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter.

Early application is permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

In November 2014, the FASB issued ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting. The amendments in this update apply to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (either public or nonpublic) upon the occurrence of an event in which an acquirer (an individual or an entity) obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. This update is not expected to have a significant impact on the Company’s financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement -Extraordinary and Unusual Items, as part of its initiative to reduce complexity in accounting standards. This update eliminates from GAAP the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A

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reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This update is not expected to have a significant impact on the Company’s financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810). The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This update is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-04, Compensation-Retirement Benefits (Topic 715), as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This update is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangible - Goodwill and Other Internal Use Software (Topic 350-40), as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the Board decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted for all entities.

This update is not expected to have a significant impact on the Company’s financial statements.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning

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after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This update is not expected to have a significant impact on the Company’s financial statements.

In May 2015, the FASB issued ASU 2015-08, Business Combinations - Pushdown Accounting - Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. This ASU was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This update is not expected to have a significant impact on the Company’s financial statements.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements. The amendments in this update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this update. The amendments in this update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this update. This Update is not expected to have a significant impact on the Company’s financial statements.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average common shares issued	5,003,365	5,000,789	5,003,100	5,000,482
Average treasury stock shares	(223,678)	(180,596)	(212,564)	(180,596)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	4,779,687	4,820,193	4,790,536	4,819,886

Note 5. Investment Securities

The amortized cost and fair values of investment securities available for sale at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$3,706	$—	$(51)	$3,655
Mortgage-backed securities	10,843	386	(30)	11,199
Asset-backed securities	2,209	25	(2)	2,232
State and political securities	100,456	2,074	(759)	101,771

Other debt securities	80,527	867	(1,369)	80,025
Total debt securities	197,741	3,352	(2,211)	198,882
Financial institution equity securities	9,736	1,065	(4)	10,797
Other equity securities	4,753	55	(175)	4,633
Total equity securities	14,489	1,120	(179)	15,430
Total investment securities AFS	$212,230	$4,472	$(2,390)	$214,312

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	December 31, 2014			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$3,953	$—	$(112)	$3,841
Mortgage-backed securities	12,240	485	(28)	12,697
Asset-backed securities	2,468	27	(3)	2,492
State and political securities	104,820	3,885	(589)	108,116
Other debt securities	89,911	1,031	(1,299)	89,643
Total debt securities	213,392	5,428	(2,031)	216,789
Financial institution equity securities	8,823	1,110	(18)	9,915
Other equity securities	5,558	79	(128)	5,509
Total equity securities	14,381	1,189	(146)	15,424
Total investment securities AFS	$227,773	$6,617	$(2,177)	$232,213

The amortized cost and fair values of trading investment securities at June 30, 2015 are as follows. There were no trading securities at December 31, 2014.

	June 30, 2015			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading				
Financial institution equity securities	77	—	(3)	74
Other equity securities	87	—	(4)	83
Total equity securities	164	—	(7)	157
Total trading securities	164	—	(7)	157

Total net unrealized losses of $7,000 and realized gains of $3,000 for the six months ended June 30, 2015 were included in the Consolidated Statement of Income.

The following tables show the Company’s gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at June 30, 2015 and December 31, 2014.

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	June 30, 2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$—	$—	$3,655	$(51)	$3,655	$(51)
Mortgage-backed securities	6,514	(30)	—	—	6,514	(30)
Asset-backed securities	—	—	417	(2)	417	(2)
State and political securities	20,528	(411)	1,455	(348)	21,983	(759)
Other debt securities	24,216	(649)	19,332	(720)	43,548	(1,369)
Total debt securities	51,258	(1,090)	24,859	(1,121)	76,117	(2,211)
Financial institution equity securities	141	(4)	—	—	141	(4)
Other equity securities	2,589	(145)	800	(30)	3,389	(175)
Total equity securities	2,730	(149)	800	(30)	3,530	(179)
Total	$53,988	$(1,239)	$25,659	$(1,151)	$79,647	$(2,390)

	December 31, 2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$—	$—	$3,841	$(112)	$3,841	$(112)
Mortgage-backed securities	6,741	(28)	—	—	6,741	(28)
Asset-backed securities	—	—	519	(3)	519	(3)
State and political securities	8,243	(14)	6,382	(575)	14,625	(589)
Other debt securities	23,174	(718)	29,266	(581)	52,440	(1,299)
Total debt securities	38,158	(760)	40,008	(1,271)	78,166	(2,031)
Financial institution equity securities	407	(18)	—	—	407	(18)
Other equity securities	1,837	(100)	773	(28)	2,610	(128)
Total equity securities	2,244	(118)	773	(28)	3,017	(146)
Total	$40,402	$(878)	$40,781	$(1,299)	$81,183	$(2,177)

At June 30, 2015 there were a total of 66 securities in a continuous unrealized loss position for less than twelve months and 15 individual securities that were in a continuous unrealized loss position for twelve months or greater.

The Company reviews its position quarterly and has determined that, at June 30, 2015, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at June 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay

obligations with or without call or prepayment penalties.

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(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$995	$998
Due after one year to five years	40,107	40,464
Due after five years to ten years	97,091	96,528
Due after ten years	59,548	60,892
Total	$197,741	$198,882

Total gross proceeds from sales of securities available for sale were $31,693,000 and $70,431,000 for the six months ended June 30, 2015 and 2014, respectively.

The following table represents gross realized gains and losses within the available for sale portfolio:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Gross realized gains:				
U.S. Government and agency securities	$—	$49	$—	$49
Mortgage-backed securities	—	76	—	76
State and political securities	350	387	746	732
Other debt securities	185	155	259	462
Financial institution equity securities	7	16	162	128
Other equity securities	—	64	132	119
Total gross realized gains	$542	$747	$1,299	$1,566
Gross realized losses:				
U.S. Government and agency securities	$—	$14	$—	$45
State and political securities	—	83	22	403
Other debt securities	15	97	47	172
Other equity securities	1	66	43	66
Total gross realized losses	$16	$260	$112	$686

The following table represents gross realized gains and losses within the trading portfolios:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Gross realized gains:				
Financial institution equity securities	2	—	2	—
Other equity securities	1	—	1	—
Total gross realized gains	$3	$—	$3	$—
Gross realized losses:				
Financial institution equity securities	3	—	3	—
Other equity securities	4	—	4	—
Total gross realized losses	$7	$—	$7	$—

There were no impairment charges included in gross realized losses for the three and six months ended June 30, 2015 and 2014, respectively.

Investment securities with a carrying value of approximately $143,865,000 and $128,501,000 at June 30, 2015 and December 31, 2014, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

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Note 6. Federal Home Loan Bank Stock

The Banks are both members of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such, are required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, new shares of FHLB stock continue to be transferred at the $100 par value, and the payment of dividends.

Note 7. Loans

Management segments the Banks' loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial, financial, and agricultural, real estate, and installment loans to individuals. Real estate loans are further segmented into three categories: residential, commercial, and construction.

The following table presents the related aging categories of loans, by segment, as of June 30, 2015 and December 31, 2014:

	June 30, 2015				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$138,551	$945	$ —	$553	$140,049
Real estate mortgage:					
Residential	490,222	2,994	52	852	494,120
Commercial	284,145	2,085	783	6,499	293,512
Construction	24,321	—	—	895	25,216
Installment loans to individuals	25,650	468	55	—	26,173
	962,889	$6,492	$ 890	$8,799	979,070
Net deferred loan fees and discounts	(1,192)				(1,192)
Allowance for loan losses	(11,265)				(11,265)
Loans, net	$950,432				$966,613

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	December 31, 2014				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$122,624	$773	$ —	$759	$124,156
Real estate mortgage:					
Residential	450,503	6,078	332	847	457,760
Commercial	279,731	1,819	54	9,744	291,348
Construction	21,485	—	—	511	21,996
Installment loans to individuals	21,125	383	1	—	21,509
	895,468	$9,053	$ 387	$11,861	916,769
Net deferred loan fees and discounts	(1,190)				(1,190)
Allowance for loan losses	(10,579)				(10,579)
Loans, net	$883,699				$905,000

Purchased loans acquired are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

Upon the acquisition of Luzerne Bank on June 1, 2013, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. There were no material increases or decreases in the expected cash flows of these loans between June 1, 2013 (the “acquisition date”) and June 30, 2015. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was $447,000 at June 30, 2015.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquired in the Luzerne Bank acquisition was $1,211,000 and the estimated fair value of the loans was $878,000. Total contractually required payments on these loans, including interest, at the acquisition date was $1,783,000. However, the Company’s preliminary estimate of expected cash flows was $941,000. At such date, the Company established a credit risk related non-accretable discount (a discount representing amounts which are not expected to be collected from either the customer or liquidation of collateral) of $842,000 relating to these impaired loans, reflected in the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount of $63,000 on the acquisition date relating to these impaired loans.

The carrying value of the loans acquired in the Luzerne Bank transaction with specific evidence of deterioration in credit quality was determined by projecting discounted contractual cash flows. The table below presents the components of the purchase accounting adjustments related to the purchased impaired loans acquired in the Luzerne Bank acquisition as of June 1, 2013.

The amortizable yield for purchased credit-impaired loans was fully amortized during 2014. Changes in the amortizable yield for purchased credit-impaired loans were as follows for the six months ended June 30, 2014:

(In Thousands)	June 30, 2014
Balance at beginning of period or at acquisition	$35
Accretion	(12)

Balance at end of period	$23

The following table presents additional information regarding loans acquired in the Luzerne Bank transaction with specific evidence of deterioration in credit quality:

(In Thousands)	June 30, 2015	December 31, 2014
Outstanding balance	$447	$449
Carrying amount	347	349

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There were no material increases or decreases in the expected cash flows of these loans between June 1, 2013 (the "acquisition date") and June 30, 2015. There has been no allowance for loan losses recorded for acquired loans with specific evidence of deterioration in credit quality as of June 30, 2015.

The following table presents interest income the Banks would have recorded if interest had been recorded based on the original loan agreement terms and rate of interest for non-accrual loans and interest income recognized on a cash basis for non-accrual loans for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,			
	2015		2014	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$2	$—	$15	$1
Real estate mortgage:				
Residential	16	10	5	5
Commercial	66	10	147	53
Construction	15	29	24	—
	$99	$49	$191	$59

	Six Months Ended June 30,			
	2015		2014	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$14	$8	$17	$1
Real estate mortgage:				
Residential	21	19	7	9
Commercial	171	35	275	86
Construction	30	36	35	—
	$236	$98	$334	$96

Impaired Loans

Impaired loans are loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks evaluate such loans for impairment individually and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "non-accrual loans," although the two categories overlap. The Banks may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard. Management

may also elect to measure an individual loan for impairment if less than $100,000 on a case-by-case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent with the Banks' policy on non-accrual loans.

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The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of June 30, 2015 and December 31, 2014:

	June 30, 2015		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$506	$506	$—
Real estate mortgage:			
Residential	792	792	—
Commercial	4,124	4,124	—
Construction	610	610	—
	6,032	6,032	—
With an allowance recorded:			
Commercial, financial, and agricultural	435	435	48
Real estate mortgage:			
Residential	1,143	1,243	168
Commercial	9,787	9,837	1,397
Construction	294	294	54
	11,659	11,809	1,667
Total:			
Commercial, financial, and agricultural	941	941	48
Real estate mortgage:			
Residential	1,935	2,035	168
Commercial	13,911	13,961	1,397
Construction	904	904	54
	$17,691	$17,841	$1,667

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	December 31, 2014		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$439	$439	$—
Real estate mortgage:			
Residential	139	139	—
Commercial	3,228	3,228	—
Construction	716	716	—
	4,522	4,522	—
With an allowance recorded:			
Commercial, financial, and agricultural	673	673	298
Real estate mortgage:			
Residential	1,327	1,449	147
Commercial	10,745	10,889	1,581
Construction	309	309	67
	13,054	13,320	2,093
Total:			
Commercial, financial, and agricultural	1,112	1,112	298
Real estate mortgage:			
Residential	1,466	1,588	147
Commercial	13,973	14,117	1,581
Construction	1,025	1,025	67
	$17,576	$17,842	$2,093

The following table presents the average recorded investment in impaired loans and related interest income recognized for the three and six months ended for June 30, 2015 and 2014:

	Three Months Ended June 30,					
	2015			2014		
(In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$1,064	$ 5	$ 3	$517	$ 7	$ —
Real estate mortgage:						
Residential	1,922	16	12	1,117	3	3
Commercial	14,271	77	11	10,901	19	2
Construction	910	—	29	1,025	—	—
	$18,167	$ 98	$ 55	$13,560	$ 29	$ 5

	Six Months Ended June 30,					
	2015			2014		
(In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans

Commercial, financial, and agricultural	$1,080	$ 10	$ 10	$522	$ 13	$ —
Real estate mortgage:						
Residential	1,741	28	17	1,142	14	7
Commercial	14,486	148	36	10,008	61	14
Construction	780	—	36	1,030	2	8
	$18,087	$ 186	$ 99	$12,702	$ 90	$ 29

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Currently, there is $189,000 committed to be advanced in connection with impaired loans.

Troubled Debt Restructurings

The loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

There were no loan modifications considered TDRs completed during the three and six months ended June 30, 2014. Loan modifications that are considered TDRs completed during the three and six months ended June 30, 2015 were as follows:

	Three Months Ended June 30, 2015		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage:			
Residential	1	88	88
Commercial	1	247	247
Construction	1	398	398
	3	$ 733	$ 733

	Six Months Ended June 30, 2015		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	2	$ 97	$ 97
Real estate mortgage:			
Residential	6	322	322
Commercial	2	517	517
Construction	1	398	398
	11	$ 1,334	$ 1,334

There were three loan modifications considered to be TDRs made during the twelve months previous to June 30, 2015 that defaulted during the six months ended June 30, 2015. The defaulted loan types and recorded investments at June 30, 2015 are as follows: one commercial loan with a recorded investment of $46,000, one commercial real estate loan with a recorded investment of $247,000, and one residential real estate loan with a recorded investment of $87,000. There were two loan modifications considered TDRs made during the twelve months previous to June 30, 2014 that defaulted during the six months ended June 30, 2014. The loans that defaulted were commercial real estate loans that were in litigation with a recorded investment of $1,634,000 at June 30, 2014.

Troubled debt restructurings amounted to $9,666,000 and $11,810,000 as of June 30, 2015 and December 31, 2014.

The amount of foreclosed residential real estate held at June 30, 2015 and December 31, 2014, totaled $70,000 and $324,000, respectively. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2015 and December 31, 2014, totaled $261,000 and $382,000, respectively.

Internal Risk Ratings

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management

generally follow bank regulatory definitions. The special mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are evaluated for substandard classification. Loans in the doubtful category exhibit the same weaknesses found in the substandard loans, however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Loans classified loss are considered uncollectible and charge-off is imminent.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Banks have a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. An external annual loan review of large commercial relationships is performed, as well as a sample of smaller transactions. Confirmation of the appropriate risk category is included in the review. Detailed reviews, including plans for resolution, are performed on loans classified as substandard, doubtful, or loss on a quarterly basis.

The following table presents the credit quality categories identified above as of June 30, 2015 and December 31, 2014:

	June 30, 2015					
	Commercial, Financial, and Agricultural	Real Estate Mortgages			Installment Loans to Individuals	
(In Thousands)		Residential	Commercial	Construction		Totals
Pass	$137,169	$491,003	$264,352	$24,206	$ 26,173	$942,903
Special Mention	1,014	2,008	12,928	400	—	16,350
Substandard	1,866	1,109	16,232	610	—	19,817
	$140,049	$494,120	$293,512	$25,216	$ 26,173	$979,070

	December 31, 2014					
	Commercial, Financial, and Agricultural	Real Estate Mortgages			Installment Loans to Individuals	
(In Thousands)		Residential	Commercial	Construction		Totals
Pass	$118,210	$454,885	$256,444	$20,927	$ 21,509	$871,975
Special Mention	3,186	2,384	16,262	445	—	22,277
Substandard	2,760	491	18,642	624	—	22,517
	$124,156	$457,760	$291,348	$21,996	$ 21,509	$916,769

Allowance for Loan Losses

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

The Banks' methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (previously discussed) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses

and other bank regulatory guidance. The total of the two components represents the Banks' ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances are segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for “Pass” rated credits, while a separate pool allowance is provided for “Criticized” rated credits that are not individually evaluated for impairment.

For the general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency

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rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan segment for applicable adjustments to actual loss experience.

Management reviews the loan portfolio on a quarterly basis in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Activity in the allowance is presented for the three and six months ended June 30, 2015 and 2014:

Three Months Ended June 30, 2015

(In Thousands)	Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Real Estate Mortgages Commercial	Real Estate Mortgages Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,478	$4,227	$3,873	$752	$193	$303	$10,826
Charge-offs	(263)	—	—	(46)	(58)	—	(367)
Recoveries	2	13	169	5	17	—	206
Provision	69	94	(173)	(163)	85	688	600
Ending Balance	$1,286	$4,334	$3,869	$548	$237	$991	$11,265

Three Months Ended June 30, 2014

(In Thousands)	Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Real Estate Mortgages Commercial	Real Estate Mortgages Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$537	$3,062	$3,324	$795	$161	$641	$8,520
Charge-offs	—	(7)	—	—	(28)	—	(35)
Recoveries	8	1	—	—	17	—	26
Provision	149	206	70	(77)	48	(96)	300
Ending Balance	$694	$3,262	$3,394	$718	$198	$545	$8,811

Six Months Ended June 30, 2015

(In Thousands)	Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Real Estate Mortgages Commercial	Real Estate Mortgages Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,124	$3,755	$4,205	$786	$245	$464	$10,579
Charge-offs	(283)	(1)	(449)	(46)	(114)	—	(893)
Recoveries	28	37	169	16	29	—	279
Provision	417	543	(56)	(208)	77	527	1,300
Ending Balance	$1,286	$4,334	$3,869	$548	$237	$991	$11,265

Six Months Ended June 30, 2014

(In Thousands)	Commercial, Financial, and	Real Estate Mortgages Residential	Real Estate Mortgages Commercial	Real Estate Mortgages Construction	Installment Loans to Individuals	Unallocated	Totals

	Agricultural						
Beginning Balance	$474	$3,917	$4,079	$741	$139	$794	$10,144
Charge-offs	—	(63)	(2,038)	—	(68)	—	(2,169)
Recoveries	11	3	—	—	37	—	51
Provision	209	(595)	1,353	(23)	90	(249)	785
Ending Balance	$694	$3,262	$3,394	$718	$198	$545	$8,811

The Company grants commercial, industrial, residential, and installment loans to customers throughout north-east and central Pennsylvania. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions within this region.

The Company has a concentration of the following to gross loans at June 30, 2015 and 2014:

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	June 30, 2015		2014	
Owners of residential rental properties	16.32	%	15.69	%
Owners of commercial rental properties	14.18	%	14.12	%

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of June 30, 2015 and December 31, 2014:

	June 30, 2015						
	Commercial,	Real Estate Mortgages					
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$48	$168	$1,397	$54	$ —	$—	$1,667
Collectively evaluated for impairment	1,238	4,166	2,472	494	237	991	9,598
Total ending allowance balance	$1,286	$4,334	$3,869	$548	$ 237	$991	$11,265
Loans:							
Individually evaluated for impairment	$941	$1,588	$13,911	$904	$ —		$17,344
Loans acquired with deteriorated credit quality	—	347	—	—	—		347
Collectively evaluated for impairment	139,108	492,185	279,601	24,312	26,173		961,379
Total ending loans balance	$140,049	$494,120	$293,512	$25,216	$ 26,173		$979,070

	December 31, 2014						
	Commercial,	Real Estate Mortgages					
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$298	$147	$1,581	$67	$ —	$—	$2,093
Collectively evaluated for impairment	826	3,608	2,624	719	245	464	8,486
	$1,124	$3,755	$4,205	$786	$ 245	$464	$10,579

Total ending allowance balance						
Loans:						
Individually evaluated for impairment	$1,112	$1,117	$13,973	$1,025	$ —	$17,227
Loans acquired with deteriorated credit quality	—	349	—	—	—	349
Collectively evaluated for impairment	123,044	456,294	277,375	20,971	21,509	899,193
Total ending loans balance	$124,156	$457,760	$291,348	$21,996	$ 21,509	$916,769

Note 8. Net Periodic Benefit Cost-Defined Benefit Plans

For a detailed disclosure on the Company’s pension and employee benefits plans, please refer to Note 13 of the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

The following sets forth the components of the net periodic benefit cost of the domestic non-contributory defined benefit plan for the three and six months ended June 30, 2015 and 2014, respectively:

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	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Service cost	$16	$140	$32	$280
Interest cost	189	214	378	429
Expected return on plan assets	(210)	(289)	(491)	(577)
Amortization of net loss	40	53	80	105
Net periodic (benefit) cost	$35	$118	$(1)	$237

Employer Contributions

The Company previously disclosed in its consolidated financial statements, included in the Annual Report on Form 10-K for the year ended December 31, 2014, that it expected to contribute a minimum of $600,000 to its defined benefit plan in 2015. As of June 30, 2015, there were contributions of $465,000 made to the plan with additional contributions of at least $400,000 anticipated during the remainder of 2015.

Note 9. Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (“Plan”). The Plan is intended to encourage employee participation in the ownership and economic progress of the Company. The Plan allows for up to 1,000,000 shares to be purchased by employees. The purchase price of the shares is 95% of market value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in market value annually. During the six months ended June 30, 2015 and 2014, there were 1,108 and 1,293 shares issued under the plan, respectively.

Note 10. Off Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily comprised of commitments to extend credit, standby letters of credit, and credit exposure from the sale of assets with recourse. These instruments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract amounts of these instruments express the extent of involvement the Company has in particular classes of financial instruments.

The Company’s exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company may require collateral or other security to support financial instruments with off-balance sheet credit risk.

Financial instruments whose contract amounts represent credit risk are as follows at June 30, 2015 and December 31, 2014:

(In Thousands)	June 30, 2015	December 31, 2014
Commitments to extend credit	$234,521	$235,940
Standby letters of credit	7,185	7,490
Credit exposure from the sale of assets with recourse	4,970	3,465
	$241,706	$243,430

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Company evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, on an extension of credit is based on management’s credit assessment of the counterparty.

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance related contracts. The coverage period for these instruments is typically a one year period with an annual renewal option subject to prior approval by management. Fees

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earned from the issuance of these letters are recognized upon expiration of the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

Note 11. Fair Value Measurements

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value.

Level I:	Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
Level II:	Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
Level III:	Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the balance sheet at their fair value on a recurring basis as of June 30, 2015 and December 31, 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$3,655	$—	$3,655
Mortgage-backed securities	—	11,199	—	11,199
Asset-backed securities	—	2,232	—	2,232
State and political securities	—	101,771	—	101,771
Other debt securities	—	80,025	—	80,025
Financial institution equity securities	10,797	—	—	10,797
Other equity securities	4,633	—	—	4,633
Investment securities, trading:				
Financial institution equity securities	74	—	—	