

NORWOOD FINANCIAL CORP
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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 0-28366

Norwood Financial Corp.
(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
Incorporation or organization)

23-2828306
(I.R.S. employer identification no.)

717 Main Street, Honesdale, Pennsylvania
(Address of principal executive offices)

18431
(Zip Code)

(570) 253-1455
(Registrant's telephone number, including area code)

NA

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check (x) 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 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 No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): []
Yes [X] No

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

Class	Outstanding as of August 1, 2014
Common stock, par value \$0.10 per share	3,637,971

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FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NORWOOD FINANCIAL CORP.

Consolidated Balance Sheets (unaudited)

(dollars in thousands, except share and per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$12,196	\$7,528
Interest bearing deposits with banks	3,182	335
Cash and cash equivalents	15,378	7,863
Securities available for sale, at fair value	154,925	158,132
Securities held to maturity, fair value 2013: \$177	-	174
Loans receivable (net of unearned income)	502,316	503,097
Less: Allowance for loan losses	5,611	5,708
Net loans receivable	496,705	497,389
Regulatory stock, at cost	2,437	2,877
Bank premises and equipment, net	6,910	7,125
Bank owned life insurance	18,002	17,790
Accrued interest receivable	2,405	2,422
Foreclosed real estate owned	4,293	1,009
Goodwill	9,715	9,715
Other intangibles	446	510
Deferred tax asset	3,764	4,819
Other assets	1,882	1,409
TOTAL ASSETS	\$716,862	\$711,234
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$103,954	\$92,684
Interest-bearing	450,760	448,498
Total deposits	554,714	541,182
Short-term borrowings	38,009	49,914
Other borrowings	22,983	23,761
Accrued interest payable	937	1,022
Other liabilities	4,017	3,491
TOTAL LIABILITIES	620,660	619,370
STOCKHOLDERS' EQUITY		
Common stock, \$.10 par value per share, authorized 10,000,000 shares; issued 3,708,718 shares	371	371
Surplus	35,091	35,010
Retained earnings	62,613	60,798
Treasury stock at cost: 2014: 70,747 shares, 2013: 64,628 shares	(1,878)	(1,713)

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Accumulated other comprehensive income (loss)	5	(2,602)
TOTAL STOCKHOLDERS' EQUITY	96,202	91,864
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$716,862	\$711,234

See accompanying notes to the unaudited consolidated financial statements.

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NORWOOD FINANCIAL CORP.

Consolidated Statements of Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Loans receivable, including fees	\$5,933	\$6,169	\$11,913	\$12,355
Securities	1,025	877	2,013	1,746
Other	2	10	2	12
Total interest income	6,960	7,056	13,928	14,113
INTEREST EXPENSE				
Deposits	618	719	1,253	1,473
Short-term borrowings	20	15	42	27
Other borrowings	167	178	333	368
Total interest expense	805	912	1,628	1,868
NET INTEREST INCOME	6,155	6,144	12,300	12,245
PROVISION FOR LOAN LOSSES	420	800	840	1,600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,735	5,344	11,460	10,645
OTHER INCOME				
Service charges and fees	583	620	1,159	1,221
Income from fiduciary activities	99	89	203	174
Net realized gains on sales of securities	509	254	603	392
Gains on sale of loans and servicing rights	26	1	66	3
Earnings and proceeds on bank owned life insurance	175	148	343	1,073
Other	76	100	147	226
Total other income	1,468	1,212	2,521	3,089
OTHER EXPENSES				
Salaries and employee benefits	2,172	2,124	4,336	4,335
Occupancy, furniture & equipment, net	518	550	1,096	1,079
Data processing related	229	230	441	452
Taxes, other than income	161	179	326	352
Professional fees	174	172	340	359
Federal Deposit Insurance Corporation insurance	102	110	216	221
Foreclosed real estate owned	396	86	461	277
Other	721	682	1,389	1,359
Total other expenses	4,473	4,133	8,605	8,434
INCOME BEFORE INCOME TAXES	2,730	2,423	5,376	5,300
INCOME TAX EXPENSE	696	584	1,378	1,153
NET INCOME	\$2,034	\$1,839	\$3,998	\$4,147
BASIC EARNINGS PER SHARE	\$0.56	\$0.51	\$1.10	\$1.15

DILUTED EARNINGS PER SHARE	\$0.56	\$0.51	\$1.10	\$1.14
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See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(dollars in thousands)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Net income	\$2,034	\$1,839
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gains (losses)	2,032	(4,779)
Tax effect	(691)	1,624
Reclassification of gains recognized in net income	(509)	(254)
Tax effect	173	86
Other comprehensive income (loss):	1,005	(3,323)
Comprehensive Income (Loss)	\$3,039	\$(1,484)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	\$3,998	\$4,147
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gains (losses)	4,556	(5,643)
Tax effect	(1,551)	1,918
Reclassification of gains recognized in net income	(603)	(392)
Tax effect	205	133
Other comprehensive income (loss):	2,607	(3,984)
Comprehensive Income	\$6,605	\$163

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.

Consolidated Statements of Changes in Stockholders' Equity (unaudited)

Six Months Ended June 30, 2014

(dollars in thousands, except share and per share data)

	Common Stock		Surplus	Retained	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount		Earnings	Shares	Amount	(Loss)	
Balance December 31, 2013	3,708,718	\$ 371	\$ 35,010	\$ 60,798	64,628	\$ (1,713)	\$ (2,602)	\$ 91,864
Net Income				3,998				3,998
Other comprehensive income							2,607	2,607
Cash dividends declared (\$.60 per share)				(2,183)				(2,183)
Acquisition of treasury stock					6,669	(179)		(179)
Stock options exercised			1		(550)	14		15
Tax benefit of stock options								-
Compensation expense related to stock options			80					80
Balance, June 30, 2014	3,708,718	\$ 371	\$ 35,091	\$ 62,613	70,747	\$ (1,878)	\$ 5	\$ 96,202

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$3,998	\$4,147
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	840	1,600
Depreciation	294	299
Amortization of intangible assets	64	72
Deferred income taxes	(291)	32
Net amortization of securities premiums and discounts	424	565
Net realized gain on sales of securities	(603)	(392)
Gain on life insurance policy	(5)	(770)
Net increase in value of life insurance	(338)	(304)
Loss on sale of bank premises and equipment and foreclosed real estate	159	103
Net gain on sale of mortgage loans	(72)	(25)
Mortgage loans originated for sale	(2,228)	(1,609)
Proceeds from sale of mortgage loans originated for sale	2,300	1,634
Compensation expense related to stock options	80	79
(Increase) decrease in accrued interest receivable and other assets	(409)	141
Increase in accrued interest payable and other liabilities	443	474
Net cash provided by operating activities	4,656	6,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	31,865	15,299
Proceeds from maturities and principal reductions on mortgage-backed securities	8,001	12,813
Purchases	(32,528)	(39,680)
Proceeds from maturities on securities held to maturity	175	-
Purchase of FHLB stock	(751)	-
Redemption of FHLB stock	1,191	103
Net increase in loans	(3,730)	(6,066)
Proceeds from life insurance policy	75	1,859
Purchase of bank premises and equipment	(79)	(179)
Proceeds from sale of bank premises and equipment and foreclosed real estate	140	216
Net cash provided by (used in) investing activities	4,359	(15,635)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	13,532	25,725
Net (decrease) increase in short-term borrowings	(11,905)	3,378
Repayments of other borrowings	(778)	(5,337)
Proceeds from other borrowings	-	3,000
Stock options exercised	14	180
Tax benefit of stock options exercised	1	16
Acquisition of treasury stock	(179)	(319)

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Cash dividends paid	(2,185)	(2,052)
Net cash (used in) provided by financing activities	(1,500)	24,591
Increase in cash and cash equivalents	7,515	15,002
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,863	12,295
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$15,378	\$27,297

See accompanying notes to the unaudited consolidated financial statements.

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NORWOOD FINANCIAL CORP.
 Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	\$1,713	\$2,073
Income taxes paid, net of refunds	1,337	1,110
Supplemental Schedule of Noncash Investing Activities		
Transfers of loans to foreclosed real estate and repossession of other assets	3,583	786

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties, Inc. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position and results of operations of the Company. The operating results for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2013.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Basic EPS weighted average shares outstanding	3,643	3,621	3,643	3,624
Dilutive effect of stock options	10	13	10	13
Diluted EPS weighted average shares outstanding	3,653	3,634	3,653	3,637

Stock options which had no intrinsic value, because their effect would be anti-dilutive and therefore would not be included in the diluted EPS calculation were 20,700 and 0 as of June 30, 2014 and 2013, respectively, based upon the closing prices of Norwood common stock of \$28.50 and \$29.00 per share on June 30, 2014 and 2013, respectively.

3. Stock-Based Compensation

The Company's shareholders approved the Norwood Financial Corp 2006 Stock Option Plan at the annual meeting on April 25, 2006 and the Norwood Financial Corp 2014 Equity Incentive Plan at the Annual Meeting held on April 22, 2014. No awards were granted during the six month period ending June 30, 2014. As of June 30, 2014, there was \$77,000 of total unrecognized compensation cost related to non-vested options granted in 2013 under the 2006 Stock Option Plan, which will be fully amortized by December 31, 2014.

A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2014	219,540	\$ 26.64	6.1	Yrs.	\$ 147
Granted	-	-	-	Yrs.	-
Exercised	550	27.05	8.5	Yrs.	15
Forfeited	-	-	-	Yrs.	-
Outstanding at June 30, 2014	218,990	\$ 26.64	5.5	Yrs.	\$ 411
Exercisable at June 30, 2014	191,490	\$ 26.58	4.9	Yrs.	\$ 370

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was \$28.50 as of June 30, 2014 and \$26.90 as of December 31, 2013.

4. Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (in thousands) by component net of tax for the three months and six months ended June 30, 2014 and 2013:

	Unrealized gains (losses) on available for sale securities (a)
Balance as of December 31, 2013	\$ (2,602)
Other comprehensive income before reclassification	3,005
Amount reclassified from accumulated other comprehensive income	(398)
Total other comprehensive income	2,607
Balance as of June 30, 2014	\$ 5

Unrealized gains (losses) on
available for sale

	securities (a)
Balance as of December 31, 2012	\$ 2,797
Other comprehensive loss before reclassification	(3,725)
Amount reclassified from accumulated other comprehensive income	(259)
Total other comprehensive loss	(3,984)
Balance as of June 30, 2013	\$ (1,187)

	Unrealized gains (losses) on available for sale securities (a)
Balance as of March 31, 2014	\$ (1,000)
Other comprehensive income before reclassification	1,341
Amount reclassified from accumulated other comprehensive income	(336)
Total other comprehensive income	1,005
Balance as of June 30, 2014	\$ 5

	Unrealized gains (losses) on available for sale securities (a)
Balance as of March 31, 2013	\$ 2,135
Other comprehensive loss before reclassification	(3,154)
Amount reclassified from accumulated other comprehensive income	(168)
Total other comprehensive loss	(3,322)
Balance as of June 30, 2013	\$ (1,187)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the three and six months ended June 30, 2014 and 2013:

Details about other comprehensive income	Amount Reclassified From Accumulated Other Comprehensive Income (a)		Affected Line Item in the Statement Where Net Income is Presented
	Three months ended June 30, 2014	Three months ended June 30, 2013	
Unrealized gains on available for sale securities	\$ 509	\$ 254	Net realized gains on sales of securities) Income tax expense Net of tax
	(173)	(86)	
	\$ 336	\$ 168	
	Six months ended June 30, 2014	Six months ended June 30, 2013	
	\$ 603	\$ 392	

Unrealized gains on available for sale securities	(205)	(133)	Net realized gains on sales of securities
	\$ 398	\$ 259	) Income tax expense
			Net of tax

(a) Amounts in parentheses indicate debits to net income

5. Off-Balance Sheet Financial Instruments and Guarantees

The Bank 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 include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	June 30,	
	2014	2013
Unfunded availability under loan commitments	\$22,851	\$25,772
Unfunded commitments under lines of credit	43,019	46,597
Standby letters of credit	5,668	6,991
	\$71,538	\$79,360

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2014 for guarantees under standby letters of credit issued is not material.

6. Securities

The amortized cost and fair value of securities were as follows:

	Amortized Cost	June 30, 2014		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Available for Sale:				
U.S. Government agencies	\$26,941	\$23	\$(438)	) \$26,526
States and political subdivisions	58,785	1,485	(378)	) 59,892
Corporate obligations	6,457	137	(11)	) 6,583
Mortgage-backed securities- government sponsored entities	62,437	208	(1,074)	) 61,571
Equity securities-financial services	292	63	(2)	) 353
	\$154,912	\$1,916	\$(1,903)	) \$154,925

	Amortized Cost	December 31, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Available for Sale:				
U.S. Government agencies	\$34,471	\$-	\$(1,058)	) \$33,413
States and political subdivisions	60,174	650	(1,794)	) 59,030
Corporate obligations	3,667	84	(40)	) 3,711
Mortgage-backed securities-government sponsored entities	63,467	81	(1,898)	) 61,650
Equity securities-financial services	293	50	(15)	) 328
	\$162,072	\$865	\$(4,805)	) \$158,132
Held to Maturity:				
States and political subdivisions	\$174	\$3	\$-	) \$177

The following tables show the Company's investments' gross unrealized losses and fair value aggregated by length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	June 30, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$998	\$(2)	\$19,002	\$(436)	\$20,000	\$(438)
States and political subdivisions	3,903	(20)	12,201	(358)	16,104	(378)
Corporate Obligations	-	-	1,159	(11)	1,159	(11)
Mortgage-backed securities-government sponsored agencies	8,929	(74)	25,672	(1,000)	34,601	(1,074)
Equity securities - financial services	183	(2)	-	-	183	(2)
	\$14,013	\$(98)	\$58,034	\$(1,805)	\$72,047	\$(1,903)

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$32,481	\$(990)	\$932	\$(68)	\$33,413	\$(1,058)
States and political subdivisions	26,281	(1,415)	4,228	(379)	30,509	(1,794)
Corporate obligations	1,145	(40)	-	-	1,145	(40)
Mortgage-backed securities-government sponsored agencies	47,014	(1,524)	7,478	(374)	54,492	(1,898)
Equity securities - financial services	170	(15)	-	-	170	(15)
	\$107,091	\$(3,984)	\$12,638	\$(821)	\$119,729	\$(4,805)

At June 30, 2014, the Company has 15 debt securities in an unrealized loss position in the less than twelve months category and 67 debt securities in the twelve months or more category. Additionally, the Company holds one equity security in an unrealized loss position in the less than twelve months category. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. No other-than-temporary-impairment charges were recorded in 2014. Management believes that all unrealized losses represent temporary impairment of the securities as the Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

The amortized cost and fair value of debt securities as of June 30, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

(In Thousands)	Available for Sale	
	Amortized Cost	Fair Value

Due in one year or less	\$ 250	\$ 254
Due after one year through five years	17,721	17,693
Due after five years through ten years	26,137	25,964
Due after ten years	48,075	49,090
Mortgage-backed securities-government sponsored agencies	62,437	61,571
	\$ 154,620	\$ 154,572

Gross realized gains and gross realized losses on sales of securities available for sale were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross realized gains	\$523	\$254	\$617	\$410
Gross realized losses	(14)	-	(14)	(18)
Net realized gain	\$509	\$254	\$603	\$392
Proceeds from sales of securities	\$19,785	\$7,896	\$31,865	\$15,299

7. Loans Receivable and Allowance for Loan Losses

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated:

	Types of loans (dollars in thousands)					
	June 30, 2014			December 31, 2013		
Real Estate-Residential	\$155,995	31.0	%	\$158,842	31.6	%
Commercial	268,711	53.5		273,144	54.2	
Construction	20,630	4.1		20,551	4.1	
Commercial, financial and agricultural	40,357	8.0		35,745	7.1	
Consumer loans to individuals	17,062	3.4		15,295	3.0	
Total loans	502,755	100.0	%	503,577	100.0	%
Deferred fees, net	(439)			(480)		
Total loans receivable	502,316			503,097		
Allowance for loan losses	(5,611)			(5,708)		
Net loans receivable	\$496,705			\$497,389		

Changes in the accretable yield for purchased credit-impaired loans were as follows for the six months ended June 30 (in thousands):

	2014	2013
Balance at beginning of period	\$20	\$76
Accretion	(12)	(42)
Reclassification and other	-	-
Balance at end of period	\$8	\$34

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

	June 30, 2014	December 31, 2013
Outstanding Balance	\$ 1,082	\$ 1,110
Carrying Amount	\$ 1,074	\$ 1,090

There were no material increases or decreases in the expected cash flows of these loans between May 31, 2011 (the “acquisition date”) and June 30, 2014. Adjustments to the allowance for loan losses recorded for acquired loans with specific evidence of deterioration in credit quality as of May 31, 2011 have been accounted for through the allowance for loan loss adequacy calculation. There has been no allowance for loan losses on these loans reversed. For loans that were acquired without specific evidence of deterioration in credit quality, adjustments to the allowance for loan losses have been accounted for through the allowance for loan loss adequacy calculation.

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probably that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (“TDR”) loan when the Company grants a concession to the borrower because of the borrower’s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Real Estate Loans			Commercial	Consumer	Total
	Residential	Commercial	Construction	Loans	Loans	
June 30, 2014	(In thousands)					
Individually evaluated for impairment	\$-	\$7,509	\$-	\$-	\$-	\$7,509
Loans acquired with deteriorated credit quality	233	841	-	-	-	1,074
Collectively evaluated for impairment	155,762	260,361	20,630	40,357	17,062	494,172
Total Loans	\$155,995	\$268,711	\$20,630	\$40,357	\$17,062	\$502,755

	Real Estate Loans			Commercial	Consumer	Total
	Residential	Commercial	Construction	Loans	Loans	
December 31, 2013	(In thousands)					
Individually evaluated for impairment	\$-	\$11,519	\$-	\$-	\$-	\$11,519
Loans acquired with deteriorated credit quality	242	848	-	-	-	1,090
Collectively evaluated for impairment	158,600	260,777	20,551	35,745	15,295	490,968
Total Loans	\$158,842	\$273,144	\$20,551	\$35,745	\$15,295	\$503,577

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance (in thousands)	Associated Allowance
June 30, 2014			
With no related allowance recorded:			
Real Estate Loans			
Residential	\$233	\$241	\$-
Commercial	6,178	6,657	-
Subtotal	6,411	6,898	-
With an allowance recorded:			
Real Estate Loans			
Commercial	2,172	2,882	209
Subtotal	2,172	2,882	-
Total:			
Real Estate Loans			
Residential	233	241	-
Commercial	8,350	9,539	209
Total Impaired Loans	\$8,583	\$9,780	\$209
	Recorded Investment	Unpaid Principal Balance (in thousands)	Associated Allowance
December 31, 2013			
With no related allowance recorded:			
Real Estate Loans			
Residential	\$242	\$251	\$-
Commercial	10,644	14,400	-
Subtotal	10,886	14,651	-
With an allowance recorded:			
Real Estate Loans			
Commercial	1,723	1,723	53
Subtotal	1,723	1,723	53
Total:			
Real Estate Loans			
Residential	242	251	-
Commercial	12,367	16,123	53
Total Impaired Loans	\$12,609	\$16,374	