JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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 ___________________________000-13232_______________________

Juniata Valley Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2235254
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Bridge and Main Streets, Mifflintown, Pennsylvania	17059
(Address of principal executive offices)	(Zip Code)

(717) 436-8211
(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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes ¨ No

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

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

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 9, 2016
Common Stock ($1.00 par value)	4,804,000 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Financial Condition

(in thousands, except share data)

	(Unaudited) June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 10,495	$ 10,385
Interest bearing deposits with banks	123	73
Cash and cash equivalents	10,618	10,458
Interest bearing time deposits with banks	350	350
Securities available for sale	143,889	152,327
Restricted investment in Federal Home Loan Bank (FHLB) stock	2,487	3,509
Investment in unconsolidated subsidiary	4,623	4,553
Residential mortgage loans held for sale	-	125
Student loans held for sale	-	1,683
Total loans	378,106	377,043
Less: Allowance for loan losses	(2,573)	(2,478)
Total loans, net of allowance for loan losses	375,533	374,565
Premises and equipment, net	6,998	6,909
Other real estate owned	604	617
Bank owned life insurance and annuities	15,088	14,905
Investment in low income housing partnership	3,403	3,368
Core deposit and other intangible	307	366
Goodwill	5,448	5,381
Mortgage servicing rights	197	205
Accrued interest receivable and other assets	3,254	4,607
Total assets	$ 572,799	$ 583,928
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 105,193	$ 106,667
Interest bearing	361,851	350,459

Total deposits	467,044	457,126
Securities sold under agreements to repurchase	4,469	4,996
Short-term borrowings	7,119	30,061
Long-term debt	25,000	22,500
Other interest bearing liabilities	1,497	1,471
Accrued interest payable and other liabilities	5,786	7,812
Total liabilities	510,915	523,966
Stockholders' Equity:		
Preferred stock, no par value:		
Authorized - 500,000 shares, none issued	-	-
Common stock, par value $1.00 per share:		
Authorized - 20,000,000 shares		
Issued -		
4,805,000 shares at June 30, 2016;		
4,798,086 shares at December 31, 2015		
Outstanding -		
4,804,000 shares at June 30, 2016;		
4,798,086 shares at December 31, 2015	4,805	4,798
Surplus	18,443	18,352
Retained earnings	39,309	39,015
Accumulated other comprehensive loss	(655)	(2,203)
Cost of common stock in Treasury:		
1,000 shares at June 30, 2016	(18)	-
Total stockholders' equity	61,884	59,962
Total liabilities and stockholders' equity	$ 572,799	$ 583,928

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Income

(Unaudited, in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	$4,358	$3,548	$8,799	$7,095
Taxable securities	610	557	1,241	1,118
Tax-exempt securities	102	114	214	232
Other interest income	7	1	10	1
Total interest income	5,077	4,220	10,264	8,446
Interest expense:				
Deposits	450	413	889	894
Securities sold under agreements to repurchase	1	1	2	2
Short-term borrowings	2	10	44	21
Long-term debt	85	68	154	136
Other interest bearing liabilities	8	4	15	8
Total interest expense	546	496	1,104	1,061
Net interest income	4,531	3,724	9,160	7,385
Provision for loan losses	113	112	234	162
Net interest income after provision for loan losses	4,418	3,612	8,926	7,223
Non-interest income:				
Customer service fees	421	389	808	753
Debit card fee income	262	219	505	424
Earnings on bank-owned life insurance and annuities	89	92	177	182
Trust fees	151	84	231	165
Commissions from sales of non-deposit products	68	118	138	208
Income from unconsolidated subsidiary	62	62	102	111
Fees derived from loan activity	64	52	117	86
Mortgage banking income	30	60	65	114
Net gain (loss) on sales and calls of securities	128	1	128	(16)
Gain on sales of loans	-	-	113	-
Other non-interest income	70	53	140	103
Total non-interest income	1,345	1,130	2,524	2,130
Non-interest expense:				
Employee compensation expense	1,755	1,490	3,418	2,964
Employee benefits	531	473	1,135	1,023
Occupancy	286	253	569	535
Equipment	167	133	332	261
Data processing expense	413	390	865	777
Director compensation	59	54	117	103

Professional fees	124	100	275	214
Taxes, other than income	118	92	212	181
FDIC Insurance premiums	94	75	199	162
Loss (gain) on sales of other real estate owned	3	(5)	6	(5)
Amortization of intangibles	29	11	60	22
Amortization of investment in low-income housing partnership	119	119	239	239
Merger and acquisition expense	314	48	372	58
Other non-interest expense	474	388	827	691
Total non-interest expense	4,486	3,621	8,626	7,225
Income before income taxes	1,277	1,121	2,824	2,128
Income tax provision	162	120	417	203
Net income	$1,115	$1,001	$2,407	$1,925
Earnings per share				
Basic	$0.23	$0.24	$0.50	$0.46
Diluted	$0.23	$0.24	$0.50	$0.46
Cash dividends declared per share	$0.22	$0.22	$0.44	$0.44
Weighted average basic shares outstanding	4,800,512	4,189,090	4,799,189	4,188,265
Weighted average diluted shares outstanding	4,800,745	4,190,036	4,799,461	4,189,304

See Notes to Consolidated Financial Statements

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Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	$ 1,277	$ (162)	$ 1,115	$ 1,121	$ (120)	$ 1,001
Other comprehensive (loss) income:						
Unrealized (losses) gains on available for sale securities:						
Unrealized holding gains (losses) arising during the period	584	(199)	385	(880)	299	(581)
Unrealized holding (losses) gains from unconsolidated subsidiary	(5)	-	(5)	3	-	3
Less reclassification adjustment for gains included in net income (1) (3)	(128)	44	(84)	(1)	1	-
Amortization of pension net actuarial cost (2) (3)	62	(21)	41	60	(21)	39
Other comprehensive income (loss)	513	(176)	337	(818)	279	(539)
Total comprehensive income	$ 1,790	$ (338)	$ 1,452	$ 303	$ 159	$ 462

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	$ 2,824	$ (417)	$ 2,407	$ 2,128	$ (203)	$ 1,925
Other comprehensive income:						
Unrealized (losses) gains on available for sale securities:						
Unrealized holding gains (losses) arising during the period	2,350	(799)	1,551	(28)	9	(19)
Unrealized holding (losses) gains from unconsolidated subsidiary	(1)	-	(1)	9	-	9
Less reclassification adjustment for (gains) losses included in net income (1) (3)	(128)	44	(84)	16	(5)	11
Amortization of pension net actuarial cost (2) (3)	124	(42)	82	121	(42)	79
Other comprehensive income	2,345	(797)	1,548	118	(38)	80
Total comprehensive income	$ 5,169	$ (1,214)	$ 3,955	$ 2,246	$ (241)	$ 2,005

See Notes to Consolidated Financial Statements

(1) Amounts are included in gain on sales and calls of securities on the Consolidated Statements of Income as a separate element within total non-interest income.
(2) Amounts are included in the computation of net periodic benefit cost and are included in employee benefits expense on the Consolidated Statements of Income as a separate element within total non-interest expense.
(3) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
(Unaudited, in thousands, except share data)
Six Months Ended June 30, 2016

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2016	4,798,086	$ 4,798	$ 18,352	$ 39,015	$ (2,203)	$ -	$ 59,962
Net income				2,407			2,407
Other comprehensive income					1,548		1,548
Cash dividends at $0.44 per share				(2,113)			(2,113)
Stock-based compensation			34				34
Purchase of treasury stock	(1,000)					(18)	(18)
Common stock issued for equity awards and stock purchase plans	6,914	7	57			-	64
Balance at June 30, 2016	4,804,000	$ 4,805	$ 18,443	$ 39,309	$ (655)	$ (18)	$ 61,884

Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
(Unaudited, in thousands, except share data)
Six Months Ended June 30, 2015

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	4,187,441	$ 4,746	$ 18,409	$ 39,644	$ (2,197)	$ (10,746)	$ 49,856
Net income				1,925			1,925
Other comprehensive income					80		80
Cash dividends at $0.44 per share				(1,843)			(1,843)
Stock-based compensation			27				27
Treasury stock issued for stock option and stock purchase plans	3,242		(6)			63	57
Balance at June 30, 2015	4,190,683	$ 4,746	$ 18,430	$ 39,726	$ (2,117)	$ (10,683)	$ 50,102

See Notes to Consolidated Financial Statements

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Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2016	2015
Operating activities:		
Net income	$ 2,407	$ 1,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	234	162
Depreciation	296	267
Net amortization of securities premiums	378	417
Net amortization of loan origination costs	12	27
Deferred net loan origination fees	(38)	(85)
Amortization of core deposit intangible	60	22
Amortization of investment in low income housing partnership	239	239
Net amortization of purchase fair value adjustments	(7)	-
Net realized (gain) loss on sales and calls of securities	(128)	16
Net loss (gain) on sales of other real estate owned	5	(5)
Earnings on bank owned life insurance and annuities	(177)	(182)
Deferred income tax (credit) expense	(5)	72
Equity in earnings of unconsolidated subsidiary, net of dividends of $30 and $30	(72)	(81)
Stock-based compensation expense	34	27
Gain from sale of student loans	(113)	-
Mortgage loans originated for sale	(706)	(2,080)
Proceeds from mortgage loans sold to others	903	2,182
Mortgage banking income	(65)	(114)
Decrease (increase) in accrued interest receivable and other assets	439	(126)
Decrease in accrued interest payable and other liabilities	(1,850)	(238)
Net cash provided by operating activities	1,846	2,445
Investing activities:		
Purchases of:		
Securities available for sale	(18,594)	(32,392)
FHLB stock	-	(329)
Premises and equipment	(385)	(187)
Bank owned life insurance and annuities	(29)	(29)
Proceeds from:		
Sales of securities available for sale	4,267	18,711
Maturities of and principal repayments on securities available for sale	24,800	17,791
Redemption of FHLB stock	1,012	-
Sale of student loans	1,706	-
Sale of other real estate owned	132	227
Investment in low income housing partnership	(274)	-

Net increase in loans	(1,208)	(9,939)
Net cash provided by (used in) investing activities	11,427	(6,147)
Financing activities:		
Net increase (decrease) in deposits	9,923	(2,118)
Net (decrease) increase in short-term borrowings and securities sold under agreements to repurchase	(23,469)	8,832
Issuance of long-term debt	10,000	-
Repayment of long-term debt	(7,500)	-
Cash dividends	(2,113)	(1,843)
Purchase of treasury stock	(18)	-
Treasury stock issued for employee stock plans	64	57
Net cash (used in) provided by financing activities	(13,113)	4,928
Net increase in cash and cash equivalents	160	1,226
Cash and cash equivalents at beginning of year	10,458	6,767
Cash and cash equivalents at end of period	$ 10,618	$ 7,993
Supplemental information:		
Interest paid	$ 1,115	$ 1,132
Income taxes paid	200	100
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ 124	$ 548

See Notes to Consolidated Financial Statements

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JUNIATA VALLEY FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Accounting Policies

The consolidated financial statements include the accounts of Juniata Valley Financial Corp. (the "Company") and its wholly owned subsidiary, The Juniata Valley Bank (the "Bank" or "JVB"). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and six month periods ended June 30, 2016 are not necessarily indicative of the results for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and notes thereto included in Juniata Valley Financial Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015.

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of financial condition date of June 30, 2016 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. Recent Accounting Standards Updates (ASU)

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

Issued: May 2014

Summary: The amendments in this Update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Effective Date and Transition: Public entities will apply the new standard for annual reports beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited under U.S. GAAP. In July 2015, the Financial Accounting Standards Board approved a one-year delay of the effective date of the revenue recognition standard. The deferral would require public entities to apply the new revenue standard for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Public entities would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

Accounting Standards Update 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

Issued: September 2015

Summary: ASU 2015-16 requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, the amendments in the Update would require an entity to disclose (either on the face of the income statement or in the notes) the nature and amount of measurement-period adjustments recognized in the current period, including separately the amounts in current-period income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

Effective Date: The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this update had no material effect on the Company’s consolidated financial condition or results of operations.

Accounting Standards Update 2016-02, Leases

Issued: February 2016

Summary: The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

Effective Date: The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact this Update will have on its consolidated financial position and results of operations.

Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

Issued: June 2016

Summary: Summary: ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis.

Effective Date: The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact this Update will have on its consolidated financial position and results of operations.

3. Business Combination

On November 30, 2015, Juniata consummated the merger with FNBPA Bancorp, Inc. ("FNBPA"), a Pennsylvania corporation. FNBPA merged with, and into Juniata, with Juniata continuing as the surviving entity. Simultaneously with the consummation of the foregoing merger, First National Bank of Port Allegany ("FNB"), a national banking association and a wholly-owned subsidiary of FNBPA, merged with and into the Bank.

As part of this transaction, FNBPA shareholders received either 2.7813 shares of Juniata's common stock or $50.34 in cash in exchange for each share of FNBPA common stock. As a result, Juniata issued 607,815 shares of common stock with an acquisition date fair value of approximately $10,637,000, based on Juniata's closing stock price of $17.50 on November 30, 2015, and cash of $2,208,000, including cash in lieu of fractional shares. The fair value of total consideration paid was $12,845,000.

The assets and liabilities of FNB and FNBPA were recorded on the consolidated balances sheet at their estimated fair value as of November 30, 2015, and their results of operations have been included in the consolidated income statement since such date.

Included in the purchase price was goodwill and a core deposit intangible of $3,335,000 and $343,000, respectively. The core deposit intangible will be amortized over a ten-year period using a sum of the year's digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. ASC 805 allows for adjustments to goodwill for a period of up to one year after the merger date for information that becomes available that reflects circumstances at the merger date. During the first six months of 2016, Juniata identified adjustments to fair value netting $67,000, and goodwill has been adjusted to $3,402,000. Juniata believes that accounting for the merger is complete.

Core deposit intangible amortization expense projected for the succeeding five years beginning 2016 is estimated to be $55,000, $49,000, $44,000, $38,000 and $33,000 per year, respectively, and $80,000 in total for years after 2020.

The allocation of the purchase price is as follows, in thousands of dollars:

	Recorded 11/30/2015	Change	Recorded 06/30/2016
Purchase price assigned to FNBPA common shares exchanged for 607,815 Juniata common shares	$10,637	$	$10,637
Purchase price assigned to FNBPA common shares exchanged for cash	2,208		2,208
Total purchase price	12,845	-	12,845
FNBPA net assets acquired:			
Tangible common equity	9,854		9,854
Adjustments to reflect assets acquired and liabilities assumed at fair value:			
Total fair value adjustments	(523)	(102)	(625)
Associated deferred income taxes	179	35	214
Fair value adjustment to net assets acquired, net of tax	(344)	(67)	(411)
Total FNBPA net assets acquired	9,510	(67)	9,443
Goodwill resulting from the merger	$3,335	$67	$3,402

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed, in thousands of dollars.

	Recorded 11/30/2015	Change	Recorded 06/30/2016
Total purchase price	$12,845	$	$12,845
			-
Net assets acquired			-
Cash and cash equivalents	3,802		3,802
Investment securities	35,458		35,458
Loans	47,055		47,055
Premises and equipment	419		419
Accrued interest receivable	550	(111)	439
Core deposit and other intangibles	343		343
Other real estate owned	114	44	158
Other assets	763		763
Deposits	(77,665)		(77,665)
Accrued interest payable	(13)		(13)
Other liabilities	(1,316)		(1,316)
	9,510	(67)	9,443
Goodwill	$3,335	$67	$3,402

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $47,797,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired, in thousands of dollars.

Gross amortized cost basis at November 30, 2015	$47,797
Market rate adjustment	(110)
Credit fair value adjustment on pools of homogeneous loans	(73)
Credit fair value adjustment on impaired loans	(559)
Fair value of purchased loans at November 30, 2015	$47,055

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the stated rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from the loan inception to the acquisition date. The credit adjustment on impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that has been deemed uncollectible based on the Company’s expectations of future cash flows for each respective loan. The information about the acquired FNBPA impaired loan portfolio as of November 30, 2015 is as follows, in thousands of dollars.

Contractually required principal and interest at acquisition	$2,488
Contractual cash flows not expected to be collected (nonaccretable discount)	(1,427)
Expected cash flows at acquisition	1,061
Interest component of expected cash flows (accretable discount)	(157)
Fair value of acquired loans	$904

The following table presents unaudited pro forma information, in thousands, as if the merger between Juniata and FNBPA had been completed on January 1, 2014. The pro forma information does not necessarily reflect the results of operations that would have occurred had Juniata merged with FNBPA at the beginning of 2014. Supplemental pro forma earnings for 2015 were adjusted to exclude $1,637,000 of merger related costs (exclusive of the corresponding tax impact) incurred in 2015; the results for 2014 were adjusted to include these charges. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies or other factors.

	Years Ended December 31,	
	2015	2014
Net interest income after loan loss provision	$17,731	$17,089
Noninterest income	4,841	4,745
Noninterest expense	17,124	18,358
Net income	4,862	3,353
Net income per common share	$1.01	$0.70

4. Accumulated other Comprehensive loss

Components of accumulated other comprehensive loss, net of tax consisted of the following (in thousands):

	6/30/2016	12/31/2015
Unrealized gains on available for sale securities	$ 1,562	$ 96
Unrecognized expense for defined benefit pension	(2,217)	(2,299)
Accumulated other comprehensive loss	$ (655)	$ (2,203)

5. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. 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 computation of basic and diluted earnings per share:

(Amounts, except earnings per share, in thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Net income	$ 1,115	$ 1,001
Weighted-average common shares outstanding	4,801	4,189
Basic earnings per share	$ 0.23	$ 0.24
Weighted-average common shares outstanding	4,801	4,189
Common stock equivalents due to effect of stock options	-	1
Total weighted-average common shares and equivalents	4,801	4,190
Diluted earnings per share	$ 0.23	$ 0.24

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 2,407	$ 1,925
Weighted-average common shares outstanding	4,799	4,188
Basic earnings per share	$ 0.50	$ 0.46
Weighted-average common shares outstanding	4,799	4,188
Common stock equivalents due to effect of stock options	-	1
Total weighted-average common shares and equivalents	4,799	4,189
Diluted earnings per share	$ 0.50	$ 0.46

6. Securities

The Company's investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 23%), mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages (approximately 58%) and municipal bonds (approximately 18%) as of June 30, 2016. Most of the municipal bonds are general obligation bonds with maturities or pre-refunding dates within 5 years. The remaining 1% of the portfolio includes a group of equity investments in other financial institutions.

The amortized cost and fair value of securities as of June 30, 2016 and December 31, 2015, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

	June 30, 2016			
Securities Available for Sale			Gross	Gross
	Amortized	Fair	Unrealized	Unrealized
Type and maturity	Cost	Value	Gains	Losses
Obligations of U.S. Government agencies and corporations				
Within one year	$-	$-	$ -	$ -
After one year but within five years	19,494	19,639	145	-
After five years but within ten years	14,006	14,031	26	(1)
	33,500	33,670	171	(1)
Obligations of state and political subdivisions				
Within one year	4,096	4,103	7	-
After one year but within five years	15,376	15,609	235	(2)
After five years but within ten years	5,270	5,406	136	-
After ten years	-	-	-	-
	24,742	25,118	378	(2)
Mortgage-backed securities	81,574	83,011	1,437	-
Equity securities	1,719	2,090	406	(35)
Total	$141,535	$143,889	$ 2,392	$ (38)

	December 31, 2015			
Securities Available for Sale			Gross	Gross
	Amortized	Fair	Unrealized	Unrealized
Type and maturity	Cost	Value	Gains	Losses
Obligations of U.S. Government agencies and corporations				
Within one year	$1,000	$1,003	$ 3	$ -
After one year but within five years	24,489	24,264	19	(244)
After five years but within ten years	7,495	7,465	7	(37)
	32,984	32,732	29	(281)

Obligations of state and political subdivisions				
Within one year	5,756	5,771	15	-
After one year but within five years	16,070	16,151	101	(20)
After five years but within ten years	7,204	7,282	78	-
After ten years	330	331	1	-
	29,360	29,535	195	(20)
Mortgage-backed securities	88,159	87,741	213	(631)
Equity securities	1,692	2,319	645	(18)
Total	$152,195	$152,327	$ 1,082	$ (950)

Certain obligations of the U.S. Government and state and political subdivisions are pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. The carrying value of the pledged assets was $35,512,000 and $45,101,000 at June 30, 2016 and December 31, 2015, respectively.

In addition to cash received from the scheduled maturities of securities, some investment securities available for sale are sold or called at current market values during the course of normal operations.

The following chart summarizes proceeds received from sales or calls of investment securities transactions and the resulting realized gains and losses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Gross proceeds from sales of securities	$4,267	$5,815	$4,267	$18,711
Securities available for sale:				
Gross realized gains from sold and called securities	$43	$13	$43	$54
Gross realized losses from sold and called securities	(15)	(12)	(15)	(70)
Gross gains from business combinations	100	-	100	-

Accounting Standards Codification (ASC) Topic 320, *Investments – Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are taken before an assessment is made as to whether the entity will recover the cost basis of the investment. For equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses in assessing potential other-than-temporary impairment. More specifically, factors considered to determine other-than-temporary impairment status for individual equity holdings include the length of time the stock has remained in an unrealized loss position, the percentage of unrealized loss compared to the carrying cost of the stock, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent factors that would affect expectations for recovery or further decline.

In instances when a determination is made that an other-than-temporary impairment exists and the entity does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive (loss) income.

The following table shows gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2016 and December 31, 2015 (in

thousands):

	Unrealized Losses at June 30, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	$2,002	$ (1)	$-	$ -	$2,002	$ (1)
Obligations of state and political subdivisions	-	-	997	(2)	997	(2)
Mortgage-backed securities	-	-	-	-	-	-
Debt securities	2,002	(1)	997	(2)	2,999	(3)
Equity securities	145	(19)	53	(16)	198	(35)
Total temporarily impaired securities	$2,147	$ (20)	$1,050	$ (18)	$3,197	$ (38)

	Unrealized Losses at December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	$10,887	$ (102)	$12,814	$ (179)	$23,701	$ (281)
Obligations of state and political subdivisions	7,469	(13)	692	(7)	8,161	(20)
Mortgage-backed securities	57,454	(631)	-	-	57,454	(631)
Debt securities	75,810	(746)	13,506	(186)	89,316	(932)
Equity securities	62	(3)	75	(15)	137	(18)
Total temporarily impaired securities	$75,872	$ (749)	$13,581	$ (201)	$89,453	$ (950)

At June 30, 2016, one U.S. Government agency security had an unrealized losses that, in the aggregate, totaled less than 0.01% of amortized cost. None of these securities have been in a continuous loss position for 12 months or more.

At June 30, 2016, 5 obligations of state and political subdivisions had unrealized losses that, in the aggregate, totaled less than 0.01% of amortized cost. Three of these securities has been in a continuous loss position for 12 months or more.

The mortgage-backed securities in the Company's portfolio are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantees the timely payment of principal on these investments. There were no unrealized losses in mortgage-backed securities at June 30, 2016.

The unrealized losses noted above are considered to be temporary impairments. The decline in the values of the debt securities is due only to interest rate fluctuations, rather than erosion of issuer credit quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. As the Company does not intend to sell the securities, does not believe the Company will be required to sell the securities before recovery and expects to recover the entire amortized cost basis, none of the debt securities are deemed to be other-than-temporarily impaired.

Equity securities owned by the Company consist of common stock of various financial services providers and are evaluated quarterly for evidence of other-than-temporary impairment. There were four equity securities that were in an unrealized loss position for 12 months or more as of June 30, 2016. Individually and collectively, these four equity securities have insignificant unrealized losses. Management has identified no other-than-temporary impairment as of,

or for the periods ended June 30, 2016, June 30, 2015 and December 31, 2015, respectively, in the equity portfolio. Management continues to track the performance of each stock owned to determine if it is prudent to recognize any other-than-temporary impairment charges. The Company has the ability and intent to hold its equity securities until recovery of unrealized losses.

7. Loans and Related Allowance for Credit Losses

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the outstanding unpaid principal balances, net of any deferred fees or costs and the allowance for loan losses. Interest income on all loans, other than nonaccrual loans, is accrued over the term of the loans based on the amount of principal outstanding. Unearned income is amortized to income over the life of the loans, using the interest method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans are comprised of the following classes of loans: (1) commercial, financial and agricultural, (2) commercial real estate, (3) real estate construction, a portion of (4) mortgage loans and (5) obligations of states and political subdivisions. Consumer loans are comprised of a portion of (4) mortgage loans and (6) personal loans.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or reasonable doubt exists as to the full, timely collection of principal or interest. However, it is the Company's policy to continue to accrue interest on loans over 90 days past due as long as (1) they are guaranteed or well secured and (2) there is an effective means of timely collection in process. When a loan is placed on non-accrual status, all unpaid interest credited to income in the current year is reversed against current period income, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, accruals are resumed on loans only when the obligation is brought fully current with respect to interest and principal, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Company originates loans in the portfolio with the intent to hold them until maturity. At the time the Company no longer intends to hold loans to maturity based on asset/liability management practices, the Company transfers loans from its portfolio to held for sale at fair value. Any write-down recorded upon transfer is charged against the allowance for loan losses. Any write-downs recorded after the initial transfers are recorded as a charge to other non-interest expense. Gains or losses recognized upon sale are included in gains on sales of loans which is a component of non-interest income.

The Company also originates residential mortgage loans with the intent to sell. These individual loans are normally funded by the buyer immediately. The Company maintains servicing rights on these loans. Mortgage servicing rights are recognized as an asset upon the sale of a mortgage loan. A portion of the cost of the loan is allocated to the servicing right based upon relative fair value. Servicing rights are intangible assets and are carried at estimated fair value. Adjustments to fair value are recorded as non-interest income and included in gain on sales of loans in the consolidated statements of income.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (“allowance”) represents management’s estimate of losses inherent in the loan portfolio as of the consolidated statement of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management’s estimate of losses inherent in its unfunded lending commitments and is recorded in other liabilities on the consolidated statement of financial condition, when necessary. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

For financial reporting purposes, the provision for loan losses charged to current operating income is based on management's estimates, and actual losses may vary from estimates. These estimates are reviewed and adjusted at least quarterly and are reported in earnings in the periods in which they become known.

Loans included in any class are considered for charge-off when:

- principal or interest has been in default for 120 days or more and for which no payment has been received during the previous four months;
- all collateral securing the loan has been liquidated and a deficiency balance remains;
- a bankruptcy notice is received for an unsecured loan;
- a confirming loss event has occurred; or
- the loan is deemed to be uncollectible for any other reason.

The allowance for loan losses is maintained at a level considered adequate to offset probable losses on the Company's existing loans. The analysis of the allowance for loan losses relies heavily on changes in observable trends that may indicate potential credit weaknesses. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses as of June 30, 2016 was adequate.

There are two components of the allowance: a specific component for loans that are deemed to be impaired; and a general component for contingencies.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. For commercial loans secured with real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the current appraisal and the condition of the property. Appraised values may be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include the estimated costs to sell the property. For commercial loans secured by non-real estate collateral, estimated fair values are determined based on the borrower's financial statements, inventory reports, aging accounts receivable, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The Company generally does not separately identify individual consumer segment loans for impairment disclosures, unless such loans are subject to a restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a below-market interest rate based on the loan's risk characteristics or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time after modification. Loans classified as troubled debt restructurings are designated as impaired.

The component of the allowance for contingencies relates to other loans that have been segmented into risk rated categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated quarterly or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have one or more well-defined weaknesses that jeopardize the liquidation of the debt. Substandard loans include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. Specific reserves may be established for larger, individual classified loans as a result of this evaluation, as discussed above. Remaining loans are categorized into large groups of smaller balance homogeneous loans and are collectively evaluated for impairment. This computation is generally based on historical loss experience adjusted for qualitative factors. The historical loss experience is averaged over a ten-year period for each of the portfolio segments. The ten-year timeframe was selected in order to capture activity over a wide range of economic conditions and has been consistently used by the Company for the past seven years. Qualitative risk factors are reviewed for relevancy each quarter and include:

- National, regional and local economic and business conditions, as well as the condition of various market segments, including the underlying collateral for collateral dependent loans;
- Nature and volume of the portfolio and terms of loans;
- Experience, ability and depth of lending and credit management and staff;
- Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors, including competition.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Commercial, Financial and Agricultural Lending

The Company originates commercial, financial and agricultural loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is shorter and does not exceed the projected useful life of such machinery and equipment. Most business lines of credit are written with a five year maturity, subject to an annual credit review.

Commercial loans are generally secured with short-term assets; however, in many cases, additional collateral, such as real estate, is provided as additional security for the loan. Loan-to-value maximum values have been established by the Company and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of conditions affecting the borrower, is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's analysis.

Concentration analysis assists in identifying industry specific risk inherent in commercial, financial and agricultural lending. Mitigants include the identification of secondary and tertiary sources of repayment and appropriate increases in oversight.

Commercial, financial and agricultural loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Commercial Real Estate Lending

The Company engages in commercial real estate lending in its primary market area and surrounding areas. The Company's commercial real estate portfolio is secured primarily by residential housing, commercial buildings, raw land and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property and are typically secured by personal guarantees of the borrowers.

As economic conditions deteriorate, the Company reduces its exposure in real estate loans with higher risk characteristics. In underwriting these loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Real Estate Construction Lending

The Company engages in real estate construction lending in its primary market area and surrounding areas. The Company's real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Company’s commercial real estate construction loans are generally secured with the subject property, and advances are made in conformity with a pre-determined draw schedule supported by independent inspections. Terms of construction loans depend on the specifics of the project, such as estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower’s credit history, the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

Real estate construction loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions. The difficulty of estimating total construction costs adds to the risk as well.

Mortgage Lending

The Company’s real estate mortgage portfolio is comprised of consumer residential mortgages and business loans secured by one-to-four family properties. One-to-four family residential mortgage loan originations, including home equity installment and home equity lines of credit loans, are generated by the Company’s marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Company’s market area or with customers primarily from the market area.

The Company offers fixed-rate and adjustable rate mortgage loans with terms up to a maximum of 25-years for both permanent structures and those under construction. The Company’s one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Company’s residential mortgage loans originate with a loan-to-value of 80% or less. Home equity installment loans are secured by the borrower’s primary residence with a maximum loan-to-value of 80% and a maximum term of 15 years. Home equity lines of credit are secured by the borrower’s primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years.

In underwriting one-to-four family residential real estate loans, the Company evaluates the borrower’s ability to make monthly payments, the borrower’s repayment history and the value of the property securing the loan. The ability to repay is determined by the borrower’s employment history, current financial conditions, and credit background. The analysis is based primarily on the customer’s ability to repay and secondarily on the collateral or security. Most properties securing real estate loans made by the Company are appraised by independent fee appraisers. The Company generally requires mortgage loan borrowers to obtain an attorney’s title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Company does not engage in sub-prime residential mortgage originations.

Residential mortgage loans and home equity loans generally present a lower level of risk than certain other types of consumer loans because they are secured by the borrower’s primary residence. Risk is increased when the Company is in a subordinate position for the loan collateral.

Obligations of States and Political Subdivisions

The Company lends to local municipalities and other tax-exempt organizations. These loans are primarily tax-anticipation notes and, as such, carry little risk. Historically, the Company has never had a loss on any loan of this type.

Personal Lending

The Company offers a variety of secured and unsecured personal loans, including vehicle loans, mobile home loans and loans secured by savings deposits as well as other types of personal loans.

Personal loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting personal loans, a thorough analysis of the borrower’s willingness and financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower’s employment history, current financial conditions and credit background.

Personal loans may entail greater credit risk than do residential mortgage loans, particularly in the case of personal loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted personal loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In

addition, personal loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Loan Portfolio Classification

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2016 and December 31, 2015 (in thousands):

As of June 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	$32,405	$5,002	$ 1,324	$ -	$38,731
Real estate - commercial	109,204	11,705	6,975	1,121	129,005
Real estate - construction	19,182	4,196	5,858	-	29,236
Real estate - mortgage	146,573	4,988	4,648	1,942	158,151
Obligations of states and political subdivisions	13,955	74		-	14,029
Personal	8,879	65	10	-	8,954
Total	$330,198	$26,030	$ 18,815	$ 3,063	$378,106

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As of December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	$30,814	$1,853	$ 1,504	$ -	$34,171
Real estate - commercial	106,629	16,067	3,274	1,243	127,213
Real estate - construction	16,351	7,024	3,297	-	26,672
Real estate - mortgage	152,161	6,595	4,656	1,205	164,617
Obligations of states and political subdivisions	17,069	455		-	17,524
Personal	6,787	56	3	-	6,846
Total	$329,811	$32,050	$ 12,734	$ 2,448	$377,043

The Company has certain loans in its portfolio that are considered to be impaired. It is the policy of the Company to recognize income on impaired loans that have been transferred to nonaccrual status on a cash basis, only to the extent that it exceeds principal balance recovery. Until an impaired loan is placed on nonaccrual status, income is recognized on the accrual basis. Collateral analysis is performed on each impaired loan at least quarterly, and results are used to determine if a specific reserve is necessary to adjust the carrying value of each individual loan down to the estimated fair value. Generally, specific reserves are carried against impaired loans based upon estimated collateral value until a confirming loss event occurs or until termination of the credit is scheduled through liquidation of the collateral or foreclosure. Charge off will occur when a confirmed loss is identified. Professional appraisals of collateral, discounted for expected selling costs, appraisal age, economic conditions and other known factors are used to determine the charge-off amount. The following tables summarize information regarding impaired loans by portfolio class as of June 30, 2016 and December 31, 2015 (in thousands):

	As of June 30, 2016			As of December 31, 2015		
Impaired loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial, financial and agricultural	$604	$ 608	$ -	$475	$ 475	$ -
Real estate - commercial	5,976	6,942	-	1,851	2,024	-
Acquired with credit deterioration	707	789	-	834	893	-
Real estate - construction	2,561	2,561	-	-	-	-
Real estate - mortgage	3,009	4,542	-	2,636	4,127	-
Acquired with credit deterioration	541	557	-	630	642	-
Personal	1	1	-	-	-	-
With an allowance recorded:						
Real estate - mortgage	$857	$ 857	$ 75	$-	$ -	$ -
Total:						
Commercial, financial and agricultural	$604	$ 608	$ -	$475	$ 475	$ -
Real estate - commercial	5,976	6,942	-	1,851	2,024	-
Acquired with credit deterioration	707	789	-	834	893	-
Real estate - construction	2,561	2,561	-	-	-	-

Real estate - mortgage	3,866	5,399	75	2,636	4,127	-
Acquired with credit deterioration	541	557	-	630	642	-
Personal	1	1				
	$14,256	$16,856	$ 75	$6,426	$8,161	$ -

Impaired loans	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	$312	$ 16	$ -	$-	$ -	$ -
Real estate - commercial	3,896	159	-	2,277	12	4
Acquired with credit deterioration	763	-	-	-	-	-
Real estate - construction	1,281	68	-	157	-	-
Real estate - mortgage	2,606	14	6	2,888	9	6
Acquired with credit deterioration	582	-	-	-	-	-
Personal	1	-	-	-	-	-
With an allowance recorded:						
Real estate - commercial	$-	$ -	$ -	$101	$ -	$ -
Real estate - construction	-	-	-	168	-	-
Real estate - mortgage	594	-	-	350	-	-
Total:						
Commercial, financial and agricultural	$312	$ 16-	$ -	$-	$ -	$ -
Real estate - commercial	3,896	159	-	2,378	12	4
Acquired with credit deterioration	763	-	-	-	-	-
Real estate - construction	1,281	68	-	325	9	-
Real estate - mortgage	3,200	14	6	3,238	-	6
Acquired with credit deterioration	582	-	-	-	-	-
Personal	1					
	$10,034	$ 257	$ 6	$5,942	$ 21	$ 10

Impaired loans	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	$540	$ 16	$ -	$1	$ -	$ -
Real estate - commercial	3,914	168	-	2,299	23	10
Acquired with credit deterioration	771	-	-	-	-	-
Real estate - construction	1,281	68	-	324	-	-
Real estate - mortgage	2,823	18	12	3,025	19	13
Acquired with credit deterioration	586	-	-	-	-	-
Personal	1	-	-	-	-	-

With an allowance recorded:						
Real estate - commercial	$-	$ -	$ -	$67	$ -	$ -
Real estate - construction	-	-	-	112	-	-
Real estate - mortgage	429	-	-	469	-	-
Total:						
Commercial, financial and agricultural	$540	$ 16	$ -	$1	$ -	$ -
Real estate - commercial	3,914	168	-	2,366	23	10
Acquired with credit deterioration	771	-	-	-	-	-
Real estate - construction	1,281	68	-	436	-	-
Real estate - mortgage	3,252	18	12	3,494	19	13
Acquired with credit deterioration	586	-	-	-	-	-
Personal	1	-	-	-	-	-
	$10,345	$ 270	$ 12	$6,297	$ 42	$ 23

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The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Nonaccrual loans:		
Commercial, financial and agricultural	$ 19	$ -
Real estate - commercial	1,157	1,286
Real estate - construction	-	-
Real estate - mortgage	3,642	2,402
Personal	-	-
Total	$ 4,818	$ 3,688

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2016 and December 31, 2015 (in thousands):

As of June 30, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Past Due greater than 90 Days and Accruing
Commercial, financial and agricultural	$ 201	-	19	$220	$38,511	$38,731	$ -
Real estate - commercial							
Real estate - commercial	26	406	1,393	1,825	126,473	128,298	272
Acquired with credit deterioration	203	-	504	707	-	707	504
Real estate - construction	-	-	-	-	29,236	29,236	-
Real estate - mortgage							
Real estate - mortgage	459	1,167	3,029	4,655	152,955	157,610	-
Acquired with credit deterioration	151	-	168	319	222	541	168
Obligations of states and political subdivisions	-	-	-	-	14,029	14,029	-
Personal	49	-	1	50	8,904	8,954	-
Total	$ 1,089	$ 1,573	$ 5,114	$7,776	$370,330	$378,106	$ 944

As of December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Past Due greater than 90 Days and Accruing
Commercial, financial and agricultural	$ 92	-	-	$92	$34,079	$34,171	$ -
Real estate - commercial							
Real estate - commercial	112	124	1,243	1,479	124,900	126,379	-
Acquired with credit deterioration	-	175	443	618	216	834	443
Real estate - construction	-	-	-	-	26,672	26,672	-
Real estate - mortgage							
Real estate - mortgage	1,038	761	1,669	3,468	160,519	163,987	-
Acquired with credit deterioration	-	61	119	180	450	630	119
Obligations of states and political subdivisions	-	-	-	-	17,524	17,524	-
Personal	56	48	2	106	6,740	6,846	2
Total	$ 1,298	$ 1,169	$ 3,476	$5,943	$371,100	$377,043	$ 564

The following table summarizes information regarding troubled debt restructurings by loan portfolio class at June 30, 2016 and December 31, 2015, in thousands of dollars.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of June 30, 2016				
Accruing troubled debt restructurings:				
Real estate - mortgage	6	$ 254	$ 282	$ 224
Non-accruing troubled debt restructurings:				
Real estate - mortgage	1	25	25	25
	7	$ 279	$ 307	$ 249
As of December 31, 2015				
Accruing troubled debt restructurings:				
Real estate - commercial	1	$ 148	$ 148	$ 142
Real estate - mortgage	6	254	282	234
	7	$ 402	$ 430	$ 376

The Company's troubled debt restructurings are also impaired loans, which may result in a specific allocation and subsequent charge-off if appropriate. As of June 30, 2016 there were no specific reserves carried for troubled debt restructurings. There were no defaults of troubled debt restructurings that took place during the three or six months ended June 30, 2016 or 2015 within 12 months of restructure. On December 31, 2015, there were no specific reserves carried for troubled debt restructured loans and no charge-offs relating to the troubled debt restructurings. The amended terms of the restructured loans vary, whereby interest rates have been reduced, principal payments have been reduced or deferred for a period of time and/or maturity dates have been extended.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Three months ended June 30, 2016				
Non-accruing troubled debt restructurings:				
Real estate - mortgage	1	$ 25	$ 25	$ 25
	1	$ 25	$ 25	$ 25
Six months ended June 30, 2016				
Non-accruing troubled debt restructurings:				
Real estate - mortgage	1	$ 25	$ 25	$ 25
	1	$ 25	$ 25	$ 25

There were no loans whose terms have been modified resulting in troubled debt restructurings during the three months or six months ended June 30, 2015.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process at June 30, 2016 and December 31, 2015 totaled $2,287,000 and $1,614,000, respectively.

The following tables summarize the activity in the allowance for loan losses and related investments in loans receivable (in thousands):

As of, and for the periods ended, June 30, 2016

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Beginning balance, April 1, 2016	$ 291	$ 821	$ 198	$ 1,184	$ -	$ 60	$2,554

Charge-offs	(4)	(110)	-	-	-	(11)	(125)
Recoveries	-	24	-	1	-	6	31
Provisions	21	67	(7)	15	-	17	113
Ending balance, June 30, 2016	$ 308	$ 802	$ 191	$ 1,200	$ -	$ 72	$ 2,573
Beginning balance, January 1, 2016	$ 264	$ 836	$ 191	$ 1,140	$ -	$ 47	$ 2,478
Charge-offs	(4)	(142)	-	(18)	-	(13)	(177)
Recoveries	-	24	-	1	-	13	38
Provisions	48	84	-	77	-	25	234
Ending balance, June 30, 2016	$ 308	$ 802	$ 191	$ 1,200	$ -	$ 72	$ 2,573

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Ending balance	$ 308	$ 802	$ 191	$ 1,200	$ -	$ 72	$ 2,573
evaluated for impairment							
individually	$ -	$ -	$ -	$ 75	$ -	$ -	$ 75
collectively	$ 308	$ 802	$ 191	$ 1,125	$ -	$ 72	$ 2,498
Loans:							
Ending balance	$ 38,731	$ 129,005	$ 29,236	$ 158,151	$ 14,029	$ 8,954	$ 378,106
evaluated for impairment							
individually	$ 604	$ 5,977	$ 2,560	$ 3,866	$ -	$ 1	$ 13,008
collectively	$ 38,127	$ 123,028	$ 26,676	$ 154,285	$ 14,029	$ 8,953	$ 365,098
Ending balance: loans acquired with deteriorated credit quality	-	$ 707	$ -	$ 541	$ -	$ -	$ 1,248

As of, and for the periods ended, June 30, 2015

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Beginning balance, April 1, 2015	$ 216	$ 706	$ 174	$ 1,268	$ -	$ 35	$ 2,399
Charge-offs	-	(66)	(24)	(106)	-	(4)	(200)
Recoveries	-	-	-	1	-	3	4
Provisions	16	112	8	(29)	-	5	112
Ending balance, June 30, 2015	$ 232	$ 752	$ 158	$ 1,134	$ -	$ 39	$ 2,315
Beginning balance, January 1, 2015	$ 222	$ 665	$ 155	$ 1,300	$ -	$ 38	$ 2,380
Charge-offs	-	(66)	(24)	(138)	-	(5)	(233)
Recoveries	-	-	-	1	-	5	6
Provisions	10	153	27	(29			