FIRST KEYSTONE CORP
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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: 2-88927

FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2249083**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

111 West Front Street, Berwick, PA 18603
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (570) 752-3671

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date:

Common Stock, $2 Par Value, 5,694,982 shares as of August 4, 2017

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share data)	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$8,783	$ 8,338
Interest-bearing deposits in other banks	1,328	790
Total cash and cash equivalents	10,111	9,128
Time deposits with other banks	1,482	1,482
Investment securities available-for-sale	393,703	379,637
Investment securities held-to-maturity (fair value 2017- $0; 2016 - $4)	—	4
Restricted investment in bank stocks	7,299	5,477
Loans	527,803	522,382
Allowance for loan losses	(7,353)	(7,357)
Net loans	520,450	515,025
Premises and equipment, net	18,693	19,237
Accrued interest receivable	4,314	3,917
Cash surrender value of bank owned life insurance	22,036	21,718
Investments in low-income housing partnerships	2,721	2,555
Goodwill	19,133	19,133
Foreclosed assets held for resale	1,283	1,273
Deferred income taxes	1,224	2,760
Other assets	2,975	2,937
TOTAL ASSETS	$1,005,424	$ 984,283
LIABILITIES		
Deposits:		
Non-interest bearing	$122,630	$ 110,314
Interest bearing	568,374	615,668
Total deposits	691,004	725,982
Short-term borrowings	128,730	69,290
Long-term borrowings	65,054	75,116
Accrued interest payable	499	427
Other liabilities	5,639	3,783
TOTAL LIABILITIES	890,926	874,598
STOCKHOLDERS' EQUITY		

Preferred stock, par value $2.00 per share; authorized 1,000,000 shares as of June 30, 2017 and December 31, 2016; issued 0 in 2017 and 2016		
Common stock, par value $2.00 per share; authorized 20,000,000 shares as of June 30, 2017 and December 31, 2016; issued 5,928,094 as of June 30, 2017 and 5,904,563 as of December 31, 2016; outstanding 5,694,982 as of June 30, 2017 and 5,671,451 as of December 31, 2016	11,856	11,809
Surplus	35,617	35,047
Retained earnings	71,143	70,004
Accumulated other comprehensive income (loss)	1,638	(1,419)
Treasury stock, at cost, 233,112 shares in 2017 and 2016	(5,756)	(5,756)
TOTAL STOCKHOLDERS’ EQUITY	114,498	109,685
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,005,424	$ 984,283

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Interest and fees on loans	$ 5,544	$ 5,468	$ 11,056	$ 10,924
Interest and dividend income on investment securities:				
Taxable	1,072	1,436	2,214	2,944
Tax-exempt	1,296	940	2,443	1,862
Dividends	11	16	22	31
Dividend income on restricted investment in bank stocks	78	64	155	124
Interest on interest-bearing deposits in other banks	9	8	17	16
Total interest income	8,010	7,932	15,907	15,901
INTEREST EXPENSE				
Interest on deposits	999	825	1,900	1,679
Interest on short-term borrowings	262	90	398	161
Interest on long-term borrowings	366	370	748	755
Total interest expense	1,627	1,285	3,046	2,595
Net interest income	6,383	6,647	12,861	13,306
Provision for loan losses	—	284	83	567
Net interest income after provision for loan losses	6,383	6,363	12,778	12,739
NON-INTEREST INCOME				
Trust department	219	230	457	430
Service charges and fees	461	446	897	861
Bank owned life insurance income	160	165	318	329
ATM fees and debit card income	356	331	683	643
Gains on sales of mortgage loans	88	55	124	157
Net investment securities gains	172	380	472	394
Other	39	59	82	152
Total non-interest income	1,495	1,666	3,033	2,966
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,031	2,587	5,773	5,373
Occupancy, net	430	419	917	869
Furniture and equipment	137	128	276	264
Computer expense	267	240	513	470
Professional services	195	149	433	302
Pennsylvania shares tax	205	188	411	377
FDIC insurance	80	163	160	317

ATM and debit card fees	188	167	325	306
Data processing fees	162	135	294	268
Foreclosed assets held for resale expense	80	61	106	112
Advertising	184	96	262	163
Other	707	681	1,459	1,333
Total non-interest expense	5,666	5,014	10,929	10,154
Income before income tax expense	2,212	3,015	4,882	5,551
Income tax expense	293	524	677	884
NET INCOME	$ 1,919	$ 2,491	$4,205	$4,667
PER SHARE DATA				
Net income per share:				
Basic	$ 0.34	$ 0.44	$0.74	$0.83
Diluted	0.34	0.44	0.74	0.83
Dividends per share	0.27	0.27	0.54	0.54

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30,	
	2017	2016
Net Income	$ 1,919	$ 2,491
Other comprehensive income:		
Unrealized net holding gains on available-for-sale investment securities arising during the period, net of income taxes of $1,205 and $1,391, respectively	2,336	2,687
Less reclassification adjustment for net gains included in net income, net of income taxes of $(58) and $(129), respectively (a) (b)	(114)	(251)
Total other comprehensive income	2,222	2,436
Total Comprehensive Income	$ 4,141	$ 4,927

(a) Gross amounts are included in net investment securities gains on the Consolidated Statements of Income in non-interest income.

(b) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

(Dollars in thousands)	Six Months Ended June 30,	
	2017	2016
Net Income	$ 4,205	$ 4,667
Other comprehensive income:		
Unrealized net holding gains on available-for-sale investment securities arising during the period, net of income taxes of $1,740 and $3,536, respectively	3,368	6,858
Less reclassification adjustment for net gains included in net income, net of income taxes of $(161) and $(134), respectively (a) (b)	(311)	(260)
Total other comprehensive income	3,057	6,598

Total Comprehensive Income	$ 7,262	$ 11,265

(a) Gross amounts are included in net investment securities gains on the Consolidated Statements of Income in non-interest income.

(b) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

See accompanying notes to consolidated financial statements.

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2017	5,904,563	$11,809	$35,047	$70,004	$ (1,419)	$(5,756)	$ 109,685
Net Income				4,205			4,205
Other comprehensive income, net of taxes					3,057		3,057
Issuance of common stock under dividend reinvestment plan	23,531	47	570				617
Dividends - $0.54 per share				(3,066)			(3,066)
Balance at June 30, 2017	5,928,094	$11,856	$35,617	$71,143	$ 1,638	$(5,756)	$ 114,498
Balance at January 1, 2016	5,853,317	$11,707	$33,830	$66,622	$ 2,035	$(5,756)	$ 108,438
Net Income				4,667			4,667
Other comprehensive income, net of taxes					6,598		6,598
Issuance of common stock under dividend reinvestment plan	25,792	51	620				671
Dividends - $0.54 per share				(3,038)			(3,038)
Balance at June 30, 2016	5,879,109	$11,758	$34,450	$68,251	$ 8,633	$(5,756)	$ 117,336

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(Unaudited)

(Dollars in thousands)	2017	2016
OPERATING ACTIVITIES		
Net income	$4,205	$4,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	83	567
Depreciation and amortization	564	589
Net premium amortization on investment securities	2,417	1,900
Deferred income tax benefit	(43)	
Gains on sales of mortgage loans	(124)	(157)
Proceeds from sales of mortgage loans originated for resale	3,950	4,621
Originations of mortgage loans originated for resale	(4,280)	(6,483)
Gains on sales of investment securities	(472)	(394)
Net losses on sales of foreclosed real estate held for resale, including write-downs	15	37
(Increase) decrease in accrued interest receivable	(397)	154
Earnings on investment in bank owned life insurance	(318)	(329)
Increase in other assets	(38)	(118)
Amortization of investment in real estate ventures	81	88
Increase in accrued interest payable	72	59
(Decrease) increase in other liabilities	(166)	238
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,549	5,439
INVESTING ACTIVITIES		
Proceeds from sales of investment securities available-for-sale	51,992	27,408
Proceeds from maturities and redemptions of investment securities available-for-sale	9,368	6,808
Purchases of investment securities available-for-sale	(70,722)	(25,571)
Proceeds from maturities and redemptions of investment securities held-to-maturity	4	6
Net change in restricted investment in bank stocks	(1,822)	(880)
Net (increase) decrease in loans	(5,189)	1,512
Purchases of premises and equipment	(53)	(208)
Purchase of investment in real estate venture	(247)	—
Proceeds from sales of foreclosed assets held for resale	152	230
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(16,517)	9,305
FINANCING ACTIVITIES		
Net decrease in deposits	(34,978)	(36,127)
Net increase in short-term borrowings	59,440	19,099
Proceeds from long-term borrowings	—	10,000
Repayment of long-term borrowings	(10,062)	(5,057)
Common stock issued	617	629

Dividends paid	(3,066)	(3,038)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	11,951	(14,494)
INCREASE IN CASH AND CASH EQUIVALENTS	983	250
CASH AND CASH EQUIVALENTS, BEGINNING	9,128	9,008
CASH AND CASH EQUIVALENTS, ENDING	$10,111	$9,258
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$2,974	$2,536
Income taxes paid	932	1,730
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Purchased securities settling after quarter end	2,013	
Loans transferred to foreclosed assets held for resale	177	75
Loans transferred (from) to held for sale portfolio	—	(171)
Common stock subscription receivable	—	42

See accompanying notes to consolidated financial statements.

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated financial statements include the accounts of First Keystone Corporation (the “Corporation”) and its wholly owned subsidiary, First Keystone Community Bank (the “Bank”). 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 (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by 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, 2017, are not necessarily indicative of the results for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and notes thereto included in First Keystone Corporation’s Annual Report on Form 10-K for the year ended December 31, 2016.

For comparative purposes, the June 30, 2016 balances have been reclassified to conform to the June 30, 2017 presentation. Such reclassifications had no impact on net income.

The Corporation has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2017 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.

NOTE 2 RECENT ACCOUNTING STANDARDS UPDATES (“ASU”)

Except as disclosed below, there were no new accounting pronouncements affecting the Corporation during the six months ended June 30, 2017 that were not already adopted by the Corporation.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue requirements in *Revenue Recognition (Topic 605).* This ASU requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The ASU is effective for annual reporting periods beginning after December 31, 2016, including interim periods within the reporting period. Early application is not permitted. In August 2015, the FASB issued an update ASU 2015-14 which approved a one-year delay of the effective date of this standard. The deferral would require public entities to apply the standard for annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued an update ASU 2016-08 which updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. In April 2016, the FASB issued an update ASU 2016-10, that updates the standard by identifying performance obligations and licenses of intellectual property, which clarifies the guidance surrounding licensing arrangements and the identification of performance obligations. In May 2016, the FASB issued an update ASU 2016-12 which articulates narrow-scope improvements and practical expedients. Because the amended guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, the Corporation's preliminary analysis suggests that the adoption of this amended guidance is not expected to have a material impact on its consolidated financial statements, although the Corporation will also be subject to expanded disclosure requirements upon adoption and the Corporation's revenue recognition processes for wealth and asset management revenue, and card and processing revenue may be affected. However, there are certain areas of the amended guidance, such as credit card interchange fees and related rewards programs, which are subject to interpretation and for which the Corporation has not made final conclusions regarding the applicability and the related impact, if any. In December, the FASB issued an update ASU 2016-20. The amendments affect narrow aspects of the guidance issued in ASU 2014-09 including Loan Guarantee Fees, Contract Costs, Provisions for Losses on Construction-Type and Production-Type Contracts, Disclosure of Remaining Performance Obligations, Disclosure of Prior Period Performance Obligations, Contract Modifications, Contract Asset vs. Receivable, Refund Liability, Advertising Costs, Fixed Odds Wagering Contracts in the Casino Industry, and Costs Capitalized for Advisors to Private Funds and Public Funds. In February 2017, the FASB issued an update ASU 2017-05 with amendments to clarify that a financial asset is within the scope of Subtopic 610.20 if it meets the definition of an in substance nonfinancial asset. Accordingly, the results of the Corporation's materiality analysis, as well as its selected adoption method, may change as these conclusions are reached. The Corporation is currently assessing the impact that this guidance will have on its consolidated financial statements and related disclosures through the development and analysis of a bank-wide inventory of products and services and directly related income streams, consulting with outside business partners and evaluating the proper accounting system modifications as needed.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. In particular, the guidance revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with fair value of financial instruments. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this ASU will result in an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities for operating leases in which the Corporation is the lessee. The Corporation is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326):* Measurement of Credit Losses on Financial Instruments. The ASU requires that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This is in contrast to existing guidance whereby credit losses generally are not recognized until they are incurred. For public companies, this update will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. While the Corporation is currently evaluating the provisions of the ASU to determine the potential impact of the new standard will have on the Corporation's consolidated financial statements, it has taken steps to prepare for the implementation when it becomes effective, such as forming an internal committee, gathering pertinent data, consulting with outside professionals, and begun evaluating its current IT systems.

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* The amendments are intended to reduce diversity in practice. The guidance clarifies the classification of various business activities as financing, operating or investing activity. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Corporation is currently assessing the impact that this guidance will have on its consolidated financial statements and related disclosures.

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*: Simplifying the Test for Goodwill Impairment. The ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under the amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value with its carrying amount. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount when measuring the goodwill impairment loss, if applicable. The update also eliminated the requirements for zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments are effective for public business entities for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715)*: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments apply to all entities that offer employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation — Retirement Benefits. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally manufactured inventory or a self-constructed asset). The ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-08, *Receivables- Nonrefundable Fees and Other Costs (Subtopic 310-20)*: Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Corporation is currently assessing the impact that this guidance will have on its consolidated financial statements and related disclosures.

NOTE 3 — INVESTMENT SECURITIES

The Corporation classifies its investment securities as either "Held-to-Maturity" or "Available-for-Sale" at the time of purchase. Investment securities are accounted for on a trade date basis. Debt securities are classified as Held-to-Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities classified as Held-to-Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity.

Debt securities not classified as Held-to-Maturity and equity securities are included in the Available-for-Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as accumulated other comprehensive income (loss) in the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions, controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held-to-Maturity or Available-for-Sale is adjusted for amortization of premiums and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends, are included in interest and dividend income from investment securities. Realized gains and losses are included in net investment securities gains and losses. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities classified as "Available-For-Sale" or "Held-to-Maturity" were as follows at June 30, 2017 and December 31, 2016:

(Dollars in thousands)	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
U.S. Treasury securities	$1,001	$ —	$ —	$1,001
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	107,331	358	(916)	106,773
Other	23,717	147	(268)	23,596
Obligations of state and political subdivisions	223,321	4,591	(1,460)	226,452
Corporate debt securities	34,955	79	(830)	34,204
Marketable equity securities	809	868		1,677
Total	$391,134	$ 6,043	$ (3,474)	$393,703

(Dollars in thousands)	Held-to-Maturity Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$ —	$ —	$	$ —
Total	$ —	$ —	$	$ —

(Dollars in thousands)	Available-for-Sale Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
U.S. Treasury securities	$1,008	$ 2	$ —	$1,010
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed$	112,155	83	(1,331)	110,907
Other	21,399	82	(511)	20,970
Obligations of state and political subdivisions	211,154	2,776	(2,796)	211,134
Corporate debt securities	35,178	4	(1,206)	33,976
Marketable equity securities	810	830	—	1,640
Total	$381,704	$ 3,777	$ (5,844)	$379,637

(Dollars in thousands)	Held-to-Maturity Securities		
		Gross	Gross

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2016:				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$ 4	$ —	$ —	$ 4
Total	$ 4	$ —	$ —	$ 4

Securities Available-for-Sale with an aggregate fair value of $272,439,000 at June 30, 2017 and $320,319,000 at December 31, 2016, and securities Held-to-Maturity with an aggregate book value of $0 at June 30, 2017 and $4,000 at December 31, 2016, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase, debtor in possession funds and the Federal Discount Window aggregating $159,686,000 at June 30, 2017 and $221,818,000 at December 31, 2016.

The amortized cost, estimated fair value and weighted average yield of debt and equity securities, by contractual maturity, are shown below at June 30, 2017. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	June 30, 2017 Available-For-Sale U.S. Treasury Securities	**U.S. Government Corporations & Agencies Obligations[1]**	**Obligations of State & Political Subdivisions[2]**	**Corporate Debt Securities**	**Marketable Equity Securities[3]**	**Held-To-Maturity U.S. Government Corporations & Agencies Obligations[1]**
Within 1 Year:						
Amortized cost	$ 1,001	$	$ 1,250	$ 535	$	$
Fair value	1,001		1,250	520		
Weighted average yield	0.96 %		1.40 %	2.78 %		
1 - 5 Years:						
Amortized cost	—	16,510	27,821	11,559		—
Fair value	—	16,549	28,104	11,491		—
Weighted average yield	—	2.15 %	2.90 %	2.37 %		—
5 - 10 Years:						
Amortized cost		48,081	71,569	22,861		
Fair value		47,308	72,654	22,193		
Weighted average yield		2.14 %	3.29 %	2.67 %		
After 10 Years:						
Amortized cost		66,457	122,681		809	
Fair value		66,512	124,444		1,677	
Weighted average yield		1.98 %	3.59 %		5.44 %	
Total:						
Amortized cost	$ 1,001	$ 131,048	$ 223,321	$ 34,955	$ 809	$ —
Fair value	1,001	130,369	226,452	34,204	1,677	—
Weighted average yield	0.96 %	2.06 %	3.40 %	2.57 %	5.44 %	—

[1]Mortgage-backed securities are allocated for maturity reporting at their original maturity date.

[2]Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.

[3]Marketable equity securities are not considered to have defined maturities and are included in the after ten year category.

There were no aggregate investments with a single issuer (excluding the U.S. Government and U.S. Government Agencies and Corporations) which exceeded ten percent of consolidated stockholders' equity at June 30, 2017. The quality rating of the obligations of state and political subdivisions are generally investment grade, as rated by Moody's, Standard and Poor's or Fitch. The typical exceptions are local issues which are not rated, but are secured by the full faith and credit obligations of the communities that issued these securities.

Proceeds from sales of investments in Available-for-Sale debt and equity securities for the three months ended June 30, 2017 and 2016 were $27,501,000 and $20,374,000, respectively. Gross gains realized on these sales were $197,000 and $380,000, respectively. Gross losses realized on these sales were $25,000 and $0, respectively. There were no impairment losses realized on Available-for-Sale equity securities for the three months ended June 30, 2017 and 2016.

Proceeds from sales of investments in Available-for-Sale debt and equity securities for the six months ended June 30, 2017 and 2016 were $51,992,000 and $27,408,000, respectively. Gross gains realized on these sales were $535,000 and $435,000, respectively. Gross losses realized on these sales were $63,000 and $41,000, respectively. There were no impairment losses realized on Available-for-Sale equity securities for the six months ended June 30, 2017 and 2016.

There were no proceeds from sales of investments in Held-to-Maturity debt securities during the three or six month periods ended June 30, 2017 or 2016. Therefore, there were no gains or losses realized during these periods.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as Available-for-Sale or Held-to-Maturity are generally evaluated for OTTI under FASB ASC 320, *Investments - Debt and Equity Securities*. In determining OTTI under the FASB ASC 320 model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary impairment occurs on debt securities, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected, and the realized loss is recognized as impairment charges on securities on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment related to the other factors shall be recognized in other comprehensive income (loss), net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment.

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non-performing assets and loan loss reserves. The starting point for the equity analysis is the length and severity of market value decline. The realized loss is recognized as impairment charges on securities on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment is recognized in other comprehensive income (loss), net of applicable taxes. The previous cost basis less the other-than-temporary impairment recognized in earnings becomes the new cost basis of the investment.

The Corporation and its investment advisors monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. Based on the factors described above, management did not consider any securities to be other-than-temporarily impaired at June 30, 2017 or December 31, 2016.

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In accordance with disclosures required by FASB ASC 320-10-50, *Investments - Debt and Equity Securities*, the summary below shows the gross unrealized losses and fair value of the Corporation's investments, aggregated by investment category, that individual securities have been in a continuous unrealized loss position for less than 12 months or 12 months or more as of June 30, 2017 and December 31, 2016:

June 30, 2017

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale:						
U.S. Treasury securities	$	$	$	$	$	$
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	41,537	(727)	14,400	(189)	55,937	(916)
Other	11,380	(268)	—	—	11,380	(268)
Obligations of state and political subdivisions	54,016	(1,391)	1,513	(69)	55,529	(1,460)
Corporate debt securities	6,249	(402)	17,717	(428)	23,966	(830)
Marketable equity securities						
	$ 113,182	$ (2,788)	$ 33,630	$ (686)	$ 146,812	$ (3,474)

December 31, 2016

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale:						
U.S. Treasury securities	$ —	$ —	$ —	$ —	$—	$ —
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	89,444	(1,216)	8,783	(115)	98,227	(1,331)
Other	10,340	(500)	1,741	(11)	12,081	(511)
Obligations of state and political subdivisions	95,481	(2,796)	—	—	95,481	(2,796)
Corporate debt securities	21,656	(749)	10,298	(457)	31,954	(1,206)
Marketable equity securities						
	$ 216,921	$ (5,261)	$ 20,822	$ (583)	$ 237,743	$ (5,844)

The Corporation invests in various forms of agency debt including mortgage-backed securities and callable debt. The mortgage-backed securities are issued by FHLMC ("Federal Home Loan Mortgage Corporation"), FNMA ("Federal

National Mortgage Association") or GNMA ("Government National Mortgage Association"). The municipal securities consist of general obligations and revenue bonds. The marketable equity securities consist of stocks in other bank holding companies. The fair market value of the above securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid-offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation's carrying value at any measurement date. Management does not believe any of their 79 securities with a one year or less unrealized loss position or any of their 16 securities with a greater than one year unrealized loss position as of June 30, 2017, represent an other-than-temporary impairment, as these unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans

Net loans are stated at their outstanding recorded investment, net of deferred fees and costs, unearned income and the allowance for loan losses. Interest on loans is recognized as income over the term of each loan, generally, by the accrual method. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the straight line method or the interest method over the contractual life of the related loans as an interest yield adjustment.

Residential mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis determined by independent pricing from appropriate federal or state agency investors. These loans are sold without recourse. Loans held for sale amounted to $553,000 and $100,000 at June 30, 2017 and December 31, 2016, respectively.

The loans receivable portfolio is segmented into commercial, residential and consumer loans. Commercial loans consist of the following classes: Commercial and Industrial and Commercial Real Estate.

Commercial and Industrial Lending

The Corporation originates commercial and industrial 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, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and are reviewed annually.

Commercial and industrial 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 thresholds have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, business financial statements, collateral appraisals, etc. Commercial and industrial loans are typically secured by personal guarantees of the borrower.

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

Commercial and industrial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions. Commercial and industrial loans are typically made on the basis of the borrower’s ability to make repayment from cash flows from the borrower’s primary business activities. As a result, the availability of funds for the repayment of commercial and industrial loans is dependent on the success of the business itself, which in turn, is likely to be dependent upon the general economic environment.

Commercial Real Estate Lending

The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation’s commercial real estate portfolio is secured primarily by commercial retail space, commercial office buildings, residential housing and hotels. Generally, commercial real estate loans have terms that do not exceed twenty years, have loan-to-value ratios of up to eighty percent of the value of the collateral property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Corporation 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. The value of the property is determined by either independent appraisers or internal evaluations by Bank officers.

Commercial real estate loans generally present a higher level of risk than residential real estate secured loans. Repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project and/or the effect of the general economic conditions on income producing properties.

Residential Real Estate Lending (Including Home Equity)

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

The Corporation’s one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The Corporation offers fixed-rate mortgage loans with terms up to a maximum of thirty years for both permanent structures and those under construction. Generally, the majority of the Corporation’s residential mortgage loans originate with a loan-to-value of eighty percent or less, or those with primary mortgage insurance at ninety-five percent or less. Home equity term loans are secured by the borrower’s primary residence and typically have a maximum loan-to-value of eighty percent and a maximum term of fifteen years. In general, home equity lines of credit are secured by the borrower’s primary residence with a maximum loan-to-value of eighty percent and a maximum term of twenty years.

In underwriting one-to-four family residential mortgage loans, the Corporation 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 and willingness to repay is determined by the borrower’s employment history, current financial conditions and credit background. A majority of the properties securing residential real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires mortgage loan borrowers to obtain an attorney’s title opinion or title insurance and fire and property insurance, including flood insurance, if applicable.

Residential mortgage loans, home equity term loans and home equity lines of credit generally present a lower level of risk than consumer loans because they are secured by the borrower’s primary residence. Risk is increased when the Corporation is in a subordinate position, especially to another lender, for the loan collateral.

Consumer Lending

The Corporation offers a variety of secured and unsecured consumer loans, including vehicle loans, stock loans and loans secured by financial institution deposits. These loans originate primarily within or with customers from the market area.

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

Consumer loans may entail greater credit risk than residential real estate 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, 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 therefore, 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.

Delinquent Loans

Generally, a loan is considered to be past-due when scheduled loan payments are in arrears 10 days or more. Delinquent notices are generated automatically when a loan is 10 or 15 days past-due, depending on loan type. Collection efforts continue on past-due loans that have not been brought current, when it is believed that some chance exists for improvement in the status of the loan. Past-due loans are continually evaluated with the determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

Commercial and Industrial and Commercial Real Estate loans are charged off in whole or in part when they become sufficiently delinquent based upon the terms of the underlying loan contract and when a collateral deficiency exists. Because all or part of the contractual cash flows are not expected to be collected, the loan is considered to be impaired, and the Bank estimates the impairment based on its analysis of the cash flows or collateral estimated at fair value less cost to sell.

Residential Real Estate and Consumer loans are charged off when they become sufficiently delinquent based upon the terms of the underlying loan contract and when the value of the underlying collateral is not sufficient to support the loan balance and a loss is expected. At that time, the amount of estimated collateral deficiency, if any, is charged off for loans secured by collateral, and all other loans are charged off in full. Loans with collateral are charged down to the estimated fair value of the collateral less cost to sell.

Loans in which the borrower is in bankruptcy are considered on a case by case basis and are either charged off or reaffirmed by the borrower.

Generally, a loan is classified as non-accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may currently be performing. A loan may remain on accrual status if it is well secured (or supported by a strong guarantee) and in the process of collection. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against interest income. Certain non-accrual loans may continue to perform; that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny, and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management’s periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay (including the timing of future payments), 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 including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are individually classified as impaired. Select loans are not aggregated for collective impairment evaluation, as such;

all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status 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 loan 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. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loans may be reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses and qualitative factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over a time period that management has determined represents the current credit cycle. Qualitative factors impacting each portfolio segment may include: delinquency trends, loan volume trends, Bank policy changes, management processes and oversight, economic trends (including change in consumer and business disposable incomes, unemployment and under-employment levels, and other conditions), concentrations by industry or product, internal and external loan review processes, collateral value and market conditions, and external factors including regulatory issues and competition.

The unallocated component of the allowance is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A reserve for unfunded lending commitments is provided for possible credit losses on off-balance sheet credit exposures. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and, if necessary, is recorded in other liabilities on the Consolidated Balance Sheets. As of June 30, 2017 and December 31, 2016, the amount of the reserve for unfunded lending commitments was $109,000 and $202,000, respectively.

The Corporation is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the original loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate at inception or the fair value of the collateral for certain collateral dependent loans.

The restructuring of a loan is considered a "troubled debt restructuring" if both the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the Bank has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, and (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan. A less common concession is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower were a concession not granted. Similarly, the determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

Loans modified in a troubled debt restructuring are considered impaired and may or may not be placed on non-accrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrates a period of performance according to the restructured terms of six months.

The Bank utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns an asset quality rating (risk grade) to all Commercial and Industrial, Commercial Real Estate, Residential Real Estate and Consumer borrowings. An asset quality rating is assigned using the guidance provided in the Bank's loan policy. Primary responsibility for assigning the asset quality rating rests with the lender. The asset quality rating is validated periodically by both an internal and external loan review process.

The commercial loan grading system focuses on a borrower's financial strength and performance, experience and depth of management, primary and secondary sources of repayment, the nature of the business and the outlook for the particular industry. Primary emphasis is placed on financial condition and trends. The grade also reflects current economic and industry conditions; as well as other variables such as liquidity, cash flow, revenue/earnings trends, management strengths or weaknesses, quality of financial information, and credit history.

The loan grading system for Residential Real Estate and Consumer loans focuses on the borrower's credit score and credit history, debt-to-income ratio and income sources, collateral position and loan-to-value ratio, as well as other variables such as current economic conditions, and individual strengths and weaknesses.

Risk grade characteristics are as follows:

Risk Grade 1 – MINIMAL RISK through Risk Grade 6 – MANAGEMENT ATTENTION (Pass Grade Categories)

Risk is evaluated via examination of several attributes including but not limited to financial trends, strengths and weaknesses, likelihood of repayment when considering both cash flow and collateral, sources of repayment, leverage position, management expertise, and repayment history.

At the low-risk end of the rating scale, a risk grade of 1 – Minimal Risk is the grade reserved for loans with exceptional credit fundamentals and virtually no risk of default or loss. Loan grades then progress through escalating ratings of 2 through 6 based upon risk. Risk Grade 2 – Modest Risk are loans with sufficient cash flows; Risk Grade 3 – Average Risk are loans with key balance sheet ratios slightly above the borrower's peers; Risk Grade 4 – Acceptable Risk are loans with key balance sheet ratios usually near the borrower's peers, but one or more ratios may be higher; and Risk Grade 5 – Marginally Acceptable are loans with strained cash flow, increasing leverage and/or weakening markets. Risk Grade 6 – Management Attention are loans with weaknesses resulting from declining performance trends and the borrower's cash flows may be temporarily strained. Loans in this category are performing according to terms, but present some type of potential concern.

Risk Grade 7 – SPECIAL MENTION (Non-Pass Category)

Generally, these loans or assets are currently protected, but are "potentially weak." They constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard.

Assets in this category are currently protected but have potential weakness which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. No loss of principal or interest is envisioned; however, they constitute an undue credit risk that may be minor but is unwarranted in light of the circumstances surrounding a specific asset. Risk is increasing beyond that at which the loan originally would have been granted. Historically, cash flows are inconsistent; financial trends show some deterioration. Liquidity and leverage are above industry averages. Financial information could be incomplete or inadequate. A Special Mention asset has potential weaknesses that deserve management's close attention.

Risk Grade 8 – SUBSTANDARD (Non-Pass Category)

Generally, these assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have "well-defined" weaknesses that jeopardize the full liquidation of the debt.

They are characterized by the distinct possibility that the Bank will sustain some loss if the aggregate amount of substandard assets is not fully covered by the liquidation of the collateral used as security. Substandard loans have a high probability of payment default and require more intensive supervision by Bank management.

Risk Grade 9 – DOUBTFUL (Non-Pass Category)

Generally, loans graded doubtful have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point whereby the basis of current information, conditions, and values, collection or liquidation in full is deemed to be highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, its classification is deferred until, for example, a proposed merger, acquisition, liquidation procedure, capital injection, perfection of liens on additional collateral and/or refinancing plan is completed. Loans are graded doubtful if they contain weaknesses so serious that collection or liquidation in full is questionable.

The following table presents the classes of the loan portfolio summarized by risk rating as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	Commercial and Industrial		Commercial Real Estate	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Grade:				
1-6 Pass	$85,298	$ 78,319	$ 251,852	$ 243,023
7 Special Mention	443	4,425	2,813	6,224
8 Substandard	1,367	684	13,459	13,817
9 Doubtful				
Add (deduct): Unearned discount and				
Net deferred loan fees and costs	156	145	525	455
Total loans	$87,264	$ 83,573	$ 268,649	$ 263,519

	Residential Real Estate Including Home Equity		Consumer	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Grade:				
1-6 Pass	$ 162,848	$ 165,862	$6,005	$ 6,073
7 Special Mention	1,527	1,664	1	71
8 Substandard	1,440	1,523	9	9
9 Doubtful				
Add (deduct): Unearned discount and	(3)	(6)		
Net deferred loan fees and costs	(35)	(8)	98	102
Total loans	$ 165,777	$ 169,035	$6,113	$ 6,255

	Total Loans	
	June 30, 2017	December 31, 2016
Grade:		
1-6 Pass	$506,003	$ 493,277
7 Special Mention	4,784	12,384
8 Substandard	16,275	16,033
9 Doubtful		
Add (deduct): Unearned discount and	(3)	(6)
Net deferred loan fees and costs	744	694
Total loans	$527,803	$ 522,382

Commercial and Industrial and Commercial Real Estate include loans categorized as tax-free in the amounts of $41,089,000 and $2,387,000 at June 30, 2017 and $36,289,000 and $2,780,000 at December 31, 2016. Loans held for sale amounted to $553,000 at June 30, 2017 and $100,000 at December 31, 2016.

The activity in the allowance for loan losses, by loan class, is summarized below for the periods indicated.

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the three month period ended June 30, 2017:						
Allowance for Loan Losses:						
Beginning balance	$ 875	$ 4,457	$ 1,749	$ 95	$ 285	$ 7,461
Charge-offs	—	(88)	(42)	(12)	—	(142)
Recoveries	6	27	—	1	—	34
Provision	(36)	186	5	19	(174)	—
Ending Balance	$ 845	$ 4,582	$ 1,712	$ 103	$ 111	$ 7,353

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the six month period ended June 30, 2017:						
Allowance for Loan Losses:						
Beginning balance	$ 836	$ 4,421	$ 1,777	$ 95	$ 228	$ 7,357
Charge-offs	—	(97)	(61)	(34)	—	(192)
Recoveries	73	27	—	5	—	105
Provision	(64)	231	(4)	37	(117)	83
Ending Balance	$ 845	$ 4,582	$ 1,712	$ 103	$ 111	$ 7,353
Ending balance: individually evaluated for impairment	$	$ 261	$ 12	$	$	$ 273
Ending balance: collectively evaluated for impairment	$ 845	$ 4,321	$ 1,700	$ 103	$ 111	$ 7,080
Loans Receivable:						
Ending Balance	$ 87,264	$ 268,649	$ 165,777	$ 6,113	$	$ 527,803
Ending balance: individually evaluated for impairment	$ 1,232	$ 12,823	$ 931	$	$	$ 14,986
Ending balance: collectively evaluated for impairment	$ 86,032	$ 255,826	$ 164,846	$ 6,113	$	$ 512,817

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the three month period ended June 30, 2016:						
Allowance for Loan Losses:						

Beginning balance	$ 731	$ 3,983	$ 1,749	$ 101	$ 448	$7,012
Charge-offs	(2)	(57)	(25)			(84)
Recoveries	4			3		7
Provision	(31)	88	(27)	2	252	284
Ending Balance	$ 702	$ 4,014	$ 1,697	$ 106	$ 700	$7,219

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(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the six month period ended June 30, 2016:						
Allowance for Loan Losses:						
Beginning balance	$ 725	$ 3,983	$ 1,777	$ 96	$ 158	$ 6,739
Charge-offs	(2)	(57)	(25)	(23)		(107)
Recoveries	4		12	4		20
Provision	(25)	88	(67)	29	542	567
Ending Balance	$ 702	$ 4,014	$ 1,697	$ 106	$ 700	$ 7,219
Ending balance: individually evaluated for impairment	$	$ 393	$ 19	$	$	$ 412
Ending balance: collectively evaluated for impairment	$ 702	$ 3,621	$ 1,678	$ 106	$ 700	$ 6,807
Loans Receivable:						
Ending Balance	$ 79,399	$ 263,524	$ 167,755	$ 6,320	$	$ 516,998
Ending balance: individually evaluated for impairment	$ 478	$ 11,993	$ 858	$	$	$ 13,329
Ending balance: collectively evaluated for impairment	$ 78,921	$ 251,531	$ 166,897	$ 6,320	$	$ 503,669

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
As of and for the year ended December 31, 2016						
Allowance for Loan Losses:						
Beginning balance	$ 725	$ 3,983	$ 1,777	$ 96	$ 158	$ 6,739
Charge-offs	(195)	(1,200)	(61)	(38)	—	(1,494)
Recoveries	9	—	12	8	—	29
Provision	297	1,638	49	29	70	2,083
Ending Balance	$ 836	$ 4,421	$ 1,777	$ 95	$ 228	$ 7,357
Ending balance: individually evaluated for impairment	$ —	$ 200	$ 19	$ —	$ —	$ 219
Ending balance: collectively evaluated for impairment	$ 836	$ 4,221	$ 1,758	$ 95	$ 228	$ 7,138
Loans Receivable:						
Ending Balance	$ 83,573	$ 263,519	$ 169,035	$ 6,255	$ —	$ 522,382
Ending balance: individually evaluated for impairment	$ 416	$ 12,873	$ 1,008	$ —	$ —	$ 14,297
Ending balance: collectively evaluated for impairment	$ 83,157	$ 250,646	$ 168,027	$ 6,255	$ —	$ 508,085

Of the $1,283,000 in foreclosed assets held for resale at June 30, 2017, $180,000 was secured by residential real estate, $50,000 was secured by land, and $1,053,000 was secured by commercial real estate. Of the $1,273,000 in foreclosed assets held for resale at December 31, 2016, $50,000 was secured by residential real estate, $50,000 was secured by land, and $1,173,000 was secured by commercial real estate. At June 30, 2017 and December 31, 2016, all foreclosed assets were held as the result of obtaining physical possession. Consumer mortgage loans secured by residential real estate for which the Bank has entered into formal foreclosure proceedings but for which physical possession of the property has yet to be obtained amounted to $504,000 at June 30, 2017 and $649,000 at December 31, 2016. These balances were not included in foreclosed assets held for resale at June 30, 2017 or December 31, 2016.

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where the modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR").

The outstanding recorded investment of TDRs as of June 30, 2017 and December 31, 2016 was $11,017,000 and $11,629,000, respectively. The decrease in TDRs at June 30, 2017 as compared to December 31, 2016 is attributable to large principal payments and paydowns made on existing TDRs net against smaller loans modified as TDRs during the six months ended June 30, 2017. There was $2,000 in unfunded commitments on TDRs at June 30, 2017 and December 31, 2016.

During the three months ended June 30, 2017, no loans were modified as TDRs as compared to the same period in 2016, when three loans with a combined post modification balance of $114,000 were classified as TDRs. The loan modifications for the three months ended June 30, 2016 consisted of two term modifications and one payment modification.

During the six months ended June 30, 2017, two loans with a combined post modification balance of $110,000 were classified as TDRs, as compared to the same period in 2016, when seven loans with a combined post modification balance of $542,000 were classified as TDRs. The loan modifications for the six months ended June 30, 2017 consisted of two payment modifications. The loan modifications for the six months ended June 30, 2016 consisted of five term modifications and two payment modifications.

The following table presents the outstanding recorded investment of TDRs at the dates indicated:

(Dollars in thousands)

	June 30, 2017	**December 31, 2016**
Non-accrual TDRs	$ 290	$ 267
Accruing TDRs	10,727	11,362
Total	$ 11,017	$ 11,629

At June 30, 2017, seven Commercial Real Estate loans classified as TDRs with a combined recorded investment of $454,000 and one Commercial and Industrial loan with a recorded investment of $13,000 were not in compliance with the terms of their restructure, compared to June 30, 2016 when five Commercial Real Estate loans classified as TDRs with a combined recorded investment of $748,000 were not in compliance with the terms of their restructure.

During the three months ended June 30, 2017 and 2016, no loans that were modified as TDRs within the preceding twelve months had experienced payment defaults. During the six months ended June 30, 2017 and 2016, no loans that were modified as TDRs within the preceeding twelve months had experienced payment defaults.

The following table presents information regarding the loan modifications categorized as TDRs during the six months ended June 30, 2017 and the three and six months ended June 30, 2016. No loans were modified as TDRs during the three months ended June 30, 2017.

(Dollars in thousands)	Three Months Ended June 30, 2016			
		Pre-Modification	**Post-Modification**	
	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial	1	$ 18	$ 18	$ 18
Commercial Real Estate	2	96	96	95
Total	3	$ 114	$ 114	$ 113

(Dollars in thousands)	**Six Months Ended June 30, 2017**			
		Pre-Modification	**Post-Modification**	
	Number of Contracts	**Outstanding Recorded Investment**	**Outstanding Recorded Investment**	**Recorded Investment**
Commercial and Industrial	1	$ 38	$ 38	$ 38
Commercial Real Estate	1	72	72	71
Total	2	$ 110	$ 110	$ 109

(Dollars in thousands)	Six Months Ended June 30, 2016			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial	4	$ 86	$ 86	$ 81
Commercial Real Estate	3	456	456	209
Total	7	$ 542	$ 542	$ 290

The following table provides detail regarding the types of loan modifications made for loans categorized as TDRs during the six months ended June 30, 2017 and the three and six months ended June 30, 2016 with the total number of each type of modification performed. No loans were modified as TDRs during the three months ended June 30, 2017.

	Six Months Ended June 30, 2017			
	Rate Modification	**Term Modification**	**Payment Modification**	**Number Modified**
Commercial and Industrial		—	1	1
Commercial Real Estate		—	1	1
Total			2	2

	Three Months Ended June 30, 2016				Six Months Ended June 30, 2016			
	Rate Modification	Term Modification	Payment Modification	Number Modified	Rate Modification	Term Modification	Payment Modification	Number Modified
Commercial and Industrial		1		1		3	1	4
Commercial Real Estate		1	1	2		2	1	3
Total		2	1	3		5	2	7

While no new loans were modified as TDRs during the three months ended June 30, 2017, two existing TDRs experienced subsequent modifications. An existing Commercial and Industrial TDR to the owner of a greenhouse in the amount of $309,000 was subsequently modified during the three months ended June 30, 2017 to extend the maturity date of the loan and change payments to interest-only with all other accrued interest and principal to be due in full at maturity. An existing Commercial Real Estate TDR to a travel agency in the amount of $38,000 was subsequently modified during the three months ended June 30, 2017 to allow interest only payments through April 2018, after which time regular principal and interest payments will commence. Both TDRs retain their original classification as "payment" modifications as of June 30, 2017.

The recorded investment, unpaid principal balance, and the related allowance of the Corporation's impaired loans are summarized below for the periods ended June 30, 2017 and December 31, 2016.

(Dollars in thousands)	June 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and Industrial	$1,232	$ 1,232	$	$416	$ 416	$
Commercial Real Estate	11,606	13,856		11,905	14,352	
Residential Real Estate	830	991		584	745	
With an allowance recorded:						
Commercial and Industrial	—	—	—	—	—	—
Commercial Real Estate	1,217	2,632	261	968	2,383	200
Residential Real Estate	101	101	12	424	424	19
Total	$14,986	$ 18,812	$ 273	$14,297	$ 18,320	$ 219
Total consists of:						
Commercial and Industrial	$1,232	$ 1,232	$	$416	$ 416	$
Commercial Real Estate	$12,823	$ 16,488	$ 261	$12,873	$ 16,735	$ 200
Residential Real Estate	$931	$ 1,092	$ 12	$1,008	$ 1,169	$ 19

At June 30, 2017 and December 31, 2016, $11,017,000 and $11,629,000 of loans classified as TDRs were included in impaired loans with a total allocated allowance of $0 and $0, respectively. The recorded investment represents the loan balance reflected on the Consolidated Balance Sheets net of any charge-offs. The unpaid principal balance is equal to the gross amount due on the loan.

The average recorded investment and interest income recognized for the Corporation's impaired loans are summarized below for the three and six months ended June 30, 2017 and 2016.

(Dollars in thousands)	**For the Three Months Ended June 30, 2017**		**For the Three Months Ended June 30, 2016**	
	Average Recorded Investment	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Commercial and Industrial	$ 1,241	$ 4	$ 472	$ 5
Commercial Real Estate	11,698	121	6,913	83
Residential Real Estate	865	—	423	
With an allowance recorded:				
Commercial and Industrial	—	—	—	—
Commercial Real Estate	1,221	—	5,179	37
Residential Real Estate	101	—	424	
Total	$ 15,126	$ 125	$ 13,411	$ 125
Total consists of:				
Commercial and Industrial	$ 1,241	$ 4	$ 472	$ 5
Commercial Real Estate	$ 12,919	$ 121	$ 12,092	$ 120
Residential Real Estate	$ 966	$ —	$ 847	$

Of the $125,000 in interest income recognized on impaired loans for the three months ended June 30, 2017 and 2016, respectively, $0 and $0 in interest income was recognized with respect to non-accrual loans.

(Dollars in thousands)	For the Six Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and Industrial	$ 966	$ 17	$ 447	$ 10
Commercial Real Estate	11,736	245	6,904	171
Residential Real Estate	829	1	422	
With an allowance recorded:				
Commercial and Industrial	—	—	—	—
Commercial Real Estate	1,137	3	5,176	74

Residential Real Estate	101	—	428	
Total	$ 14,769	$ 266	$ 13,377	$ 255
Total consists of:				
Commercial and Industrial	$ 966	$ 17	$ 447	$ 10
Commercial Real Estate	$ 12,873	$ 248	$ 12,080	$ 245
Residential Real Estate	$ 930	$ 1	$ 850	$

Of the $266,000 and $255,000 in interest income recognized on impaired loans for the six months ended June 30, 2017 and 2016, respectively, $17,000 and $0 in interest income was recognized with respect to non-accrual loans.

Loans receivable on non-accrual status, foreclosed assets held for resale and loans past-due 90 days or more and still accruing interest as of June 30, 2017 and December 31, 2016 were as follows:

(Dollars in thousands)

	June 30, 2017	**December 31, 2016**
Commercial and Industrial	$ 821	$ —
Commercial Real Estate	2,508	1,927
Residential Real Estate	930	1,008
Total non-accrual loans	4,259	2,935
Foreclosed assets held for resale	1,283	1,273
Loans past-due 90 days or more and still accruing interest	204	34
Total non-performing assets	$ 5,746	$ 4,242

The following tables present the classes of the loan portfolio summarized by past-due status at June 30, 2017 and December 31, 2016:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days Or Greater Past Due and Still Accruing Interest
June 30, 2017:							
Commercial and Industrial	$ 14	$ 12	$ 2	$ 28	$ 87,236	$ 87,264	$ 2
Commercial Real Estate	793	220	811	1,824	266,825	268,649	74
Residential Real Estate	788	203	588	1,579	164,198	165,777	126
Consumer	13	20	2	35	6,078	6,113	2
Total	$ 1,608	$ 455	$ 1,403	$ 3,466	$ 524,337	$ 527,803	$ 204

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days Or Greater Past Due and Still Accruing Interest
December 31, 2016:							
Commercial and Industrial	$ 130	$ —	$ —	$ 130	$ 83,443	$ 83,573	$ —
Commercial Real Estate	1,019	273	1,927	3,219	260,300	263,519	—
Residential Real Estate	1,750	542	1,020	3,312	165,723	169,035	34

Consumer	28	8	—	36	6,219	6,255	—
Total	$ 2,927	$ 823	$ 2,947	$ 6,697	$515,685	$522,382	$ 34

At June 30, 2017 and December 31, 2016, commitments to lend additional funds with respect to impaired loans consisted of three irrevocable letters of credit totaling $1,268,000. One irrevocable letter of credit in the amount of $1,249,000 was associated with a loan to a developer of a residential sub-division. Two irrevocable letters of credit totaling $19,000 were associated with a loan to a non-profit community recreation facility.

NOTE 5 — BORROWINGS

Short-Term Borrowings

Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, the Federal Discount Window, and Federal Home Loan Bank ("FHLB") advances, which generally represent overnight or less than 30-day borrowings.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Corporation's Consolidated Balance Sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreements as of June 30, 2017 and December 31, 2016.

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Pledge	Net Amount
June 30, 2017						
Repurchase agreements (a)	$ 21,606	$	$ 21,606	$ (21,606)	$	$
December 31, 2016						
Repurchase agreements (a)	$ 18,490	$	$ 18,490	$ (18,490)		