PENNS WOODS BANCORP INC
Form 10-Q
November 09, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

for the Quarterly Period Ended September 30, 2015.

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

For the Transition Period from to .

No. 0-17077
(Commission File Number)

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

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

(570) 322-1111
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

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

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

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

On November 1, 2015 there were 4,746,728 shares of the Registrant’s common stock outstanding.

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INDEX TO QUARTERLY REPORT ON FORM 10-Q

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

(In Thousands, Except Share Data)	September 30, 2015	December 31, 2014
ASSETS:		
Noninterest-bearing balances	$17,304	$19,403
Interest-bearing balances in other financial institutions	951	505
Total cash and cash equivalents	18,255	19,908
Investment securities, available for sale, at fair value	202,593	232,213
Investment securities, trading	63	—
Loans held for sale	1,029	550
Loans	1,001,653	915,579
Allowance for loan losses	(11,489)	(10,579)
Loans, net	990,164	905,000
Premises and equipment, net	21,433	21,109
Accrued interest receivable	4,093	3,912
Bank-owned life insurance	26,499	25,959
Investment in limited partnerships	1,064	1,560
Goodwill	17,104	17,104
Intangibles	1,316	1,456
Deferred tax asset	8,618	8,101
Other assets	7,061	8,139
TOTAL ASSETS	$1,299,292	$1,245,011
LIABILITIES:		
Interest-bearing deposits	$756,953	$738,041
Noninterest-bearing deposits	247,848	243,378
Total deposits	1,004,801	981,419
Short-term borrowings	51,690	40,818
Long-term borrowings	91,051	71,176
Accrued interest payable	460	381
Other liabilities	15,713	15,250
TOTAL LIABILITIES	1,163,715	1,109,044
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,004,372 and 5,002,649 shares issued	41,702	41,688
Additional paid-in capital	49,959	49,896
Retained earnings	56,523	53,107
Accumulated other comprehensive loss:		
Net unrealized gain on available for sale securities	1,418	2,930
Defined benefit plan	(4,518)	(4,597)

Treasury stock at cost, 254,144 and 197,834 shares	(9,507)	(7,057)
TOTAL SHAREHOLDERS' EQUITY	135,577	135,967
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,299,292	$1,245,011

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Per Share Data)	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$9,862	$9,298	$28,937	$27,023
Investment securities:				
Taxable	829	1,198	2,728	4,062
Tax-exempt	676	837	2,187	2,660
Dividend and other interest income	156	127	597	401
TOTAL INTEREST AND DIVIDEND INCOME	11,523	11,460	34,449	34,146
INTEREST EXPENSE:				
Deposits	800	748	2,328	2,247
Short-term borrowings	31	5	78	32
Long-term borrowings	458	489	1,476	1,431
TOTAL INTEREST EXPENSE	1,289	1,242	3,882	3,710
NET INTEREST INCOME	10,234	10,218	30,567	30,436
PROVISION FOR LOAN LOSSES	520	460	1,820	1,245
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,714	9,758	28,747	29,191
NON-INTEREST INCOME:				
Service charges	621	620	1,772	1,822
Net securities gains, available for sale	526	2,145	1,713	3,025
Net securities losses, trading	(33)	—	(37)	—
Bank-owned life insurance	182	185	541	736
Gain on sale of loans	524	602	1,305	1,313
Insurance commissions	185	212	623	915
Brokerage commissions	297	282	836	804
Other	835	878	2,701	2,449
TOTAL NON-INTEREST INCOME	3,137	4,924	9,454	11,064
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,302	4,126	13,073	12,796
Occupancy	529	547	1,721	1,729
Furniture and equipment	686	591	1,924	1,910
Pennsylvania shares tax	244	232	711	738
Amortization of investment in limited partnerships	165	165	496	496
Federal Deposit Insurance Corporation deposit insurance	209	193	654	572
Marketing	160	144	434	380
Intangible amortization	73	82	235	263
Other	2,162	2,233	6,171	6,494
TOTAL NON-INTEREST EXPENSE	8,530	8,313	25,419	25,378
INCOME BEFORE INCOME TAX PROVISION	4,321	6,369	12,782	14,877
INCOME TAX PROVISION	957	1,576	2,630	3,152
NET INCOME	$3,364	$4,793	$10,152	$11,725
EARNINGS PER SHARE - BASIC AND DILUTED	$0.71	$0.99	$2.12	$2.43
	4,761,576	4,820,346	4,780,776	4,820,041

WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED				
DIVIDENDS DECLARED PER SHARE	$0.47	$0.47	$1.41	$1.41

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	2015	2014
Net Income	$3,364	$4,793	$10,152	$11,725
Other comprehensive income (loss):				
Change in unrealized gain (loss) on available for sale securities	592	863	(579)	10,121
Tax effect	(201)	(293)	198	(3,442)
Net realized gain included in net income	(526)	(2,145)	(1,713)	(3,025)
Tax effect	179	729	582	1,029
Amortization of unrecognized pension and post-retirement items	39	—	119	—
Tax effect	(13)	—	(40)	—
Total other comprehensive income (loss)	70	(846)	(1,433)	4,683
Comprehensive income	$3,434	$3,947	$8,719	$16,408

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2013	4,999,929	$ 41,665	$ 49,800	$ 47,554	$ (4,894)	$ (6,310)	$ 127,815
Net income				11,725			11,725
Other comprehensive income					4,683		4,683
Dividends declared, ($1.41 per share)				(6,797)			(6,797)
Common shares issued for employee stock purchase plan	2,043	17	71				88
Purchase of treasury stock (11,744 shares)						(510)	(510)
Balance, September 30, 2014	5,001,972	$ 41,682	$ 49,871	$ 52,482	$ (211)	$ (6,820)	$ 137,004

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2014	5,002,649	$ 41,688	$ 49,896	$ 53,107	$ (1,667)	$ (7,057)	$ 135,967
Net income				10,152			10,152
Other comprehensive loss					(1,433)		(1,433)
Dividends declared, ($1.41 per share)				(6,736)			(6,736)
Common shares issued for employee stock purchase plan	1,723	14	63				77
Purchase of treasury stock (56,310 shares)						(2,450)	(2,450)
Balance, September 30, 2015	5,004,372	$ 41,702	$ 49,959	$ 56,523	$ (3,100)	$ (9,507)	$ 135,577

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
(In Thousands)	2015	2014
OPERATING ACTIVITIES:		
Net Income	$10,152	$11,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,478	2,351
Amortization of intangible assets	235	263
Provision for loan losses	1,820	1,245
Accretion and amortization of investment security discounts and premiums	644	509
Net securities gains, available for sale	(1,713)	(3,025)
Originations of loans held for sale	(41,762)	(38,703)
Proceeds of loans held for sale	42,588	40,040
Gain on sale of loans	(1,305)	(1,313)
Net securities losses, trading	37	—
Proceeds from the sale of trading securities	490	—
Purchases of trading securities	(590)	—
Earnings on bank-owned life insurance	(541)	(736)
Decrease in deferred tax asset	262	440
Other, net	(1,486)	309
Net cash provided by operating activities	11,309	13,105
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	43,051	98,815
Proceeds from calls and maturities of available for sale securities	14,832	5,731
Purchases of available for sale securities	(26,916)	(39,774)
Net increase in loans	(87,324)	(74,874)
Acquisition of premises and equipment	(1,491)	(2,459)
Proceeds from the sale of foreclosed assets	1,613	534
Purchase of bank-owned life insurance	(30)	(30)
Proceeds from bank-owned life insurance death benefit	—	367
Proceeds from redemption of regulatory stock	8,801	1,654
Purchases of regulatory stock	(10,518)	(1,837)
Net cash used for investing activities	(57,982)	(11,873)
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	18,912	915
Net increase in noninterest-bearing deposits	4,470	15,211
Proceeds from long-term borrowings	30,625	—
Repayment of long-term borrowings	(10,750)	—
Net increase (decrease) in short-term borrowings	10,872	(9,503)
Dividends paid	(6,736)	(6,797)
Issuance of common stock	77	88
Purchases of treasury stock	(2,450)	(510)
Net cash provided by (used for) provided by financing activities	45,020	(596)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,653)	636
CASH AND CASH EQUIVALENTS, BEGINNING	19,908	24,606

CASH AND CASH EQUIVALENTS, ENDING	$18,255	$25,242
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$3,803	$3,704
Income taxes paid	2,000	2,415
Transfer of loans to foreclosed real estate	340	352

See accompanying notes to the unaudited consolidated financial statements.

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

Note 1. Basis of Presentation

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

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

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

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

Note 2. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
(In Thousands)	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$1,374	$(4,544)	$(3,170)	$3,360	$(2,725)	$635
Other comprehensive income before reclassifications	391	—	391	570	—	570
Amounts reclassified from accumulated other comprehensive (loss) income	(347)	26	(321)	(1,416)	—	(1,416)
Net current-period other comprehensive income (loss)	44	26	70	(846)	—	(846)
Ending balance	$1,418	$(4,518)	$(3,100)	$2,514	$(2,725)	$(211)

(In Thousands)	Nine Months Ended September 30, 2015 Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Nine Months Ended September 30, 2014 Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$2,930	$(4,597)	$(1,667)	$(2,169)	$(2,725)	$(4,894)
Other comprehensive (loss) income before reclassifications	(381)	—	(381)	6,679	—	6,679
Amounts reclassified from accumulated other comprehensive (loss) income	(1,131)	79	(1,052)	(1,996)	—	(1,996)
Net current-period other comprehensive (loss) income	(1,512)	79	(1,433)	4,683	—	4,683
Ending balance	$1,418	$(4,518)	$(3,100)	$2,514	$(2,725)	$(211)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Affected Line Item in the Consolidated Statement of Income
Net unrealized gain on available for sale securities	$ 526	$ 2,145	Net securities gains, available for sale
Income tax effect	(179)	(729)	Income tax provision
Total reclassifications for the period	$ 347	$ 1,416	Net of tax
Net unrecognized pension costs	$ (39)	$ —	Salaries and employee benefits
Income tax effect	13	—	Income tax provision
Total reclassifications for the period	$ (26)	$ —	Net of tax

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Affected Line Item in the Consolidated Statement of Income
Net unrealized gain on available for sale securities	$ 1,713	$ 3,025	Net securities gains, available for sale
Income tax effect	(582)	(1,029)	Income tax provision
Total reclassifications for the period	$ 1,131	$ 1,996	Net of tax
Net unrecognized pension costs	$ (119)	$ —	Salaries and employee benefits
Income tax effect	40	—	Income tax provision
Total reclassifications for the period	$ (79)	$ —	Net of tax

Note 3. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This update did not have an impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. The Company has provided the necessary disclosures in Note 6. Loans.

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

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

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

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

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The amendments in this update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This update is not expected to have a significant impact on the Company’s financial statements.

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

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In January 2015, the FASB issued ASU 2015-01, Income Statement -Extraordinary and Unusual Items, as part of its initiative to reduce complexity in accounting standards. This update eliminates from GAAP the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This update is not expected to have a significant impact on the Company’s financial statements.

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

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

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

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

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

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risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This update is not expected to have a significant impact on the Company’s financial statements.

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

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

In August 2015, the FASB issued ASU 2015-14, Revenue from Contract with Customers (Topic 606). The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is evaluating the effect of adopting this new accounting update.

In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. This ASU adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This update is not expected to have a significant impact on the Company’s financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. This update is not expected to have a significant impact on the Company’s financial statements.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. There are 38,750 stock options outstanding, however, since the strike price of $42.03 is greater than the market price the options are not included in the denominator when calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average common shares issued	5,003,979	5,001,505	5,003,396	5,000,827
Average treasury stock shares	(242,403)	(181,159)	(222,620)	(180,786)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	4,761,576	4,820,346	4,780,776	4,820,041

Note 5. Investment Securities

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

	September 30, 2015			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$3,588	$—	$(21)	$3,567
Mortgage-backed securities	10,261	337	(21)	10,577
Asset-backed securities	2,086	—	(27)	2,059
State and political securities	90,029	1,999	(391)	91,637
Other debt securities	79,030	1,084	(1,272)	78,842
Total debt securities	184,994	3,420	(1,732)	186,682
Financial institution equity securities	10,362	943	(32)	11,273
Other equity securities	5,089	11	(462)	4,638
Total equity securities	15,451	954	(494)	15,911
Total investment securities AFS	$200,445	$4,374	$(2,226)	$202,593

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

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

	September 30, 2015			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading				
Financial institution equity securities	$78	$—	$(15)	$63
Total equity securities	78	—	(15)	63
Total trading securities	$78	$—	$(15)	$63

Total net unrealized losses of $15,000 and net realized losses of $22,000 for the nine months ended September 30, 2015 were included in the Consolidated Statement of Income.

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

	September 30, 2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS)						
U.S. Government and agency securities	$—	$—	$3,567	$(21)	$3,567	$(21)
Mortgage-backed securities	3,808	(21)	—	—	3,808	(21)
Asset-backed securities	1,693	(24)	366	(3)	2,059	(27)
State and political securities	6,115	(97)	1,529	(294)	7,644	(391)
Other debt securities	21,901	(301)	20,037	(971)	41,938	(1,272)
Total debt securities	33,517	(443)	25,499	(1,289)	59,016	(1,732)
Financial institution equity securities	306	(32)	—	—	306	(32)
Other equity securities	3,039	(330)	1,027	(132)	4,066	(462)
Total equity securities	3,345	(362)	1,027	(132)	4,372	(494)
Total investment securities AFS	$36,862	$(805)	$26,526	$(1,421)	$63,388	$(2,226)

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

At September 30, 2015 there were a total of 43 securities in a continuous unrealized loss position for less than twelve months and 18 individual securities that were in a continuous unrealized loss position for twelve months or greater.

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

The amortized cost and fair value of debt securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$1,059	$1,062
Due after one year to five years	47,357	48,184
Due after five years to ten years	90,859	90,528
Due after ten years	45,719	46,908
Total	$184,994	$186,682

Total gross proceeds from sales of securities available for sale were $43,051,000 and $98,815,000 for the nine months ended September 30, 2015 and 2014, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	2015	2014
Gross realized gains:				
U.S. Government and agency securities	$—	$—	$—	$49
Mortgage-backed securities	—	13	—	89
State and political securities	511	1,361	1,257	2,093
Other debt securities	14	149	273	611
Financial institution equity securities	1	582	163	710
Other equity securities	—	86	132	205
Total gross realized gains	$526	$2,191	$1,825	$3,757
Gross realized losses:				
U.S. Government and agency securities	$—	$—	$—	$45
State and political securities	—	9	22	412
Other debt securities	—	37	47	209
Other equity securities	—	—	43	66
Total gross realized losses	$—	$46	$112	$732

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	2015	2014
Gross realized gains:				
Financial institution equity securities	—	—	2	—
Other equity securities	2	—	3	—
Total gross realized gains	$2	$—	$5	$—
Gross realized losses:				
Financial institution equity securities	12	—	15	—
Other equity securities	23	—	27	—
Total gross realized losses	$35	$—	$42	$—

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

Investment securities with a carrying value of approximately $157,933,000 and $128,501,000 at September 30, 2015 and December 31, 2014, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

Note 6. Loans

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

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

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	September 30, 2015				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$139,621	$209	$ —	$152	$139,982
Real estate mortgage:					
Residential	506,229	3,222	99	747	510,297
Commercial	293,894	366	—	6,696	300,956
Construction	23,709	—	—	899	24,608
Installment loans to individuals	26,695	401	—	15	27,111
	990,148	$4,198	$ 99	$8,509	1,002,954
Net deferred loan fees and discounts	(1,301)				(1,301)
Allowance for loan losses	(11,489)				(11,489)
Loans, net	$977,358				$990,164

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

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

Upon the acquisition of Luzerne Bank on June 1, 2013, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. There were no material increases or decreases in the expected cash flows of these loans between June 1, 2013 (the “acquisition date”) and September 30, 2015. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was $444,000 at September 30, 2015.

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

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

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

(In Thousands)	September 30, 2014
Balance at beginning of period or at acquisition	$35
Accretion	(12)
Balance at end of period	$23

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

(In Thousands)	September 30, 2015	December 31, 2014
Outstanding balance	$444	$449
Carrying amount	344	349

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

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

	Three Months Ended September 30,			
	2015		2014	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$3	$—	$17	$20
Real estate mortgage:				
Residential	12	8	31	8
Commercial	77	12	147	66
Construction	15	17	18	—
	$107	$37	$213	$94

	Nine Months Ended September 30,			
	2015		2014	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$17	$8	$34	$21
Real estate mortgage:				
Residential	33	27	38	17

Commercial	248	47	422	152
Construction	45	53	53	—
	$343	$135	$547	$190

Impaired Loans

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

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case-by-case basis.

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

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

	September 30, 2015		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$403	$403	$—
Real estate mortgage:			
Residential	1,397	1,397	—
Commercial	4,584	4,634	—
Construction	610	610	—
	6,994	7,044	—
With an allowance recorded:			
Commercial, financial, and agricultural	53	53	21
Real estate mortgage:			
Residential	1,195	1,308	231
Commercial	9,926	9,926	1,570
Construction	298	298	58
	11,472	11,585	1,880
Total:			
Commercial, financial, and agricultural	456	456	21
Real estate mortgage:			
Residential	2,592	2,705	231

Commercial	14,510	14,560	1,570
Construction	908	908	58
	$18,466	$18,629	$1,880

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

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

	Three Months Ended September 30,					
	2015			2014		
(In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans	Average Investment in Impaired Loans	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$699	$ 5	$ —	$824	$ 5	$ 20
Real estate mortgage:						
Residential	2,245	17	14	1,219	18	7
Commercial	14,210	90	35	10,901	34	65
Construction	906	—	17	1,169	8	—
	$18,060	$ 112	$ 66	$14,113	$ 65	$ 92

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(In Thousands)	Nine Months Ended September 30, 2015 Average Investment in Impaired Loans	2015 Interest Income Recognized on an Accrual Basis on Impaired Loans	2015 Interest Income Recognized on a Cash Basis on Impaired Loans	2014 Average Investment in Impaired Loans	2014 Interest Income Recognized on an Accrual Basis on Impaired Loans	2014 Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$924	$ 15	$ 10	$675	$ 18	$ 20
Real estate mortgage:						
Residential	1,954	45	31	1,195	32	14
Commercial	14,492	238	71	10,240	95	79
Construction	812	—	53	1,102	10	8
	$18,182	$ 298	$ 165	$13,212	$ 155	$ 121

Currently, there is $194,000 committed to be advanced in connection with impaired loans.

Troubled Debt Restructurings

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

Loan modifications that are considered TDRs completed during the three and nine months ended September 30, 2015 and 2014 were as follows:

(In Thousands, Except Number of Contracts)	Three Months Ended September 30, 2015 Number of Contracts	2015 Pre-Modification Outstanding Recorded Investment	2015 Post-Modification Outstanding Recorded Investment	2014 Number of Contracts	2014 Pre-Modification Outstanding Recorded Investment	2014 Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	2	$ 116	$ 116	3	$ 620	$ 620
Real estate mortgage:						
Residential	6	641	641	1	105	105
Commercial	4	496	496	3	636	636
Construction	—	—	—	—	—	—
	12	$ 1,253	$ 1,253	7	$ 1,361	$ 1,361

(In Thousands, Except Number of Contracts)	Nine Months Ended September 30, 2015 Number of Contracts	2015 Pre-Modification Outstanding Recorded	2015 Post-Modification Outstanding Recorded	2014 Number of Contracts	2014 Pre-Modification Outstanding Recorded	2014 Post-Modification Outstanding Recorded

		Investment	Investment		Investment	Investment
Commercial, financial, and agricultural	4	$ 213	$ 213	3	$ 620	$ 620
Real estate mortgage:						
Residential	12	963	963	1	105	105
Commercial	6	1,013	1,013	3	636	636
Construction	1	398	398	—	—	—
	23	$ 2,587	$ 2,587	7	$ 1,361	$ 1,361

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There were five loan modifications considered to be TDRs made during the twelve months previous to September 30, 2015 that defaulted during the nine months ended September 30, 2015. The defaulted loan types and recorded investments at September 30, 2015 are as follows: two commercial loan with a recorded investment of $152,000, one commercial real estate loan with a recorded investment of $244,000, and three residential real estate loan with a recorded investment of $183,000. There was one loan modifications considered TDRs made during the twelve months previous to September 30, 2014 that defaulted during the nine months ended September 30, 2014. The loan that defaulted is a commercial real estate loans with a recorded investment of $122,000 at September 30, 2014.

Troubled debt restructurings amounted to $9,895,000 and $11,810,000 as of September 30, 2015 and December 31, 2014.

The amount of foreclosed residential real estate held at September 30, 2015 and December 31, 2014, totaled $104,000 and $324,000, respectively. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2015 and December 31, 2014, totaled $311,000 and $382,000, respectively.

Internal Risk Ratings

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

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

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

	September 30, 2015					
	Commercial, Financial, and Agricultural	Real Estate Mortgages			Installment Loans to Individuals	
(In Thousands)		Residential	Commercial	Construction		Totals
Pass	$136,437	$506,904	$270,882	$23,998	$ 27,111	$965,332
Special Mention	2,694	1,763	14,215	—	—	18,672
Substandard	851	1,630	15,859	610	—	18,950
	$139,982	$510,297	$300,956	$24,608	$ 27,111	$1,002,954

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

Allowance for Loan Losses

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions,

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diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

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

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

For the general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

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

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

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

	Three Months Ended September 30, 2015						
(In Thousands)	Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,286	$4,334	$3,869	$548	$237	$991	$11,265
Charge-offs	—	(29)	(294)	—	(47)	—	(370)
Recoveries	23	32	—	3	16	—	74
Provision	(1)	150	305	(187)	39	214	520
Ending Balance	$1,308	$4,487	$3,880	$364	$245	$1,205	$11,489

	Three Months Ended September 30, 2014						
(In Thousands)	Commercial, Financial, and	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals

	Agricultural						
Beginning Balance	$694	$3,262	$3,394	$718	$ 198	$ 545	$8,811
Charge-offs	—	(2)	—	—	(36)	—	(38)
Recoveries	1	6	—	—	10	—	17
Provision	133	157	283	67	64	(244)	460
Ending Balance	$828	$3,423	$3,677	$785	$ 236	$ 301	$9,250

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(In Thousands)	Nine Months Ended September 30, 2015 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,124	$3,755	$4,205	$786	$245	$464	$10,579
Charge-offs	(283)	(30)	(743)	(46)	(161)	—	(1,263)
Recoveries	51	69	169	19	45	—	353
Provision	416	693	249	(395)	116	741	1,820
Ending Balance	$1,308	$4,487	$3,880	$364	$245	$1,205	$11,489

(In Thousands)	Nine Months Ended September 30, 2014 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$474	$3,917	$4,079	$741	$139	$794	$10,144
Charge-offs	—	(65)	(2,038)	—	(104)	—	(2,207)
Recoveries	12	9	—	—	47	—	68
Provision	342	(438)	1,636	44	154	(493)	1,245
Ending Balance	$828	$3,423	$3,677	$785	$236	$301	$9,250

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

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

	September 30, 2015	2014
Owners of residential rental properties	16.44 %	15.98 %
Owners of commercial rental properties	14.17 %	14.90 %

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

(In Thousands)	September 30, 2015 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
	$21	$231	$1,570	$58	$ —	$ —	$1,880

Individually evaluated for impairment							
Collectively evaluated for impairment	1,287	4,256	2,310	306	245	1,205	9,609
Total ending allowance balance	$1,308	$4,487	$3,880	$364	$ 245	$1,205	$11,489
Loans:							
Individually evaluated for impairment	$456	$2,248	$14,510	$908	$ —		$18,122
Loans acquired with deteriorated credit quality	—	344	—	—	—		344
Collectively evaluated for impairment	139,526	507,705	286,446	23,700	27,111		984,488
Total ending loans balance	$139,982	$510,297	$300,956	$24,608	$ 27,111		$1,002,954

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(In Thousands)	December 31, 2014 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$298	$147	$1,581	$67	$ —	$—	$2,093
Collectively evaluated for impairment	826	3,608	2,624	719	245	464	8,486
Total ending allowance balance	$1,124	$3,755	$4,205	$786	$ 245	$464	$10,579
Loans:							
Individually evaluated for impairment	$1,112	$1,117	$13,973	$1,025	$ —		$17,227
Loans acquired with deteriorated credit quality	—	349	—	—	—		349
Collectively evaluated for impairment	123,044	456,294	277,375	20,971	21,509		899,193
Total ending loans balance	$124,156	$457,760	$291,348	$21,996	$ 21,509		$916,769

Note 7. Net Periodic Benefit Cost-Defined Benefit Plans

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

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

(In Thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Service cost	$16	$140	$48	$420
Interest cost	189	215	567	644
Expected return on plan assets	(246)	(288)	(737)	(865)
Amortization of net loss	39	52	119	157
Net periodic (benefit) cost	$(2)	$119	$(3)	$356

Employer Contributions

The Company previously disclosed in its consolidated financial statements, included in the Annual Report on Form 10-K for the year ended