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

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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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.

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:

(In Thousands)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	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	Nine Months Ended September 30, 2015 Defined Benefit Plan	Nine Months Ended September 30, 2015 Total	Nine Months Ended September 30, 2014 Net Unrealized Gain (Loss) on Available for Sale Securities	Nine Months Ended September 30, 2014 Defined Benefit Plan	Nine Months Ended September 30, 2014 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 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.

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

The following table presents the average recorded investment in impaired loans and related interest income recognized for the three and 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	Interest Income Recognized on an Accrual Basis on Impaired Loans	Interest Income Recognized on a Cash Basis on Impaired Loans	2014 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	$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	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	2014 Number of Contracts	Pre-Modification Outstanding Recorded Investment	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	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	2014 Number of Contracts	Pre-Modification Outstanding Recorded	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

	December 31, 2014					
(In Thousands)	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						
	Commercial,	Real Estate Mortgages			Installment Loans		
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	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						
	Commercial,	Real Estate Mortgages			Installment Loans		
(In Thousands)	Financial, and	Residential	Commercial	Construction	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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	December 31, 2014						
	Commercial, Financial, and Agricultural	Real Estate Mortgages					
(In Thousands)		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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2015	2014	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 December 31, 2014, that it expected to contribute a minimum of $600,000 to its defined benefit plan in 2015. As of September 30, 2015, there were contributions of $715,000 made to the plan with additional contributions of at least $250,000 anticipated during the remainder of 2015.

Note 8. Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (“Plan”). The Plan is intended to encourage employee participation in the ownership and economic progress of the Company. The Plan allows for up to 1,000,000 shares to be purchased by employees. The purchase price of the shares is 95% of market value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in market value annually. During the nine months ended September 30, 2015 and 2014, there were 1,723 and 2,043 shares issued under the plan, respectively.

Note 9. Off Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily comprised of commitments to extend credit, standby letters of credit, and credit exposure from the sale of assets with recourse. These instruments involve, to varying degrees, elements of credit,

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interest rate, or liquidity risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract amounts of these instruments express the extent of involvement the Company has in particular classes of financial instruments.

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

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

(In Thousands)	September 30, 2015	December 31, 2014
Commitments to extend credit	$237,096	$235,940
Standby letters of credit	5,237	7,490
Credit exposure from the sale of assets with recourse	5,861	3,465
	$248,194	$246,895

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

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance related contracts. The coverage period for these instruments is typically a one year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

Note 10. Fair Value Measurements

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

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

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

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

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	September 30, 2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$3,567	$—	$3,567
Mortgage-backed securities	—	10,577	—	10,577
Asset-backed securities	—	2,059	—	2,059
State and political securities	—	91,637	—	91,637
Other debt securities	—	78,842	—	78,842
Financial institution equity securities	11,273	—	—	11,273
Other equity securities	4,638	—	—	4,638
Investment securities, trading:				
Financial institution equity securities	63	—	—	63
Total assets measured on a recurring basis	$15,974	$186,682	$—	$202,656

	December 31, 2014			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$—	$3,841	$—	$3,841
Mortgage-backed securities	—	12,697	—	12,697
Asset-backed securities	—	2,492	—	2,492
State and political securities	—	108,116	—	108,116
Other debt securities	—	89,643	—	89,643
Financial institution equity securities	9,915	—	—	9,915
Other equity securities	5,509	—	—	5,509
Total assets measured on a recurring basis	$15,424	$216,789	$—	$232,213

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

	September 30, 2015			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$16,586	$16,586
Other real estate owned	—	—	2,128	2,128
Total assets measured on a non-recurring basis	$—	$—	$18,714	$18,714

	December 31, 2014			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$15,483	$15,483
Other real estate owned	—	—	3,241	3,241
Total assets measured on a non-recurring basis	$—	$—	$18,724	$18,724

The following tables present a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing level III techniques as of September 30, 2015 and December 31, 2014:

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	September 30, 2015				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$5,468	Discounted cash flow	Temporary reduction in payment amount	0 to (91)%	(10)%
	11,118	Appraisal of collateral	Appraisal adjustments (1)	0 to (20)%	(16)%
Other real estate owned	$2,128	Appraisal of collateral (1)			

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

	December 31, 2014				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$4,749	Discounted cash flow	Temporary reduction in payment amount	0 to (91)%	(12)%
	10,734	Appraisal of collateral	Appraisal adjustments (1)	0 to (44)%	(15)%
Other real estate owned	$3,241	Appraisal of collateral (1)			

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

The significant unobservable inputs used in the fair value measurement of the Company’s impaired loans using the discounted cash flow valuation technique include temporary changes in payment amounts and the probability of default. Significant increases (decreases) in payment amounts would result in significantly higher (lower) fair value measurements. The probability of default is 0% for impaired loans using the discounted cash flow valuation technique because all defaulted impaired loans are valued using the appraisal of collateral valuation technique.

The significant unobservable input used in the fair value measurement of the Company’s impaired loans using the appraisal of collateral valuation technique include appraisal adjustments, which are adjustments to appraisals by management for qualitative factors such as economic conditions and estimated liquidation expenses. The significant unobservable input used in the fair value measurement of the Company’s other real estate owned are the same inputs used to value impaired loans using the appraisal of collateral valuation technique.

Note 11. Fair Value of Financial Instruments

The Company is required to disclose fair values for its financial instruments. Fair values are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Also, it is the Company’s general practice and intention to hold most of its financial instruments to maturity and not to engage in trading or sales activities. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions can significantly affect the fair values.

Fair values have been determined by the Company using historical data and an estimation methodology suitable for each category of financial instruments. The Company's fair values, methods, and assumptions are set forth below for the Company's other financial instruments.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments but have value, this fair value of financial instruments would not represent the full market value of the Company.

The fair values of the Company's financial instruments are as follows at September 30, 2015 and December 31, 2014:

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(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at September 30, 2015 Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$18,255	$18,255	$18,255	$—	$—
Investment securities:					
Available for sale	202,593	202,593	15,911	186,682	—
Trading	63	63	63	—	—
Loans held for sale	1,029	1,029	1,029	—	—
Loans, net	990,164	1,003,067	—	—	1,003,067
Bank-owned life insurance	26,499	26,499	26,499	—	—
Accrued interest receivable	4,093	4,093	4,093	—	—
Financial liabilities:					
Interest-bearing deposits	$756,953	$741,465	$520,278	$—	$221,187
Noninterest-bearing deposits	247,848	247,848	247,848	—	—
Short-term borrowings	51,690	51,690	51,690	—	—
Long-term borrowings	91,051	92,773	—	—	92,773
Accrued interest payable	460	460	460	—	—

(In Thousands)	Carrying Value	Fair Value	Fair Value Measurements at December 31, 2014 Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$19,908	$19,908	$19,908	$—	$—
Investment securities:					
Available for sale	232,213	232,213	15,424	216,789	—
Loans held for sale	550	550	550	—	—
Loans, net	905,000	916,597	—	—	916,597
Bank-owned life insurance	25,959	25,959	25,959	—	—
Accrued interest receivable	3,912	3,912	3,912	—	—
Financial liabilities:					
Interest-bearing deposits	$738,041	$722,724	$506,875	$—	$215,849
Noninterest-bearing deposits	243,378	243,378	243,378	—	—
Short-term borrowings	40,818	40,818	40,818	—	—
Long-term borrowings	71,176	73,084	—	—	73,084
Accrued interest payable	381	381	381	—	—

Cash and Cash Equivalents, Loans Held for Sale, Accrued Interest Receivable, Short-term Borrowings, and Accrued Interest Payable:
The fair value is equal to the carrying value.

Investment Securities:
The fair value of investment securities available for sale and trading is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Regulatory stocks' fair value is equal to the carrying value.

Loans:

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, financial, and agricultural, commercial real estate, residential real estate, construction real estate, and installment loans to individuals. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the

Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions.

Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discounted rates are judgmentally determined using available market information and specific borrower information.

Bank-Owned Life Insurance:
The fair value is equal to the cash surrender value of the life insurance policies.

Deposits:
The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows.

The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market, commonly referred to as the core deposit intangible.

Long Term Borrowings:
The fair value of long term borrowings is based on the discounted value of contractual cash flows.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees Written:
There is no material difference between the notional amount and the estimated fair value of off-balance sheet items. The contractual amounts of unfunded commitments and letters of credit are presented in Note 9 (Off Balance Sheet Risk).

Note 12. Stock Options

In 2014, the Company adopted the 2014 Equity Incentive Plan designed to help the Company attract, retain, and motivate employees and non-employee directors. Incentive stock options, non-qualified stock options, and restricted stock may be granted as part of the plan.

On August 27, 2015, the Company issued 38,750 stock options to a group of employees. Each option granted has a strike price of $42.03 and is exercisable only after five years following the date of the grant of such options. The options expire ten years following the date of the grant of such options.

Note 13. Reclassification of Comparative Amounts

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders' equity.

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Report contains certain "forward-looking statements" including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. The

Company cautions readers that the following important factors, among others, may have affected and could in the future affect the Company’s actual results and could cause the Company’s actual results for subsequent periods to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company herein:
(i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Company must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board, or of changes in the Company’s organization, compensation and benefit plans; (iii) the effect on the Company’s competitive position within its market area of the increasing consolidation within the banking and financial services industries, including the increased competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of changes in interest rates; (v) the effect of changes in the business cycle and downturns in the local, regional or national economies; and (vi) the Risk Factors identified in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and in other filings made by the Company under the Securities Exchange Act of 1934.

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You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by the Company on its website or otherwise. The Company undertakes no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

EARNINGS SUMMARY

Comparison of the Three and Nine Months Ended September 30, 2015 and 2014

Summary Results

Net income for the three months ended September 30, 2015 was $3,364,000 compared to $4,793,000 for the same period of 2014 as after-tax securities gains decreased $1,091,000 (from a gain of $1,416,000 to a gain of $325,000). Basic and diluted earnings per share for the three months ended September 30, 2015 and 2014 were $0.71 and $0.99, respectively. Return on average assets and return on average equity were 1.04% and 9.89% for the three months ended September 30, 2015 compared to 1.56% and 13.95% for the corresponding period of 2014. Net income from core operations ("operating earnings") decreased to $3,039,000 for the three months ended September 30, 2015 compared to $3,377,000 for the same period of 2014. Operating earnings per share for the three months ended September 30, 2015 and 2014 were $0.64 and $0.70, respectively.

The nine months ended September 30, 2015 generated net income of $10,152,000 compared to $11,725,000 for the same period of 2014. Comparable results were impacted by a decrease in after-tax securities gains of $891,000 (from a gain of $1,997,000 to a gain of $1,106,000). In addition, a gain of $174,000 on death benefit related to bank owned life insurance was recorded during the nine months ended September 30, 2014. Earnings per share, basic and dilutive, for the nine months ended September 30, 2015 were $2.12 compared to $2.43 for the comparable period of 2014. Return on average assets and return on average equity were 1.06% and 9.90% for the nine months ended September 30, 2015 compared to 1.28% and 11.63% for the corresponding period of 2014. Operating earnings decreased to $9,046,000 for the nine months ended September 30, 2015 compared to $9,554,000 for the same period of 2014. Operating earnings per share for the nine months ended September 30, 2015 were $1.89 basic and dilutive compared to $1.98 basic and dilutive for the nine months ended September 30, 2014.

Management uses the non-GAAP measure of net income from core operations, or operating earnings, in its analysis of the Company's performance. This measure, as used by the Company, adjusts net income by excluding significant gains or losses that are unusual in nature. Because certain of these items and their impact on the Company's performance are difficult to predict, management believes the presentation of financial measures excluding the impact of such items provides useful supplemental information in evaluating the operating results of the Company's core businesses. For purposes of this Quarterly Report on Form 10-Q, net income from core operations, or operating earnings, means net income adjusted to exclude after-tax net securities gains or losses and bank-owned life insurance gains on death benefit. These disclosures should not be viewed as a substitute for net income determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Reconciliation of GAAP and Non-GAAP Financial Measures

(Dollars in Thousands, Except Per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
GAAP net income	$3,364	$4,793	$10,152	$11,725
Less: net securities and bank-owned life insurance gains, net of tax	325	1,416	1,106	2,171
Non-GAAP operating earnings	$3,039	$3,377	$9,046	$9,554

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Return on average assets (ROA)	1.04 %	1.56 %	1.06 %	1.28 %
Less: net securities and bank-owned life insurance gains, net of tax	0.10 %	0.46 %	0.12 %	0.24 %
Non-GAAP operating ROA	0.94 %	1.10 %	0.94 %	1.04 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Return on average equity (ROE)	9.89 %	13.95 %	9.90 %	11.63 %
Less: net securities and bank-owned life insurance gains, net of tax	0.95 %	4.12 %	1.08 %	2.16 %
Non-GAAP operating ROE	8.94 %	9.83 %	8.82 %	9.47 %

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic earnings per share (EPS)	$0.71	$0.99	$2.12	$2.43
Less: net securities and bank-owned life insurance gains, net of tax	0.07	0.29	0.23	0.45
Non-GAAP basic operating EPS	$0.64	$0.70	$1.89	$1.98

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Dilutive EPS	$0.71	$0.99	$2.12	$2.43
Less: net securities and bank-owned life insurance gains, net of tax	0.07	0.29	0.23	0.45
Non-GAAP dilutive operating EPS	$0.64	$0.70	$1.89	$1.98

Interest and Dividend Income

Interest and dividend income for the three months ended September 30, 2015 increased to $11,523,000 compared to $11,460,000 for the same period of 2014. Loan portfolio income increased as the impact of portfolio growth, due primarily to an increase in home equity products, offset a reduction in yield of 27 basis points (“bp”) due to the competitive landscape and the continued low rate environment that is impacting new loan rates as well as the variable rate segment of the loan portfolio. The loan portfolio income increase was offset by a decrease in investment portfolio interest due to a decline in the average taxable equivalent yield of 30 bp as the duration in the investment portfolio continues to be shortened in order to reduce interest rate and market risk in the future. This is being undertaken primarily through the sale of long-term municipal bonds that have a maturity date of 2025 or later and securities with a call date within the next five years. To offset the revenue impact of the declining asset yields, a focus has been placed on increasing earning assets by adding quality short and intermediate term loans such as home equity loans, even though these new earning assets are at lower yields than legacy assets.

During the nine months ended September 30, 2015, interest and dividend income was $34,449,000, an increase of $303,000 over the same period in 2014. Interest income on the loan portfolio increased as the growth in the portfolio was countered by a 26 bp decline in average yield. The investment portfolio interest income decreased as the portfolio size was decreased in order to reduce interest rate and market risk, while the yield on the investment portfolio declined 21 bp.

Interest and dividend income composition for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended									
	September 30, 2015			September 30, 2014			Change			
(In Thousands)	Amount	% Total		Amount	% Total		Amount		%	
Loans including fees	$9,862	85.59	%	$9,298	81.14	%	$564		6.07	%
Investment securities:										
Taxable	829	7.19		1,198	10.45		(369	)	(30.80	)
Tax-exempt	676	5.87		837	7.30		(161	)	(19.24	)
Dividend and other interest income	156	1.35		127	1.11		29		22.83	
Total interest and dividend income	$11,523	100.00	%	$11,460	100.00	%	$63		0.55	%

	Nine Months Ended						
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Loans including fees	$28,937	84.00 %	$27,023	79.14 %	$1,914	7.08 %
Investment securities:						
Taxable	2,728	7.92	4,062	11.90	(1,334)	(32.84)
Tax-exempt	2,187	6.35	2,660	7.79	(473)	(17.78)
Dividend and other interest income	597	1.73	401	1.17	196	48.88
Total interest and dividend income	$34,449	100.00 %	$34,146	100.00 %	$303	0.89 %

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Interest Expense

Interest expense for the three months ended September 30, 2015 increased $47,000 to $1,289,000 compared to $1,242,000 for the same period of 2014. The increase in interest expense is primarily associated with the lengthening of the time deposit portfolio as part of a strategy to build balance sheet protection in a rising rate environment, coupled with an increase in short term borrowing utilization.

Interest expense for the nine months ended September 30, 2015 increased 4.64% from the same period of 2014. The reasons noted for the increase in interest expense for the three month period comparison also apply to the six month period.

Interest expense composition for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Deposits	$800	62.07 %	$748	60.23 %	$52	6.95 %
Short-term borrowings	31	2.40	5	0.40	26	520.00
Long-term borrowings	458	35.53	489	39.37	(31)	(6.34)
Total interest expense	$1,289	100.00 %	$1,242	100.00 %	$47	3.78 %

	Nine Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Deposits	$2,328	59.97 %	$2,247	60.57 %	$81	3.60 %
Short-term borrowings	78	2.01	32	0.86	46	143.75
Long-term borrowings	1,476	38.02	1,431	38.57	45	3.14
Total interest expense	$3,882	100.00 %	$3,710	100.00 %	$172	4.64 %

Net Interest Margin

The net interest margin (“NIM”) for the three months ended September 30, 2015 was 3.55% compared to 3.78% for the corresponding period of 2014. The decline in the net interest margin was driven by a decreasing yield on the loan and investment portfolios due to the continued low rate environment. The impact of the declining earning asset yield and decreasing investment portfolio balance was partially offset by a 13.33% growth in the balance of the average loan portfolio from September 30, 2014 to September 30, 2015 resulting in net interest income on a taxable equivalent basis remaining flat compared to the comparable three month period of 2014. The primary funding for the loan growth was an increase in borrowings and core deposits. These deposits represent a lower cost funding source than time deposits and comprise 78.02% of total deposits at September 30, 2015 compared to 77.90% at September 30, 2014. Limiting the positive impact on the net interest margin caused by the growth in core deposits was the lengthening of the time deposit portfolio coupled with additional FHLB long-term borrowings as part of our strategy to prepare the balance sheet for a rising rate environment.

The NIM for the nine months ended September 30, 2015 was 3.63% compared to 3.84% for the same period of 2014. The impact of the items mentioned in the three month discussion also applies to the nine months ended.

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The following is a schedule of average balances and associated yields for the three and nine months ended September 30, 2015 and 2014:

AVERAGE BALANCES AND INTEREST RATES

	Three Months Ended September 30, 2015				Three Months Ended September 30, 2014			
(In Thousands)	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate	
Assets:								
Tax-exempt loans	$43,562	$423	3.85	%	$30,567	$337	4.38	%
All other loans	947,665	9,583	4.01	%	844,062	9,076	4.27	%
Total loans	991,227	10,006	4.00	%	874,629	9,413	4.27	%
Federal funds sold	—	—	—	%	—	—	—	%
Taxable securities	125,618	982	3.13	%	153,280	1,319	3.44	%
Tax-exempt securities	80,535	1,024	5.09	%	93,825	1,268	5.41	%
Total securities	206,153	2,006	3.89	%	247,105	2,587	4.19	%
Interest-bearing deposits	3,216	3	0.37	%	11,140	6	0.21	%
Total interest-earning assets	1,200,596	12,015	3.98	%	1,132,874	12,006	4.21	%
Other assets	97,363				97,596			
Total assets	$1,297,959				$1,230,470			
Liabilities and shareholders' equity:								
Savings	$143,353	14	0.04	%	$141,558	16	0.04	%
Super Now deposits	193,659	126	0.26	%	181,011	142	0.31	%
Money market deposits	210,029	145	0.27	%	212,377	145	0.27	%
Time deposits	219,306	515	0.93	%	219,257	445	0.81	%
Total interest-bearing deposits	766,347	800	0.41	%	754,203	748	0.39	%
Short-term borrowings	40,801	31	0.30	%	21,250	12	0.22	%
Long-term borrowings	81,880	458	2.19	%	71,202	482	2.65	%
Total borrowings	122,681	489	1.56	%	92,452	494	2.09	%
Total interest-bearing liabilities	889,028	1,289	0.57	%	846,655	1,242	0.58	%
Demand deposits	256,264				233,415			
Other liabilities	16,619				12,926			
Shareholders' equity	136,048				137,474			
Total liabilities and shareholders' equity	$1,297,959				$1,230,470			
Interest rate spread			3.41	%			3.63	%
Net interest income/margin		$10,726	3.55	%		$10,764	3.78	%

1. Information on this table has been calculated using average daily balance sheets to obtain average balances.
2. Non-accrual loans have been included with loans for the purpose of analyzing net interest earnings.
3. Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 34% tax rate.

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AVERAGE BALANCES AND INTEREST RATES

	Nine Months Ended September 30, 2015				Nine Months Ended September 30, 2014			
(In Thousands)	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate	
Assets:								
Tax-exempt loans	$39,901	$1,194	4.00	%	$28,042	$929	4.43	%
All other loans	920,675	28,149	4.09	%	813,859	26,410	4.34	%
Total loans	960,576	29,343	4.08	%	841,901	27,339	4.34	%
Federal funds sold	—	—	—	%	228	—	—	%
Taxable securities	133,191	3,316	3.32	%	168,376	4,435	3.51	%
Tax-exempt securities	85,263	3,314	5.18	%	96,503	4,030	5.57	%
Total securities	218,454	6,630	4.05	%	264,879	8,465	4.26	%
Interest-bearing deposits	4,500	9	0.27	%	11,364	28	0.33	%
Total interest-earning assets	1,183,530	35,982	4.06	%	1,118,372	35,832	4.28	%
Other assets	97,151				102,001			
Total assets	$1,280,681				$1,220,373			
Liabilities and shareholders’ equity:								
Savings	$142,812	43	0.04	%	$141,057	67	0.06	%
Super Now deposits	190,653	379	0.27	%	182,445	449	0.33	%
Money market deposits	208,317	424	0.27	%	210,346	417	0.27	%
Time deposits	218,987	1,482	0.90	%	225,615	1,314	0.78	%
Total interest-bearing deposits	760,769	2,328	0.41	%	759,463	2,247	0.40	%
Short-term borrowings	36,111	78	0.29	%	18,929	32	0.23	%
Long-term borrowings	82,597	1,476	2.36	%	71,202	1,431	2.65	%
Total borrowings	118,708	1,554	1.73	%	90,131	1,463	2.14	%
Total interest-bearing liabilities	879,477	3,882	0.59	%	849,594	3,710	0.58	%
Demand deposits	247,130				222,259			
Other liabilities	17,327				14,065			
Shareholders’ equity	136,747				134,455			
Total liabilities and shareholders’ equity	$1,280,681				$1,220,373			
Interest rate spread			3.47	%			3.70	%
Net interest income/margin		$32,100	3.63	%		$32,122	3.84	%

The following table presents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the three and nine months ended September 30, 2015 and 2014.

(In Thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Total interest income	$11,523	$11,460	$34,449	$34,146
Total interest expense	1,289	1,242	3,882	3,710
Net interest income	10,234	10,218	30,567	30,436
Tax equivalent adjustment	492	546	1,533	1,686
Net interest income (fully taxable equivalent)	$10,726	$10,764	$32,100	$32,122

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The following table sets forth the respective impact that both volume and rate changes have had on net interest income on a fully taxable equivalent basis for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015 vs. 2014 Increase (Decrease) Due to			Nine Months Ended September 30, 2015 vs. 2014 Increase (Decrease) Due to		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Tax-exempt loans	$131	$(45)	$86	$313	$(48)	$265
All other loans	1,078	(571)	507	2,611	(872)	1,739
Federal funds sold	—	—	—	—	—	—
Taxable investment securities	(224)	(113)	(337)	(888)	(231)	(1,119)
Tax-exempt investment securities	(172)	(72)	(244)	(447)	(269)	(716)
Interest bearing deposits	(3)	—	(3)	(11)	(8)	(19)
Total interest-earning assets	810	(801)	9	1,578	(1,428)	150
Interest expense:						
Savings deposits	—	(2)	(2)	—	(24)	(24)
Super Now deposits	9	(25)	(16)	7	(77)	(70)
Money market deposits	—	—	—	—	7	7
Time deposits	—	70	70	(18)	186	168
Short-term borrowings	14	5	19	35	11	46
Long-term borrowings	65	(89)	(24)	148	(103)	45
Total interest-bearing liabilities	88	(41)	47	172	—	172
Change in net interest income	$722	$(760)	$(38)	$1,406	$(1,428)	$(22)

Provision for Loan Losses

The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed annually for the Banks. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance for loan losses is determined by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to non-performing loans and its knowledge and experience with specific lending segments.

Although management believes it uses the best information available to make such determinations and that the allowance for loan losses is adequate at September 30, 2015, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, increased unemployment, and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets, charge-offs, loan loss provisions, and reductions in income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review the Banks' loan loss allowance. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

When determining the appropriate allowance level, management has attributed the allowance for loan losses to various portfolio segments; however, the allowance is available for the entire portfolio as needed.

The allowance for loan losses increased from $10,579,000 at December 31, 2014 to $11,489,000 at September 30, 2015. The increase in the allowance for loan losses was driven by the loan growth and net charge-offs during the nine months ended September 30, 2015 of $910,000. The majority of the loans charged-off had a specific allowance within the allowance for losses. At September 30, 2015 and December 31, 2014, the allowance for loan losses to total loans was 1.15% and 1.16%, respectively.

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The provision for loan losses totaled $520,000 and $460,000 for the three months ended September 30, 2015 and 2014. The amount of the provision for loan losses was primarily the result of loan growth.

Nonperforming loans decreasing to $8,608,000 at September 30, 2015 from $12,294,000 at September 30, 2014 is primarily the result of a large commercial real estate loan that was removed from non-accrual status due to improved company performance and a solid payment history. The ratio of nonperforming loans to total loans was 0.86% and 1.38% at September 30, 2015 and 2014, respectively, and the ratio of the allowance for loan losses to nonperforming loans was 133.47% and 75.24% at September 30, 2015 and 2014, respectively. Internal loan review and analysis coupled with loan growth dictated a provision for loan losses of $1,820,000 for the nine months ended September 30, 2015.

The following is a table showing total nonperforming loans as of:

	Total Nonperforming Loans		
(In Thousands)	90 Days Past Due	Non-accrual	Total
September 30, 2015	$99	$8,509	$8,608
June 30, 2015	890	8,799	9,689
March 31, 2015	391	10,766	11,157
December 31, 2014	387	11,861	12,248
September 30, 2014	202	12,092	12,294

Non-interest Income

Total non-interest income for the three months ended September 30, 2015 compared to the same period in 2014 decreased $1,787,000 to $3,137,000. Excluding net securities gains, non-interest income for the three months ended September 30, 2015 decreased $135,000 compared to the same period in 2014. The decrease in gain on sale of loans was driven by a shift in product mix and distribution channels. The decrease in other non-interest income is the result of a loss on sale of other real-estate.

Total non-interest income for the nine months ended September 30, 2015 compared to the same period in 2014 decreased $1,610,000. Excluding net securities gains, non-interest income decreased $261,000 compared to the 2014 period. The decrease in bank-owned life insurance is primarily due to a gain on death benefit recorded during the first quarter of 2014. The reasons noted for the three month period comparison also apply to the six month period.

Non-interest income composition for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$621	19.80 %	$620	12.59 %	$1	0.16 %
Net securities gains, available for sale	526	16.77	2,145	43.55	(1,619)	(75.48)
Net securities losses, trading	(33)	(1.05)	—	—	(33)	(100.00)
Bank-owned life insurance	182	5.80	185	3.76	(3)	(1.62)
Gain on sale of loans	524	16.70	602	12.23	(78)	(12.96)
Insurance commissions	185	5.90	212	4.31	(27)	(12.74)

Brokerage commissions	297	9.47	282	5.73	15	5.32
Other	835	26.61	878	17.83	(43)	(4.90)
Total non-interest income	$3,137	100.00 %	$4,924	100.00 %	$(1,787)	(36.29)%

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	Nine Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$1,772	18.74 %	$1,822	16.47 %	$(50)	(2.74)%
Net securities gains, available for sale	1,713	18.12	3,025	27.34	(1,312)	(43.37)
Net securities losses, trading	(37)	(0.39)	—	—	(37)	(100.00)
Bank-owned life insurance	541	5.72	736	6.65	(195)	(26.49)
Gain on sale of loans	1,305	13.80	1,313	11.87	(8)	(0.61)
Insurance commissions	623	6.59	915	8.27	(292)	(31.91)
Brokerage commissions	836	8.84	804	7.27	32	3.98
Other	2,701	28.58	2,449	22.13	252	10.29
Total non-interest income	$9,454	100.00 %	$11,064	100.00 %	$(1,610)	(14.55)%

Non-interest Expense

Total non-interest expense increased $217,000 for the three months ended September 30, 2015 compared to the same period of 2014. The increase in salaries and employee benefits is primarily attributable to increases in health insurance. Furniture and equipment expenses increased primarily due to the construction of a new branch. Other expenses decreased primarily due to decreased expenses related to the integration of Luzerne Bank.

Total non-interest expense for the nine months ended September 30, 2015 compared to the same period in 2014 increased $41,000. The reasons noted for the three month period comparison also apply to the nine month period.

Non-interest expense composition for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$4,302	50.43 %	$4,126	49.63 %	$176	4.27 %
Occupancy	529	6.20	547	6.58	(18)	(3.29)
Furniture and equipment	686	8.04	591	7.11	95	16.07
Pennsylvania shares tax	244	2.86	232	2.79	12	5.17
Amortization of investment in limited partnerships	165	1.93	165	1.98	—	—
Federal Deposit Insurance Corporation deposit insurance	209	2.45	193	2.32	16	8.29
Marketing	160	1.88	144	1.73	16	11.11
Intangible amortization	73	0.86	82	0.99	(9)	(10.98)
Other	2,162	25.35	2,233	26.87	(71)	(3.18)
Total non-interest expense	$8,530	100.00 %	$8,313	100.00 %	$217	2.61 %

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	Nine Months Ended					
	September 30, 2015		September 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$13,073	51.43 %	$12,796	50.42 %	$277	2.16 %
Occupancy	1,721	6.77	1,729	6.81	(8)	(0.46)
Furniture and equipment	1,924	7.57	1,910	7.53	14	0.73
Pennsylvania shares tax	711	2.80	738	2.91	(27)	(3.66)
Amortization of investment in limited partnerships	496	1.95	496	1.95	—	—
Federal Deposit Insurance Corporation deposit insurance	654	2.57	572	2.25	82	14.34
Marketing	434	1.71	380	1.50	54	14.21
Intangible amortization	235	0.92	263	1.04	(28)	(10.65)
Other	6,171	24.28	6,494	25.59	(323)	(4.97)
Total non-interest expense	$25,419	100.00 %	$25,378	100.00 %	$41	0.16 %

Provision for Income Taxes

Income taxes decreased $619,000 for the three months ended September 30, 2015 and decreased $522,000 for the nine months ended September 30, 2015 compared to the same periods of 2014. The primary cause of the decrease in tax expense for the three and months ended September 30, 2015 compared to 2014 is the impact of the decreased pre-tax income. Excluding the impact of the net securities gains, the effective tax rate for the three and nine months ended September 30, 2015 was 20.62% and 18.55% compared to 20.04% and 17.92% for the same period of 2014. The Company currently is in a deferred tax asset position due to the low income housing tax credits earned both currently and previously. Management has reviewed the deferred tax asset and has determined that the asset will be utilized within the appropriate carry forward period and therefore does not require a valuation allowance.

ASSET/LIABILITY MANAGEMENT

Cash and Cash Equivalents

Cash and cash equivalents decreased $1,653,000 from $19,908,000 at December 31, 2014 to $18,255,000 at September 30, 2015 primarily as a result of the following activities during the nine months ended September 30, 2015:

Loans Held for Sale

Activity regarding loans held for sale resulted in originations trailing sales proceeds, less $1,305,000 in realized gains, by $479,000 for the nine months ended September 30, 2015.

Loans

Gross loans increased $86,074,000 since December 31, 2014 due to an increase in commercial, financial, and agricultural loans coupled with an increase in home equity products and auto loans.

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The allocation of the loan portfolio, by category, as of September 30, 2015 and December 31, 2014 is presented below:

	September 30, 2015		December 31, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Commercial, financial, and agricultural	$139,982	13.97 %	$124,156	13.56 %	$15,826	12.75 %
Real estate mortgage:						
Residential	510,297	50.94	457,760	50.00	52,537	11.48 %
Commercial	300,956	30.05	291,348	31.82	9,608	3.30 %
Construction	24,608	2.46	21,996	2.40	2,612	11.87 %
Installment loans to individuals	27,111	2.71	21,509	2.35	5,602	26.04 %
Net deferred loan fees and discounts	(1,301)	(0.13)	(1,190)	(0.13)	(111)	9.33 %
Gross loans	$1,001,653	100.00 %	$915,579	100.00 %	$86,074	9.40 %

The following table shows the amount of accrual and non-accrual TDRs at September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
(In Thousands)	Accrual	Non-accrual	Total	Accrual	Non-accrual	Total
Commercial, financial, and agricultural	$304	$152	$456	$551	$440	$991
Real estate mortgage:						
Residential	1,445	293	1,738	697	181	878
Commercial	4,593	2,702	7,295	3,267	6,160	9,427
Construction	8	398	406	514	—	514
	$6,350	$3,545	$9,895	$5,029	$6,781	$11,810

Investments

The fair value of the investment securities portfolio at September 30, 2015 decreased $29,557,000 since December 31, 2014 while the amortized cost of the portfolio decreased $27,250,000. The decrease in value is the result of the investment portfolio being actively managed in order to reduce interest rate and market risk. This is being undertaken primarily through the sale of long-term municipal bonds that have a maturity date of 2025 or later and securities with a call date within the next five years. The proceeds of the bond sales are being deployed into loans and intermediate term corporate bonds and short and intermediate term municipal bonds. The strategy to sell a portion of the long-term bond portfolio does negatively impact current earnings, but this action plays a key role in our long-term asset liability management strategy as the balance sheet is shortened to better prepare for a rising rate environment. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 90% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody’s.

The Company considers various factors, which include examples from applicable accounting guidance, when analyzing the available for sale portfolio for possible other than temporary impairment. The Company primarily considers the following factors in its analysis: length of time and severity of the fair value being less than carrying value; reduction of dividend paid (equities); continued payment of dividend/interest, credit rating, and financial condition of an issuer; intent and ability to hold until anticipated recovery (which may be maturity); and general outlook for the economy, specific industry, and entity in question.

The bond portion of the portfolio review is conducted with emphases on several factors. Continued payment of principal and interest is given primary importance with credit rating and financial condition of the issuer following as the next most important. Credit ratings were reviewed with the ratings of the bonds being satisfactory. Bonds that were not currently rated were discussed with a third party and/or underwent an internal financial review. The Company also monitors whether each of the investments incurred a decline in fair value from carrying value of at least 20% for twelve consecutive months or a similar decline of at least 50% for three consecutive months. Each bond is reviewed to determine whether it is a general obligation bond, which is backed by the credit and taxing power of the issuing jurisdiction, or revenue bond, which is only payable from specified revenues. Based on the review undertaken by the Company, the Company determined that the decline in value of the various bond holdings were temporary and were the result of the general market downturns and interest rate/yield curve changes, not credit issues. The fact that almost all of such bonds are general obligation bonds further solidified the Company's determination that the decline in the value of these bond holdings is temporary.

The fair value of the equity portfolio continues to fluctuate as the economic turbulence continues to impact stock pricing. The amortized cost of the available for sale equity securities portfolio has increased $1,070,000 to $15,451,000 at September 30, 2015 from $14,381,000 at December 31, 2014 while the fair value increased $487,000 over the same time period.

The equity portion of the portfolio is reviewed for possible other than temporary impairment in a similar manner to the bond portfolio with greater emphasis placed on the length of time the fair value has been less than the carrying value and financial sector outlook. The Company also reviews dividend payment activities. The starting point for the equity analysis is the length and severity of a market price decline. The Company monitors two primary measures: 20% decline in fair value from carrying value for twelve consecutive months and 50% decline for three consecutive months.

The distribution of credit ratings by amortized cost and fair values for the debt security portfolio at September 30, 2015 follows:

	A- to AAA		B- to BBB+		Not Rated		Total	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale (AFS)								
U.S. Government and agency securities	$—	$—	$—	$—	$3,588	$3,567	$3,588	$3,567
Mortgage-backed securities	10,261	10,577	—	—	—	—	10,261	10,577
Asset-backed securities	2,086	2,059	—	—	—	—	2,086	2,059
State and political securities	87,317	88,920	—	—	2,712	2,717	90,029	91,637
Other debt securities	67,288	67,638	11,742	11,204	—	—	79,030	78,842
Total debt securities AFS	$166,952	$169,194	$11,742	$11,204	$6,300	$6,284	$184,994	$186,682

Financing Activities

Deposits

Total deposits increased $23,382,000 from December 31, 2014 to September 30, 2015. The growth was led by an increase in NOW deposit accounts from December 31, 2014 to September 30, 2015 of 5.89%. The increase in core deposits (deposits less time deposits) has provided relationship driven funding for the loan and investment portfolios. The increase in deposits is the result of our focus on building relationships, not by offering market leading rates.

Deposit balances and their changes for the periods being discussed follow:

	September 30, 2015		December 31, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Demand deposits	$247,848	24.67 %	$243,378	24.80 %	$4,470	1.84 %
NOW accounts	188,444	18.75	177,970	18.13	10,474	5.89
Money market deposits	204,475	20.35	204,535	20.84	(60)	(0.03)
Savings deposits	143,224	14.25	139,278	14.19	3,946	2.83
Time deposits	220,810	21.98	216,258	22.04	4,552	2.10
	$1,004,801	100.00 %	$981,419	100.00 %	$23,382	2.38 %

Borrowed Funds

Total borrowed funds increased 27.45% or $30,747,000 to $142,741,000 at September 30, 2015 compared to $111,994,000 at December 31, 2014. Short-term and long-term borrowings primarily increased due to an increase in the funding necessary for the growth in the loan portfolio.

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(In Thousands)	September 30, 2015 Amount	% Total		December 31, 2014 Amount	% Total		Change Amount	%	
Short-term borrowings:									
FHLB repurchase agreements	$34,444	24.13	%	$26,831	23.96	%	$7,613	28.37	%
Securities sold under agreement to repurchase	17,246	12.08		13,987	12.49		3,259	23.30	
Total short-term borrowings	51,690	36.21		40,818	36.45		10,872	26.64	
Long-term borrowings:									
Long-term FHLB borrowings	90,625	63.49		70,750	63.17		19,875	28.09	
Long-term capital lease	426	0.30		426	0.38		—	—	
Total long-term borrowings	91,051	63.79		71,176	63.55		19,875	27.92	%
Total borrowed funds	$142,741	100.00	%	$111,994	100.00	%	$30,747	27.45	%

Capital

The adequacy of the Company’s capital is reviewed on an ongoing basis with reference to the size, composition, and quality of the Company’s resources and regulatory guidelines. Management seeks to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings.

Bank holding companies are required to comply with the Federal Reserve Board’s risk-based capital guidelines. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets. Specifically, each is required to maintain certain minimum dollar amounts and ratios of common equity tier I risk-based, tier I risk-based, total risk-based, and tier I leverage capital. In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvements Act (FDICIA) established five capital categories ranging from “well capitalized” to “critically undercapitalized.” To be classified as “well capitalized”, common equity tier I risk-based, tier I risked-based, total risk-based, and tier I leverage capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Company's capital ratios as of September 30, 2015 and December 31, 2014 were as follows:

(In Thousands)	September 30, 2015 Amount	Ratio		December 31, 2014 Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$120,110	11.14	%	$—	—	%
For Capital Adequacy Purposes	48,509	4.50		—	—	
To Be Well Capitalized	70,068	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$120,110	11.14	%	$112,290	11.51	%
For Capital Adequacy Purposes	64,678	6.00		39,010	4.00	
To Be Well Capitalized	86,238	8.00		58,514	6.00	
Total Capital (to Risk-weighted Assets)						
Actual	$131,840	12.23	%	$123,371	12.65	%
For Capital Adequacy Purposes	86,238	8.00		78,019	8.00	
To Be Well Capitalized	107,797	10.00		97,524	10.00	
Tier I Capital (to Average Assets)						
Actual	$120,110	9.40	%	$112,290	9.27	%

For Capital Adequacy Purposes	51,126	4.00	48,476	4.00
To Be Well Capitalized	63,908	5.00	60,595	5.00

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Jersey Shore State Bank's capital ratios as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015			December 31, 2014		
(In Thousands)	Amount	Ratio		Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$80,946	10.61	%	$—	—	%
For Capital Adequacy Purposes	34,336	4.50		—	—	
To Be Well Capitalized	49,596	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$80,946	10.61	%	$74,730	11.05	%
For Capital Adequacy Purposes	45,781	6.00		27,043	4.00	
To Be Well Capitalized	61,041	8.00		40,565	6.00	
Total Capital (to Risk-weighted Assets)	-					
Actual	$90,104	11.81	%	$83,183	12.30	%
For Capital Adequacy Purposes	61,041	8.00		54,086	8.00	
To Be Well Capitalized	76,302	10.00		67,608	10.00	
Tier I Capital (to Average Assets)						
Actual	$80,946	8.61	%	$74,730	8.50	%
For Capital Adequacy Purposes	37,595	4.00		35,175	4.00	
To Be Well Capitalized	46,994	5.00		43,968	5.00	

Luzerne Bank's capital ratios as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015			December 31, 2014		
(In Thousands)	Amount	Ratio		Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$30,426	9.77	%	$—	—	%
For Capital Adequacy Purposes	14,020	4.50		—	—	
To Be Well Capitalized	20,251	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$30,426	9.77	%	$112,290	11.51	%
For Capital Adequacy Purposes	18,693	6.00		39,010	4.00	
To Be Well Capitalized	24,925	8.00		58,514	6.00	
Total Capital (to Risk-weighted Assets)						
Actual	$32,795	10.53	%	$123,371	12.65	%
For Capital Adequacy Purposes	24,925	8.00		78,019	8.00	
To Be Well Capitalized	31,156	10.00		97,524	10.00	
Tier I Capital (to Average Assets)						
Actual	$30,426	9.08	%	$112,290	9.27	%
For Capital Adequacy Purposes	13,401	4.00		48,476	4.00	
To Be Well Capitalized	16,752	5.00		60,595	5.00	

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies’ capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements were effective beginning on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Company and the Banks will continue to analyze these new rules and their effects on the business, operations and capital levels of the Company and the Banks.

Liquidity; Interest Rate Sensitivity and Market Risk

The asset/liability committee addresses the liquidity needs of the Company to ensure that sufficient funds are available to meet credit demands and deposit withdrawals as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

The following liquidity measures are monitored for compliance and were within the limits cited, except net loans to total deposits, at September 30, 2015:

1. Net Loans to Total Assets, 85% maximum
2. Net Loans to Total Deposits, 100% maximum
3. Cumulative 90 day Maturity GAP %, +/- 20% maximum
4. Cumulative 1 Year Maturity GAP %, +/- 25% maximum

Fundamental objectives of the Company's asset/liability management process are to maintain adequate liquidity while minimizing interest rate risk. The maintenance of adequate liquidity provides the Company with the ability to meet its financial obligations to depositors, loan customers, and shareholders. Additionally, it provides funds for normal operating expenditures and business opportunities as they arise. The objective of interest rate sensitivity management is to increase net interest income by managing interest sensitive assets and liabilities in such a way that they can be repriced in response to changes in market interest rates.

The Banks, like other financial institutions, must have sufficient funds available to meet its liquidity needs for deposit withdrawals, loan commitments and originations, and expenses. In order to control cash flow, the Banks estimate future cash flows from deposits, loan payments, and investment security payments. The primary sources of funds are deposits, principal and interest payments on loans and investment securities, FHLB borrowings, and brokered deposits. Management believes the Banks have adequate resources to meet its normal funding requirements.

Management monitors the Company's liquidity on both a long and short-term basis, thereby providing management necessary information to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies consider both customer needs and economical cost. Both short and long-term funding needs are addressed by maturities and sales of available for sale and trading investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit provides core funding to satisfy depositor, borrower, and creditor needs.

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Company has a total current maximum borrowing capacity at the FHLB of $493,727,000. In addition to this credit arrangement, the Company has additional lines of credit with correspondent banks of $35,482,000. Management believes it has sufficient liquidity to satisfy estimated short-term and long-term funding needs. FHLB borrowings totaled $125,069,000 as of September 30, 2015.

Interest rate sensitivity, which is closely related to liquidity management, is a function of the repricing characteristics of the Company's portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and investment security assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet structure which can cope effectively with market rate fluctuations. The matching process by segments both assets and liabilities into future time periods (usually 12 months, or less) based upon when repricing can be effected. Repriceable assets are subtracted from repriceable liabilities, for a specific time period to determine the "gap", or difference. Once known, the gap is managed based on predictions about future market interest rates. Intentional mismatching, or gapping, can enhance net interest income if market rates move as predicted. However, if market rates behave in a manner contrary to predictions, net interest income will suffer. Gaps, therefore, contain an element of risk and must be prudently managed. In addition to gap management, the Company has an asset/liability management policy which incorporates a market value at risk calculation which is used to determine the effects of interest rate movements on shareholders' equity and a simulation analysis to monitor the effects of interest rate changes on the Company's balance sheet.

The Company currently maintains a GAP position of being asset sensitive. The Company has strategically taken this position as it has decreased the duration of the earning asset portfolio by adding quality short and intermediate term loans such as home equity loans and the selling of long-term municipal bonds. Lengthening of the liability portfolio is being undertaken to build protection in a rising rate environment.

A market value at risk calculation is utilized to monitor the effects of interest rate changes on the Company's balance sheet and more specifically shareholders' equity. The Company does not manage the balance sheet structure in order to maintain compliance with this calculation. The calculation serves as a guideline with greater emphases placed on interest rate sensitivity. Changes to calculation results from period to period are reviewed as changes in results could be a signal of future events. As of the most recent analysis, the results of the market value at risk calculation were within established guidelines due to the strategic direction being taken.

Interest Rate Sensitivity

In this analysis the Company examines the result of a 100, 200, 300, and 400 basis point change in market interest rates and the effect on net interest income. It is assumed that the change is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on mortgage loans and mortgage securities.

The following is a rate shock forecast for the twelve month period ending September 30, 2016 assuming a static balance sheet as of September 30, 2015.

	Parallel Rate Shock in Basis Points						
(In Thousands)	-200	-100	Static	+100	+200	+300	+400
Net interest income	$35,818	$38,266	$40,604	$42,389	$44,122	$45,552	$46,425
Change from static	(4,786)	(2,338)	—	1,785	3,518	4,948	5,821
Percent change from static	-11.79 %	-5.76 %	—	4.40 %	8.66 %	12.19 %	14.34 %

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flow from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. Generally, management believes the Company is well positioned to respond expeditiously when the market interest rate outlook changes.

Inflation

The asset and liability structure of a financial institution is primarily monetary in nature. Therefore, interest rates rather than inflation have a more significant impact on the Company's performance. Interest rates are not always affected in the same direction or magnitude as prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors which are not measured by a price index.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Company is comprised primarily of interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at both the level of the Company and the Banks. The Company's interest rate sensitivity is monitored by management through selected interest rate risk measures produced by an independent third party. There have been no substantial changes in the Company's gap analysis or simulation analysis compared to the information provided in the Annual Report on Form 10-K for the period ended December 31, 2014. Additional information and details are provided in the "Liquidity, Interest Rate Sensitivity, and Market Risk" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Generally, management believes the Company is well positioned to respond in a timely manner when the market interest rate outlook changes.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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An analysis was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended September 30, 2015, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides certain information with respect to the Company's repurchase of common stock during the quarter ended September 30, 2015.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (July 1 - July 31, 2015)	—	$—	—	424,118
Month #2 (August 1 - August 31, 2015)	6,138	41.43	6,138	417,980
Month #3 (September 1 - September 30, 2015)	9,528	41.28	9,528	408,452

On April 16, 2015, the Board of Directors extended the previously approved authorization to repurchase up to 482,000 shares, or approximately 10%, of the outstanding shares of the Company for an additional year to April 30, 2016. As of September 30, 2015 there have been 73,548 shares repurchased under this plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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3(i)	Articles of Incorporation of the Registrant, as presently in effect (incorporated by reference to Exhibit 3(i) of the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2012).
3(ii)	Bylaws of the Registrant (incorporated by reference to Exhibit 3(ii) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
31(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
31(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer.
32(i)	Section 1350 Certification of Chief Executive Officer.
32(ii)	Section 1350 Certification of Chief Financial Officer.
101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at September 30, 2015 and December 31, 2014; (ii) the Consolidated Statement of Income for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) the Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		PENNS WOODS BANCORP, INC. (Registrant)
Date:	November 9, 2015	/s/ Richard A. Grafmyre Richard A. Grafmyre, President and Chief Executive Officer (Principal Executive Officer)
Date:	November 9, 2015	/s/ Brian L. Knepp Brian L. Knepp, Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit 31(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer
Exhibit 31(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer
Exhibit 32(i)	Section 1350 Certification of Chief Executive Officer
Exhibit 32(ii)	Section 1350 Certification of Chief Financial Officer
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at September 30, 2015 and December 31, 2014; (ii) the Consolidated Statement of Income for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) the Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.