PENNS WOODS BANCORP INC
Form 10-Q
August 08, 2017

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 June 30, 2017.
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	23-2226454
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 Market Street, P.O. Box 967 Williamsport, Pennsylvania	17703-0967
(Address of principal executive offices)	(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

Emerging growth company o

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 August 1, 2017 there were 4,688,226 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)	June 30, 2017	December 31, 2016
ASSETS:		
Noninterest-bearing balances	$26,223	$26,766
Interest-bearing balances in other financial institutions	11,979	16,905
Total cash and cash equivalents	38,202	43,671
Investment securities, available for sale, at fair value	138,504	133,492
Investment securities, trading	213	58
Loans held for sale	1,683	1,953
Loans	1,139,085	1,093,681
Allowance for loan losses	(13,109)	(12,896)
Loans, net	1,125,976	1,080,785
Premises and equipment, net	25,497	24,275
Accrued interest receivable	3,641	3,672
Bank-owned life insurance	27,670	27,332
Goodwill	17,104	17,104
Intangibles	1,623	1,799
Deferred tax asset	8,139	8,397
Other assets	7,112	6,052
TOTAL ASSETS	$1,395,364	$1,348,590
LIABILITIES:		
Interest-bearing deposits	$851,056	$791,937
Noninterest-bearing deposits	300,054	303,277
Total deposits	1,151,110	1,095,214
Short-term borrowings	15,737	13,241
Long-term borrowings	75,998	85,998
Accrued interest payable	414	455
Other liabilities	13,665	15,433
TOTAL LIABILITIES	1,256,924	1,210,341
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; 5,008,192 and 5,007,109 shares issued	41,735	41,726
Additional paid-in capital	50,117	50,075
Retained earnings	62,952	61,610
Accumulated other comprehensive loss:		
Net unrealized loss on available for sale securities	(16)	(639)
Defined benefit plan	(4,233)	(4,289)

Treasury stock at cost, 320,150 and 272,452 shares	(12,115)	(10,234)
TOTAL SHAREHOLDERS’ EQUITY	138,440	138,249
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,395,364	$1,348,590

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands, Except Per Share Data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$11,109	$10,466	$21,736	$20,821
Investment securities:				
Taxable	570	601	1,112	1,223
Tax-exempt	323	398	621	874
Dividend and other interest income	207	204	422	477
TOTAL INTEREST AND DIVIDEND INCOME	12,209	11,669	23,891	23,395
INTEREST EXPENSE:				
Deposits	1,008	881	1,910	1,716
Short-term borrowings	4	8	8	34
Long-term borrowings	373	492	813	983
TOTAL INTEREST EXPENSE	1,385	1,381	2,731	2,733
NET INTEREST INCOME	10,824	10,288	21,160	20,662
PROVISION FOR LOAN LOSSES	215	258	545	608
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,609	10,030	20,615	20,054
NON-INTEREST INCOME:				
Service charges	559	561	1,087	1,093
Net securities (losses) gains, available for sale	(12)	486	185	921
Net securities gains, trading	—	6	2	46
Bank-owned life insurance	161	161	333	345
Gain on sale of loans	503	566	861	1,033
Insurance commissions	99	200	290	405
Brokerage commissions	361	272	692	527
Debit Card Fees	501	433	935	964
Other	591	493	1,029	841
TOTAL NON-INTEREST INCOME	2,763	3,178	5,414	6,175
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,608	4,346	9,378	8,926
Occupancy	614	545	1,252	1,086
Furniture and equipment	664	679	1,313	1,380
Software amortization	242	272	515	629
Pennsylvania shares tax	230	220	468	478
Professional fees	550	436	987	777
Federal Deposit Insurance Corporation deposit insurance	150	236	320	468
Debit card expenses	151	159	310	286
Marketing	204	185	375	395
Intangible amortization	86	100	176	187
Other	1,564	1,488	2,954	3,115
TOTAL NON-INTEREST EXPENSE	9,063	8,666	18,048	17,727
INCOME BEFORE INCOME TAX PROVISION	4,309	4,542	7,981	8,502
INCOME TAX PROVISION	1,223	1,152	2,209	2,034
NET INCOME	$3,086	$3,390	$5,772	$6,468

EARNINGS PER SHARE - BASIC AND DILUTED	$0.65	$ 0.72	$1.22	$ 1.37
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	4,711,332	4,733,251	4,723,003	4,736,878
DIVIDENDS DECLARED PER SHARE	$0.47	$ 0.47	$0.94	$ 0.94

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 June 30,		Six Months Ended June 30,	
(In Thousands)	2017	2016	2017	2016
Net Income	$3,086	$3,390	$5,772	$6,468
Other comprehensive income:				
Change in unrealized gain on available for sale securities	389	1,265	1,128	3,316
Tax effect	(132)	(430)	(382)	(1,127)
Net realized loss (gain) on available for sale securities included in net income	12	(486)	(185)	(921)
Tax effect	(4)	165	62	312
Amortization of unrecognized pension loss	40	39	84	78
Tax effect	(10)	(13)	(28)	(27)
Total other comprehensive income	295	540	679	1,631
Comprehensive income	$3,381	$3,930	$6,451	$8,099

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 LOSS	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2015	5,004,984	$41,708	$49,992	$58,038	$(3,799)	$(9,660)	$136,279
Net income				6,468			6,468
Other comprehensive income					1,631		1,631
Dividends declared, ($0.94 per share)				(4,452)			(4,452)
Common shares issued for employee stock purchase plan	1,052	9	33				42
Purchase of treasury stock (14,600 shares)						(574)	(574)
Balance, June 30, 2016	5,006,036	$41,717	$50,025	$60,054	$(2,168)	$(10,234)	$139,394

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2016	5,007,109	$41,726	$50,075	$61,610	$(4,928)	$(10,234)	$138,249
Net income				5,772			5,772
Other comprehensive income					679		679
Dividends declared, ($0.94 per share)				(4,430)			(4,430)
Common shares issued for employee stock purchase plan	1,083	9	42				51
Purchase of treasury stock (47,698 shares)						(1,881)	(1,881)
Balance, June 30, 2017	5,008,192	$41,735	$50,117	$62,952	$(4,249)	$(12,115)	$138,440

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
(In Thousands)	2017	2016
OPERATING ACTIVITIES:		
Net Income	$5,772	$6,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,389	1,596
Amortization of intangible assets	176	187
Provision for loan losses	545	608
Accretion and amortization of investment security discounts and premiums	465	439
Net securities gains, available for sale	(185)	(921)
Originations of loans held for sale	(26,087)	(30,946)
Proceeds of loans held for sale	27,218	31,387
Gain on sale of loans	(861)	(1,033)
Net securities gains, trading	(2)	(46)
Proceeds from the sale of trading securities	332	3,439
Purchases of trading securities	(485)	(3,320)
Earnings on bank-owned life insurance	(333)	(345)
Decrease in deferred tax asset	(63)	776
Other, net	(3,461)	(2,822)
Net cash provided by operating activities	4,420	5,467
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	9,130	36,007
Proceeds from calls and maturities of available for sale securities	5,388	13,591
Purchases of available for sale securities	(18,434)	(17,730)
Net increase in loans	(46,226)	(9,130)
Acquisition of premises and equipment	(2,004)	(1,235)
Proceeds from the sale of foreclosed assets	587	433
Purchase of bank-owned life insurance	(30)	(27)
Proceeds from redemption of regulatory stock	2,134	2,311
Purchases of regulatory stock	(2,566)	(1,813)
Net cash (used for) provided by investing activities	(52,021)	22,407
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	59,119	59,068
Net decrease in noninterest-bearing deposits	(3,223)	(6,081)
Repayment of long-term borrowings	(10,000)	—
Net increase (decrease) in short-term borrowings	2,496	(29,198)
Dividends paid	(4,430)	(4,452)
Issuance of common stock	51	42
Purchases of treasury stock	(1,881)	(574)
Net cash provided by financing activities	42,132	18,805
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,469)	46,679
CASH AND CASH EQUIVALENTS, BEGINNING	43,671	22,796
CASH AND CASH EQUIVALENTS, ENDING	$38,202	$69,475
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Interest paid	$2,772	$2,703
Income taxes paid	2,350	2,750
Transfer of loans to foreclosed real estate	490	83

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, 2016.

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 48 of the Form 10-K for the year ended December 31, 2016.

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 Loss

The changes in accumulated other comprehensive loss by component shown net of tax as of June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
(In Thousands)	Net Unrealized Loss on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$(281)	$(4,263)	$(4,544)	$1,324	$(4,032)	$(2,708)
Other comprehensive income before reclassifications	257	—	257	835	—	835
Amounts reclassified from accumulated other comprehensive loss	8	30	38	(321)	26	(295)
Net current-period other comprehensive income	265	30	295	514	26	540
Ending balance	$(16)	$(4,233)	$(4,249)	$1,838	$(4,006)	$(2,168)

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
(In Thousands)	Net Unrealized Loss on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total

Beginning balance	$(639)	$(4,289)	$(4,928)	$258	$(4,057)	$(3,799)
Other comprehensive income before reclassifications	746	—	746	2,189	—	2,189
Amounts reclassified from accumulated other comprehensive loss	(123)	56	(67)	(609)	51	(558)
Net current-period other comprehensive income	623	56	679	1,580	51	1,631
Ending balance	$(16)	$(4,233)	$(4,249)	$1,838	$(4,006)	$(2,168)

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The reclassifications out of accumulated other comprehensive loss shown, net of tax and parenthesis indicating debits to net income, as of June 30, 2017 and 2016 were as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	
Net unrealized (loss) gain on available for sale securities	$ (12)	$ 486	Net securities (losses) gains, available for sale
Income tax effect	4	(165)	Income tax provision
Total reclassifications for the period	$ (8)	$ 321	
Net unrecognized pension costs	$ (45)	$ (39)	Salaries and employee benefits
Income tax effect	15	13	Income tax provision
Total reclassifications for the period	$ (30)	$ (26)	

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statement of Income
	Six months ended June 30, 2017	Six months ended June 30, 2016	
Net unrealized gain on available for sale securities	$ 185	$ 921	Net securities gains, available for sale
Income tax effect	(62)	(312)	Income tax provision
Total reclassifications for the period	$ 123	$ 609	
Net unrecognized pension costs	$ (84)	$ (78)	Salaries and employee benefits
Income tax effect	28	27	Income tax provision
Total reclassifications for the period	$ (56)	$ (51)	

Note 3. Recent Accounting Pronouncements

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts 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. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815). The amendments in this Update apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a heading instrument under Topic 815. The standards in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. An entity has an option to apply the amendments in this Update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815). The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt host. An entity performing the assessment under the amendments in this Update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For entities other than public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. 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 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606). The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective.

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The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. 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 May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606), which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company’s financial statements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), which requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. Consequently, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those annual reporting periods. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, earlier adoption should be in the first interim period if an entity issues interim financial statements. The amendments in this Update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. This Update is not expected to have a significant impact on the Company’s financial statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810), which amends the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. This Update is not expected to have a significant impact on the Company’s financial statements.

In October 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s statement of cash flows.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. This Update, among others things, clarifies that guarantee fees within the scope of Topic 460, Guarantees, (other than product or service warranties) are not within the scope of Topic 606. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements for the new revenue recognition guidance. For public entities with a calendar year-end, the new guidance is effective in the quarter and year beginning January 1, 2018. For all other entities with a calendar year-end, the new guidance is effective in the year ending December 31, 2019, and interim periods in 2020. 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 January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a “set”) is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Company’s financial statements.

In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323), Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. This Update adds an SEC paragraph to the Codification following an SEC Staff Announcement about applying Staff Accounting Bulletin (SAB) Topic 11.M. Specifically, this announcement applies to ASU 2014-09, Revenue from Contracts with Customers

(Topic 606); ASU 2016-02, Leases (Topic 842); and ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. A registrant should evaluate Updates that have not yet been adopted to determine the appropriate financial statement disclosures about the potential material effects of those Updates on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact that adoption of the Updates referenced in this announcement are expected to have on the financial statements, then in addition to making a statement to that effect, that registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. In this regard, the SEC staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies that the registrant expects to apply, if determined, and a comparison to the registrant's current accounting policies. Also, a registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments in this Update are effective immediately.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission ("SEC") filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. This Update is not expected to have a significant impact on the Company's financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The amendments in this Update clarify what constitutes a financial asset within the scope of Subtopic 610-20. The amendments also clarify that entities should identify each distinct nonfinancial asset or in substance nonfinancial asset that is promised to a counterparty and to derecognize each asset when the counterparty obtains control. There is also additional guidance provided for partial sales of a nonfinancial asset and when derecognition, and the related gain or loss, should be recognized. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715). The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718), which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-10, Service Concession Arrangements (Topic 853), which applies to the accounting by operating entities for service concession arrangements within the scope of Topic 853. The amendments in this Update clarify that the grantor (government), rather than the third-party drivers, is the customer of the operation services in all cases for service concession arrangements within the scope of Topic 853. For an entity that has not adopted Topic 606 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update generally are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by ASU 2014-09, Revenue from Contracts with Customers (Topic 606)). ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, deferred the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company’s financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivative and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down-round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down-round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (“EPS”) in accordance with Topic 260 to recognize the effect of the down-round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down- round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt-Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Accounting Standards Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied either retrospectively to outstanding financial instruments with a down-round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective or retrospectively to outstanding financial instruments with a down-round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. 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 were a total of 96,500 stock options, with an average exercise price of $43.61, outstanding on June 30, 2017. These options were excluded, on a weighted average basis, in the computation of diluted earnings per share for the period due to the average market price of common shares of $43.26 being in excess of the exercise price of the options. There were a total of 31,000 stock options outstanding for the same period end in 2016 that had an average exercise price of $42.03 and were excluded from the computation of diluted earnings per share because the average market price of common shares was $40.06 for the period. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average common shares outstanding - basic	4,711,332	4,733,251	4,723,003	4,736,878
Dilutive effect of outstanding stock options	—	—	—	—
Weighted average common shares outstanding - diluted	4,711,332	4,733,251	4,723,003	4,736,878

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Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
Mortgage-backed securities	$4,649	$ 83	$ (106)	$4,626
State and political securities	69,091	1,006	(130)	69,967
Other debt securities	53,671	135	(1,650)	52,156
Total debt securities	127,411	1,224	(1,886)	126,749
Financial institution equity securities	9,818	679	—	10,497
Non-financial institution equity securities	1,300	—	(42)	1,258
Total equity securities	11,118	679	(42)	11,755
Total investment securities AFS	$138,529	$ 1,903	$ (1,928)	$138,504

	December 31, 2016			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
Mortgage-backed securities	$9,295	$ 182	$ (164)	$9,313
Asset-backed securities	109	—	—	109
State and political securities	60,777	666	(509)	60,934
Other debt securities	53,046	137	(2,065)	51,118
Total debt securities	123,227	985	(2,738)	121,474
Financial institution equity securities	9,566	969	—	10,535
Non-financial institution equity securities	1,667	—	(184)	1,483
Total equity securities	11,233	969	(184)	12,018
Total investment securities AFS	$134,460	$ 1,954	$ (2,922)	$133,492

The amortized cost and fair values of trading investment securities at June 30, 2017 and December 31, 2016 are as follows.

	June 30, 2017			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
Financial institution equity securities	$61	$ 1	$ —	$62
Non-financial institution equity securities	157	—	(6)	151
Total trading securities	$218	$ 1	$ (6)	$213

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	December 31, 2016			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading:				
Financial institution equity securities	$—	$ —	$ —	$ —
Non-financial institution equity securities	$56	$ 2	$ —	$ 58
Total trading securities	$56	$ 2	$ —	$ 58

Total net trading gains of $0 and $2,000 for the three and six month periods ended June 30, 2017 compared to net trading gains of $6,000 and $46,000 for the three and six month periods ended June 30, 2016 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 June 30, 2017 and December 31, 2016.

	June 30, 2017					
	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):						
Mortgage-backed securities	$3,415	$ (106)	$ —	$ —	$3,415	$ (106)
State and political securities	12,175	(130)	—	—	12,175	(130)
Other debt securities	30,906	(914)	11,297	(736)	42,203	(1,650)
Total debt securities	46,496	(1,150)	11,297	(736)	57,793	(1,886)
Financial institution equity securities	—	—	—	—	—	—
Non-financial institution equity securities	1,258	(42)	—	—	1,258	(42)
Total equity securities	1,258	(42)	—	—	1,258	(42)
Total investment securities AFS	$47,754	$ (1,192)	$ 11,297	$ (736)	$59,051	$ (1,928)

	December 31, 2016					
	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):						
Mortgage-backed securities	$3,572	$ (106)	$ 3,627	$ (58)	$7,199	$ (164)
State and political securities	26,113	(509)	—	—	26,113	(509)
Other debt securities	28,140	(1,179)	12,240	(886)	40,380	(2,065)
Total debt securities	57,825	(1,794)	15,867	(944)	73,692	(2,738)
Financial institution equity securities	—	—	—	—	—	—
Non-financial institution equity securities	727	(140)	756	(44)	1,483	(184)
Total equity securities	727	(140)	756	(44)	1,483	(184)
Total investment securities AFS	$58,552	$ (1,934)	$ 16,623	$ (988)	$75,175	$ (2,922)

At June 30, 2017 there were a total of 54 securities in a continuous unrealized loss position for less than twelve months and 7 individual securities that were in a continuous unrealized loss position for twelve months or greater.

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The Company reviews its position quarterly and has determined that, at June 30, 2017, 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 June 30, 2017, 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	$ 2,140	$ 2,140
Due after one year to five years	46,434	45,944
Due after five years to ten years	63,600	63,222
Due after ten years	15,237	15,443
Total	$ 127,411	$ 126,749

Total gross proceeds from sales of securities available for sale for the three and six months ended June 30, 2017 were $6,478,000 and $9,130,000, a decrease from the 2016 totals of $16,168,000 and $36,007,000.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2017	2016	2017	2016
Gross realized gains:				
Mortgage-backed securities	$24	$6	69	6
State and political securities	15	339	29	638
Other debt securities	—	226	—	258
Financial institution equity securities	—	—	288	82
Non-financial institution equity securities	—	—	—	144
Total gross realized gains	$39	$571	$386	$1,128
Gross realized losses:				
U.S. Government and agency securities	$—	$3	$—	$3
Mortgage-backed securities	—	—	—	—
Asset-backed securities	—	—	—	—
State and political securities	—	—	—	—
Other debt securities	51	82	51	163
Financial institution equity securities	—	—	—	—
Non-financial institution equity securities	—	—	150	41
Total gross realized losses	$51	$85	$201	$207

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

(In Thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Gross realized gains:				
Financial institution equity securities	$ —	$ —	$ —	$ 6
Non-financial institution equity securities	6	9	8	68
Total gross realized gains	$ 6	$ 9	$ 8	$ 74
Gross realized losses:				
Financial institution equity securities	$ —	$ 3	$ —	$ 16
Non-financial institution equity securities	6	—	6	12
Total gross realized losses	$ 6	$ 3	$ 6	$ 28

There were no impairment charges included in gross realized losses for the three and six months ended June 30, 2017 and 2016, respectively.

Investment securities with a carrying value of approximately $103,864,000 and $95,199,000 at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016:

	June 30, 2017				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$ 147,297	$ 424	$ 9	$ 564	$ 148,294
Real estate mortgage:					
Residential	566,188	2,509	67	1,932	570,696
Commercial	307,285	632	1,152	8,649	317,718
Construction	33,986	18	101	—	34,105
Installment loans to individuals	68,862	637	—	24	69,523
	1,123,618	$ 4,220	$ 1,329	$ 11,169	1,140,336
Net deferred loan fees and discounts	(1,251)				(1,251)
Allowance for loan losses	(13,109)				(13,109)

Loans, net	$1,109,258	$1,125,976

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	December 31, 2016				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$145,179	$785	$ 14	$132	$146,110
Real estate mortgage:					
Residential	553,053	9,112	587	1,988	564,740
Commercial	296,537	786	268	8,591	306,182
Construction	33,879	771	—	—	34,650
Installment loans to individuals	43,008	202	1	45	43,256
	1,071,656	$11,656	$ 870	$10,756	1,094,938
Net deferred loan fees and discounts	(1,257)				(1,257)
Allowance for loan losses	(12,896)				(12,896)
Loans, net	$1,057,503				$1,080,785

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

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 six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,			
	2017		2016	
(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	$11	$ 6	$ 1	$ —
Real estate mortgage:				
Residential	51	32	24	13
Commercial	114	9	110	16
Construction	—	—	2	—
Installment	1	—	—	—
	$177	$ 47	$ 137	$ 29

	Six Months Ended June 30,			
	2017		2016	
(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	$13	$ 6	$ 4	$ 1
Real estate mortgage:				
Residential	94	51	56	27
Commercial	232	19	279	80
Construction	—	—	2	—
Installment	2	1	—	—
	$341	$ 77	$ 341	$ 108

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Impaired Loans

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 June 30, 2017 and December 31, 2016:

	June 30, 2017		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$39	$ 39	$ —
Real estate mortgage:			
Residential	1,900	1,900	—
Commercial	3,708	3,708	—
Installment loans to individuals	—	—	—
	5,647	5,647	—
With an allowance recorded:			
Commercial, financial, and agricultural	564	564	375
Real estate mortgage:			
Residential	1,262	1,304	243
Commercial	9,927	10,022	1,584
Installment loans to individuals	17	17	17
	11,770	11,907	2,219
Total:			
Commercial, financial, and agricultural	603	603	375
Real estate mortgage:			
Residential	3,162	3,204	243

Commercial	13,635	13,730	1,584
Installment loans to individuals	17	17	17
	$17,417	$ 17,554	$ 2,219

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	December 31, 2016		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$109	$ 109	$ —
Real estate mortgage:			
Residential	1,584	1,584	—
Commercial	1,833	1,833	—
Installment loans to individuals	—	—	—
	3,526	3,526	—
With an allowance recorded:			
Commercial, financial, and agricultural	132	132	74
Real estate mortgage:			
Residential	1,893	1,893	437
Commercial	10,425	10,520	1,668
Installment loans to individuals	—	—	—
	12,450	12,545	2,179
Total:			
Commercial, financial, and agricultural	241	241	74
Real estate mortgage:			
Residential	3,477	3,477	437
Commercial	12,258	12,353	1,668
Installment loans to individuals	—	—	—
	$15,976	$ 16,071	$ 2,179

The following table presents the average recorded investment in impaired loans and related interest income recognized for the three and six months ended for June 30, 2017 and 2016:

	Three Months Ended June 30,					
	2017			2016		
(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	$394	$ 3	$ 6	$513	$ 4	$ —
Real estate mortgage:						
Residential	3,199	14	30	2,985	22	13
Commercial	12,885	52	9	11,724	82	16
Construction	—	—	—	173	—	—
Installment loans to individuals	10	—	2	—	—	—
	$16,488	$ 69	$ 47	$15,395	$ 108	$ 29

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	Six Months Ended June 30,					
	2017			2016		
(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	$324	$ 7	$ 6	$498	$ 8	$ 4
Real estate mortgage:						
Residential	3,212	36	46	3,208	44	22
Commercial	12,635	85	19	12,410	164	82
Construction	—	—	—	186	—	—
Installment loans to individuals	8	—	2	—	—	—
	$16,179	$ 128	$ 73	$16,302	$ 216	$ 108

Currently, there is $78,000 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.

There were no loan modifications that were considered TDRs completed during the three and six months ended June 30, 2017. Loan modifications that are considered TDRs completed during the three and six months ended June 30, 2016 were as follows.

	Three Months Ended June 30,		
	2016		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	—	$ —	$ —
Real estate mortgage:			
Residential	2	342	342
Commercial	1	838	838
Construction	—	—	—
	3	$ 1,180	$ 1,180

	Six Months Ended June 30,		
	2016		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	—	$ —	$ —

Real estate mortgage:					
Residential	2	342		342	
Commercial	1	838		838	
Construction	—	—		—	
	3	$	1,180	$	1,180

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There were no loan modifications considered to be TDRs made during the twelve months previous to June 30, 2017 that defaulted during the six months ended June 30, 2017. There were five loan modifications considered TDRs made during the twelve months previous to June 30, 2016 that defaulted during the six months ended June 30, 2016. The defaulted loan types and recorded investments at March 31, 2016 are as follows: one commercial loan with a recorded investment of $103,000, one commercial real estate loan with a recorded investment of $239,000, and three residential real estate loan with a recorded investment of $173,000.

Troubled debt restructurings amounted to $8,402,000 and $9,180,000 as of June 30, 2017 and December 31, 2016.

The amount of foreclosed residential real estate held at June 30, 2017 and December 31, 2016, totaled $278,000 and $839,000, respectively. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2017 and December 31, 2016, totaled $69,000 and $167,000, 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 June 30, 2017 and December 31, 2016:

	June 30, 2017					
	Commercial, Financial, and Agricultural	Real Estate Mortgages				
(In Thousands)		Residential	Commercial	Construction	Installment Loans to Individuals	Totals
Pass	$143,855	$567,603	$ 292,505	$ 33,953	$ 69,523	$1,107,439
Special Mention	1,777	1,152	9,404	—	—	12,333
Substandard	2,662	1,941	15,809	152	—	20,564
	$148,294	$570,696	$ 317,718	$ 34,105	$ 69,523	$1,140,336

(In Thousands)	December 31, 2016 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Totals
Pass	$140,497	$561,440	$ 277,916	$ 34,493	$ 43,256	$1,057,602
Special Mention	2,943	740	11,143	—	—	14,826
Substandard	2,670	2,560	17,123	157	—	22,510
	$146,110	$564,740	$ 306,182	$ 34,650	$ 43,256	$1,094,938

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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, 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. However, management may adjust the moving average time frame by up to four quarters to adjust for variances in the economic cycle. 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 six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017						
		Real Estate Mortgages					
(In Thousands)	Commercial, Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,441	$5,571	$ 4,466	$ 187	$ 548	$ 692	$12,905
Charge-offs	200	(287)	—	—	(54)	—	(141)
Recoveries	105	5	1	2	17	—	130
Provision	(15)	48	(740)	(17)	268	671	215

Ending Balance	$1,731	$5,337	$ 3,727	$ 172	$ 779	$ 1,363	$13,109

	Three Months Ended June 30, 2016						
	Commercial, Financial, and Agricultural	Real Estate Mortgages					
(In Thousands)		Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,254	$5,123	$ 4,472	$ 147	$ 264	$ 1,122	$12,382
Charge-offs	(149)	(7)	—	—	(53)	—	(209)
Recoveries	52	3	—	2	29	—	86
Provision	116	732	(471)	(6)	37	(150)	258
Ending Balance	$1,273	$5,851	$ 4,001	$ 143	$ 277	$ 972	$12,517

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	Six Months Ended June 30, 2017						
	Commercial,	Real Estate Mortgages					
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,554	$5,383	$ 4,975	$ 178	$ 416	$ 390	$12,896
Charge-offs	(13)	(385)	—	—	(131)	—	(529)
Recoveries	111	35	1	5	45	—	197
Provision	79	304	(1,249)	(11)	449	973	545
Ending Balance	$1,731	$5,337	$ 3,727	$ 172	$ 779	$ 1,363	$13,109

	Six Months Ended June 30, 2016						
	Commercial,	Real Estate Mortgages					
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Beginning Balance	$1,532	$5,116	$ 4,217	$ 160	$ 243	$ 776	$12,044
Charge-offs	(149)	(7)	—	—	(104)	—	(260)
Recoveries	52	6	5	5	57	—	125
Provision	(162)	736	(221)	(22)	81	196	608
Ending Balance	$1,273	$5,851	$ 4,001	$ 143	$ 277	$ 972	$12,517

The shifts in allocation of the loan provision is due to an increase in residential originations along with a tapering of commercial originations along with the increase in installment loan volume.

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 June 30, 2017 and 2016:

	June 30,	
	2017	2016
Owners of residential rental properties	15.64%	16.74%
Owners of commercial rental properties	14.56%	14.14%

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 June 30, 2017 and December 31, 2016:

	June 30, 2017						
	Commercial,	Real Estate Mortgages					
(In Thousands)	Financial, and Agricultural	Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$375	$243	$ 1,584	$ —	$ 17	$ —	$2,219

Collectively evaluated for impairment	1,356	5,094	2,143	172	762	1,363	10,890
Total ending allowance balance	$1,731	$5,337	$3,727	$ 172	$ 779	$ 1,363	$13,109
Loans:							
Individually evaluated for impairment	$603	$3,162	$13,635	$ —	$ 17		$17,417
Collectively evaluated for impairment	147,691	567,534	304,083	34,105	69,506		1,122,919
Total ending loans balance	$148,294	$570,696	$317,718	$ 34,105	$ 69,523		$1,140,336

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(In Thousands)	December 31, 2016 Commercial, Financial, and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$74	$437	$ 1,668	$ —	$ —	$ —	$2,179
Collectively evaluated for impairment	1,480	4,946	3,307	178	416	390	10,717
Total ending allowance balance	$1,554	$5,383	$ 4,975	$ 178	$ 416	$ 390	$12,896
Loans:							
Individually evaluated for impairment	$241	$3,477	$ 12,258	$ —	$ —		$15,976
Collectively evaluated for impairment	145,869	561,263	293,924	34,650	43,256		1,078,962
Total ending loans balance	$146,110	$564,740	$ 306,182	$ 34,650	$ 43,256		$1,094,938

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, 2016.

The following sets forth the components of the net periodic benefit/cost of the domestic non-contributory defined benefit plan for the three and six months ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2017	2016	2017	2016
Service cost	$42	$17	$83	$34
Interest cost	189	193	378	386
Expected return on plan assets	(263)	(251)	(525)	(502)
Amortization of net loss	40	39	84	78
Net periodic benefit cost	$8	$(2)	$20	$(4)

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, 2016, that it expected to contribute a minimum of $500,000 to its defined benefit plan in 2017. As of June 30, 2017, there were contributions of $500,000 made to the plan with additional contributions of at least $250,000 anticipated during the remainder of 2017.

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 six months ended June 30, 2017 and 2016, there were 1,083 and 1,052 shares issued under the plan, respectively.

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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, 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 June 30, 2017 and December 31, 2016:

(In Thousands)	June 30, 2017	December 31, 2016
Commitments to extend credit	$281,335	$ 263,487
Standby letters of credit	10,474	6,515
Credit exposure from the sale of assets with recourse	6,761	6,341
	$298,570	$ 276,343

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.

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The following table presents the assets reported on the Consolidated Balance Sheet at their fair value on a recurring basis as of June 30, 2017 and December 31, 2016, 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.

	June 30, 2017			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
Mortgage-backed securities	$—	$4,626	$—	$4,626
State and political securities	—	69,967	—	69,967
Other debt securities	—	52,156	—	52,156
Financial institution equity securities	10,497	—	—	10,497
Non-financial institution equity securities	1,258	—	—	1,258
Investment securities, trading:				
Financial institution equity securities	62	—	—	62
Non-financial institution equity securities	151	—	—	151

	December 31, 2016			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
Mortgage-backed securities	$—	$9,313	$—	$9,313
Asset-backed securities	—	109	—	109
State and political securities	—	60,934	—	60,934
Other debt securities	—	51,118	—	51,118
Financial institution equity securities	10,535	—	—	10,535
Other equity securities	1,483	—	—	1,483
Investment securities, trading:				
Non-financial institution equity securities	58	—	—	58
Total assets measured on a recurring basis	$12,076	$121,474	$—	$133,550

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value on a non-recurring basis as of June 30, 2017 and December 31, 2016, 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.

	June 30, 2017			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$15,198	$15,198
Other real estate owned	—	—	531	531

	December 31, 2016			
(In Thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$—	$—	$13,797	$13,797
Other real estate owned	—	—	839	839

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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 June 30, 2017 and December 31, 2016:

	June 30, 2017				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$6,133	Discounted cash flow	Temporary reduction in payment amount	0 to (70)%	(18)%
	9,065	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (50)%	(16)%
Other real estate owned	$531	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

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

	December 31, 2016				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$5,304	Discounted cash flow	Temporary reduction in payment amount	0 to (70)%	(20)%
	8,493	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (20)%	(15)%
Other real estate owned	$839	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

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

The discounted cash flow valuation technique is utilized to determine the fair value of performing impaired loans, while non-performing impaired loans utilize the appraisal of collateral method.

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.

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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 June 30, 2017 and December 31, 2016:

	Carrying	Fair	Fair Value Measurements at June 30, 2017		
(In Thousands)	Value	Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$38,202	$38,202	$ 38,202	$ —	$ —
Investment securities:					
Available for sale	138,504	138,504	11,755	126,749	—
Trading	213	213	213	—	—
Loans held for sale	1,683	1,683	1,683	—	—
Loans, net	1,125,976	1,169,901	—	—	1,169,901
Bank-owned life insurance	27,670	27,670	27,670	—	—
Accrued interest receivable	3,641	3,641	3,641	—	—
Financial liabilities:					
Interest-bearing deposits	$851,056	$856,563	$ 651,773	$ —	$ 204,790
Noninterest-bearing deposits	300,054	300,054	300,054	—	—
Short-term borrowings	15,737	15,737	15,737	—	—
Long-term borrowings	75,998	76,123	—	—	76,123
Accrued interest payable	414	414	414	—	—

	Carrying	Fair	Fair Value Measurements at December 31, 2016		
(In Thousands)	Value	Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$43,671	$43,671	$ 43,671	$ —	$ —
Investment securities:					
Available for sale	133,492	133,492	12,018	121,474	—
Trading	58	58	58	—	—
Loans held for sale	1,953	1,953	1,953	—	—
Loans, net	1,080,785	1,088,122	—	—	1,088,122
Bank-owned life insurance	27,332	27,332	27,332	—	—
Accrued interest receivable	3,672	3,672	3,672	—	—
Financial liabilities:					
Interest-bearing deposits	$791,937	$789,401	$ 571,768	$ —	$ 217,633
Noninterest-bearing deposits	303,277	303,277	303,277	—	—
Short-term borrowings	13,241	13,241	13,241	—	—
Long-term borrowings	85,998	86,353	—	—	86,353
Accrued interest payable					