PENNS WOODS BANCORP INC
Form 10-Q
August 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

for the Quarterly Period Ended June 30, 2014.

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

For the Transition Period from to .

No. 0-17077
(Commission File Number)

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

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

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

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

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

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

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

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

On August 1, 2014 there were 4,820,951 shares of the Registrant’s common stock outstanding.

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INDEX TO QUARTERLY REPORT ON FORM 10-Q

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

(In Thousands, Except Share Data)	June 30, 2014	December 31, 2013
ASSETS:		
Noninterest-bearing balances	$22,905	$23,723
Interest-bearing deposits in other financial institutions	1,962	770
Federal funds sold	—	113
Total cash and cash equivalents	24,867	24,606
Investment securities available for sale, at fair value	263,026	288,612
Loans held for sale	1,827	1,626
Loans	856,332	818,344
Allowance for loan losses	(8,811)	(10,144)
Loans, net	847,521	808,200
Premises and equipment, net	21,007	20,184
Accrued interest receivable	4,235	4,696
Bank-owned life insurance	25,601	25,410
Investment in limited partnerships	1,891	2,221
Goodwill	17,104	17,104
Intangibles	1,621	1,801
Deferred tax asset	6,807	9,889
Other assets	7,340	7,646
TOTAL ASSETS	$1,222,847	$1,211,995
LIABILITIES:		
Interest-bearing deposits	$753,068	$755,625
Noninterest-bearing deposits	228,758	217,377
Total deposits	981,826	973,002
Short-term borrowings	21,926	26,716
Long-term borrowings	71,202	71,202
Accrued interest payable	399	405
Other liabilities	11,692	12,855
TOTAL LIABILITIES	1,087,045	1,084,180
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; 5,001,222 and 4,999,929 shares issued	41,676	41,665
Additional paid-in capital	49,846	49,800
Retained earnings	49,955	47,554
Accumulated other comprehensive income (loss):		
Net unrealized gain (loss) on available for sale securities	3,360	(2,169)
Defined benefit plan	(2,725)	(2,725)
Treasury stock at cost, 180,596 shares	(6,310)	(6,310)

TOTAL SHAREHOLDERS' EQUITY	135,802	127,815
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,222,847	$1,211,995

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Data)	2014	2013	2014	2013
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$8,912	$7,277	$17,725	$14,045
Investment securities:				
Taxable	1,406	1,507	2,864	2,950
Tax-exempt	892	1,162	1,823	2,429
Dividend and other interest income	147	72	274	134
TOTAL INTEREST AND DIVIDEND INCOME	11,357	10,018	22,686	19,558
INTEREST EXPENSE:				
Deposits	741	760	1,499	1,551
Short-term borrowings	12	22	27	47
Long-term borrowings	473	482	942	1,001
TOTAL INTEREST EXPENSE	1,226	1,264	2,468	2,599
NET INTEREST INCOME	10,131	8,754	20,218	16,959
PROVISION FOR LOAN LOSSES	300	575	785	1,075
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,831	8,179	19,433	15,884
NON-INTEREST INCOME:				
Service charges	607	538	1,202	980
Securities gains, net	487	1,274	880	2,260
Bank-owned life insurance	181	144	551	282
Gain on sale of loans	421	302	711	653
Insurance commissions	283	247	703	511
Brokerage commissions	251	299	522	547
Other	699	731	1,571	1,035
TOTAL NON-INTEREST INCOME	2,929	3,535	6,140	6,268
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,167	3,442	8,670	6,510
Occupancy	552	397	1,182	748
Furniture and equipment	648	412	1,319	820
Pennsylvania shares tax	262	208	506	392
Amortization of investment in limited partnerships	166	166	331	331
Federal Deposit Insurance Corporation deposit insurance	201	119	379	248
Marketing	126	120	236	215
Intangible amortization	88	31	180	31
Other	2,212	2,070	4,262	3,521
TOTAL NON-INTEREST EXPENSE	8,422	6,965	17,065	12,816
INCOME BEFORE INCOME TAX PROVISION	4,338	4,749	8,508	9,336
INCOME TAX PROVISION	875	1,090	1,576	1,993
NET INCOME	$3,463	$3,659	$6,932	$7,343
EARNINGS PER SHARE - BASIC	$0.72	$0.88	$1.44	$1.84
EARNINGS PER SHARE - DILUTED	$0.72	$0.88	$1.44	$1.84
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,820,193	4,151,035	4,819,886	3,995,716

WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,820,193	4,151,035	4,819,886	3,995,716
DIVIDENDS DECLARED PER SHARE	$0.47	$0.47	$0.94	$1.19

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)	2014	2013	2014	2013
Net Income	$3,463	$3,659	$6,932	$7,343
Other comprehensive income (loss):				
Change in unrealized gain (loss) on available for sale securities	3,930	(11,196)	9,258	(12,707)
Tax effect	(1,336)	3,807	(3,148)	4,321
Net realized gain included in net income	(487)	(1,274)	(880)	(2,260)
Tax effect	166	433	299	768
Total other comprehensive income (loss)	2,272	(8,230)	5,529	(9,878)
Comprehensive income (loss)	$5,735	$(4,571)	$12,461	$(2,535)

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)

	COMMON STOCK				ACCUMULATED		
(In Thousands, Except Per Share Data)	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2012	4,019,112	$ 33,492	$ 18,157	$ 43,030	$ 5,357	$ (6,310)	$ 93,726
Net income				7,343			7,343
Other comprehensive loss					(9,878)		(9,878)
Dividends declared, ($1.19 per share)				(5,030)			(5,030)
Common shares issued for employee stock purchase plan	792	7	24				31
Common shares issued for acquisition of Luzerne National Bank Corporation	978,977	8,158	31,578				39,736
Balance, June 30, 2013	4,998,881	$ 41,657	$ 49,759	$ 45,343	$ (4,521)	$ (6,310)	$ 125,928

	COMMON STOCK				ACCUMULATED		
(In Thousands, Except Per Share Data)	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2013	4,999,929	$ 41,665	$ 49,800	$ 47,554	$ (4,894)	$ (6,310)	$ 127,815
Net income				6,932			6,932
Other comprehensive income					5,529		5,529
Dividends declared, ($0.94 per share)				(4,531)			(4,531)
Common shares issued for employee stock purchase plan	1,293	11	46				57
Balance, June 30, 2014	5,001,222	$ 41,676	$ 49,846	$ 49,955	$ 635	$ (6,310)	$ 135,802

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)	2014	2013
OPERATING ACTIVITIES:		
Net Income	$6,932	$7,343
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	725	415
Amortization of intangible assets	180	31
Provision for loan losses	785	1,075
Accretion and amortization of investment security discounts and premiums	329	(117)
Securities gains, net	(880)	(2,260)
Originations of loans held for sale	(21,292)	(27,697)
Proceeds of loans held for sale	21,802	26,715
Gain on sale of loans	(711)	(653)
Earnings on bank-owned life insurance	(551)	(282)
Decrease (increase) in deferred tax asset	233	(162)
Other, net	(373)	889
Net cash provided by operating activities	7,179	5,297
INVESTING ACTIVITIES:		
Investment securities available for sale:		
Proceeds from sales	70,431	42,910
Proceeds from calls, maturities, and repayments of principal	3,582	8,780
Purchases	(39,578)	(63,942)
Net increase in loans	(40,239)	(23,666)
Acquisition of bank premises and equipment	(1,571)	(1,200)
Proceeds from the sale of foreclosed assets	475	—
Purchase of bank-owned life insurance	(25)	(977)
Proceeds from bank-owned life insurance death benefit	367	—
Proceeds from redemption of regulatory stock	1,072	548
Purchases of regulatory stock	(992)	(822)
Acquisition, net of cash acquired	—	17,487
Net cash used for investing activities	(6,478)	(20,882)
FINANCING ACTIVITIES:		
Net (decrease) increase in interest-bearing deposits	(2,557)	22,754
Net increase in noninterest-bearing deposits	11,381	13,625
Repayment of long-term borrowings	—	(5,528)
Net (decrease) increase in short-term borrowings	(4,790)	3,030
Dividends paid	(4,531)	(5,030)
Issuance of common stock	57	31
Net cash (used for) provided by financing activities	(440)	28,882
NET INCREASE IN CASH AND CASH EQUIVALENTS	261	13,297
CASH AND CASH EQUIVALENTS, BEGINNING	24,606	15,142
CASH AND CASH EQUIVALENTS, ENDING	$24,867	$28,439

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(In Thousands)	Six Months Ended June 30, 2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$2,474	$2,523
Income taxes paid	1,665	1,795
Transfer of loans to foreclosed real estate	134	26
Acquisition of Luzerne National Bank Corporation		
Non-cash assets acquired:		
Federal Funds Sold	—	67
Securities available for sale	—	21,783
Loans	—	250,377
Premises and equipment, net	—	8,014
Accrued interest receivable	—	726
Bank-owned life insurance	—	7,419
Intangibles	—	2,015
Other assets	—	2,636
Goodwill	—	14,072
	—	307,109
Liabilities assumed:		
Deferred tax liability	—	76
Interest-bearing deposits	—	194,438
Noninterest-bearing deposits	—	82,518
Short-term borrowings	—	2,766
Accrued interest payable	—	103
Other liabilities	—	4,892
	—	284,793
Net non-cash assets acquired	—	22,316
Cash acquired	$—	$20,296

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 "Bank") 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, 2013.

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 38 through 43 of the Annual Report on Form 10-K for the year ended December 31, 2013.

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

Note 2. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component as of June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
(In Thousands)	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total
Balance, March 31,	$1,088	$(2,725)	$(1,637)	$8,516	$(4,807)	$3,709
Other comprehensive income (loss) before reclassifications	2,593	—	2,593	(7,389)	—	(7,389)
Amounts reclassified from accumulated other comprehensive income (loss)	(321)	—	(321)	(841)	—	(841)
Net current-period other comprehensive income (loss)	2,272	—	2,272	(8,230)	—	(8,230)
Balance, June 30	$3,360	$(2,725)	$635	$286	$(4,807)	$(4,521)
	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
(In Thousands)	Net Unrealized Gain	Defined Benefit	Total	Net Unrealized Gain on Available	Defined Benefit	Total

	(Loss) on Available for Sale Securities	Plan		for Sale Securities	Plan	
Balance, December 31	$(2,169)	$(2,725)	$(4,894)	$10,164	$(4,807)	$5,357
Other comprehensive (loss) income before reclassifications	6,110	—	6,110	(8,386)	—	(8,386)
Amounts reclassified from accumulated other comprehensive (loss) income	(581)	—	(581)	(1,492)	—	(1,492)
Net current-period other comprehensive (loss) income	5,529	—	5,529	(9,878)	—	(9,878)
Balance, June 30	$3,360	$(2,725)	$635	$286	$(4,807)	$(4,521)

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The reclassifications out of accumulated other comprehensive income as of June 30, 2014 and 2013 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	
Net unrealized gain on available for sale securities	$ 487	$ 1,274	Securities gains, net
Income tax effect	166	433	Income tax provision
Total reclassifications for the period	$ 321	$ 841	Net of tax

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	
Net unrealized gain on available for sale securities	$ 880	$ 2,260	Securities gains, net
Income tax effect	299	768	Income tax provision
Total reclassifications for the period	$ 581	$ 1,492	Net of tax

Note 3. Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2014, FASB issued ASU 2014-01, Investments - Equity Method and Join Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. 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 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a

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modified retrospective transition method or a prospective transition method. 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 June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. 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 June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average common shares issued	5,000,789	4,331,631	5,000,482	4,176,312
Average treasury stock shares	(180,596)	(180,596)	(180,596)	(180,596)
Weighted average common shares and common stock equivalents used to calculate basic and diluted	4,820,193	4,151,035	4,819,886	3,995,716

earnings per share

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Note 5. Investment Securities

The amortized cost and fair values of investment securities at June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$5,975	$14	$(127)	$5,862
Mortgage-backed securities	11,420	593	(9)	12,004
Asset-backed securities	2,580	40	(3)	2,617
State and political securities	126,518	4,089	(1,411)	129,196
Other debt securities	99,197	1,202	(962)	99,437
Total debt securities	245,690	5,938	(2,512)	249,116
Financial institution equity securities	8,588	1,637	(3)	10,222
Other equity securities	3,657	122	(91)	3,688
Total equity securities	12,245	1,759	(94)	13,910
Total investment securities AFS	$257,935	$7,697	$(2,606)	$263,026

	December 31, 2013			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$9,989	$17	$(83)	$9,923
Mortgage-backed securities	9,966	694	(68)	10,592
Asset-backed securities	6,700	43	(179)	6,564
State and political securities	145,121	2,120	(5,446)	141,795
Other debt securities	108,939	879	(3,045)	106,773
Total debt securities	280,715	3,753	(8,821)	275,647
Financial institution equity securities	8,842	1,820	—	10,662
Other equity securities	2,342	28	(67)	2,303
Total equity securities	11,184	1,848	(67)	12,965
Total investment securities AFS	$291,899	$5,601	$(8,888)	$288,612

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, 2014 and December 31, 2013.

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(In Thousands)	June 30, 2014 Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$—	$—	$3,869	$(127)	$3,869	$(127)
Mortgage-backed securities	3,965	(6)	926	(3)	4,891	(9)
Asset-backed securities	—	—	612	(3)	612	(3)
State and political securities	8,989	(99)	11,530	(1,312)	20,519	(1,411)
Other debt securities	11,631	(237)	29,471	(725)	41,102	(962)
Total debt securities	24,585	(342)	46,408	(2,170)	70,993	(2,512)
Financial institution equity securities	132	(3)	—	—	132	(3)
Other equity securities	668	(59)	768	(32)	1,436	(91)
Total equity securities	800	(62)	768	(32)	1,568	(94)
Total	$25,385	$(404)	$47,176	$(2,202)	$72,561	$(2,606)

(In Thousands)	December 31, 2013 Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$7,740	$(83)	$—	$—	$7,740	$(83)
Mortgage-backed securities	2,483	(68)	—	—	2,483	(68)
Asset-backed securities	3,847	(177)	712	(2)	4,559	(179)
State and political securities	42,577	(2,558)	8,233	(2,888)	50,810	(5,446)
Other debt securities	73,254	(3,045)	—	—	73,254	(3,045)
Total debt securities	129,901	(5,931)	8,945	(2,890)	138,846	(8,821)
Financial institution equity securities	—	—	—	—	—	—
Other equity securities	274	(22)	655	(45)	929	(67)
Total equity securities	274	(22)	655	(45)	929	(67)
Total	$130,175	$(5,953)	$9,600	$(2,935)	$139,775	$(8,888)

At June 30, 2014 there were a total of 20 securities in a continuous unrealized loss position for less than twelve months and 48 individual securities that were in a continuous unrealized loss position for twelve months or greater.

The Company reviews its position quarterly and has determined that, at June 30, 2014, 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, 2014, 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.

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(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$3,760	$3,795
Due after one year to five years	38,383	38,921
Due after five years to ten years	107,423	107,642
Due after ten years	96,124	98,758
Total	$245,690	$249,116

Total gross proceeds from sales of securities available for sale were $70,431,000 and $42,910,000 for the six months ended June 30, 2014 and 2013, respectively. The following table represents gross realized gains and losses on those transactions:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2014	2013	2014	2013
Gross realized gains:				
U.S. Government and agency securities	$49	$—	$49	$—
Mortgage-backed securities	76	—	76	—
State and political securities	387	1,062	732	1,641
Other debt securities	155	178	462	299
Financial institution equity securities	16	—	128	130
Other equity securities	64	34	119	250
Total gross realized gains	$747	$1,274	$1,566	$2,320
Gross realized losses:				
U.S. Government and agency securities	$14	$—	$45	$—
State and political securities	83	—	403	60
Other debt securities	97	—	172	—
Other equity securities	66	—	66	—
Total gross realized losses	$260	$—	$686	$60

There were no impairment charges included in gross realized losses for the three and six months ended June 30, 2014 and 2013, respectively.

Note 6. Federal Home Loan Bank Stock

Jersey Shore State Bank and Luzerne Bank are both members of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such, are required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, new shares of FHLB stock continue to change hands at the $100 par value, and the payment of dividends.

Note 7. Credit Quality and Related Allowance for Loan Losses

Management segments the Bank's 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 and

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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, 2014 and December 31, 2013:

	June 30, 2014				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$118,326	$645	$ —	$156	$119,127
Real estate mortgage:					
Residential	413,513	3,261	397	444	417,615
Commercial	269,481	1,839	—	9,984	281,304
Construction	19,345	—	—	998	20,343
Installment loans to individuals	19,123	96	—	—	19,219
	839,788	$5,841	$ 397	$11,582	857,608
Net deferred loan fees and discounts	(1,276)				(1,276)
Allowance for loan losses	(8,811)				(8,811)
Loans, net	$829,701				$847,521

	December 31, 2013				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$104,419	$502	$ —	$108	$105,029
Real estate mortgage:					
Residential	392,300	6,424	531	526	399,781
Commercial	272,745	2,533	—	7,198	282,476
Construction	15,967	—	73	1,242	17,282
Installment loans to individuals	14,170	477	—	—	14,647
	799,601	$9,936	$ 604	$9,074	819,215
Net deferred loan fees and discounts	(871)				(871)
Allowance for loan losses	(10,144)				(10,144)
Loans, net	$788,586				$808,200

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

Upon the acquisition of Luzerne Bank on June 1, 2013, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. There were no material increases or decreases in the expected cash flows of these loans between June 1, 2013 (the "acquisition date") and June 30, 2014. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was $866,000 at June 30, 2014.

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

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fair value adjustment to loans. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount of $63,000 on the acquisition date relating to these impaired loans.

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

Changes in the amortizable yield for purchased credit-impaired loans were as follows for the six months ended June 30, 2014 and 2013:

(In Thousands)	June 30, 2014	June 30, 2013
Balance at beginning of period or at acquisition	$35	$63
Accretion	(12)	(4)
Balance at end of period	$23	$59

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

(In Thousands)	June 30, 2014	December 31, 2013
Outstanding balance	$1,222	$1,224
Carrying amount	866	868

There were no material increases or decreases in the expected cash flows of these loans between June 1, 2013 (the "acquisition date") and June 30, 2014. There has been no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality as of June 30, 2014.

The following table presents interest income the Bank 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, 2014 and 2013:

	Three Months Ended June 30,			
	2014		2013	
(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 and agricultural	$15	$1	$4	$—
Real estate mortgage:				
Residential	5	5	22	3
Commercial	147	53	31	34
Construction	24	—	40	14
	$191	$59	$97	$51
	Six Months Ended June 30,			
	2014		2013	
(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 and agricultural	$17	$1	$4	$—
Real estate mortgage:				
Residential	7	9	54	12
Commercial	275	86	116	84
Construction	35	—	81	25
	$334	$96	$255	$121

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Impaired Loans

Impaired loans are loans for which it is probable the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank evaluates 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 Bank may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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 Bank's policy on nonaccrual loans.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of June 30, 2014 and December 31, 2013:

	June 30, 2014		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and agricultural	$—	$—	$—
Real estate mortgage:			
Residential	454	563	—
Commercial	2,250	2,506	—
Construction	516	516	—
	3,220	3,585	—
With an allowance recorded:			
Commercial and agricultural	512	512	147
Real estate mortgage:			
Residential	630	653	56
Commercial	8,617	9,116	2,042
Construction	506	1,361	108
	10,265	11,642	2,353

Total:			
Commercial and agricultural	512	512	147
Real estate mortgage:			
Residential	1,084	1,216	56
Commercial	10,867	11,622	2,042
Construction	1,022	1,877	108
	$13,485	$15,227	$2,353

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	December 31, 2013		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and agricultural	$—	$—	$—
Real estate mortgage:			
Residential	916	1,173	—
Commercial	623	879	—
Construction	528	528	—
	2,067	2,580	—
With an allowance recorded:			
Commercial and agricultural	532	532	224
Real estate mortgage:			
Residential	319	342	65
Commercial	7,598	7,742	2,153
Construction	512	1,367	113
	8,961	9,983	2,555
Total:			
Commercial and agricultural	532	532	224
Real estate mortgage:			
Residential	1,235	1,515	65
Commercial	8,221	8,621	2,153
Construction	1,040	1,895	113
	$11,028	$12,563	$2,555

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, 2014 and 2013:

	Three Months Ended June 30,					
	2014			2013		
(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 and agricultural	$517	$ 7	$ —	$718	$ 7	$ —
Real estate mortgage:						
Residential	1,117	3	3	1,679	9	6
Commercial	10,901	19	2	8,491	46	38
Construction	1,025	—	—	2,532	—	14
	$13,560	$ 29	$ 5	$13,420	$ 62	$ 58

	Six Months Ended June 30,					
	2014			2013		
(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 and agricultural	$522	$ 13	$ —	$615	$ 13	$ —
Real estate mortgage:						
Residential	1,142	14	7	1,618	17	11
Commercial	10,008	61	14	8,598	93	84
Construction	1,030	2	8	3,718	553	553
	$12,702	$ 90	$ 29	$14,549	$ 676	$ 648

There is approximately $299,000 committed to be advanced in connection with impaired loans.

Modifications

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 are considered TDRs completed during the three and six months ended June 30, 2014. Loan modifications that are considered TDRs completed during the three and six months ended June 30, 2013 were as follows:

	Three Months Ended June 30, 2013		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage:			
Residential	2	$61	$ 61
	2	$61	$ 61

	Six Months Ended June 30, 2013		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage:			
Residential	2	$ 61	$ 61
Commercial	2	264	264

	4	$ 325	$ 325

There were two loan modifications considered troubled debt restructurings made during the twelve months previous to June 30, 2014 that defaulted during the six months ended June 30, 2014. The loans that defaulted are commercial real estate loans that are currently in litigation with a recorded investment of $1,629,000 at June 30, 2014.

Troubled debt restructurings amounted to $11,281,000 and $11,472,000 as of June 30, 2014 and December 31, 2013.

Internal Risk Ratings

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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 considered Substandard. 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 Bank has 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 all commercial relationships $800,000 or greater 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, 2014 and December 31, 2013:

	June 30, 2014					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$112,634	$415,617	$259,533	$19,645	$ 19,219	$826,648
Special Mention	5,173	1,569	9,438	202	—	16,382
Substandard	1,320	429	12,333	496	—	14,578
	$119,127	$417,615	$281,304	$20,343	$ 19,219	$857,608

	December 31, 2013					
	Commercial and	Real Estate Mortgages			Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$99,256	$398,327	$259,505	$13,608	$ 14,647	$785,343
Special Mention	4,529	598	10,181	214	—	15,522
Substandard	1,244	856	12,790	3,460	—	18,350
	$105,029	$399,781	$282,476	$17,282	$ 14,647	$819,215

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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 Bank's 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 Bank's ALL.

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

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

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

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

There has been no allowance for loan losses recorded for loans acquired in the Luzerne Bank transaction with or without specific evidence of deterioration in credit quality as of June 1, 2013 as well as those acquired without specific evidence of deterioration in credit quality as of June 30, 2014.

Activity in the allowance is presented for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$537	$3,062	$3,324	$795	$161	$641	$8,520
Charge-offs	—	(7)	—	—	(28)	—	(35)
Recoveries	8	1	—	—	17	—	26
Provision	149	206	70	(77)	48	(96)	300

Ending Balance	$694	$3,262	$3,394	$718	$198	$545	$8,811

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	Three Months Ended June 30, 2013						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$568	$2,772	$3,759	$814	$144	$773	$8,830
Charge-offs	—	—	(6)	—	(25)	—	(31)
Recoveries	11	4	5	—	10	—	30
Provision	(39)	269	230	29	12	74	575
Ending Balance	$540	$3,045	$3,988	$843	$141	$847	$9,404

	Six Months Ended June 30, 2014						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$474	$3,917	$4,079	$741	$139	$794	$10,144
Charge-offs	—	(63)	(2,038)	—	(68)	—	(2,169)
Recoveries	11	3	—	—	37	—	51
Provision	209	(595)	1,353	(23)	90	(249)	785
Ending Balance	$694	$3,262	$3,394	$718	$198	$545	$8,811

	Six Months Ended June 30, 2013						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Beginning Balance	$361	$1,954	$3,831	$950	$144	$377	$7,617
Charge-offs	—	(134)	(6)	—	(50)	—	(190)
Recoveries	13	5	6	850	28	—	902
Provision	166	1,220	157	(957)	19	470	1,075
Ending Balance	$540	$3,045	$3,988	$843	$141	$847	$9,404

The Company grants commercial, industrial, residential, and installment loans to customers throughout north-east and central Pennsylvania. Although the Company has a diversified loan portfolio at June 30, 2014, 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 loans at June 30, 2014 and 2013 as follows:

	June 30, 2014	2013
Owners of residential rental properties	15.69%	14.71%
Owners of commercial rental properties	14.12%	14.15%

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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, 2014 and December 31, 2013:

	June 30, 2014						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 147	$ 56	$ 2,042	$ 108	$ —	$ —	$ 2,353
Collectively evaluated for impairment	547	3,206	1,352	610	198	545	6,458
Total ending allowance balance	$ 694	$ 3,262	$ 3,394	$ 718	$ 198	$ 545	$ 8,811
Loans:							
Individually evaluated for impairment	$ 512	$ 732	$ 10,353	$ 1,022	$ —		$ 12,619
Loans acquired with deteriorated credit quality	—	352	514	—	—		866
Collectively evaluated for impairment	118,615	416,531	270,437	19,321	19,219		844,123
Total ending loans balance	$ 119,127	$ 417,615	$ 281,304	$ 20,343	$ 19,219		$ 857,608

	December 31, 2013						
	Commercial and	Real Estate Mortgages			Installment Loans		
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Unallocated	Totals
Allowance for Loan Losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 224	$ 65	$ 2,153	$ 113	$ —	$ —	$ 2,555
Collectively evaluated for impairment	250	3,852	1,926	628	139	794	7,589
Total ending allowance balance	$ 474	$ 3,917	$ 4,079	$ 741	$ 139	$ 794	$ 10,144
Loans:							
Individually evaluated for impairment	$ 532	$ 881	$ 7,707	$ 1,040	$ —		$ 10,160
Loans acquired with deteriorated credit	—	354	514	—			868

quality						
Collectively evaluated for impairment	104,497	398,546	274,255	16,242	14,647	808,187
Total ending loans balance	$105,029	$399,781	$282,476	$17,282	$ 14,647	$819,215

Note 8. Net Periodic Benefit Cost-Defined Benefit Plans

For a detailed disclosure on the Company's pension and employee benefits plans, please refer to Note 12 of the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2014