MID PENN BANCORP INC
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania	25-1666413

(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification Number)
349 Union Street	
Millersburg, Pennsylvania (Address of Principal Executive Offices)	17061 (Zip Code)

Registrant's telephone number, including area code 1.866.642.7736

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 No

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

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

Large accelerated filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of November 13, 2015, the registrant had 4,225,720 shares of common stock outstanding.

MID PENN BANCORP, INC.

FORM 10-Q

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Unless the context otherwise requires, the terms “Mid Penn”, “we”, “us”, and “our” refer to Mid Penn Bancorp, Inc. and its consolidated subsidiaries

MID PENN BANCORP, INC. Consolidated Balance Sheets (Unaudited)

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 17,153	$ 8,869
Interest-bearing balances with other financial institutions	2,081	1,013
Total cash and cash equivalents	19,234	9,882
Interest-bearing time deposits with other financial institutions	5,313	5,772
Available for sale investment securities	133,696	141,634
Loans and leases, net of unearned interest	719,085	571,533
Less: Allowance for loan and lease losses	(6,984)	(6,716)
Net loans and leases	712,101	564,817
Bank premises and equipment, net	14,196	12,225
Restricted investment in bank stocks	3,919	3,181
Foreclosed assets held for sale	990	565
Accrued interest receivable	3,415	3,058
Deferred income taxes	2,976	2,125
Goodwill	3,918	1,016
Core deposit and other intangibles, net	699	187
Cash surrender value of life insurance	12,446	8,575
Other assets	2,362	2,620
Total Assets	$ 915,265	$ 755,657
LIABILITIES & SHAREHOLDERS’ EQUITY		
Deposits:		
Noninterest bearing demand	$ 96,916	$ 60,613
Interest bearing demand	255,672	222,712
Money Market	204,928	197,418
Savings	56,032	32,394
Time	161,602	124,785
Total Deposits	775,150	637,922
Short-term borrowings	5,712	578
Long-term debt	51,363	52,961
Accrued interest payable	605	349
Other liabilities	6,915	4,717
Total Liabilities	839,745	696,527
Shareholders' Equity:		
Series B Preferred stock, par value $1.00; liquidation value $1,000; authorized 5,000 shares; 7% non-cumulative dividend; 5,000 shares issued and outstanding at September 30, 2015 and at December 31, 2014; total redemption value $5,100,000	5,000	5,000

Series C Preferred stock, par value \$1.00; liquidation value \$1,000; authorized 1,750 shares; 1% non-cumulative dividend; 1,750 shares issued and outstanding at September 30, 2015 and 0 shares issued and outstanding at December 31, 2014; total redemption value \$1,750,000	1,750	-
Common stock, par value \$1.00; authorized 10,000,000 shares; 4,225,720 shares issued and outstanding at September 30, 2015 and 3,497,829 at December 31, 2014	4,226	3,498
Additional paid-in capital	40,535	29,902
Retained earnings	22,569	19,217
Accumulated other comprehensive income	1,440	1,513
Total Shareholders' Equity	75,520	59,130
Total Liabilities and Shareholders' Equity	\$ 915,265	\$ 755,657

The accompanying notes are an integral part of these consolidated financial statements.

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MID PENN BANCORP, INC. Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME				
Interest & fees on loans and leases	$ 8,448	$ 6,657	$ 24,345	$ 20,122
Interest on interest-bearing balances	12	11	34	31
Interest and dividends on investment securities:				
U.S. Treasury and government agencies	293	359	928	994
State and political subdivision obligations, tax-exempt	484	563	1,532	1,618
Other securities	102	43	301	118
Interest on federal funds sold and securities purchased under agreements to resell	-	-	1	-
Total Interest Income	9,339	7,633	27,141	22,883
INTEREST EXPENSE				
Interest on deposits	987	953	2,881	2,921
Interest on short-term borrowings	14	5	36	26
Interest on long-term debt	149	131	511	369
Total Interest Expense	1,150	1,089	3,428	3,316
Net Interest Income	8,189	6,544	23,713	19,567
PROVISION FOR LOAN AND LEASE LOSSES	265	395	865	1,217
Net Interest Income After Provision for Loan and Lease Losses	7,924	6,149	22,848	18,350
NONINTEREST INCOME				
Income from fiduciary activities	120	120	367	445
Service charges on deposits	186	154	503	417
Net gain on sales of investment securities	138	-	315	150
Earnings from cash surrender value of life insurance	71	50	198	152
Mortgage banking income	106	95	326	208
ATM debit card interchange income	189	138	540	403
Merchant services income	64	65	175	198
Net gain on sales of SBA loans	73	19	216	97
Other income	138	100	487	339
Total Noninterest Income	1,085	741	3,127	2,409
NONINTEREST EXPENSE				
Salaries and employee benefits	3,471	2,635	10,231	8,026
Occupancy expense, net	498	282	1,448	986
Equipment expense	346	297	1,081	908
Pennsylvania Bank Shares tax expense	106	64	337	272
FDIC Assessment	166	134	470	405
Legal and professional fees	151	101	455	366
Director fees and benefits expense	92	83	267	238
Marketing and advertising expense	137	95	372	227
Software licensing	380	238	1,103	687
Telephone expense	169	108	432	304
Loss on sale/write-down of foreclosed assets	47	52	64	109
Intangible amortization	26	8	61	22

Loan collection costs	67	76	235	229
Merger and acquisition expense	-	11	784	11
Other expenses	913	745	2,511	1,945
Total Noninterest Expense	6,569	4,929	19,851	14,735
INCOME BEFORE PROVISION FOR INCOME TAXES	2,440	1,961	6,124	6,024
Provision for income taxes	546	366	1,223	1,211
NET INCOME	1,894	1,595	4,901	4,813
Series B preferred stock dividends	88	88	263	263
Series C preferred stock dividends	4	-	8	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,802	$ 1,507	$ 4,630	$ 4,550
PER COMMON SHARE DATA:				
Basic Earnings Per Common Share	$ 0.43	$ 0.43	$ 1.14	$ 1.30
Cash Dividends	$ 0.12	$ 0.10	$ 0.32	$ 0.25

The accompanying notes are an integral part of these consolidated financial statements.

MID PENN BANCORP, INC. Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)	Three Months Ended September 30, 2015	2014
Net income	$ 1,894	$ 1,595
Other comprehensive income:		
Unrealized gains arising during the period on available for sale securities, net of income taxes of $464 and $40, respectively	898	77
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of ($47) and $0, respectively (1) (3)	(91)	-
Change in defined benefit plans, net of income taxes of $2 and $3, respectively (2) (3)	2	4
Total other comprehensive income	809	81
Total comprehensive income	$ 2,703	$ 1,676

(Dollars in thousands)	Nine Months Ended September 30, 2015	2014
Net income	$ 4,901	$ 4,813
Other comprehensive income (loss):		
Unrealized gains arising during the period on available for sale securities, net of income taxes of $66 and $1,171, respectively	128	2,270
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of ($107) and ($51), respectively (1) (3)	(208)	(99)
Change in defined benefit plans, net of income taxes of $4 and $6, respectively (2) (3)	7	10

Total other comprehensive (loss) income	(73)	2,181
Total comprehensive income	$ 4,828	$ 6,994

(1) Amounts are included in net gain on sales of investment securities on the Consolidated Statements of Income as a separate element within total noninterest income

(2) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income as a separate element within total noninterest expense

(3) Income tax amounts are included in the provision for income taxes in the Consolidated Statements of Income

The accompanying notes are an integral part of these consolidated financial statements.

MID PENN BANCORP, INC. Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2015	$ 5,000	$ 3,498	$ 29,902	$ 19,217	$ 1,513	$ 59,130
Net income	-	-	-	4,901	-	4,901
Total other comprehensive loss, net of taxes	-	-	-	-	(73)	(73)
Employee Stock Purchase Plan (3,166 shares)	-	3	47	-	-	50
Common stock dividends	-	-	-	(1,278)	-	(1,278)
Series B preferred stock dividends	-	-	-	(263)	-	(263)
Series C preferred stock dividends	-	-	-	(8)	-	(8)
SBLF preferred stock in connection with Phoenix acquisition	1,750	-	-	-	-	1,750
Common stock issued to Phoenix shareholders	-	724	10,568	-	-	11,292
Restricted stock purchase (875 shares)	-	1	-	-	-	1
Restricted stock compensation expense	-	-	18	-	-	18
Balance, September 30, 2015	$ 6,750	$ 4,226	$ 40,535	$ 22,569	$ 1,440	$ 75,520
Balance, January 1, 2014	$ 5,000	$ 3,494	$ 29,853	$ 15,441	$ (872)	$ 52,916
Net income	-	-	-	4,813	-	4,813
Total other comprehensive income, net of taxes	-	-	-	-	2,181	2,181
Employee Stock Purchase Plan (2,519 shares)	-	3	35	-	-	38
Common stock dividends	-	-	-	(874)	-	(874)
Series B Preferred stock dividends	-	-	-	(263)	-	(263)
Balance, September 30, 2014	$ 5,000	$ 3,497	$ 29,888	$ 19,117	$ 1,309	$ 58,811

The accompanying notes are an integral part of these consolidated financial statements.

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MID PENN BANCORP, INC. Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2015	2014
Operating Activities:		
Net Income	$ 4,901	$ 4,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	865	1,217
Depreciation	1,082	934
Amortization of intangibles	66	46
Net amortization of security premiums	1,867	925
Gain on sales of investment securities	(315)	(150)
Earnings on cash surrender value of life insurance	(198)	(152)
SBA loans originated for sale	(2,915)	(943)
Proceeds from sales of SBA loans originated for sale	3,131	1,040
Gain on sale of loans	(216)	(97)
Loss on disposal of property, plant, and equipment	-	8
Loss on sale / write-down of foreclosed assets	64	109
Restricted stock compensation expense	19	-
Deferred income tax (benefit) expense	(300)	71
Decrease (increase) in accrued interest receivable	31	(296)
Decrease (increase) in other assets	882	(94)
Increase in accrued interest payable	224	253
Increase (decrease) in other liabilities	1,322	(621)
Net Cash Provided By Operating Activities	10,510	7,063
Investing Activities:		
Net decrease in interest-bearing time deposits with other financial institutions	459	1,741
Proceeds from the maturity of investment securities	8,080	10,497
Proceeds from the sale of investment securities	33,962	7,199
Purchases of investment securities	(24,446)	(40,511)
Net cash received from acquisition	8,095	-
Purchases of restricted investment in bank stock	(229)	(426)
Net increase in loans and leases	(38,671)	(23,613)
Purchases of bank premises and equipment	(1,261)	(776)
Proceeds from sale of foreclosed assets	396	798
Net Cash Used In Investing Activities	(13,615)	(45,091)
Financing Activities:		
Net increase in deposits	13,990	37,867
Net increase (decrease) in short-term borrowings	5,134	(1,979)
Series B preferred stock dividend paid	(263)	(263)
Series C preferred stock dividend paid	(8)	-
Common stock dividend paid	(1,278)	(874)
Employee Stock Purchase Plan	50	38
Proceeds from long-term debt borrowings	-	10,000
Long-term debt repayment	(5,168)	(137)

Net Cash Provided By Financing Activities	12,457	44,652
Net increase in cash and cash equivalents	9,352	6,624
Cash and cash equivalents, beginning of year	9,882	8,623
Cash and cash equivalents, end of year	$ 19,234	$ 15,247

Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 3,173	$ 3,063
Income taxes paid	$ 930	$ 870
Supplemental Noncash Disclosures:		
Loan transfers to foreclosed assets held for sale	$ 885	$ 791

Assets, Liabilities, and Equity in Connection with Merger:
(Dollars in thousands)

Assets Acquired:		
Securities	$ 11,331	$ -
Loans	110,363	-
Restricted stock	509	-
Property and equipment	1,792	-
Accrued interest receivable	388	-
Core deposit and other intangible assets	578	-
Bank-owned life insurance	3,673	-
Other assets	1,127	-
	$ 129,761	$ -
Liabilities Assumed:		
Deposits	$ 123,238	$ -
Accrued interest payable	32	-
Long-term debt	3,570	-
Other liabilities	876	-
	$ 127,716	$ -
Equity Acquired:		
Preferred stock	$ 1,750	$ -

The accompanying notes are an integral part of these consolidated financial statements.

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(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Mid Penn Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries, Mid Penn Bank (the “Bank”), and the Bank’s wholly-owned subsidiary Mid Penn Insurance Services, LLC (collectively, “Mid Penn”). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Mid Penn believes the information presented is not misleading and the disclosures are adequate. For comparative purposes, the September 30, 2014 and December 31, 2014 balances have been reclassified, when, and if necessary, to conform to the 2015 presentation. Such reclassifications had no impact on net income. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2015, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

(2) Merger

On March 1, 2015, Phoenix Bancorp, Inc. (“Phoenix”) merged with, and into, the Company, with the Company continuing as the surviving entity. Simultaneously with the consummation of the foregoing merger, Miners Bank (“Miners”), a Pennsylvania-state chartered bank and wholly-owned subsidiary of Phoenix, merged with and into the Bank.

As part of this transaction, Phoenix shareholders received either 3.167 shares of the Company’s common stock or $51.60 in cash in exchange for each share of Phoenix common stock. Holders of contingent rights issued by Phoenix received approximately 0.414 shares of the Company’s common stock as settlement of such rights. As a result, the Company issued 723,851 shares of common stock with an acquisition date fair value of approximately $11,292,000, based on the closing stock price of the Company’s common stock on February 27, 2015 of $15.60, and cash of

$2,949,000. Including an insignificant amount of cash paid in lieu of fractional shares, the fair value of total consideration paid was $14,241,000.

Additionally, as part of this transaction, on March 1, 2015, the Company assumed all of the liabilities and obligations of Phoenix with respect to 1,750 shares of Phoenix's preferred stock issued to the United States Treasury ("Treasury") in connection with the Small Business Lending Fund and issued 1,750 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C, having a $1,000 liquidation preference per share (the "SBLF Preferred Shares"), to the Treasury. The SBLF Preferred Shares qualify as Tier 1 capital and have terms and conditions identical to those shares of preferred stock issued by Phoenix to the Treasury.

The assets and liabilities of Miners and Phoenix were recorded on the consolidated balance sheet at their estimated fair value as of March 1, 2015, and their results of operations have been included in the consolidated income statement since such date.

Included in the purchase price was goodwill and a core deposit intangible of $2,902,000 and $578,000, respectively. The core deposit intangible will be amortized over a ten-year period using a sum of the year's digits basis. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. Core deposit intangible amortization expense projected for the succeeding five years beginning 2015 is estimated to be $88,000, $96,000, $86,000, $75,000, and $65,000 per year, respectively, and $168,000 in total for years after 2019.

The allocation of the purchase price is as follows:

(Dollars in thousands)	
Purchase price assigned to Phoenix common shares exchanged for 723,851 Mid Penn common shares	$ 11,292
Purchase price assigned to Phoenix common shares exchanged for cash	2,949
Total purchase price	14,241
Phoenix net assets acquired:	
Tangible Common Equity	12,292
Estimated adjustments to reflect assets acquired and liabilities assumed at fair value:	
Total fair value adjustments	(1,456)
Associated deferred income taxes	503
Fair value adjustment to net assets acquired, net of tax	(953)
Total Phoenix net assets acquired	11,339
Goodwill resulting from the merger	$ 2,902

While Mid Penn believes that the accounting for the merger is complete, Accounting Standards Codification ("ASC") Topic 805, Business Combinations, allows for adjustments to goodwill for a period of up to one year after the merger date for information that becomes available that reflects circumstances at the merger date. Adjustments to certain amounts associated with the merger were made during the current quarter and were not considered significant. The following table summarizes the estimated fair value of the assets acquired and liabilities and equity assumed.

(Dollars in thousands)	
Total purchase price	$ 14,241
Net assets acquired:	
Cash and cash equivalents	11,044
Investment securities	11,331
Restricted stock	509
Loans	110,363
Bank owned life insurance	3,673
Premises and equipment	1,792
Accrued interest receivable	388
Core deposit and other intangibles	578
Other assets	1,127
Deposits	(123,238)
FHLB borrowings	(3,570)

Accrued interest payable	(32)
Other liabilities	(876)
Preferred stock	(1,750)
	11,339
Goodwill	$ 2,902

The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $112,816,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired.

(Dollars in thousands)	
Gross amortized cost basis at March 1, 2015	$ 112,816
Market rate adjustment	270
Credit fair value adjustment on pools of homogeneous loans	(1,461)
Credit fair value adjustment on impaired loans	(1,262)
Fair value of purchased loans at March 1, 2015	$ 110,363

The market rate adjustment represents the movement in market interest rates, irrespective of credit adjustments, compared to the stated rates of the acquired loans. The credit adjustment made on pools of homogeneous loans represents the changes in credit quality of the underlying borrowers from the loan inception to the acquisition date. The credit adjustment on impaired loans is derived in accordance with ASC 310-30-30 and represents the portion of the loan balance that has been deemed uncollectible based on our expectations of future cash flows for each respective loan.

The information about the acquired Phoenix impaired loan portfolio as of March 1, 2015 is as follows:

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$ 3,548
Contractual cash flows not expected to be collected (nonaccretable discount)	(804)
Expected cash flows at acquisition	2,744
Interest component of expected cash flows (accretable discount)	(458)
Fair value of acquired loans	$ 2,286

The following table presents pro forma information as if the merger between Mid Penn and Phoenix had been completed on January 1, 2014. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mid Penn merged with Phoenix at the beginning of 2014. Supplemental pro forma earnings for 2015 were adjusted to exclude $784,000 of merger related costs incurred for the three and nine months ended September 30, 2015; the results for the first three and nine months of 2014 were adjusted to include these charges. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies, or other factors.

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income after loan loss provision	$ 7,924	$ 7,439	$ 23,484	$ 22,257
Noninterest income	1,085	980	3,192	3,057
Noninterest expense	7,353	7,318	20,934	18,982
Net income available to common shareholders	1,251	1,568	4,403	4,812
Net income per common share	0.30	0.37	1.04	1.14

The amount of total revenue, consisting of interest income plus noninterest income specifically related to Phoenix for the period beginning March 1, 2015, included in the consolidated statements of income of Mid Penn for the three and nine months ended September 30, 2015, was $1,329,000 and $3,157,000, respectively. The net income specifically related to Phoenix for the period beginning March 1, 2015, included in the consolidated statements of income of Mid Penn for the three and nine months ended September 30, 2015, was $243,000 and $540,000, respectively.

(3) Investment Securities

Securities to be held for indefinite periods, but not intended to be held to maturity, are classified as available for sale and carried at fair value. Securities held for indefinite periods include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to liquidity needs, changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes.

Realized gains and losses on dispositions are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between amortized cost and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through Mid Penn’s consolidated statements of income.

ASC Topic 320, Investments – Debt and Equity Securities, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment.

In instances when a determination is made that other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intent and ability to hold the securities until recovery of unrealized losses.

At September 30, 2015 and December 31, 2014, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2015				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	$ 26,323	$ 1,060	$ 41	$ 27,342
Mortgage-backed U.S. government agencies	36,136	170	117	36,189
State and political subdivision obligations	65,630	1,482	230	66,882
Equity securities	3,266	90	73	3,283
	$ 131,355	$ 2,802	$ 461	$ 133,696

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	$ 26,343	$ 752	$ 29	$ 27,066
Mortgage-backed U.S. government agencies	33,763	190	177	33,776
State and political subdivision obligations	77,482	2,007	318	79,171
Equity securities	1,584	60	23	1,621
	$ 139,172	$ 3,009	$ 547	$ 141,634

Estimated fair values of debt securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Investment securities having a fair value of $127,025,000 at September 30, 2015 and $134,740,000 at December 31, 2014, were pledged to secure public deposits and other borrowings.

Mid Penn realized gross gains of $138,000 and $0 on sales of securities available for sale during the three months ended September 30, 2015 and September 30, 2014. For the nine months ended September 30, 2015 and September 30, 2014, Mid Penn realized $315,000 and $150,000, respectively, on sales of securities available for sale. Mid Penn realized gross losses on the sale of securities available for sale of $0 during the three and nine months ended September 30, 2015 and September 30, 2014.

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014.

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
September 30, 2015	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available for sale securities:									
U.S. Treasury and U.S. government agencies	3	$ 2,895	$ 29	2	$ 1,456	$ 12	5	$ 4,351	$ 41
Mortgage-backed U.S. government agencies	8	8,276	46	7	4,128	71	15	12,404	117
State and political subdivision obligations	31	14,564	120	4	2,936	110	35	17,500	230
Equity securities	1	997	3	3	1,196	70	4	2,193	73
Total temporarily impaired available for sale securities	43	$ 26,732	$ 198	16	$ 9,716	$ 263	59	$ 36,448	$ 461

(Dollars in thousands)	Less Than 12 Months			12 Months or More			Total		
December 31, 2014	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available for sale securities:									
U.S. Treasury and U.S. government agencies	5	$ 6,059	$ 29	-	$ -	$ -	5	$ 6,059	$ 29
Mortgage-backed U.S. government agencies	15	9,511	62	5	4,416	115	20	13,927	177
State and political subdivision obligations	9	4,444	33	28	13,947	285	37	18,391	318
Equity securities	-	-	-	2	583	23	2	583	23

Total temporarily impaired available for sale securities	29	$ 20,014	$ 124	35	$ 18,946	$ 423	64	$ 38,960	$ 547

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis; and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, and the financial condition and near term prospects of the issuer. In addition, for debt securities, the Corporation considers (a) whether management has the intent to sell the security, (b) it is more likely than not that management will be required to sell the security prior to its anticipated recovery, and (c) whether management expects to recover the entire amortized cost basis. For equity securities, management considers the intent and ability to hold securities until recovery of unrealized losses.

The majority of the investment portfolio is comprised of mortgage-backed U.S. government agencies and state and political subdivision obligations with school districts and municipal authorities throughout the U.S. For the investment securities with an unrealized loss, Mid Penn has concluded, based on its analysis, that the unrealized losses in the investments are primarily caused by the movement of interest rates, and the contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment.

At September 30, 2015, 55 debt securities and 4 equity securities with unrealized losses totaling $461,000 depreciated 1.26% from their amortized cost basis. At September 30, 2015, 13 debt securities and 3 equity securities had unrealized losses for twelve months or longer totaling $266,000, of which the largest loss was attributed to state and political subdivision obligations with $110,000 in unrealized losses. At December 31, 2014, 62 debt securities and 2 equity securities with unrealized losses totaling $547,000 depreciated 1.40% from their amortized cost basis. At December 31, 2014, 33 debt securities and 2 equity securities had unrealized losses for twelve months or longer totaling $423,000, of which the majority was attributed to mortgage-backed U.S. government agencies and state and political subdivision obligations with $115,000 and $285,000 in unrealized losses, respectively.

Because Mid Penn does not intend to sell these investments and it is not likely it will be required to sell these investments before a recovery of fair value, which may be maturity, Mid Penn does not consider the securities with unrealized losses to be other-than-temporarily impaired as losses relate to changes in interest rates and not erosion of credit quality.

The table below is the maturity distribution of investment securities at amortized cost and fair value.

(Dollars in thousands)	September 30, 2015	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 7,483	$ 7,600
Due after 1 year but within 5 years	26,240	27,301
Due after 5 years but within 10 years	47,628	48,882
Due after 10 years	10,602	10,441
	91,953	94,224
Mortgage-backed securities	36,136	36,189
Equity securities	3,266	3,283
	$ 131,355	$ 133,696

(4) Loans and Allowance for Loan and Lease Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. These amounts are generally being amortized over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, commercial real estate-construction and lease financing. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

For all classes of loans, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days or more past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan and lease losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Commercial and industrial

Mid Penn originates commercial and industrial loans. Most of the Bank's commercial and industrial loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory, and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present, and future cash flows is also an important aspect of the Bank's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

Commercial and industrial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself, which, in turn, is likely to be dependent upon the general economic environment. Mid Penn's commercial and industrial loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business.

Commercial real estate and commercial real estate - construction

Commercial real estate and commercial real estate construction loans generally present a higher level of risk than loans secured by one to four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. In addition, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Residential mortgage

Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan to value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85% loan to value level. Residential mortgage loans generally do not include prepayment penalties.

In underwriting residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by Mid Penn are appraised by independent fee appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Bank underwrites residential mortgage loans to the standards established by the secondary mortgage market, i.e., Fannie Mae, Ginnie Mae, Freddie Mac, or Pennsylvania Housing Finance Agency standards, with the intention of selling the majority of residential mortgages originated into the secondary market. In the event that the facts and circumstances surrounding a residential mortgage application do not meet all underwriting conditions of the secondary mortgage market, the Bank will evaluate the failed conditions and the potential risk of holding the residential mortgage in the Bank's portfolio rather than rejecting the loan request. In the event that the loan is held in the Bank's portfolio, the interest rate on the residential mortgage would be increased to compensate for the added portfolio risk.

Consumer, including home equity

Mid Penn offers a variety of secured consumer loans, including home equity, automobile, and deposit secured loans. In addition, the Bank offers other secured and unsecured consumer loans. Most consumer loans are originated in Mid Penn’s primary market and surrounding areas.

The largest component of Mid Penn’s consumer loan portfolio consists of fixed rate home equity loans and variable rate home equity lines of credit. Substantially all home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank will lend amounts, which, together with all prior liens, typically may be up to 85% of the appraised value of the property securing the loan. Home equity term loans may have maximum terms up to 20 years while home equity lines of credit generally have maximum terms of five years.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant’s payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a higher security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market continues to be weak and property values deteriorate.

Allowance for Loan and Lease Losses

The allowance for credit losses consists of the allowance for loan and lease losses and the reserve for unfunded lending commitments. The allowance for loan and lease losses ("allowance") represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, or earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level that management considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on Mid Penn's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, including loans classified as troubled debt restructurings, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans, not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in the experience of the lending staff and loan review systems, growth or changes in the mix of loans originated, and shifting industry or portfolio concentrations.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Mid Penn considers a commercial loan (consisting of commercial and industrial, commercial real estate, commercial real estate-construction, and lease financing loan classes) to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow (“DCF”) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower’s overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans criticized as special mention have potential weaknesses that deserve management’s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Any loans not classified as noted above are rated pass.

In addition, Mid Penn’s rating system assumes any loans classified as substandard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn’s impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains an impaired loan with the original terms and interest rate intact (not restructured). Commercial loans secured by real estate rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains an impaired loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans (including home equity loans and other consumer loans) are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for commercial loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

It is Mid Penn's policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as impaired. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

In some instances Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management's judgment, if deemed necessary.

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Mid Penn does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

In addition, Federal and State regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Acquired Loans

Loans that Mid Penn acquires in connection with acquisitions are recorded at fair value with no carryover of the existing related allowance for loan losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount includes estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows will require Mid Penn to evaluate the need for an additional allowance for credit losses. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable discount which Mid Penn will then reclassify as accretable discount that will be recognized into interest income over the remaining life of the loan.

Acquired loans that met the criteria for impaired or nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent if Mid Penn expects to fully collect the new carrying value (i.e. fair value) of the loans. As such, Mid Penn may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. In addition, charge-offs on such loans would be first applied to the nonaccretable difference portion of the fair value adjustment.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30, but for which a discount is attributable at least in part to credit quality, are also accounted for in accordance with this guidance. As a result, related discounts are recognized subsequently through accretion based on the contractual cash flows of the acquired loans.

The classes of the loan portfolio, summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within Mid Penn's internal risk rating system as of September 30, 2015 and December 31, 2014 are as follows:

(Dollars in thousands) September 30, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 159,219	$ 1,497	$ 705	$ -	$ 161,421
Commercial real estate	337,917	2,256	10,574	-	350,747
Commercial real estate - construction	65,785	3,167	-	-	68,952
Lease financing	804	-	-	-	804
Residential mortgage	99,335	478	1,272	-	101,085
Home equity	32,587	278	300	-	33,165
Consumer	2,911	-	-	-	2,911
	$ 698,558	$ 7,676	$ 12,851	$ -	$ 719,085

(Dollars in thousands) December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 117,166	$ 654	$ 1,190	$ -	$ 119,010
Commercial real estate	280,817	4,859	11,681	-	297,357
Commercial real estate - construction	55,834	242	-	-	56,076
Lease financing	1,121	-	-	-	1,121
Residential mortgage	64,900	252	1,290	-	66,442
Home equity	28,167	138	201	-	28,506
Consumer	3,021	-	-	-	3,021
	$ 551,026	$ 6,145	$ 14,362	$ -	$ 571,533

Impaired loans by loan portfolio class as of September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	September 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial:						
Commercial and industrial	$ 17	$ 51	$ -	$ 395	$ 430	$ -
Commercial real estate:						
Commercial real estate	969	1,948	-	1,971	4,481	-
Acquired with credit deterioration*	927	927	-	-	-	-
Residential mortgage:						
Residential mortgage	770	854	-	1,146	1,286	-
Acquired with credit deterioration*	419	419	-	-	-	-
Home equity:						
Home equity	20	37	-	29	88	-
With an allowance recorded:						
Commercial and industrial	$ 123	$ 134	$ 58	$ 223	$ 231	$ 137
Commercial real estate	5,355	6,402	1,531	6,954	7,255	1,382
Residential mortgage	31	31	23	-	-	-
Home equity	165	168	129	211	213	115
Total:						
Commercial and industrial	$ 140	$ 185	$ 58	$ 618	$ 661	$ 137

Commercial real estate	7,251	9,277	1,531	8,925	11,736	1,382
Residential mortgage	1,220	1,304	23	1,146	1,286	-
Home equity	185	205	129	240	301	115

* Loans acquired with credit deterioration are presented net of credit fair value adjustment.

Average recorded investment of impaired loans and related interest income recognized for the three and nine months ended September 30, 2015 and September 30, 2014 are summarized as follows:

	Three Months Ended			
	September 30, 2015		September 30, 2014	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial:				
Commercial and industrial	$ 18	$ -	$ 48	$ -
Acquired with credit deterioration	-	100	-	-
Commercial real estate:				
Commercial real estate	991	14	2,057	-
Acquired with credit deterioration	926	-	-	-
Residential mortgage:				
Residential mortgage	735	8	908	-
Acquired with credit deterioration	426	-	-	-
Home equity:				
Home equity	21	-	31	-
Acquired with credit deterioration	-	3	-	-
With an allowance recorded:				
Commercial and industrial	$ 124	$ -	$ 133	$ -
Commercial real estate	5,167	-	6,930	-
Residential mortgage	31	-	-	-
Home equity	182	-	112	-
Total:				
Commercial and industrial	$ 142	$ 100	$ 181	$ -
Commercial real estate	7,084	14	8,987	-
Residential mortgage	1,192	8	908	-
Home equity	203	3	143	-

(Dollars in thousands)	Nine Months Ended September 30, 2015 Average Recorded Investment	Interest Income Recognized	September 30, 2014 Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial:				
Commercial and industrial	$ 22	$ -	$ 51	$ -
Acquired with credit deterioration	-	205	-	-
Commercial real estate:				
Commercial real estate	1,072	14	2,127	346
Acquired with credit deterioration	947	347	-	-
Residential mortgage:				
Residential mortgage	673	8	930	-
Acquired with credit deterioration	427	-	-	-
Home equity:				
Home equity	22	-	54	-
Acquired with credit deterioration	-	3	-	-
With an allowance recorded:				
Commercial and industrial	$ 127	$ -	$ 135	$ -
Commercial real estate	5,077	-	7,008	-
Residential mortgage	19	-	-	-
Home equity	178	-	115	-
Total:				
Commercial and industrial	$ 149	$ 205	$ 186	$ -
Commercial real estate	7,096	361	9,135	346
Residential mortgage	1,119	8	930	-
Home equity	200	3	169	-

Non-accrual loans by loan portfolio class as of September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Commercial and industrial	$ 78	$ 267

Commercial real estate	5,938	7,249
Residential mortgage	1,089	1,152
Home equity	185	239
	$ 7,290	$ 8,907

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)

September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial:							
Commercial and industrial	$ -	$ 219	$ 78	$ 297	$ 161,124	$ 161,421	$ -
Commercial real estate:							
Commercial real estate	1,128	865	4,052	6,045	343,775	349,820	-
Acquired with credit deterioration	-	-	53	53	874	927	53
Commercial real estate - construction:							
Commercial real estate - construction	-	-	-	-	68,952	68,952	-
Lease financing:							
Lease financing	-	-	-	-	804	804	-
Residential mortgage:							
Residential mortgage	75	480	715	1,270	99,396	100,666	-
Acquired with credit deterioration	117	-	218	335	84	419	-
Home equity:							
Home equity	20	-	139	159	33,006	33,165	-
Consumer:							
Consumer	5	-	-	5	2,906	2,911	-
Total	$ 1,345	$ 1,564	$ 5,255	$ 8,164	$ 710,921	$ 719,085	$ 53

(Dollars in thousands)

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
Commercial and industrial	$ 172	$ 290	$ 87	$ 549	$ 118,461	$ 119,010	$ -
Commercial real estate	403	197	6,585	7,185	290,172	297,357	-
Commercial real estate - construction	-	-	-	-	56,076	56,076	-
Lease financing	-	-	-	-	1,121	1,121	-
Residential mortgage	328	82	1,117	1,527	64,915	66,442	-
Home equity	93	63	157	313	28,193	28,506	-
Consumer	6	-	-	6	3,015	3,021	-
Total	$ 1,002	$ 632	$ 7,946	$ 9,580	$ 561,953	$ 571,533	$ -

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The following tables summarize the allowance for loan and lease losses and recorded investments in loans receivable.

(Dollars in thousands)

As of, and for the periods ended, September 30, 2015	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Beginning balance, July 1, 2015	$ 1,748	$ 3,891	$ 40	$ 2	$ 481	$ 611	$ 40	$ 38	$ 6,851
Charge-offs	(130)	-	-	-	(34)	(7)	(2)	-	(173)
Recoveries	10	5	-	-	23	-	3	-	41
Provisions	(67)	237	86	(1)	33	22	(7)	(38)	265
Ending balance, September 30, 2015	$ 1,561	$ 4,133	$ 126	$ 1	$ 503	$ 626	$ 34	$ -	$ 6,984

	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Beginning balance, January 1, 2015	$ 1,393	$ 3,925	$ 33	$ 2	$ 450	$ 653	$ 35	$ 225	$ 6,716
Charge-offs	(130)	(505)	-	-	(35)	(36)	(13)	-	(719)
Recoveries	10	48	-	-	23	29	12	-	122
Provisions	288	665	93	(1)	65	(20)	-	(225)	865
Ending balance, September 30, 2015	$ 1,561	$ 4,133	$ 126	$ 1	$ 503	$ 626	$ 34	$ -	$ 6,984
	$ 58	$ 1,531	$ -	$ -	$ 23	$ 129	$ -	$ -	$ 1,741

Ending balance: individually evaluated for impairment									
Ending balance: collectively evaluated for impairment	$ 1,503	$ 2,602	$ 126	$ 1	$ 480	$ 497	$ 34	$ -	$ 5,243
Loans receivables:									
Ending balance	$ 161,421	$ 350,747	$ 68,952	$ 804	$ 101,085	$ 33,165	$ 2,911	$ -	$ 719,085
Ending balance: individually evaluated for impairment	$ 140	$ 6,324	$ -	$ -	$ 801	$ 185	$ -	$ -	$ 7,450
Ending balance: collectively evaluated for impairment	$ 161,281	$ 343,496	$ 68,952	$ 804	$ 99,865	$ 32,980	$ 2,911	$ -	$ 710,289
Ending balance: acquired with credit deterioration	$ -	$ 927	$ -	$ -	$ 419	$ -	$ -	$ -	$ 1,346

(Dollars in thousands)

As of, and for the periods ended, September 30, 2014	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
Allowance for loan and lease losses:									
Beginning balance, July 1, 2014	$ 1,341	$ 3,458	$ 19	$ 1	$ 592	$ 483	$ 63	$ 173	$ 6,130
Charge-offs	(21)	(72)	-	-	(47)	-	(5)	-	(145)
Recoveries	7	9	-	-	-	1	14	-	31
Provisions	(9)	209	-	-	(39)	189	(10)	55	395

Ending balance, September 30, 2014	$ 1,318	$ 3,604	$ 19	$ 1	$ 506	$ 673	$ 62	$