ACNB CORP
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

Commission file number 1-35015

ACNB CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	**23-2233457** (I.R.S. Employer Identification No.)
16 Lincoln Square, Gettysburg, Pennsylvania (Address of principal executive offices)	**17325** (Zip Code)

Registrant s telephone number, including area code: **(717) 334-3161**

Title of each class	**Name of each exchange on which registered**
Common Stock, $2.50 par value per share	The NASDAQ Stock Market, LLC

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 x 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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer , accelerated filer , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o

Emerging growth company o

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the Registrant s Common Stock outstanding on August 4, 2017, was 7,015,259.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	June 30, 2017	June 30, 2016	December 31, 2016
ASSETS			
Cash and due from banks	**$ 17,384**	$ 14,299	$ 13,796
Interest bearing deposits with banks	**8,896**	31,919	5,135
Total Cash and Cash Equivalents	**26,280**	46,218	18,931
Securities available for sale	**133,719**	117,001	142,990
Securities held to maturity, fair value $50,000; $60,897; $55,425	**50,088**	59,681	55,568
Loans held for sale	**1,278**	955	1,770
Loans, net of allowance for loan losses $14,148; $14,636; $14,194	**955,527**	852,196	893,716
Premises and equipment	**18,170**	18,965	18,153
Restricted investment in bank stocks	**4,899**	4,351	4,349
Investment in bank-owned life insurance	**41,273**	40,200	40,742
Investments in low-income housing partnerships	**2,690**	3,120	2,899
Goodwill	**6,308**	6,308	6,308
Intangible assets	**526**	859	688
Foreclosed assets held for resale	**63**	730	256
Other assets	**21,115**	18,526	19,950
Total Assets	**$ 1,261,936**	$ 1,169,110	$ 1,206,320
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	**$ 190,572**	$ 177,366	$ 180,593
Interest bearing	**809,582**	744,861	787,028
Total Deposits	**1,000,154**	922,227	967,621
Short-term borrowings	**30,837**	36,190	34,590
Long-term borrowings	**95,850**	80,500	74,250
Other liabilities	**11,251**	10,916	9,798
Total Liabilities	**1,138,092**	1,049,833	1,086,259
STOCKHOLDERS EQUITY			
Preferred stock, $2.50 par value; 20,000,000 shares authorized; no shares outstanding			
	15,349	15,299	15,317

Common stock, $2.50 par value; 20,000,000 shares authorized; 6,139,499, 6,119,406 and 6,126,738 shares issued; 6,076,899, 6,056,806 and 6,064,138 shares outstanding			
Treasury stock, at cost (62,600 shares)	**(728)**	(728)	(728)
Additional paid-in capital	**11,287**	10,746	10,941
Retained earnings	**103,488**	97,638	100,555
Accumulated other comprehensive loss	**(5,552)**	(3,678)	(6,024)
Total Stockholders Equity	**123,844**	119,277	120,061
Total Liabilities and Stockholders Equity	**$ 1,261,936**	$ 1,169,110	$ 1,206,320

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Dollars in thousands, except per share data	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
INTEREST INCOME				
Loans, including fees	**$ 9,964**	$ 8,983	**$ 19,494**	$ 17,904
Securities:				
Taxable	**784**	782	**1,584**	1,590
Tax-exempt	**117**	161	**267**	340
Dividends	**64**	55	**113**	106
Other	**33**	29	**37**	34
Total Interest Income	**10,962**	10,010	**21,495**	19,974
INTEREST EXPENSE				
Deposits	**687**	570	**1,322**	1,128
Short-term borrowings	**15**	12	**60**	28
Long-term borrowings	**429**	398	**816**	781
Total Interest Expense	**1,131**	980	**2,198**	1,937
Net Interest Income	**9,831**	9,030	**19,297**	18,037
PROVISION FOR LOAN LOSSES				
Net Interest Income after Provision for Loan Losses	**9,831**	9,030	**19,297**	18,037
OTHER INCOME				
Service charges on deposit accounts	**617**	575	**1,187**	1,103
Income from fiduciary activities	**478**	434	**920**	828
Earnings on investment in bank-owned life insurance	**276**	290	**531**	558
Gain on sales of premises and equipment		449		449
Service charges on ATM and debit card transactions	**381**	391	**739**	746
Commissions from insurance sales	**1,564**	1,328	**2,718**	2,431
Other	**212**	344	**515**	568
Total Other Income	**3,528**	3,811	**6,610**	6,683
OTHER EXPENSES				
Salaries and employee benefits	**5,934**	5,604	**11,682**	11,029
Net occupancy	**496**	502	**1,033**	1,072
Equipment	**844**	761	**1,627**	1,472
Other tax	**168**	193	**379**	390
Professional services	**344**	198	**583**	453
Supplies and postage	**168**	122	**337**	313
Marketing and corporate relations	**138**	151	**202**	268
FDIC and regulatory	**140**	174	**279**	351
Merger expenses	**208**		**370**	
Intangible assets amortization	**82**	86	**162**	174
Foreclosed real estate (income) expenses	**(14)**	39	**16**	40
Other operating	**1,126**	982	**1,964**	1,759
Total Other Expenses	**9,634**	8,812	**18,634**	17,321

Income before Income Taxes		**3,725**		4,029		**7,273**		7,399
PROVISION FOR INCOME TAXES		**1,003**		1,047		**1,914**		1,870
Net Income	**$**	**2,722**	$	2,982	**$**	**5,359**	$	5,529
PER SHARE DATA								
Basic earnings	**$**	**0.45**	$	0.49	**$**	**0.88**	$	0.91
Cash dividends declared	**$**	**0.20**	$	0.20	**$**	**0.40**	$	0.40

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Dollars in thousands	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016		Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
NET INCOME	**$**	**2,722**	$	2,982	**$**	**5,359**	$	5,529
OTHER COMPREHENSIVE INCOME								
SECURITIES								
Unrealized gains arising during the period, net of income taxes of $52, $77, $131 and $423, respectively		**95**		153		**252**		823
Reclassification adjustment for net gains included in net income, net of income taxes of $0, $0, $0 and $0, respectively (A) (C)								
PENSION								
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of $59, $58, $118 and $116, respectively (B) (C)		**110**		112		**220**		225
TOTAL OTHER COMPREHENSIVE INCOME		**205**		265		**472**		1,048
TOTAL COMPREHENSIVE INCOME	**$**	**2,927**	$	3,247	**$**	**5,831**	$	6,577

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

(A) Gross amounts are included in net gains on sales or calls of securities on the Consolidated Statements of Income in total other income.

(B) Gross 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 in total other expenses.

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

Six Months Ended June 30, 2017 and 2016

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
BALANCE JANUARY 1, 2016	$ 15,256	$ (728)	$ 10,387	$ 94,526	$ (4,726)	$ 114,715
Net income				5,529		5,529
Other comprehensive income, net of taxes					1,048	1,048
Common stock shares issued (9,647 shares)	24		200			224
Restricted stock grants (7,435 shares)	19		100			119
Restricted stock compensation expense			59			59
Cash dividends declared				(2,417)		(2,417)
BALANCE JUNE 30, 2016	$ 15,299	$ (728)	$ 10,746	$ 97,638	$ (3,678)	$ 119,277
BALANCE JANUARY 1, 2017	**$ 15,317**	**$ (728)**	**$ 10,941**	**$ 100,555**	**$ (6,024)**	**$ 120,061**
Net income				**5,359**		**5,359**
Other comprehensive income, net of taxes					**472**	**472**
Common stock shares issued (6,568 shares)	**17**		**121**			**138**
Restricted stock grants (6,193 shares)	**15**		**105**			**120**
Restricted stock compensation expense			**120**			**120**
Cash dividends declared				**(2,426)**		**(2,426)**
BALANCE JUNE 30, 2017	**$ 15,349**	**$ (728)**	**$ 11,287**	**$ 103,488**	**$ (5,552)**	**$ 123,844**

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 5,359**	$ 5,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	**(206)**	(296)
Gain on sales of foreclosed assets held for resale, including writedowns	**(36)**	(23)
Gain on sale of premises and equipment		(449)
Earnings on investment in bank-owned life insurance	**(531)**	(558)
Restricted stock compensation expense	**120**	59
Depreciation and amortization	**942**	873
Provision for loan losses		
Net amortization of investment securities premiums	**264**	263
(Increase) decrease in accrued interest receivable	**(103)**	144
Increase (decrease) in accrued interest payable	**103**	(50)
Mortgage loans originated for sale	**(12,102)**	(18,017)
Proceeds from sales of loans originated for sale	**12,800**	19,193
Increase in other assets	**(1,102)**	(467)
Increase in other liabilities	**1,688**	912
Net Cash Provided by Operating Activities	**7,196**	7,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	**5,438**	11,732
Proceeds from maturities of investment securities available for sale	**13,456**	14,323
Purchase of investment securities available for sale	**(4,024)**	(4,052)
(Purchase) redemption of restricted investment in bank stocks	**(550)**	63
Net increase in loans	**(61,811)**	(14,321)
Capital expenditures	**(803)**	(1,699)
Proceeds from sales of premises and equipment	**6**	1,929
Proceeds from sales of foreclosed real estate	**229**	212
Net Cash (Used in) Provided by Investing Activities	**(48,059)**	8,187
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	**9,979**	11,142
Net increase (decrease) in time certificates of deposits and interest bearing deposits	**22,554**	(1,895)
Net (decrease) increase in short-term borrowings	**(3,753)**	988
Proceeds from long-term borrowings	**24,600**	9,000
Repayments on long-term borrowings	**(3,000)**	(5,000)
Dividends paid	**(2,426)**	(2,417)
Common stock issued	**258**	343
Net Cash Provided by Financing Activities	**48,212**	12,161
Net Increase in Cash and Cash Equivalents	**7,349**	27,461
CASH AND CASH EQUIVALENTS BEGINNING	**18,931**	18,757
CASH AND CASH EQUIVALENTS ENDING	**$ 26,280**	$ 46,218
Interest paid	**$ 2,095**	$ 1,987

Income taxes paid	**$**	**1,750**	$	2,000
Loans transferred to foreclosed assets held for resale and other foreclosed transactions	**$**		$	338

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

ACNB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Nature of Operations

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, provides banking, trust, insurance, and other financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank (Bank) and Russell Insurance Group, Inc. (RIG). The Bank engages in full-service commercial and consumer banking and trust services through its twenty-two retail banking office locations in Adams, Cumberland, Franklin and York Counties, Pennsylvania. There is also a loan production office situated in York County, Pennsylvania.

RIG is a full-service insurance agency based in Westminster, Maryland, with a second location in Germantown, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients.

The Corporation s primary source of revenue is interest income on loans and investment securities and fee income on its products and services. Expenses consist of interest expense on deposits and borrowed funds, provisions for loan losses, and other operating expenses.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation s financial position and the results of operations, comprehensive income, changes in stockholders equity, and cash flows. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation s consolidated financial statements in the 2016 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2017. It is suggested that the consolidated financial statements contained herein be read in conjunction with the consolidated financial statements and notes included in the Corporation s Annual Report on Form 10-K. The results of operations for the three and six month periods ended June 30, 2017, are not necessarily indicative of the results to be expected for the full year.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of June 30, 2017, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. Earnings Per Share and Restricted Stock Plan

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 6,066,675 and 6,043,522 weighted average shares of common stock outstanding for the six months ended June 30, 2017 and 2016, respectively, and 6,068,673 and 6,046,489 for the three months ended June 30, 2017 and 2016, respectively. All outstanding unvested restricted stock awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

The Corporation has a restricted stock plan available to selected officers and employees of the Bank to advance the best interest of the Corporation and its shareholders. The plan provides those persons who have responsibility for its growth with additional incentive by allowing them to acquire ownership in the Corporation and, thereby, encouraging them to contribute to the success of the Corporation. Plan expense is recognized over the vesting period of the stock issued under the plan. As of June 30, 2017, 19,301 shares were issued under this plan, of which 12,693 were fully vested. 2,064 shares vested during the three months ended June 30, 2017; the remaining 6,608 will vest over the next year. $61,000 of compensation expenses related to the grants were recognized during the three months ended June 30, 2017, and $120,000 of compensation expenses related to the grants were recognized during the six months ended June 30, 2017. $59,000 of compensation expenses related to the grants were recognized during the three and six months ended June 30, 2016.

3. **Retirement Benefits**

The components of net periodic benefit expense related to the non-contributory, defined benefit pension plan for the three and six month periods ended June 30 were as follows:

In thousands	Three Months Ended June 30, 2017	2016	Six Months Ended June 30 2017	2016
Service cost	**$ 210**	$ 199	**$ 420**	$ 398
Interest cost	**284**	284	**568**	568
Expected return on plan assets	**(630)**	(607)	**(1,260)**	(1,215)
Amortization of net loss	**169**	170	**338**	341
Net Periodic Benefit Expense	**$ 33**	$ 46	**$ 66**	$ 92

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2016, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2017. As of June 30, 2017, this contribution amount had still not been determined. Effective April 1, 2012, no inactive or former participant in the plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the plan. As of the last annual census, ACNB Bank had a combined 358 active, vested, terminated and retired persons in the plan.

4. **Guarantees**

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had $5,437,000 in standby letters of credit as of June 30, 2017. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability, as of June 30, 2017, for guarantees under standby letters of credit issued is not material.

5. **Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss, net of taxes, are as follows:

In thousands	Unrealized (Losses) Gains on Securities	Pension Liability	Accumulated Other Comprehensive Loss
BALANCE JUNE 30, 2017	**$ (13)**	**$ (5,539)**	**$ (5,552)**
BALANCE DECEMBER 31, 2016	$ (266)	$ (5,758)	$ (6,024)
BALANCE JUNE 30, 2016	$ 1,987	$ (5,665)	$ (3,678)

6. Segment Reporting

The Corporation has two reporting segments, the Bank and RIG. RIG is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers through its banking subsidiary. RIG offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients.

Segment information for the six month periods ended June 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
2017			
Net interest income and other income from external customers	**$ 23,215**	**$ 2,692**	**$ 25,907**
Income before income taxes	**6,675**	**598**	**7,273**
Total assets	**1,252,723**	**9,213**	**1,261,936**
Capital expenditures	**803**		**803**
2016			
Net interest income and other income from external customers	$ 22,289	$ 2,431	$ 24,720
Income before income taxes	6,939	460	7,399
Total assets	1,159,662	9,448	1,169,110
Capital expenditures	1,687	12	1,699

Segment information for the three month periods ended June 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
2017			
Net interest income and other income from external customers	**$ 11,821**	**$ 1,538**	**$ 13,359**
Income before income taxes	**3,237**	**488**	**3,725**
Total assets	**1,252,723**	**9,213**	**1,261,936**
Capital expenditures	**436**		**436**
2016			
Net interest income and other income from external customers	$ 11,513	$ 1,328	$ 12,841
Income before income taxes	3,720	309	4,029
Total assets	1,159,662	9,448	1,169,110
Capital expenditures	924		924

Intangible assets, representing customer lists, are amortized over 10 years on a straight line basis. Goodwill is not amortized, but rather is analyzed annually for impairment. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Tax amortization of goodwill and the intangible assets is deductible for tax purposes.

7. Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management s intention and ability to hold the securities until recovery of unrealized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Amortized cost and fair value of securities at June 30, 2017, and December 31, 2016, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
JUNE 30, 2017				
U.S. Government and agencies	**$ 83,914**	**$ 33**	**$ 1,063**	**$ 82,884**
Mortgage-backed securities, residential	**27,022**	**687**	**44**	**27,665**
State and municipal	**16,261**	**185**	**22**	**16,424**
Corporate bonds	**5,000**	**104**		**5,104**
CRA mutual fund	**1,044**		**3**	**1,041**
Stock in other banks	**498**	**103**		**601**
	$ 133,739	**$ 1,112**	**$ 1,132**	**$ 133,719**
DECEMBER 31, 2016				
U.S. Government and agencies	$ 81,065	$ 43	$ 1,529	$ 79,579
Mortgage-backed securities, residential	31,272	782	81	31,973
State and municipal	24,514	240	94	24,660
Corporate bonds	5,000	62		5,062
CRA mutual fund	1,044		9	1,035
Stock in other banks	498	183		681
	$ 143,393	$ 1,310	$ 1,713	$ 142,990
SECURITIES HELD TO MATURITY				
JUNE 30, 2017				
U.S. Government and agencies	**$ 21,009**	**$ 30**	**$ 57**	**$ 20,982**
Mortgage-backed securities, residential	**29,079**	**150**	**211**	**29,018**
	$ 50,088	**$ 180**	**$ 268**	**$ 50,000**
DECEMBER 31, 2016				
U.S. Government and agencies	$ 23,017	$ 26	$ 54	$ 22,989
Mortgage-backed securities, residential	32,551	210	325	32,436
	$ 55,568	$ 236	$ 379	$ 55,425

The following table shows the Corporation s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2017, and December 31, 2016:

In thousands	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
JUNE 30, 2017						
U.S. Government and agencies	**$ 70,784**	**$ 1,063**	**$**	**$**	**$ 70,784**	**$ 1,063**
Mortgage-backed securities, residential	**3,109**	**44**			**3,109**	**44**
State and municipal	**2,408**	**22**			**2,408**	**22**
CRA Mutual Fund	**1,041**	**3**			**1,041**	**3**
	$ 77,342	**$ 1,132**	**$**	**$**	**$ 77,342**	**$ 1,132**
DECEMBER 31, 2016						
U.S. Government and agencies	$ 71,454	$ 1,529	$	$	$ 71,454	$ 1,529
Mortgage-backed securities, residential	8,966	81			8,966	81
State and municipal	4,933	94			4,933	94
CRA Mutual Fund	1,035	9			1,035	9
	$ 86,388	$ 1,713	$	$	$ 86,388	$ 1,713
SECURITIES HELD TO MATURITY						
JUNE 30, 2017						
U.S. Government and agencies	**$ 16,952**	**$ 57**	**$**	**$**	**$ 16,952**	**$ 57**
Mortgage-backed securities, residential	**17,620**	**211**			**17,620**	**211**
	$ 34,572	**$ 268**	**$**	**$**	**$ 34,572**	**$ 268**
DECEMBER 31, 2016						
U.S. Government and agencies	$ 12,946	$ 54	$	$	$ 12,946	$ 54
Mortgage-backed securities, residential	12,956	325			12,956	325
	$ 25,902	$ 379	$	$	$ 25,902	$ 379

All mortgage-backed security investments are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantee the timely payment of principal on these investments.

At June 30, 2017, thirty-nine available for sale U.S. Government and agency securities had unrealized losses that individually did not exceed 4% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At June 30, 2017, four available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 2% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At June 30, 2017, ten available for sale state and municipal securities had unrealized losses that individually did not exceed 3% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At June 30, 2017, the CRA Mutual Fund had an unrealized loss that did not exceed 1% of amortized cost. This security has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific security.

At June 30, 2017, ten held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 1% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At June 30, 2017, twenty held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 2% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

In analyzing the issuer s financial condition, management considers industry analysts reports, financial performance, and projected target prices of investment analysts within a one-year time frame. Based on the above information, management has determined that none of these investments are other-than-temporarily impaired.

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2) which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the security s relationship to other benchmark quoted prices. The Corporation uses independent service providers to provide matrix pricing.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At June 30, 2017, management had not identified any securities with an unrealized loss that it intends to sell or will be required to sell. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management s intention and ability to hold the securities until recovery of unrealized losses.

Amortized cost and fair value at June 30, 2017, by contractual maturity, where applicable, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		**Held to Maturity**	
In thousands	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**

1 year or less	$ 2,101	$ 2,103	$ 4,009	$ 4,001
Over 1 year through 5 years	87,739	86,994	17,000	16,981
Over 5 years through 10 years	15,335	15,315		
Over 10 years				
Mortgage-backed securities, residential	27,022	27,665	29,079	29,018
CRA mutual fund	1,044	1,041		
Stock in other banks	498	601		
	$ 133,739	$ 133,719	$ 50,088	$ 50,000

The Corporation did not sell any securities available for sale during the three and six months ended June 30, 2017 and 2016.

At June 30, 2017, and December 31, 2016, securities with a carrying value of $134,882,000 and $134,763,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

8. Loans

The Corporation grants commercial, residential, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southcentral Pennsylvania and northern Maryland. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate values and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. 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 related loan yield using the interest method.

The loans receivable portfolio is segmented into commercial, residential mortgage, home equity lines of credit, and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and commercial real estate construction.

The accrual of interest on residential mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans (consisting of home equity lines of credit and consumer loan classes) are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (the allowance) is established as losses are estimated to occur through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. 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 statement of condition. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are 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 either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or 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 the previous twelve quarters for each of these categories of loans, adjusted for qualitative risk factors. These qualitative risk factors include:

- lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices;

- national, regional and local economic and business conditions, as well as the condition of various market segments, including the impact on the value of underlying collateral for collateral dependent loans;

- the nature and volume of the portfolio and terms of loans;

- the experience, ability and depth of lending management and staff;

- the volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications; and,

- the existence and effect of any concentrations of credit and changes in the level of such 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.

The unallocated component of the allowance 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. It covers risks that are inherently difficult to quantify including, but not limited to, collateral risk, information risk, and historical charge-off risk.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal and/or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and/or interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

A specific allocation within the allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of the Corporation s impaired loans are measured based on the estimated fair value of the loan s collateral or the discounted cash flows method.

It is the policy of the Corporation to order an updated valuation on all real estate secured loans when the loan becomes 90 days past due and there has not been an updated valuation completed within the previous 12 months. In addition, the Corporation orders third-party valuations on all impaired real estate collateralized loans within 30 days of the loan being classified as impaired. Until the valuations are completed, the Corporation utilizes the most recent independent third-party real estate valuation to estimate the need for a specific allocation to be assigned to the loan. These existing valuations are discounted downward to account for such things as the age of the existing collateral valuation, change in the condition of the real estate, change in local market and economic conditions, and other specific factors involving the collateral. Once the updated valuation is completed, the collateral value is updated accordingly.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower s financial statements, inventory reports, accounts receivable aging reports, equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Corporation actively monitors the values of collateral as well as the age of the valuation of impaired loans. Management believes that the Corporation s market area is not as volatile as other areas throughout the United States, therefore valuations are ordered at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined.

For impaired loans secured by collateral other than real estate, the Corporation considers the net book value of the collateral, as recorded in the most recent financial statements of the borrower, and determines fair value based on estimates made by management.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a troubled debt restructure.

Loans whose terms are modified are classified as troubled debt restructured loans if the Corporation grants such borrowers concessions that it would not otherwise consider 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, a below market interest rate given the risk associated with the loan, or an extension of a loan s stated maturity date. Nonaccrual troubled debt restructurings may be restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time and, based on a well-documented credit evaluation of the borrower s financial condition, there is reasonable assurance of repayment. Loans classified as troubled debt restructurings are generally designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into credit quality rating categories. The borrower s overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are generally 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 classified 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. Loans not classified are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Corporation s allowance for loan losses and may require the Corporation 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 and economic conditions, management believes the current level of the allowance for loan losses is adequate.

Commercial and Industrial Lending The Corporation originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory, and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower s character and capacity to repay the loan, the adequacy of the borrower s capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower s past, present and future cash flows is also an important aspect of the Corporation s analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Lending The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation s commercial loan portfolio is secured primarily by commercial retail space, office buildings, and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower s credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Corporation are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.

Commercial Real Estate Construction Lending The Corporation engages in commercial real estate construction lending in its primary market area and surrounding areas. The Corporation s commercial real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Corporation s commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project, such as estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower s credit history, and the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate construction loans originated by the Corporation are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the uncertainties surrounding total construction costs.

Residential Mortgage Lending One-to-four family residential mortgage loan originations, including home equity closed-end loans, are generated by the Corporation s marketing efforts, its present customers, walk-in customers, and referrals. These loans originate primarily within the Corporation s market area or with customers primarily from the market area.

The Corporation offers fixed-rate and adjustable-rate mortgage loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Corporation s one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Corporation s residential mortgage loans originate with a loan-to-value of 80% or less. Loans in excess of 80% are required to have private mortgage insurance.

In underwriting one-to-four family residential real estate loans, the Corporation evaluates both the borrower s financial ability to repay the loan as agreed and the value of the property securing the loan. Properties securing real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires borrowers to obtain an attorney s title opinion or title insurance, as well as fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Corporation has not engaged in subprime residential mortgage originations.

Residential mortgage loans present a moderate level of risk due primarily to general economic conditions, as well as a continued weak housing market.

Home Equity Lines of Credit Lending The Corporation originates home equity lines of credit primarily within the Corporation s market area or with customers primarily from the market area. Home equity lines of credit are generated by the Corporation s marketing efforts, its present customers, walk-in customers, and referrals.

Home equity lines of credit are secured by the borrower s primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years. In underwriting home equity lines of credit, the Corporation evaluates both the value of the property securing the loan and the borrower s financial ability to repay the loan as agreed. The ability to repay is determined by the borrower s employment history, current financial condition, and credit background.

Home equity lines of credit generally present a moderate level of risk due primarily to general economic conditions, as well as a continued weak housing market.

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.

Consumer Lending The Corporation offers a variety of secured and unsecured consumer loans, including those for vehicles and mobile homes and loans secured by savings deposits. These loans originate primarily within the Corporation s market area or with customers primarily from the market area.

Consumer loan terms vary according to the type and value of collateral and the creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower s financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower s employment history, current financial condition, and credit background.

Consumer loans may entail greater credit risk than residential mortgage loans or home equity lines of credit, 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 as a result of the greater likelihood of damage, loss or depreciation. 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 which can be recovered on such loans.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Corporation s internal risk rating system as of June 30, 2017, and December 31, 2016:

In thousands	Pass	Special Mention	Substandard	Doubtful	Total
JUNE 30, 2017					
Commercial and industrial	$ **154,822**	$ **3,679**	$ **2,724**	$	$ **161,225**
Commercial real estate	**309,410**	**20,013**	**9,603**		**339,026**
Commercial real estate construction	**23,048**	**1,029**	**250**		**24,327**
Residential mortgage	**349,809**	**4,377**	**548**		**354,734**
Home equity lines of credit	**75,554**	**367**	**119**		**76,040**
Consumer	**14,323**				**14,323**
	$ **926,966**	$ **29,465**	$ **13,244**	$	$ **969,675**
DECEMBER 31, 2016					
Commercial and industrial	$ 134,088	$ 2,355	$ 3,901	$	$ 140,344
Commercial real estate	291,762	17,376	9,842		318,980
Commercial real estate construction	13,606	1,202	463		15,271
Residential mortgage	344,048	3,617	874		348,539

Home equity lines of credit	69,190	756	126		70,072
Consumer	14,704				14,704
	$ 867,398	$ 25,306	$ 15,206	$	$ 907,910

The following table summarizes information relative to impaired loans by loan portfolio class as of June 30, 2017, and December 31, 2016:

In thousands	Impaired Loans with Allowance Recorded Investment	Impaired Loans with Allowance Unpaid Principal Balance	Related Allowance	Impaired Loans with No Allowance Recorded Investment	Impaired Loans with No Allowance Unpaid Principal Balance
JUNE 30, 2017					
Commercial and industrial	**$ 1,368**	**$ 1,368**	**$ 711**	**$ 1,078**	**$ 1,078**
Commercial real estate	**832**	**832**	**117**	**7,671**	**7,671**
Residential mortgage	**379**	**379**	**342**	**101**	**101**
	$ 2,579	**$ 2,579**	**$ 1,170**	**$ 8,850**	**$ 8,850**
DECEMBER 31, 2016					
Commercial and industrial	$ 948	$ 948	$ 599	$ 1,178	$ 1,178
Commercial real estate				8,764	8,965
Commercial real estate construction				300	300
Residential mortgage	376	376	333	379	379
	$ 1,324	$ 1,324	$ 932	$ 10,621	$ 10,822

The following table summarizes information in regards to the average of impaired loans and related interest income by loan portfolio class for the three months ended June 30, 2017 and 2016:

In thousands	Impaired Loans with Allowance Average Recorded Investment	Impaired Loans with Allowance Interest Income	Impaired Loans with No Allowance Average Recorded Investment	Impaired Loans with No Allowance Interest Income
JUNE 30, 2017				
Commercial and industrial	**$ 1,156**	**$**	**$ 1,101**	**$**
Commercial real estate	**416**		**8,144**	**123**
Commercial real estate construction				
Residential mortgage	**377**		**235**	**1**
	$ 1,949	**$**	**$ 9,480**	**$ 124**
JUNE 30, 2016				
Commercial and industrial	$	$	$ 1,440	$
Commercial real estate			8,446	105
Commercial real estate construction			337	
Residential mortgage	186		448	4
	$ 186	$	$ 10,671	$ 109

The following table summarizes information in regards to the average of impaired loans and related interest income by loan portfolio class for the six months ended June 30, 2017 and 2016:

	Impaired Loans with Allowance		Impaired Loans with No Allowance	
In thousands	**Average Recorded Investment**	**Interest Income**	**Average Recorded Investment**	**Interest Income**
JUNE 30, 2017				
Commercial and industrial	**$ 1,085**	**$**	**$ 1,115**	**$**
Commercial real estate			**8,346**	**213**
Commercial real estate construction	**277**		**100**	**25**
Residential mortgage	**377**		**283**	**15**
	$ 1,739	**$**	**$ 9,844**	**$ 253**
JUNE 30, 2016				
Commercial and industrial	$	$	$ 1,451	$
Commercial real estate			8,359	223
Commercial real estate construction			349	
Residential mortgage	124		452	9
	$ 124	$	$ 10,611	$ 232

No additional funds are committed to be advanced in connection with impaired loans.

The following table presents nonaccrual loans by loan portfolio class as of June 30, 2017, and December 31, 2016:

In thousands	**June 30, 2017**	**December 31, 2016**
Commercial and industrial	**$ 2,445**	$ 2,126
Commercial real estate	**4,540**	1,593
Commercial real estate construction		300
Residential mortgage	**480**	483
	$ 7,465	$ 4,502

The following table summarizes information relative to troubled debt restructurings by loan portfolio class as of June 30, 2017, and December 31, 2016:

In thousands	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at Period End
JUNE 30, 2017			
Nonaccruing troubled debt restructurings:			
Commercial real estate	**$ 4,015**	**$ 4,073**	**$ 3,480**
Total nonaccruing troubled debt restructurings	**4,015**	**4,073**	**3,480**
Accruing troubled debt restructurings:			
Commercial real estate	**4,577**	**4,577**	**3,964**
Total accruing troubled debt restructurings	**4,577**	**4,577**	**3,964**
Total Troubled Debt Restructurings	**$ 8,592**	**$ 8,650**	**$ 7,444**
DECEMBER 31, 2016			
Nonaccruing troubled debt restructurings:			
Commercial real estate	$ 648	$ 648	$ 377
Total nonaccruing troubled debt restructurings	648	648	377
Accruing troubled debt restructurings:			
Commercial real estate	7,944	8,002	7,171
Residential mortgage	336	336	272
Total accruing troubled debt restructurings	8,280	8,338	7,443
Total Troubled Debt Restructurings	$ 8,928	$ 8,986	$ 7,820

All of the Corporation s troubled debt restructured loans are also impaired loans, of which some have resulted in a specific allocation and, subsequently, a charge-off as appropriate. As of June 30, 2017 and 2016, there were no defaulted troubled debt restructured loans, however two borrowers advised that further payments were unlikely, therefore they were moved to nonaccrual status. There were no charge-offs or specific allocation on any of the troubled debt restructured loans for the three and six months ended June 30, 2017 and 2016. One troubled debt restructured loan paid off during 2017 in the amount of $283,000 and one paid off during 2016 in the amount of $74,000. All other troubled debt restructured loans were current as of June 30, 2017, with respect to their associated forbearance agreement, except for one loan which has had periodic late payments. As of June 30, 2017, only two of the loans classified as troubled debt restructured loans have active forbearance agreements. Of those, one forbearance agreement was negotiated during 2013 and the other forbearance agreement was negotiated during 2016. All other forbearance agreements have expired or the loans have paid off.

There were no loans whose terms have been modified resulting in troubled debt restructurings during the three and six months ended June 30, 2017 and 2016. Two properties were added to nonaccrual in the second quarter of 2017. Both loans are current with their modified terms and are supported by adequate collateral.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2017 and December 31, 2016, totaled $767,000 and $471,000, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due.

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The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2017, and December 31, 2016:

In thousands	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
JUNE 30, 2017							
Commercial and industrial	**$ 25**	**$ 25**	**$ 2,449**	**$ 2,499**	**$ 158,726**	**$ 161,225**	**$ 4**
Commercial real estate	**168**	**3,883**	**123**	**4,174**	**334,852**	**339,026**	
Commercial real estate construction					**24,327**	**24,327**	
Residential mortgage	**63**	**354**	**1,965**	**2,382**	**352,352**	**354,734**	**1,485**
Home equity lines of credit	**208**	**76**	**147**	**431**	**75,609**	**76,040**	**147**
Consumer	**45**	**14**		**59**	**14,264**	**14,323**	
	$ 509	**$ 4,352**	**$ 4,684**	**$ 9,545**	**$ 960,130**	**$ 969,675**	**$ 1,636**
DECEMBER 31, 2016							
Commercial and industrial	$ 26	$ 1	$ 1,178	$ 1,205	$ 139,139	$ 140,344	$
Commercial real estate	325	674		999	317,981	318,980	
Commercial real estate construction			300	300	14,971	15,271	
Residential mortgage	2,866	657	1,413	4,936	343,603	348,539	937
Home equity lines of credit	310	56	408	774	69,298	70,072	408
Consumer	31	47		78	14,626	14,704	
	$ 3,558	$ 1,435	$ 3,299	$ 8,292	$ 899,618	$ 907,910	$ 1,345

The following tables summarize the allowance for loan losses and recorded investment in loans receivable:

In thousands	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction	Residential Mortgage	Home Equity Lines of Credit	Consumer	Unallocated	Total
AS OF AND FOR THE PERIOD ENDED JUNE 30, 2017								
Allowance for Loan Losses								
Beginning balance - April 1, 2017	**$ 3,252**	**$ 4,961**	**$ 149**	**$ 3,304**	**$ 605**	**$ 839**	**$ 1,035**	**$ 14,145**
Charge-offs	**(29)**					**(12)**		**(41)**
Recoveries	**3**			**32**		**9**		**44**
Provisions	**20**	**249**	**(14)**	**32**	**2**	**(21)**	**(268)**	
Ending balance - June 30, 2017	**$ 3,246**	**$ 5,210**	**$ 135**	**$ 3,368**	**$ 607**	**$ 815**	**$ 767**	**$ 14,148**

Beginning balance - January 1, 2017	**$ 3,055**