NORWOOD FINANCIAL CORP
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 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 No. 0-28364

NORWOOD FINANCIAL CORP.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	23-2828306 (I.R.S. Employer Identification No.)
717 Main Street, Honesdale, Pennsylvania (Address of Principal Executive Offices)	18431 (Zip Code)

Registrant’s Telephone Number, Including Area Code: (570) 253-1455

N/A
Former name, former address and former fiscal year, if changed since last report

Indicate by check (x) 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 [ ]

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 [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): [ ] Yes[X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 31, 2015
Common stock, par value $0.10 per share	3,681,246

NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2015

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NORWOOD FINANCIAL CORP.
Consolidated Balance Sheets (unaudited)
(dollars in thousands, except share and per share data)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$8,505	$8,081
Interest bearing deposits with banks	11,937	4,295
Cash and cash equivalents	20,442	12,376
Securities available for sale, at fair value	151,304	156,395
Loans receivable	538,870	501,135
Less: Allowance for loan losses	5,947	5,875
Net loans receivable	532,923	495,260
Regulatory stock, at cost	2,240	1,714
Bank premises and equipment, net	6,555	6,734
Bank owned life insurance	18,551	18,284
Accrued interest receivable	2,340	2,339
Foreclosed real estate owned	1,382	3,726
Goodwill	9,715	9,715
Other intangibles	334	389
Deferred tax asset	4,071	3,285
Other assets	1,664	1,418
TOTAL ASSETS	$751,521	$711,635
LIABILITIES		
Deposits:		
Non-interest bearing demand	$107,610	$98,064
Interest-bearing	468,004	461,880
Total deposits	575,614	559,944
Short-term borrowings	33,842	25,695
Other borrowings	37,211	22,200
Accrued interest payable	988	966
Other liabilities	3,948	3,789
TOTAL LIABILITIES	651,603	612,594
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value per share, authorized 10,000,000 shares; issued 3,718,018 shares	372	372
Surplus	35,268	35,206
Retained earnings	65,797	64,078
Treasury stock at cost: 2015: 37,162 shares, 2014: 40,576 shares	(997)	(1,077)

Accumulated other comprehensive (loss) income	(522)	462
TOTAL STOCKHOLDERS' EQUITY	99,918	99,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$751,521	$711,635

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Income (unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST INCOME				
Loans receivable, including fees	$5,924	$5,933	$11,985	$11,913
Securities	950	1,025	1,974	2,013
Other	8	2	12	2
Total interest income	6,882	6,960	13,971	13,928
INTEREST EXPENSE				
Deposits	618	618	1,222	1,253
Short-term borrowings	16	20	29	42
Other borrowings	199	167	364	333
Total interest expense	833	805	1,615	1,628
NET INTEREST INCOME	6,049	6,155	12,356	12,300
PROVISION FOR LOAN LOSSES	420	420	1,040	840
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,629	5,735	11,316	11,460
OTHER INCOME				
Service charges and fees	622	583	1,194	1,159
Income from fiduciary activities	109	99	215	203
Net realized gains on sales of securities	134	509	445	603
Gains on sale of loans and servicing rights, net	12	26	30	66
Earnings and proceeds on bank owned life insurance	166	175	330	343
Other	90	76	198	147
Total other income	1,133	1,468	2,412	2,521
OTHER EXPENSES				
Salaries and employee benefits	2,071	2,172	4,208	4,336
Occupancy, furniture & equipment, net	542	518	1,098	1,096
Data processing related	201	229	435	441
Taxes, other than income	175	161	350	326
Professional fees	124	174	307	340
Federal Deposit Insurance Corporation insurance assessment	65	102	159	216
Foreclosed real estate owned	232	396	390	461
Amortization of intangibles	27	31	56	64
Other	731	690	1,352	1,325
Total other expenses	4,168	4,473	8,355	8,605
INCOME BEFORE INCOME TAXES	2,594	2,730	5,373	5,376
INCOME TAX EXPENSE	631	696	1,369	1,378
NET INCOME	$1,963	$2,034	$4,004	$3,998

BASIC EARNINGS PER SHARE	$0.53	$0.56	$1.09	$1.10
DILUTED EARNINGS PER SHARE	$0.53	$0.56	$1.08	$1.10

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Comprehensive Income (unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2015	2014
Net income	$1,963	$2,034
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding gains (losses)	(2,037)	2,032
Tax effect	693	(691)
Reclassification of gains recognized in net income	(134)	(509)
Tax effect	45	173
Other comprehensive (loss) income:	(1,433)	1,005
Comprehensive Income	$530	$3,039

	Six Months Ended June 30,	
	2015	2014
Net income	$4,004	$3,998
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding gains (losses)	(1,048)	4,556
Tax effect	358	(1,551)
Reclassification of gains recognized in net income	(445)	(603)
Tax effect	151	205
Other comprehensive (loss) income:	(984)	2,607
Comprehensive Income	$3,020	$6,605

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity (unaudited)
Six Months Ended June 30, 2015
(dollars in thousands, except share and per share data)

	Common Stock			Retained	Treasury Stock		Accumulated Other Comprehensive Income	
	Shares	Amount	Surplus	Earnings	Shares	Amount	(Loss)	Total
Balance December 31, 2014	3,718,018	$ 372	$ 35,206	$ 64,078	40,576	$ (1,077)	$ 462	$ 99,041
Net Income				4,004				4,004
Other comprehensive loss							(984)	(984)
Cash dividends declared ($.62 per share)				(2,285)				(2,285)
Compensation expense related to restricted stock			27					27
Acquisition of treasury stock					4,374	(127)		(127)
Stock options exercised			(7)		(7,788)	207		200
Tax benefit of stock options			9					9
Compensation expense related to stock options			33					33
Balance, June 30, 2015	3,718,018	$ 372	$ 35,268	$ 65,797	37,162	$ (997)	$ (522)	$ 99,918

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$4,004	$3,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,040	840
Depreciation	277	294
Amortization of intangible assets	56	64
Deferred income taxes	(279)	(291)
Net amortization of securities premiums and discounts	475	424
Net realized gain on sales of securities	(445)	(603)
Earnings and proceeds on bank owned life insurance	(330)	(343)
Loss on sale of foreclosed real estate	275	159
Gain on sale of mortgage loans	(40)	(72)
Mortgage loans originated for sale	(1,803)	(2,228)
Proceeds from sale of mortgage loans originated for sale	1,843	2,300
Compensation expense related to stock options	33	80
Compensation expense related to restricted stock	27	-
Increase in accrued interest receivable and other assets	(145)	(409)
Increase in accrued interest payable and other liabilities	140	443
Net cash provided by operating activities	5,128	4,656
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	23,384	31,865
Proceeds from maturities and principal reductions on mortgage-backed securities	12,377	8,001
Purchases	(32,193)	(32,528)
Proceeds from maturities on securities held to maturity	-	175
Purchase of regulatory stock	(768)	(751)
Redemption of regulatory stock	242	1,191
Net increase in loans	(38,970)	(3,730)
Proceeds from life insurance policies	-	75
Purchase of premises and equipment	(99)	(79)
Proceeds from sale of foreclosed real estate	2,299	140
Net cash (used in) provided by investing activities	(33,728)	4,359
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	15,670	13,532
Net increase (decrease) in short-term borrowings	8,147	(11,905)
Repayments of other borrowings	(989)	(778)
Proceeds from other borrowings	16,000	-
Stock options exercised	200	14

Tax benefit of stock options exercised	9	1
Purchase of treasury stock	(127)	(179)
Cash dividends paid	(2,244)	(2,185)
Net cash provided by (used in) financing activities	36,666	(1,500)
Increase in cash and cash equivalents	8,066	7,515
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,376	7,863
CASH AND CASH EQUIVALENTS, END OF PERIOD	$20,442	$15,378

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	$1,593	$1,713
Income taxes paid, net of refunds	1,431	1,337
Supplemental Schedule of Noncash Investing Activities		
Transfers of loans to foreclosed real estate and repossession of other assets	$251	$3,583
Cash dividends declared	1,141	1,091

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties, Inc. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position and results of operations of the Company. The operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2014.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic EPS weighted average shares outstanding	3,680	3,643	3,680	3,643
Dilutive effect of stock options	11	10	11	10
Diluted EPS weighted average shares outstanding	3,691	3,653	3,691	3,653

Stock options which had no intrinsic value, because their effect would be anti-dilutive and therefore would not be included in the diluted EPS calculation, were 20,700 as of June 30, 2014 based upon the closing price of Norwood common stock of $28.50 per share on June 30, 2014. There was no anti-dilutive effect at June 30, 2015.

3. Stock-Based Compensation

No awards were granted during the six month period ending June 30, 2015. As of June 30, 2015, there was $33,000 of total unrecognized compensation cost related to non-vested stock options granted in 2014 under the 2014 Stock Option Plan, which will be fully amortized by December 31, 2015. Total compensation cost related to stock options during the six month period ending June 30, 2015 was $33,000.

A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	Options	Weighted Average Exercise Price Per Share		Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)	
Outstanding at January 1, 2015	206,463	$	26.74	5.7Yrs.	$	478
Granted	-		-	-		-
Exercised	(7,788)		25.71	5.2		-
Forfeited	(9,583)		27.02	4.5		-
Outstanding at June 30, 2015	189,092	$	26.77	5.2	$	483
Exercisable at June 30, 2015	177,092	$	26.61	5.0 Yrs.	$	480

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was $29.32 as of June 30, 2015 and $29.05 as of December 31, 2014.

A summary of the Company's restricted stock activity and related information for the six month period ended June 30, 2015 is as follows:

	Number of Restricted Stock	Weighted-Average Grant Date Fair Value	
Outstanding, January 1, 2015	9,300	$	29.08
Granted	-		-
Vested	-		-
Forfeited	-		-
Non-vested at June 30, 2015	9,300	$	29.08

The expected future compensation expense relating to the 9,300 shares of non-vested restricted stock outstanding as of June 30, 2015 is $243,000 to be recognized over the next 4.5 years. Total compensation cost related to restricted stock during the six month period ending June 30, 2015 was $27,000.

4. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (in thousands) by component net of tax for the three months and six months ended June 30, 2015 and 2014:

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of December 31, 2014	$	462
Other comprehensive loss before reclassification		(690)
Amount reclassified from accumulated other comprehensive income (loss)		(294)
Total other comprehensive loss		(984)
Balance as of June 30, 2015	$	(522)

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of December 31, 2013	$	(2,602)
Other comprehensive income before reclassification		3,005
Amount reclassified from accumulated other comprehensive income (loss)		(398)
Total other comprehensive income		2,607
Balance as of June 30, 2014	$	5

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of March 31, 2015	$	911
Other comprehensive loss before reclassification		(1,344)
Amount reclassified from accumulated other comprehensive income (loss)		(89)
Total other comprehensive loss		(1,433)
Balance as of June 30, 2015	$	(522)

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of March 31, 2014	$	(1,000)
Other comprehensive income before reclassification		1,341
Amount reclassified from accumulated other comprehensive income (loss)		(336)
Total other comprehensive income		1,005
Balance as of June 30, 2014	$	5

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the three and six months ended June 30, 2015 and 2014:

Details about other comprehensive income (loss)	Amount Reclassified From Accumulated Other Comprehensive Income (loss) (a)		Affected Line Item in the Statement Where Net Income is Presented
	Three months ended June 30,		
	2015	2014	
Unrealized gains on available for sale securities	$ 134	$ 509	Net realized gains on sales of securities
	(45)	(173)	Income tax expense
	$ 89	$ 336	Net of tax
	Six months ended June 30,		
	2015	2014	
Unrealized gains on available for sale securities	$ 445	$ 603	Net realized gains on sales of securities
	(151)	(205)	Income tax expense
	$ 294	$ 398	Net of tax

(a) Amounts in parentheses indicate debits to net income

5. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	June 30, 2015	June 30, 2014
Unfunded availability under loan commitments	$18,772	$22,851
Unfunded commitments under lines of credit	45,026	43,019
Standby letters of credit	5,769	5,668
	$69,567	$71,538

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank 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 Bank, generally, holds collateral and/or personal guarantees supporting these commitments. 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, 2015 for guarantees under standby letters of credit issued is not material.

6. Securities

The amortized cost and fair value of securities were as follows:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
U.S. Government agencies	$24,068	$70	$(146)	$23,992
States and political subdivisions	59,973	848	(919)	59,902
Corporate obligations	4,988	73	(9)	5,052
Mortgage-backed securities-government sponsored entities	62,766	92	(885)	61,973
Total debt securities	151,795	1,083	(1,959)	150,919
Equity securities-financial services	292	93	-	385
	$152,087	$1,176	$(1,959)	$151,304

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
U.S. Government agencies	$29,289	$42	$(356)	$28,975
States and political subdivisions	52,685	1,750	(103)	54,332
Corporate obligations	6,387	110	(11)	6,486
Mortgage-backed securities-government sponsored entities	67,032	109	(937)	66,204
Total debt securities	155,393	2,011	(1,407)	155,997
Equity securities-financial services	292	106	-	398
	$155,685	$2,117	$(1,407)	$156,395

The following tables show the Company's investments' gross unrealized losses and fair value aggregated by length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	June 30, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$6,127	$(40)	$8,080	$(106)	$14,207	$(146)
States and political subdivisions	30,153	(830)	2,439	(89)	32,592	(919)
Corporate obligations	1,705	(9)	-	-	1,705	(9)
Mortgage-backed securities-government sponsored agencies	31,364	(295)	18,884	(590)	50,248	(885)
	$69,349	$(1,174)	$29,403	$(785)	$98,752	$(1,959)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$4,965	$(17)	$15,051	$(339)	$20,016	$(356)
States and political subdivisions	3,195	(20)	4,633	(83)	7,828	(103)
Corporate obligations	-	-	1,144	(11)	1,144	(11)
Mortgage-backed securities-government sponsored agencies	22,090	(189)	26,050	(748)	48,140	(937)
	$30,250	$(226)	$46,878	$(1,181)	$77,128	$(1,407)

At June 30, 2015, the Company has 84 debt securities in an unrealized loss position in the less than twelve months category and 32 debt securities in the twelve months or more category. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. No other-than-temporary-impairment charges were recorded in 2015. Management believes that all unrealized losses represent temporary impairment of the securities as the Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

The amortized cost and fair value of debt securities as of June 30, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Available for Sale	
(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 640	$ 649
Due after one year through five years	27,236	27,231
Due after five years through ten years	11,059	11,090
Due after ten years	50,094	49,976
Mortgage-backed securities-government sponsored agencies	62,766	61,973
	$ 151,795	$ 150,919

Gross realized gains and gross realized losses on sales of securities available for sale were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Gross realized gains	$134	$523	$445	$617
Gross realized losses	-	(14)	-	(14)
Net realized gain	$134	$509	$445	$603
Proceeds from sales of securities	$9,408	$19,785	$23,384	$31,865

7. Loans Receivable and Allowance for Loan Losses

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated:

Types of loans
(dollars in thousands)

	June 30, 2015		December 31, 2014	
Real Estate Loans:				
Residential	$ 161,181	29.9 %	$ 158,139	31.5%
Commercial	266,798	49.5	261,956	52.2
Construction	19,773	3.7	19,221	3.9
Commercial, financial and agricultural	67,440	12.5	42,514	8.5
Consumer loans to individuals	24,025	4.4	19,704	3.9
Total loans	539,217	100.0 %	501,534	100.0%
Deferred fees, net	(347)		(399)	
Total loans receivable	538,870		501,135	
Allowance for loan losses	(5,947)		(5,875)	
Net loans receivable	$ 532,923		$ 495,260	

Changes in the accretable yield for purchased credit-impaired loans were as follows for the six months ended June 30 (in thousands):

	2015	2014
Balance at beginning of period	$ 8	$ 20
Accretion	-	(12)
Reclassification and other	-	-
Balance at end of period	$ 8	$ 8

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	June 30, 2015	December 31, 2014
Outstanding Balance	$ 594	$ 1,057
Carrying Amount	$ 586	$ 1,049

There were no material increases or decreases in the expected cash flows of these loans since the acquisition date. As of December 31, 2014, for loans that were acquired with or without specific evidence of deterioration in credit quality, adjustments to the allowance for loan losses have been accounted for through the allowance for loan loss adequacy calculation.

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probably that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated individually. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring ("TDR") loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in foreclosed real estate owned on the Consolidated Balance Sheets. As of June 30, 2015 and December 31, 2014, foreclosed real estate owned totaled $1,382,000 and $3,726,000, respectively. As of June 30, 2015, included within foreclosed real estate owned is $207,000 of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of June 30, 2015, the Company has initiated formal foreclosure proceedings on $464,000 of consumer residential mortgage loans.

The following tables show the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Real Estate Loans					
	Residential	Commercial	Construction	Commercial Loans	Consumer Loans	Total
June 30, 2015			(In thousands)			
Individually evaluated for impairment	$ 35	$ 11,206	$ -	$ -	$ -	$ 11,241
Loans acquired with deteriorated credit quality	216	370	-	-	-	586
Collectively evaluated for impairment	160,930	255,222	19,773	67,440	24,025	527,390
Total Loans	$ 161,181	$ 266,798	$ 19,773	$ 67,440	$ 24,025	$ 539,217

	Residential	Commercial	Construction	Commercial Loans	Consumer Loans	Total
			(In thousands)			
December 31, 2014						
Individually evaluated for impairment	$ -	$ 10,556	$ -	$ -	$ -	$ 10,556
Loans acquired with deteriorated credit quality	225	824	-	-	-	1,049

Collectively evaluated for impairment	157,914	250,576	19,221	42,514	19,704	489,929
Total Loans	$ 158,139	$ 261,956	$ 19,221	$ 42,514	$ 19,704	$ 501,534

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

June 30, 2015	Recorded Investment	Unpaid Principal Balance (in thousands)	Associated Allowance
With no related allowance recorded:			
Real Estate Loans			
Residential	$251	$259	$-
Commercial	8,401	9,063	-
Subtotal	8,652	9,322	-
With an allowance recorded:			
Real Estate Loans			
Commercial	3,175	4,038	802
Subtotal	3,175	4,038	802
Total:			
Real Estate Loans			
Residential	251	259	-
Commercial	11,576	13,101	802
Total Impaired Loans	$11,827	$13,360	$802

December 31, 2014	Recorded Investment	Unpaid Principal Balance (in thousands)	Associated Allowance
With no related allowance recorded:			
Real Estate Loans			
Residential	$225	$233	$-
Commercial	8,407	8,566	-
Subtotal	8,632	8,799	-
With an allowance recorded:			
Real Estate Loans			
Commercial	2,973	3,837	293
Subtotal	2,973	3,837	293
Total:			
Real Estate Loans			
Residential	225	233	-
Commercial	11,380	12,403	293
Total Impaired Loans	$11,605	$12,636	$293

The following information for impaired loans is presented (in thousands) for the six months ended June 30, 2015 and 2014:

	Average Recorded Investment		Interest Income Recognized	
	2015	2014	2015	2014
Real Estate Loans:				
Residential	$232	$237	$2	$2
Commercial	11,333	8,220	465	99
Total	$11,565	$8,457	$467	$101

The following information for impaired loans is presented (in thousands) for the three months ended June 30, 2015 and 2014:

	Average Recorded Investment		Interest Income Recognized	
	2015	2014	2015	2014
Real Estate Loans:				
Residential	$236	$235	$1	$1
Commercial	11,382	8,116	69	42
Total	$11,618	$8,351	$70	$43

Troubled debt restructured loans are those loans whose terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of financial difficulties experienced by the borrower, who could not obtain comparable terms from alternate financing sources. As of June 30, 2015, troubled debt restructured loans totaled $8.6 million and resulted in a specific allowance of $457,000. As of December 31, 2014, troubled debt restructured loans totaled $8.8 million and resulted in a specific allowance of $293,000. For the period ended June 30, 2015, there was one residential mortgage loan identified as troubled debt restructuring due to the deferral of unpaid principal and interest. The balance of this loan was $5,000 on June 30, 2015. In 2015, the Company recognized write-downs in the amount of $373,000 on two loans previously identified as troubled debt restructurings with a carrying value of $2.3 million as of June 30, 2015.

	For the Six Months Ended June 30, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment

Troubled Debt Restructurings					
Real Estate Loans:					
Residential	1	$	5	$	5

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For the period ended June 30, 2014, there were no new loans identified as troubled debt restructurings, nor were there any loan modifications classified as troubled debt restructurings that subsequently defaulted during the period.

Management uses an eight point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as non performance, repossession, or death occurs to raise awareness of a possible credit event. The Company’s Loan Review Department is responsible for the timely and accurate risk rating of the loans on an ongoing basis. Every credit which must be approved by Loan Committee or the Board of Directors is assigned a risk rating at time of consideration. Loan Review also annually reviews relationships of $1,000,000 and over to assign or re-affirm risk ratings. Loans in the Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance for loan losses.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful and Loss within the internal risk rating system as of June 30, 2015 and December 31, 2014 (in thousands):

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
June 30, 2015					
Commercial real estate loans	$252,275	$2,212	$12,311	$-	$266,798
Commercial loans	67,440	-	-	-	67,440
Total	$319,715	$2,212	$12,311	$-	$334,238

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
December 31, 2014					
Commercial real estate loans	$246,629	$1,983	$13,344	$-	$261,956
Commercial loans	42,514	-	-	-	42,514
Total	$289,143	$1,983	$13,344	$-	$304,470

For residential real estate loans, construction loans and consumer loans, the Company evaluates credit quality based on the performance of the individual credits. Nonperforming loans include loans which are in nonaccrual status and loans past due over 90 days and still accruing. The following tables present the recorded investment in the loan classes based on payment activity as of June 30, 2015 and December 31, 2014 (in thousands):

	Performing	Nonperforming	Total
June 30, 2015			
Residential real estate loans	$ 160,146	$ 1,035	$ 161,181
Construction	19,773	-	19,773
Consumer loans	24,023	2	24,025
Total	$ 203,942	$ 1,037	$ 204,979

	Performing	Nonperforming	Total
December 31, 2014			
Residential real estate loans	$ 156,464	$ 1,675	$ 158,139
Construction	19,221	-	19,221
Consumer loans	19,700	4	19,704
Total	$ 195,385	$ 1,679	$ 197,064

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2015 and December 31, 2014 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
June 30, 2015							
Real Estate loans							
Residential	$159,909	$232	$5	$-	$1,035	$1,272	$161,181
Commercial	256,815	261	-	-	9,722	9,983	266,798
Construction	19,773	-	-	-	-	-	19,773
Commercial loans	67,428	12	-	-	-	12	67,440
Consumer loans	23,983	31	9	-	2	42	24,025
Total	$527,908	$536	$14	$-	$10,759	$11,309	$539,217

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
December 31, 2014							

Real Estate loans							
Residential	$156,242	$222	$-	$-	$1,675	$1,897	$158,139
Commercial	252,495	5,100	440	-	3,921	9,461	261,956
Construction	19,221	-	-	-	-	-	19,221
Commercial loans	42,500	14	-	-	-	14	42,514
Consumer loans	19,606	94	-	-	4	98	19,704
Total	$490,064	$5,430	$440	$-	$5,600	$11,470	$501,534

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The following tables present the allowance for loan losses by the classes of the loan portfolio:

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Total
Beginning balance, December 31, 2014	$1,323	$3,890	$222	$256	$184	$5,875
Charge Offs	(113)	(827)	-	-	(43)	(983)
Recoveries	4	-	-	-	11	15
Provision for loan losses	(129)	1,089	(125)	149	56	1,040
Ending balance, June 30, 2015	$1,085	$4,152	$97	$405	$208	$5,947
Ending balance individually evaluated for impairment	$-	$802	$-	$-	$-	$802
Ending balance collectively evaluated for impairment	$1,085	$3,350	$97	$405	$208	$5,145

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Total
Beginning balance, March 31, 2015	$1,353	$3,994	$115	$353	$192	$6,007
Charge Offs	(26)	(434)	-	-	(28)	(488)
Recoveries	2	-	-	-	6	8
Provision for loan losses	(244)	592	(18)	52	38	420
Ending balance, June 30, 2015	$1,085	$4,152	$97	$405	$208	$5,947

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Total
Beginning balance, December 31, 2013	$1,441	$3,025	$898	$184	$160	$5,708
Charge Offs	(98)	(829)	-	-	(27)	(954)
Recoveries	-	-	-	-	17	17
Provision for loan losses	(149)	1,704	(693)	(5)	(17)	840
Ending balance, June 30, 2014	$1,194	$3,900	$205	$179	$133	$5,611
Ending balance individually evaluated for impairment	$-	$209	$-	$-	$-	$209
Ending balance collectively evaluated for impairment	$1,194	$3,691	$205	$179	$133	$5,402

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Total
Beginning balance, March 31, 2014	$1,332	$3,842	$231	$184	$138	$5,727

Charge Offs	(23)	(500)	-	-	(16)	(539)
Recoveries	-	-	-	-	3	3
Provision for loan losses	(115)	558	(26)	(5)	8	420
Ending balance, June 30, 2014	$1,194	$3,900	$205	$179	$133	$5,611

The Company's primary business activity as of June 30, 2015 and December 31, 2014 is with customers located in northeastern Pennsylvania. Accordingly, the Company has extended credit primarily to commercial entities and individuals in this area whose ability to honor their contracts is influenced by the region's economy.

As of June 30, 2015, the Company considered its concentration of credit risk to be acceptable. The highest concentration was in the hospitality lodging industry, with loans outstanding of $55.8 million, or 10.3% of loans outstanding. During 2015, the Company did not record a loss in the named concentration.

Gross realized gains and gross realized losses on sales of residential mortgage loans were $40,000 and $0, respectively, in the first six months of 2015 compared to $72,000 and $0, respectively, in the same period in 2014. The proceeds from the sales of residential mortgage loans totaled $1.8 million and $2.3 million for the six months ended June 30, 2015 and 2014, respectively.

Gross realized gains and gross realized losses on sales of residential mortgage loans were $16,000 and $0, respectively, for the three months ended June 30, 2015 compared to $28,000 and $0, respectively, in the same period in 2014. The proceeds from the sales of residential mortgage loans totaled $1.0 million and $1.1 million for the three months ended June 30, 2015 and 2014, respectively.

8. Fair Value Measurements

Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:

Securities:

The fair value 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 securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

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For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2015 and December 31, 2014 are as follows:

		Fair Value Measurement Using Reporting Date		
Description	Total	Level 1	Level 2	Level 3
		(In thousands)		
June 30, 2015				
Available for Sale:				
U.S. Government agencies	$23,992	$-	$23,992	$-
States and political subdivisions	59,902	-	59,902	-
Corporate obligations	5,052	-	5,052	-
Mortgage-backed securities-government sponsored agencies	61,973	-	61,973	-
Equity securities-financial services	385	385	-	-
Total	$151,304	$385	$150,919	$-
December 31, 2014				
Available for Sale:				
U.S. Government agencies	$28,975	$-	$28,975	$-
States and political subdivisions	54,332	-	54,332	-
Corporate obligations	6,486	-	6,486	-
Mortgage-backed securities-government sponsored agencies	66,204	-	66,204	-
Equity securities-financial services	398	398	-	-
Total	$156,395	$398	$155,997	$-

The following is a discussion of assets and liabilities measured at fair value on a non-recurring basis and valuation techniques applied:

Impaired loans (generally carried at fair value):

The Company measures impairment generally based on the fair value of the loan’s collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the lowest level of input that is significant to the fair value measurements.

Foreclosed real estate owned (carried at fair value):

Real estate properties acquired through, or in lieu of loan foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices, appraised value of the collateral or management’s estimation of the value of the collateral. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

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For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2015 and December 31, 2014 are as follows:

	Fair Value Measurement Reporting Date using Reporting Date			
(In thousands)				
Description	Total	Level 1	Level 2	Level 3
June 30, 2015				
Impaired Loans	$ 11,025	$ -	$ -	$ 11,025
Foreclosed Real Estate Owned	1,382	-	-	1,382
December 31, 2014				
Impaired Loans	$ 11,312	$ -	$ -	$ 11,312
Foreclosed Real Estate Owned	3,726	-	-	3,726

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
(In thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
June 30, 2015				
Impaired loans	$ 10,592	Appraisal of collateral(1)	Appraisal adjustments(2)	10-60% (21.39%)
Impaired loans	$ 433	Present value of future cash flows	Loan discount rate	6.25 - 7.00% (6.67%)
Foreclosed real estate owned	$ 1,382	Appraisal of collateral(1)	Liquidation Expenses(2)	10%

	Quantitative Information about Level 3 Fair Value Measurements			
(In thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
December 31, 2014				
Impaired loans	$ 11,312	Appraisal of collateral(1)	Appraisal adjustments(2)	6-33% (23.35%)

Foreclosed real estate owned	$	3,726	Appraisal of collateral(1)	Liquidation Expenses(2)	10%

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(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less any associated allowance.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2015 and December 31, 2014.

Cash and cash equivalents (carried at cost):
The carrying amounts reported in the consolidated balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities:
The fair value 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 securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

Loans receivable (carried at cost):
The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired loans (generally carried at fair value):
The Company measures impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the lowest level of input that is significant to the fair value measurements.

As of June 30, 2015, the fair value investment in impaired loans totaled $11,025,000 which included five loan relationships for $3,175,000 for which a valuation allowance of $802,000 had been provided based on the estimated value of the collateral or the present value of estimated cash flows, and thirteen loans for $8,652,000 which did not require a valuation allowance since the estimated realizable value of the collateral exceeded the recorded investment in the loan. As of June 30, 2015, the Company has recognized charge-offs against the allowance for loan losses on these impaired loans in the amount of $1,525,000 over the life of the loans.

As of December 31, 2014, the fair value investment in impaired loans totaled $11,312,000 which included three loans for $2,973,000 for which a valuation allowance of $293,000 had been provided based on the estimated value of the collateral or the present value of estimated cash flows, and fourteen loans for $8,632,000 which did not require a valuation allowance since the estimated realizable value of the collateral exceeded the recorded investment in the loan. As of December 31, 2014, the Company has recognized charge-offs against the allowance for loan losses on these impaired loans in the amount of $1,022,000 over the life of the loans.

Mortgage servicing rights (generally carried at cost)
The Company utilizes a third party provider to estimate the fair value of certain loan servicing rights. Fair value for the purpose of this measurement is defined as the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced liquidation.

Foreclosed real estate owned (carried at fair value):
Real estate properties acquired through, or in lieu of loan foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices, appraised value of the collateral or management’s estimation of the value of the collateral. These assets are included in Level 3 fair value based upon the lowest level of input that is significant to the fair value measurement.

Restricted investment in Federal Home Loan Bank stock (carried at cost):
The Company, as a member of the Federal Home Loan Bank (FHLB) system is required to maintain an investment in capital stock of its district FHLB according to a predetermined formula. This regulatory stock has no quoted market value and is carried at cost.

Bank owned life insurance (carried at cost):
The fair value is equal to the cash surrender value of the Bank owned life insurance.

Accrued interest receivable and payable (carried at cost):
The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit liabilities (carried at cost):
The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings (carried at cost):
The carrying amounts of short-term borrowings approximate their fair values.

Other borrowings (carried at cost):
Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-balance sheet financial instruments (disclosed at cost):
Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at June 30, 2015 and December 31, 2014. (In thousands)

		Fair Value Measurements at June 30, 2015			
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 20,442	$ 20,442	$ 20,442	$ -	$ -
Securities	151,304	151,304	385	150,919	-
Loans receivable, net	532,923	542,615	-	-	542,615
Mortgage servicing rights	261	289	-	289	-
Regulatory Stock	2,240	2,240	2,240	-	-
Bank owned life insurance	18,551	18,551	18,551	-	-
Accrued interest receivable	2,340	2,340	2,340	-	-
Financial liabilities:					
Deposits	575,614	575,889	367,310	-	208,579
Short-term borrowings	33,842	33,842	33,842	-	-
Other borrowings	37,211	38,333	-	-	38,333
Accrued interest payable	988	988			