FIRST KEYSTONE CORP
Form 10-Q
November 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from ________ to ________

Commission File Number: 2-88927

FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2249083**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
111 West Front Street, Berwick, PA	**18603**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (570) 752-3671

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 ¨

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 definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

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

Common Stock, $2 Par Value, 5,555,318 shares as of November 4, 2014.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share data)	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 7,677	$ 8,257
Interest-bearing deposits in other banks	1,058	22,366
Total cash and cash equivalents	8,735	30,623
Investment securities available-for-sale	341,063	353,698
Investment securities held-to-maturity (fair value 2014 - $1,065; 2013 - $1,083)	1,060	1,072
Restricted investment in bank stocks	7,116	4,761
Loans	485,261	446,518
Allowance for loan losses	(6,490)	(6,519)
Net loans	478,771	439,999
Premises and equipment, net	21,083	21,516
Accrued interest receivable	3,405	3,616
Cash surrender value of bank owned life insurance	21,070	20,556
Investments in low-income housing partnerships	1,170	1,289
Goodwill	19,133	19,133
Core deposit intangible, net	190	395
Foreclosed assets held for resale	217	480
Deferred income taxes	56	2,080
Other assets	2,616	2,296
TOTAL ASSETS	$ 905,685	$ 901,514
LIABILITIES		
Deposits:		
Non-interest bearing	$ 96,984	$ 85,156
Interest bearing	559,115	604,919
Total deposits	656,099	690,075
Short-term borrowings	76,850	68,233
Long-term borrowings	65,364	40,429
Accrued interest payable	401	392
Other liabilities	2,997	6,034
TOTAL LIABILITIES	801,711	805,163

STOCKHOLDERS' EQUITY		
Preferred stock, par value $2.00 per share; authorized 1,000,000 shares in 2014 and 2013; issued 0 in 2014 and 2013		
Common stock, par value $2.00 per share; authorized 20,000,000 shares in 2014 and 2013; issued 5,790,467 in 2014 and 5,756,474 in 2013; outstanding 5,555,318 in 2014 and 5,521,325 in 2013	11,581	11,513
Surplus	32,404	31,626
Retained earnings	62,211	59,089
Accumulated other comprehensive income (loss)	3,601	(54)
Treasury stock, at cost, 235,149 in 2014 and 2013	(5,823)	(5,823)
TOTAL STOCKHOLDERS' EQUITY	103,974	96,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 905,685	$ 901,514

See accompanying notes to consolidated financial statements.

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$ 5,258	$ 5,182	$ 15,284	$ 15,488
Interest and dividend income on investment securities:				
Taxable	1,912	1,670	5,920	4,944
Tax-exempt	560	790	1,800	2,839
Dividends	18	15	50	44
Dividend income on restricted investment in bank stocks	67	10	169	18
Interest on interest bearing deposits in other banks		1	1	3
Total interest income	7,815	7,668	23,224	23,336
INTEREST EXPENSE				
Interest on deposits	684	920	2,241	2,716
Interest on short-term borrowings	71	34	159	83
Interest on long-term borrowings	325	293	913	923
Total interest expense	1,080	1,247	3,313	3,722
Net interest income	6,735	6,421	19,911	19,614
Provision for loan losses	100	133	433	733
Net interest income after provision for loan losses	6,635	6,288	19,478	18,881
NON-INTEREST INCOME				
Trust department	216	213	711	625
Service charges and fees	460	353	1,171	1,030
Bank owned life insurance income	165	171	514	518
ATM fees and debit card income	284	258	833	744
Gains on sales of mortgage loans	68	77	148	517
Net investment securities gains	163	264	1,963	2,944
Other	146	61	395	236
Total non-interest income	1,502	1,397	5,735	6,614
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,927	2,822	8,569	8,250
Occupancy, net	384	368	1,279	1,145
Furniture and equipment	130	131	437	491
Computer expense	273	264	816	766
Professional services	147	134	444	375
Pennsylvania shares tax	159	204	476	612
FDIC insurance	142	108	379	317
ATM and debit card fees	155	129	446	384

Data processing fees	102		298	
Foreclosed assets held for resale expense	4	45	126	19
Advertising	139	108	447	279
FHLB prepayment penalties				345
Other	700	654	2,236	1,988
Total non-interest expense	5,262	4,967	15,953	14,971
Income before income tax expense	2,875	2,718	9,260	10,524
Income tax expense	492	563	1,823	1,971
NET INCOME	$ 2,383	$ 2,155	$ 7,437	$ 8,553
PER SHARE DATA				
Net income per share:				
Basic	$ 0.43	$ 0.39	$ 1.34	$ 1.56
Diluted	0.43	0.39	1.34	1.56
Dividends per share	0.26	0.26	0.78	0.78

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Net Income	$ 2,383	$ 2,155
Other comprehensive loss:		
Unrealized net holding losses on available-for-sale investment securities arising during the period, net of income taxes of $(100) and $(777), respectively	(174)	(1,540)
Less reclassification adjustment for net gains included in net income, net of income taxes of $(55) and $(90), respectively (a) (b)	(108)	(174)
Total other comprehensive loss	(282)	(1,714)
Total Comprehensive Income	$ 2,101	$ 441

(a) Gross amounts are included in net investment securities gains on the Consolidated Statements of Income in non-interest income.

(b) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

(Dollars in thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net Income	$ 7,437	$ 8,553
Other comprehensive income (loss):		
Unrealized net holding gains (losses) on available-for-sale investment securities arising during the period, net of income taxes of $2,538 and $(4,567), respectively	4,951	(8,945)
Less reclassification adjustment for net gains included in net income, net of income taxes of $(667) and $(1,001), respectively (a) (b)	(1,296)	(1,943)
Total other comprehensive income (loss)	3,655	(10,888)
Total Comprehensive Income (Loss)	$ 11,092	$ (2,335)

(a) Gross amounts are included in net investment securities gains on the Consolidated Statements of Income in non-interest income.

(b) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Unaudited)

(Dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2014	5,756,474	$11,513	$31,626	$59,089	$ (54)	$(5,823)	$ 96,351
Net Income				7,437			7,437
Other comprehensive income, net of taxes					3,655		3,655
Issuance of common stock under dividend reinvestment plan	33,993	68	778				846
Dividends - $0.78 per share				(4,315)			(4,315)
Balance at September 30, 2014	5,790,467	$11,581	$32,404	$62,211	$ 3,601	$(5,823)	$ 103,974
Balance at January 1, 2013	5,717,400	$11,435	$30,725	$54,532	$ 12,528	$(5,890)	$ 103,330
Net Income				8,553			8,553
Other comprehensive loss, net of taxes					(10,888)		(10,888)
Issuance of common stock under dividend reinvestment plan	28,988	58	672			51	781
Dividends - $0.78 per share				(4,283)			(4,283)
Balance at September 30, 2013	5,746,388	$11,493	$31,397	$58,802	$ 1,640	$(5,839)	$ 97,493

See accompanying notes to consolidated financial statements.

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FIRST KEYSTONE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Unaudited)

(Dollars in thousands)

	2014	2013
OPERATING ACTIVITIES		
Net income	$7,437	$8,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	433	733
Depreciation and amortization	1,213	1,129
Net premium amortization on investment securities	1,207	1,333
Deferred income tax expense (benefit)	155	(274)
Gains on sales of mortgage loans	(148)	(517)
Proceeds from sales of mortgage loans originated for resale	6,000	22,737
Originations of mortgage loans originated for resale	(8,077)	(22,576)
Gains on sales of investment securities	(1,963)	(2,944)
Losses (gains) on sales of foreclosed real estate held for resale, including write-downs	36	(70)
Decrease in accrued interest receivable	211	192
Earnings on investment in bank owned life insurance	(514)	(518)
Losses on disposals of premises and equipment		138
(Increase) decrease in other assets	(300)	1,058
Increase in accrued interest payable	9	609
Decrease in other liabilities	(3,041)	(239)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,658	9,344
INVESTING ACTIVITIES		
Proceeds from sales of investment securities available-for-sale	138,218	56,944
Proceeds from maturities and redemptions of investment securities available-for-sale	31,087	30,215
Purchases of investment securities available-for-sale	(150,390)	(120,964)
Proceeds from maturities and redemptions of investment securities held-to-maturity	12	1,012
Net change in restricted investment in bank stocks	(2,355)	1,403
Net increase in loans	(37,178)	(13,251)
Purchases of premises and equipment	(516)	(2,540)
Proceeds from sales of foreclosed assets held for resale	489	468
NET CASH USED IN INVESTING ACTIVITIES	(20,633)	(46,713)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(33,976)	57,249
Net increase (decrease) in short-term borrowings	8,617	(30,516)
Proceeds from long-term borrowings	30,000	10,000
Repayment of long-term borrowings	(5,065)	(7,067)
Common stock issued	826	722
Proceeds from issuance of treasury stock		33

Dividends paid	(4,315)	(4,283)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(3,913)	26,138
DECREASE IN CASH AND CASH EQUIVALENTS	(21,888)	(11,231)
CASH AND CASH EQUIVALENTS, BEGINNING	30,623	20,920
CASH AND CASH EQUIVALENTS, ENDING	$8,735	$9,689
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$3,304	$3,819
Income taxes paid	1,755	968
Loans transferred to foreclosed assets held for resale	262	420

See accompanying notes to consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated financial statements include the accounts of First Keystone Corporation (the "Corporation") and its wholly owned subsidiary, First Keystone Community Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2014, are not necessarily indicative of the results for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and notes thereto included in First Keystone Corporation's Annual Report on Form 10-K for the year ended December 31, 2013.

For comparative purposes, the September 30, 2013 and December 31, 2013 balances have been reclassified to conform to the 2014 presentation. Such reclassifications had no impact on net income.

The Corporation has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of September 30, 2014 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

NOTE 2 RECENT ACCOUNTING STANDARDS UPDATES ("ASU")

Except as disclosed below, there were no new accounting pronouncements affecting the Corporation during the three and nine months ended September 30, 2014 that were not already adopted by the Corporation in previous periods.

In January 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-01, *Investments – Equity Method and Joint Ventures (Topic 323)*. The ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. This ASU is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2014, and will be applied retrospectively to all periods presented. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40).* The ASU clarifies that a creditor is considered to have physical possession of residential real estate that is collateral for a residential mortgage loan when it obtains legal title to the collateral or a deed in lieu of foreclosure or similar legal agreement is completed. Consequently, the creditor should reclassify the loan to other real estate owned at that time. The new guidance is intended to resolve the diversity in current practice as to when a creditor should reclassify a loan to other real estate on the balance sheet. This ASU is effective for annual periods beginning after December 15, 2014, and interim periods within those annual periods after December 15, 2015. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue requirements in *Revenue Recognition (Topic 605).* This ASU requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The ASU is effective is effective for annual reporting periods beginning after December 31, 2016, including interim periods within the reporting period. Early application is not permitted. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In September 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860).* The ASU provides guidance on accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This guidance will result in accounting for both types of arrangements as secured borrowings on the balance sheet. Additionally, the ASU introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. This ASU is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The ASU addresses the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs, whereby creditors will reclassify these loans to "other receivables" upon foreclosure. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

NOTE 3 — INVESTMENT SECURITIES

The Corporation classifies its investment securities as either "Held-to-Maturity" or "Available-for-Sale" at the time of purchase. Investment securities are accounted for on a trade date basis. Debt securities are classified as Held-to-Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities classified as Held-to-Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity.

Debt securities not classified as Held-to-Maturity and equity securities are included in the Available-for-Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as accumulated other comprehensive income (loss) in the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held-to-Maturity or Available-for-Sale is adjusted for amortization of premiums and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends, are included in interest and dividend income from investment securities. Realized gains and losses are included in net investment securities gains and losses. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities classified as "Available-For-Sale" or "Held-to-Maturity" were as follows at September 30, 2014 and December 31, 2013:

(Dollars in thousands)	Available-for-Sale Securities			
September 30, 2014:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$11,351	$	$ (56)	$11,295
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	150,485	753	(749)	150,489
Other	17,122	285		17,407
Obligations of state and political subdivisions	118,568	5,734	(676)	123,626
Corporate debt securities	36,461	173	(788)	35,846
Marketable equity securities	1,533	887	(20)	2,400
Total	$335,520	$ 7,832	$ (2,289)	$341,063

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(Dollars in thousands)	Held-to-Maturity Securities			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
September 30, 2014:	Cost	Gains	Losses	Value
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$ 60	$ 1	$	$ 61
Other	1,000	4		1,004
Total	$ 1,060	$ 5	$	$ 1,065

(Dollars in thousands)	Available-for-Sale Securities			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
December 31, 2013:	Cost	Gains	Losses	Value
U.S. Treasury securities	$	$	$	$
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	122,661	598	(2,035)	121,224
Other	32,107	238	(60)	32,285
Obligations of state and political subdivisions	147,112	4,136	(2,859)	148,389
Corporate debt securities	50,266	416	(1,417)	49,265
Marketable equity securities	1,533	1,004	(2)	2,535
Total	$ 353,679	$ 6,392	$ (6,373)	$ 353,698

(Dollars in thousands)	Held-to-Maturity Securities			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
December 31, 2013:	Cost	Gains	Losses	Value
Obligations of U.S. Government Corporations and Agencies:				
Mortgage-backed	$ 72	$ 3	$	$ 75
Other	1,000	8		1,008
Total	$ 1,072	$ 11	$	$ 1,083

Securities Available-for-Sale with an aggregate fair value of $217,744,000 at September 30, 2014 and $242,839,000 at December 31, 2013, and securities Held-to-Maturity with an aggregate book value of $1,060,000 at September 30, 2014 and $1,072,000 at December 31, 2013, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase, FHLB advances and other balances of $168,052,000 at September 30, 2014 and $178,814,000 at December 31, 2013.

The amortized cost, estimated fair value and weighted average yield of debt and equity securities, by contractual maturity, are shown below at September 30, 2014. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	September 30, 2014 Available-For-Sale					Held-To-Maturity
	U.S. Treasury Securities	U.S. Government Corporations & Agencies Obligations[1]	Obligations of State & Political Subdivisions[2]	Corporate Debt Securities	Marketable Equity Securities[3]	U.S. Government Corporations & Agencies Obligations[1]
Within 1 Year:						
Amortized cost	$	$	$ 2,004	$ 3,525	$	$
Fair value			2,042	3,568		
Weighted average yield			3.74 %	3.03 %		
1 - 5 Years:						
Amortized cost	11,351		8,860	2,591		1,060
Fair value	11,295		9,246	2,653		1,065
Weighted average yield	1.50 %		4.03 %	1.98 %		0.84 %
5 - 10 Years:						
Amortized cost		2,115	42,806	30,345		
Fair value		2,190	43,317	29,625		
Weighted average yield		2.94 %	3.62 %	2.55 %		
After 10 Years:						
Amortized cost		165,492	64,898		1,533	
Fair value		165,706	69,021		2,400	
Weighted average yield		2.41 %	6.03 %		4.35 %	
Total:						
Amortized cost	$ 11,351	$ 167,607	$ 118,568	$ 36,461	$ 1,533	$ 1,060
Fair value	11,295	167,896	123,626	35,846	2,400	1,065
Weighted average yield	1.50 %	2.42 %	4.97 %	2.56 %	4.35 %	0.84 %

[1]Mortgage-backed securities are allocated for maturity reporting at their original maturity date.

[2]Average yields on tax-exempt obligations of state and political subdivisions have been computed on a tax-equivalent basis using a 34% tax rate.

[3]Marketable equity securities are not considered to have defined maturities and are included in the after ten year category.

There were no aggregate investments with a single issuer (excluding the U.S. Government and its agencies) which exceeded ten percent of consolidated stockholders' equity at September 30, 2014. The quality rating of the obligations of state and political subdivisions are generally investment grade, as rated by Moody's, Standard and Poor's or Fitch. The typical exceptions are local issues which are not rated, but are secured by the full faith and credit obligations of the communities that issued these securities.

Proceeds from sales of investments in Available-for-Sale debt and equity securities for the three months ended September 30, 2014 and 2013 were $18,016,000 and $29,133,000, respectively. Gross gains realized on these sales were $235,000 and $333,000, respectively. Gross losses on these sales were $72,000 and $69,000, respectively. There were no other-than-temporary impairment losses during the three months ended September 30, 2014 or 2013.

Proceeds from sales of investments in Available-for-Sale debt and equity securities for the nine months ended September 30, 2014 and 2013 were $138,218,000 and $56,944,000, respectively. Gross gains realized on these sales were $2,557,000 and $3,159,000, respectively. Gross losses on these sales were $594,000 and $215,000, respectively. There were no other-than-temporary impairment losses during the nine months ended September 30, 2014 or 2013.

There were no proceeds from sales of investments in Held-to-Maturity debt and equity securities during the three or nine month periods ended September 30, 2014 or 2013. Therefore, there were no gains or losses realized during these periods.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, *Investments - Debt and Equity Securities*. In determining OTTI under the FASB ASC 320 model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary impairment occurs on debt securities, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected, and the realized loss is recognized in net investment securities gains on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment related to the other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment.

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non-performing assets and loan loss reserves. The starting point for the equity analysis is the length and severity of market value decline. The realized loss is recognized in net investment securities gains on the Consolidated Statements of Income. The amount of the total other-than-temporary impairment is recognized in other comprehensive income, net of applicable taxes.

The Corporation and its investment advisors monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. Based on the factors described above, management did not consider any securities to be other-than-temporarily impaired at September 30, 2014 and December 31, 2013.

In accordance with disclosures required by FASB ASC 320-10-50, *Investments - Debt and Equity Securities*, the summary below shows the gross unrealized losses and fair value of the Corporation's investments, aggregated by investment category, that individual securities have been in a continuous unrealized loss position for less than 12 months or 12 months or more as of September 30, 2014 and December 31, 2013:

September 30, 2014

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
Available-for-Sale:	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ 11,295	$ (56)	$	$	$ 11,295	$ (56)
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	54,841	(156)	22,169	(593)	77,010	(749)
Other						
Obligations of state and political subdivisions	227		21,973	(676)	22,200	(676)
Corporate debt securities	14,778	(472)	13,286	(316)	28,064	(788)
Marketable equity securities	30	(20)			30	(20)
	$ 81,171	$ (704)	$ 57,428	$ (1,585)	$ 138,599	$ (2,289)

December 31, 2013

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
Available-for-Sale:	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$	$	$	$	$	$
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	98,760	(2,035)			98,760	(2,035)
Other	4,956	(60)			4,956	(60)
Obligations of state and political subdivisions	48,853	(2,859)			48,853	(2,859)
Corporate debt securities	26,099	(1,417)			26,099	(1,417)
Marketable equity securities	21	(2)			21	(2)
	$ 178,689	$ (6,373)	$	$	$ 178,689	$ (6,373)

The Corporation invests in various forms of agency debt including mortgage backed securities and callable debt. The mortgage-backed securities are issued by FHLMC ("Federal Home Loan Mortgage Corporation"), FNMA ("Federal National Mortgage Association") or GNMA ("Government National Mortgage Association"). The municipal securities consist of general obligations and revenue bonds. The marketable equity securities consist of stocks in other bank holding companies. The fair market value of the above securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation's carrying value at any measurement date. Management does not believe any of their 55 debt securities in an unrealized loss position as of September 30, 2014 represents an other-than-temporary impairment, as these unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at their outstanding unpaid principal balances, net of deferred fees or costs, unearned income and the allowance for loan losses. Interest on loans is recognized as income over the term of each loan, generally, by the accrual method. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the straight line method or the interest method over the contractual life of the related loans as an interest yield adjustment.

Residential mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis determined by independent pricing from appropriate federal or state agency investors. These loans are sold without recourse.

Past-Due Loans — Generally, a loan is considered to be past-due when scheduled loan payments are in arrears 15 days or more. Delinquent notices are generated automatically when a loan is 15 days past-due. Collection efforts continue on past-due loans that have not been brought current, when it is believed that some chance exists for improvement in the status of the loan. Past-due loans are continually evaluated with the determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

Charge-Offs — Commercial Real Estate and Commercial and Industrial loans are charged off in whole or in part when they become sufficiently delinquent based upon the terms of the underlying loan contract and when a collateral deficiency exists. Because all or part of the contractual cash flows are not expected to be collected, the loan is considered to be impaired, and the Bank estimates the impairment based on its analysis of the cash flows and collateral estimated at fair value less cost to sell.

Residential Real Estate and Consumer loans are charged off when they become sufficiently delinquent based upon the terms of the underlying loan contract and when the value of the underlying collateral is not sufficient to support the loan balance and a loss is expected. At that time, the amount of estimated collateral deficiency, if any, is charged off for loans secured by collateral, and all other loans are charged off in full. Loans with collateral are charged down to the estimated fair value of the collateral less cost to sell.

Loans in which the borrower is in bankruptcy are considered on a case by case basis and are either charged off or reaffirmed by the borrower.

Non-Accrual Loans — Generally, a loan is classified as non-accrual and the accrual of interest on such a loan is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may currently be performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against interest income. Certain non-accrual loans may continue to perform; that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny, and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

Impaired Loans — A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the original loan agreement.

Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate or the fair value of the collateral for certain collateral dependent loans.

Troubled Debt Restructurings ("TDRs") — The restructuring of a loan is considered a "troubled debt restructuring" if both the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the Bank has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, and (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan. A less common concession is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower were a concession not granted. Similarly, the determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

Loans modified in a troubled debt restructuring may or may not be placed on non-accrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrates a period of performance according to the restructured terms of six months. Loans classified as troubled debt restructurings are designated as impaired.

Allowance for Loan Losses — The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

The Corporation is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are individually classified as impaired. Select loans are not aggregated for collective impairment evaluation, as such; all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and 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. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loans may be reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses adjusted for current factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding eight quarters. In calculating the historical component of our allowance, loans are aggregated into one of four portfolio segments: Commercial and Industrial, Commercial Real Estate, Residential Real Estate and Consumer. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. Actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: the concentration of special mention, substandard and doubtful loans as a percentage of total loans, levels of loan concentration within the portfolio segment or division of a portfolio segment, broad economic conditions, delinquency trends, volume trends and terms, and policy and management changes.

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.

The Bank utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns an asset quality rating (risk grade) to all retail Residential Real Estate and retail Consumer, Commercial and Industrial, and Commercial Real Estate borrowings. An asset quality rating is assigned using the guidance provided in the Bank’s loan policy. Primary responsibility for assigning the asset quality rating rests with the lender. The asset quality rating is validated periodically by both an internal and external loan review process.

The commercial loan grading system focuses on a borrower’s financial strength and performance, experience and depth of management, primary and secondary sources of repayment, the nature of the business and the outlook for the particular industry. Primary emphasis will be on the financial condition and trends. The grade also reflects current economic and industry conditions; as well as other variables such as liquidity, cash flow, revenue/earnings trends, management strengths or weaknesses, quality of financial information, and credit history.

The retail loan grading system for Residential Real Estate and Consumer loans focuses on the borrower's credit score and credit history, debt-to-income ratio and income sources, collateral position and loan-to-value ratio, as well as other variables such as current economic conditions, and individual strengths and weaknesses.

Risk grade characteristics are as follows:

Risk Grade 1 – MINIMAL RISK through Risk Grade 6 – MANAGEMENT ATTENTION (Pass Grade Categories)

Risk is evaluated via examination of several attributes including but not limited to financial trends, strengths and weaknesses, likelihood of repayment when considering both cash flow and collateral, sources of repayment, leverage position, management expertise, and repayment history.

At the low-risk end of the rating scale, a risk grade of 1 - Minimal Risk is the grade reserved for loans with exceptional credit fundamentals and virtually no risk of default or loss. Loan grades then progress through escalating ratings of 2 through 6 based upon risk. Risk Grade 2 - Modest Risk are loans with sufficient cash flows; Risk Grade 3 - Average Risk are loans with key balance sheet ratios slightly above the borrower's peers; Risk Grade 4 - Acceptable Risk are loans with key balance sheet ratios usually near the borrower's peers, but one or more ratios may be higher; and Risk Grade 5 – Marginally Acceptable are loans with strained cash flow, increasing leverage and/or weakening markets. Risk Grade 6 - Management Attention are loans with weaknesses resulting from declining performance trends and the borrower's cash flows may be temporarily strained. Loans in this category are performing according to terms, but present some type of potential concern.

Risk Grade 7 – SPECIAL MENTION (Non-Pass Category)

Generally, these loans or assets are currently protected, but are "Potentially Weak". They constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard.

Assets in this category are currently protected but have potential weakness which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. No loss of principal or interest is envisioned; however, they constitute an undue credit risk that may be minor but is unwarranted in light of the circumstances surrounding a specific asset. Risk is increasing beyond that at which the loan originally would have been granted. Historically, cash flows are inconsistent; financial trends show some deterioration. Liquidity and leverage are above industry averages. Financial information could be incomplete or inadequate. A Special Mention asset has potential weaknesses that deserve management's close attention.

Risk Grade 8 – SUBSTANDARD (Non-Pass Category)

Generally, these assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have “well-defined” weaknesses that jeopardize the full liquidation of the debt.

They are characterized by the distinct possibility that the Bank will sustain some loss if the aggregate amount of substandard assets is not fully covered by the liquidation of the collateral used as security. Substandard loans are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral, and have a high probability of payment default, or they have other well-defined weaknesses. Such assets require more intensive supervision by Bank Management.

Risk Grade 9 – DOUBTFUL (Non-Pass Category)

Generally, loans graded doubtful have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where the basis of current information, conditions, and values, collection or liquidation in full is highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, its classification is deferred until, for example, a proposed merger, acquisition, liquidation procedures, capital injection, perfection of liens on additional collateral and/or refinancing plans are completed. Loans are graded doubtful if they contain weaknesses so serious that collection or liquidation in full is questionable.

The credit quality indicators by loan segment are summarized below at September 30, 2014 and December 31, 2013:

(Dollars in thousands)	Commercial and Industrial		Commercial Real Estate	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Grade:				
1-6 Pass	$69,132	$ 60,614	$ 235,466	$ 219,925
7 Special Mention	56	65	8,278	1,717
8 Substandard	31	21	5,608	3,782
9 Doubtful				
Add (deduct): Unearned discount and				
Net deferred loan fees and costs	141	122	21	(19)
Total loans	$69,360	$ 60,822	$ 249,373	$ 225,405

	Residential Real Estate Including Home Equity		Consumer Loans	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Grade:				
1-6 Pass	$ 159,379	$ 153,292	$5,072	$ 5,612
7 Special Mention	525	180	21	2
8 Substandard	1,199	931	11	
9 Doubtful			10	
Add (deduct): Unearned discount and			(57)	(87)
Net deferred loan fees and costs	278	272	90	89
Total loans	$ 161,381	$ 154,675	$5,147	$ 5,616

	Total Loans	
	September 30, 2014	December 31, 2013
Grade:		
1-6 Pass	$469,049	$ 439,443
7 Special Mention	8,880	1,964
8 Substandard	6,849	4,734
9 Doubtful	10	
Add (deduct): Unearned discount and	(57)	(87)
Net deferred loan fees and costs	530	464
Total loans	$485,261	$ 446,518

Commercial and Industrial and Commercial Real Estate include loans categorized as tax free loans in the amounts of $33,754,000 and $3,296,000 at September 30, 2014 and $27,299,000 and $3,945,000 at December 31, 2013, respectively. Loans held for sale amounted to $2,216,000 at September 30, 2014 and $0 at December 31, 2013.

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The activity in the allowance for loan losses, by loan segment, is summarized below for the periods indicated.

As of and for the three month period ended September 30, 2014:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for Loan Losses:						
Beginning balance	$ 743	$ 3,450	$ 1,619	$ 51	$ 614	$6,477
Charge-offs	(100)		(6)	(21)		(127)
Recoveries	3	34	1	2		40
Provision	(123)	(108)	262	89	(20)	100
Ending Balance	$ 523	$ 3,376	$ 1,876	$ 121	$ 594	$6,490

As of and for the nine month period ended September 30, 2014:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for Loan Losses:						
Beginning balance	$ 776	$ 3,320	$ 1,565	$ 53	$ 805	$6,519
Charge-offs	(107)	(237)	(180)	(36)		(560)
Recoveries	24	59	12	3		98
Provision	(170)	234	479	101	(211)	433
Ending Balance	$ 523	$ 3,376	$ 1,876	$ 121	$ 594	$6,490
Ending balance: individually evaluated for impairment	$	$ 28	$ 17	$	$	$45
Ending balance: collectively evaluated for impairment	$ 523	$ 3,348	$ 1,859	$ 121	$ 594	$6,445
Financing Receivables:						
Ending Balance	$ 69,360	$ 249,373	$ 161,381	$ 5,147	$	$485,261
Ending balance: individually evaluated for impairment	$ 340	$ 5,573	$ 1,173	$ 6	$	$7,092
Ending balance: collectively evaluated for impairment	$ 69,020	$ 243,800	$ 160,208	$ 5,141	$	$478,169

As of and for the three month period ended September 30, 2013:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for Loan Losses:						
Beginning balance	$ 700	$ 2,835	$ 1,447	$ 76	$ 872	$5,930
Charge-offs	(12)		(50)	(8)		(70)
Recoveries			1	6		7
Provision	109	3	165		(144)	133
Ending Balance	$ 797	$ 2,838	$ 1,563	$ 74	$ 728	$6,000

As of and for the nine month period ended September 30, 2013:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for Loan Losses:						
Beginning balance	$ 573	$ 2,837	$ 1,524	$ 80	$ 758	$5,772
Charge-offs	(12)	(175)	(321)	(30)		(538)
Recoveries	19		5	9		33
Provision	217	176	355	15	(30)	733
Ending Balance	$ 797	$ 2,838	$ 1,563	$ 74	$ 728	$6,000
Ending balance: individually evaluated for impairment	$	$ 177	$ 15	$	$	$192
Ending balance: collectively evaluated for impairment	$ 797	$ 2,661	$ 1,548	$ 74	$ 728	$5,808
Financing Receivables:						
Ending Balance	$ 62,249	$ 225,486	$ 152,045	$ 5,872	$	$445,652
Ending balance: individually evaluated for impairment	$ 24	$ 5,282	$ 888	$	$	$6,194
Ending balance: collectively evaluated for impairment	$ 62,225	$ 220,204	$ 151,157	$ 5,872	$	$439,458

As of December 31, 2013:

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for Loan Losses:						
Ending Balance	$ 776	$ 3,320	$ 1,565	$ 53	$ 805	$6,519
Ending balance: individually						

evaluated for impairment	$	$ 125	$ 15	$	$	$ 140
Ending balance: collectively evaluated for impairment	$ 776	$ 3,195	$ 1,550	$ 53	$ 805	$ 6,379
Financing Receivables:						
Ending Balance	$ 60,822	$ 225,405	$ 154,675	$ 5,616	$	$ 446,518
Ending balance: individually evaluated for impairment	$ 21	$ 5,022	$ 931	$	$	$ 5,974
Ending balance: collectively evaluated for impairment	$ 60,801	$ 220,383	$ 153,744	$ 5,616	$	$ 440,544

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where the modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR").

The outstanding balance of TDRs as of September 30, 2014 and December 31, 2013 was $4,698,000 and $3,961,000, respectively. The increase in TDRs was attributable to deterioration in the respective borrowers' financial position, and in some cases a declining collateral value, along with the Bank's proactive monitoring of the loan portfolio. As of September 30, 2014 and December 31, 2013, there were no unfunded commitments on any TDRs.

During the three months ended September 30, 2014, four loans with a combined post modification balance of $888,000 were classified as TDRs, as compared to the same period in 2013, when three loans with a combined post modification balance of $811,000 were classified as TDRs. The loan modifications for the three months ended September 30, 2014 consisted of one term modification and three payment modifications. The loan modifications for the three months ended September 30, 2013 consisted of one interest rate modification, one term modification, and one payment modification.

During the nine months ended September 30, 2014, thirteen loans with a combined post modification balance of $1,810,000 were classified as TDRs, as compared to the same period in 2013, when twelve loans with a combined post modification balance of $4,305,000 were classified as TDRs. The loan modifications for the nine months ended September 30, 2014 consisted of one interest rate modification, four term modifications, and eight payment modifications. The loan modifications for the nine months ended September 30, 2013 consisted of three interest rate modifications, two term modifications, and seven payment modifications.

The following table presents the unpaid balance of TDRs at the dates indicated:

(Dollars in thousands)

	September 30, 2014	December 31, 2013
Non-accrual TDRs	$ 1,641	$ 1,538
Accruing TDRs	3,057	2,423
Total	$ 4,698	$ 3,961

At September 30, 2014, four Commercial Real Estate loans classified as TDRs with a combined recorded investment of $1,573,000 were not in compliance with the terms of their restructure, compared to September 30, 2013 when four Commercial Real Estate loans classified as TDRs with a combined recorded investment of $1,735,000 were not in compliance with the terms of their restructure.

The following table presents information regarding the loan modifications categorized as TDRs during the three and nine months ended September 30, 2014 and September 30, 2013:

(Dollars in thousands, except number of contracts)

	Three Months Ended September 30, 2014			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial		$	$	$
Commercial Real Estate	4	801	888	887
Consumer				
Total	4	$ 801	$ 888	$ 887

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(Dollars in thousands, except number of contracts)

	Three Months Ended September 30, 2013			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial		$	$	$
Commercial Real Estate	3	806	811	808
Consumer				
Total	3	$ 806	$ 811	$ 808

(Dollars in thousands, except number of contracts)

	Nine Months Ended September 30, 2014			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial	2	$ 327	$ 327	$ 326
Commercial Real Estate	10	1,389	1,476	1,080
Consumer	1	7	7	6
Total	13	$ 1,723	$ 1,810	$ 1,412

(Dollars in thousands, except number of contracts)

	Nine Months Ended September 30, 2013			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Commercial and Industrial		$	$	$
Commercial Real Estate	12	4,445	4,305	4,128
Consumer				
Total	12	$ 4,445	$ 4,305	$ 4,128

The following table provides detail regarding the types of loan modifications made for loans categorized as TDRs during the three and nine months ended September 30, 2014 and September 30, 2013 with the total number of each type of modification performed.

	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2014			
	Rate Modification	Term Modification	Payment Modification	Number Modified	Rate Modification	Term Modification	Payment Modification	Number Modified
Commercial and Industrial							2	2
Commercial Real Estate		1	3	4	1	4	5	10
Consumer							1	1
Total		1	3	4	1	4	8	13

	Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
	Rate Modification	Term Modification	Payment Modification	Number Modified	Rate Modification	Term Modification	Payment Modification	Number Modified
Commercial and Industrial								
Commercial Real Estate	1	1	1	3	3	2	7	12
Consumer								
Total	1	1	1	3	3	2	7	12

The recorded investment, unpaid principal balance, and the related allowance of the Corporation's impaired loans are summarized below for the periods ended September 30, 2014 and December 31, 2013.

(Dollars in thousands)	September 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and Industrial	$340	$ 486	$	$21	$ 167	$
Commercial Real Estate	5,288	5,850		4,810	5,503	
Residential Real Estate	1,107	1,272		868	1,176	
Consumer	6	6				
With an allowance recorded:						
Commercial and Industrial						
Commercial Real Estate	285	299	28	212	212	125
Residential Real Estate	66	66	17	63	63	15
Consumer						
Total	$7,092	$ 7,979	$ 45	$5,974	$ 7,121	$ 140
Total consists of:						
Commercial and Industrial	$340	$ 486	$	$21	$ 167	$
Commercial Real Estate	$5,573	$ 6,149	$ 28	$5,022	$ 5,715	$ 125
Residential Real Estate	$1,173	$ 1,338	$ 17	$931	$ 1,239	$ 15
Consumer	$6	$ 6	$	$	$	$

At September 30, 2014 and December 31, 2013, $4,698,000 and $3,961,000 of loans classified as TDRs were included in impaired loans with a total allocated allowance of $2,000 and $0, respectively. The recorded investment represents the loan balance reflected on the Consolidated Balance Sheets net of any charge-offs. The unpaid balance is equal to the gross amount due on the loan.

The average recorded investment and interest income recognized for the Corporation's impaired loans are summarized below for the three and nine month periods ended September 30, 2014 and 2013.

(Dollars in thousands)	For the Three Months Ended September 30, 2014		For the Three Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and Industrial	$ 341	$	$ 26	$
Commercial Real Estate	5,213	20	4,544	42
Residential Real Estate	1,123		798	1
Consumer	7			
With an allowance recorded:				
Commercial Real Estate	171	8	277	4
Residential Real Estate	33	2	63	
Total	$ 6,888	$ 30	$ 5,708	$ 47
Total consists of:				
Commercial and Industrial	$ 341	$	$ 26	$
Commercial Real Estate	$ 5,384	$ 28	$ 4,821	$ 46
Residential Real Estate	$ 1,156	$ 2	$ 861	$ 1
Consumer	$ 7	$	$	$

(Dollars in thousands)	For the Nine Months Ended September 30, 2014		For the Nine Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and Industrial	$ 184	$ 13	$ 30	$
Commercial Real Estate	5,037	86	3,694	96
Residential Real Estate	865		693	1
Consumer	5			
With an allowance recorded:				
Commercial Real Estate	101	8	281	4
Residential Real Estate	17	2	66	
Total	$ 6,209	$ 109	$ 4,764	$ 101
Total consists of:				
Commercial and Industrial	$ 184	$ 13	$ 30	$
Commercial Real Estate	$ 5,138	$ 94	$ 3,975	$ 100
Residential Real Estate	$ 882	$ 2	$ 759	$ 1

Consumer	$ 5	$	$	$

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Financing receivables on non-accrual status, loans past-due 90 days or more and still accruing, and foreclosed assets held for resale as of September 30, 2014 and December 31, 2013 were as follows:

(Dollars in thousands)

	September 30, 2014	December 31, 2013
Commercial and Industrial	$ 14	$ 21
Commercial real estate	2,848	2,599
Residential real estate	1,173	931
Total non-accrual loans	4,035	3,551
Foreclosed assets held for resale	217	480
Loans past-due 90 days or more and still accruing	89	318
Total non-performing assets	$ 4,341	$ 4,349

The following tables present the classes of the loan portfolio summarized by the past-due status at September 30, 2014 and December 31, 2013:

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables	90 Days Or Greater Past Due and Still Accruing
September 30, 2014:							
Commercial and Industrial	$ 62	$ 51	$ 14	$ 127	$69,233	$ 69,360	$
Commercial Real Estate	933	316	2,655	3,904	245,469	249,373	63
Residential Real Estate	1,653	181	708	2,542	158,839	161,381	26
Consumer	32	6		38	5,109	5,147	
Total	$ 2,680	$ 554	$ 3,377	$ 6,611	$478,650	$ 485,261	$ 89

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables	90 Days Or Greater Past Due and Still Accruing
December 31, 2013:							
Commercial and Industrial	$ 7	$ 7	$ 40	$ 54	$60,768	$ 60,822	$ 19
Commercial Real Estate	875	653	1,367	2,895	222,510	225,405	180

Residential Real Estate	1,751	248	926	2,925	151,750	154,675	119
Consumer	30	12		42	5,574	5,616	
Total	$ 2,663	$ 920	$ 2,333	$ 5,916	$440,602	$ 446,518	$ 318

At September 30, 2014 and December 31, 2013, there were no commitments to lend additional funds with respect to impaired loans.

NOTE 5 — BORROWINGS

Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, Federal Discount Window, and Federal Home Loan Bank ("FHLB") advances, which generally represent overnight or less than 30-day borrowings.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Corporation's Consolidated Balance Sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreements as of September 30, 2014 and December 31, 2013.

(Dollars in thousands)	Gross Amounts of	Gross Amounts Offset in the Consolidated	Net Amounts of Liabilities Presented in the Consolidated	Cash