PEOPLES FINANCIAL SERVICES CORP.
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

for the quarterly period ended March 31, 2016

or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the transition period from

001-36388

(Commission File Number)

PEOPLES FINANCIAL SERVICES CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania	23-2391852

(State of incorporation)	(IRS Employer ID Number)
150 North Washington Avenue, Scranton, PA (Address of principal executive offices)	18503 (Zip code)

(570) 346-7741

(Registrant's telephone number, including area code)

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

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

Large accelerated filer	Accelerated filer
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 Exchange Act. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date: 7,396,404 at April 30, 2016.

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PEOPLES FINANCIAL SERVICES CORP.

FORM 10-Q

For the Quarter Ended March 31, 2016

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Peoples Financial Services Corp.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except share data)

	March 31, 2016	December 31, 2015
Assets:		
Cash and due from banks	$ 23,699	$ 28,218
Interest-bearing deposits in other banks	299	4,699
Federal funds sold		
Investment securities:		
Available-for-sale	264,175	284,935
Held-to-maturity: Fair value March 31, 2016, $12,322; December 31, 2015, $12,606	11,681	12,109
Total investment securities	275,856	297,044
Loans held for sale	78	
Loans, net	1,409,691	1,340,865
Less: allowance for loan losses	14,158	12,975
Net loans	1,395,533	1,327,890
Premises and equipment, net	29,386	28,157
Accrued interest receivable	5,455	5,796
Goodwill	63,370	63,370
Intangible assets	5,091	5,397
Other assets	63,603	58,487
Total assets	$ 1,862,370	$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	$ 323,456	$ 320,978
Interest-bearing	1,152,003	1,134,832
Total deposits	1,475,459	1,455,810
Short-term borrowings	60,350	38,325
Long-term debt	59,773	60,354
Accrued interest payable	506	560
Other liabilities	14,837	15,241
Total liabilities	1,610,925	1,570,290
Stockholders' equity:		
Common stock, par value $2.00, authorized 25,000,000 shares, issued 7,399,298 shares at March 31, 2016 and 7,410,606 shares at December 31, 2015	14,799	14,821
Capital surplus	134,994	135,371
Retained earnings	103,288	100,701
Accumulated other comprehensive loss	(1,636)	(2,125)
Total stockholders' equity	251,445	248,768

Total liabilities and stockholders’ equity	$ 1,862,370	$ 1,819,058

See notes to consolidated financial statements

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

For the Three Months Ended March 31,	2016	2015
Interest income:		
Interest and fees on loans:		
Taxable	$ 14,346	$ 13,340
Tax-exempt	751	559
Interest and dividends on investment securities:		
Taxable	687	900
Tax-exempt	875	805
Dividends	10	9
Interest on interest-bearing deposits in other banks	17	8
Interest on federal funds sold		7
Total interest income	16,686	15,628
Interest expense:		
Interest on deposits	1,283	1,268
Interest on short-term borrowings	77	8
Interest on long-term debt	360	259
Total interest expense	1,720	1,535
Net interest income	14,966	14,093
Provision for loan losses	1,200	750
Net interest income after provision for loan losses	13,766	13,343
Noninterest income:		
Service charges, fees and commissions	1,444	1,612
Merchant services income	914	790
Commission and fees on fiduciary activities	482	459
Wealth management income	412	205
Mortgage banking income	204	222
Life insurance investment income	193	189
Net gain on sale of investment securities available-for-sale	242	832
Total noninterest income	3,891	4,309
Noninterest expense:		
Salaries and employee benefits expense	5,332	5,233
Net occupancy and equipment expense	2,437	2,468
Merchant services expense	632	533
Amortization of intangible assets	305	305
Other expenses	2,912	2,555
Total noninterest expense	11,618	11,094
Income before income taxes	6,039	6,558

Income tax expense	1,157	1,514
Net income	4,882	5,044
Other comprehensive income (loss):		
Unrealized gain on investment securities available-for-sale	995	767
Reclassification adjustment for net gain on sales included in net income	(242)	(832)
Other comprehensive income (loss)	753	(65)
Income tax expense (benefit) related to other comprehensive loss	264	(23)
Other comprehensive income (loss), net of income taxes	489	(42)
Comprehensive income	$ 5,371	$ 5,002
Per share data:		
Net income:		
Basic	$ 0.66	$ 0.67
Diluted	$ 0.66	$ 0.67
Average common shares outstanding:		
Basic	7,403,510	7,548,358
Diluted	7,403,510	7,548,358
Dividends declared	$ 0.31	$ 0.31

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2016	$ 14,821	$ 135,371	$ 100,701	$ (2,125)	$ 248,768
Stock based compensation		18			18
Net income			4,882		4,882
Other comprehensive income, net of income taxes				489	489
Dividends declared: $0.31 per share			(2,295)		(2,295)
Shares retired: 11,308 shares	(22)	(395)			(417)
Balance, March 31, 2016	14,799	134,994	103,288	(1,636)	251,445
Balance, January 1, 2015	15,097	140,214	92,297	(829)	246,779
Stock based compensation		18			18
Net income			5,044		5,044
Other comprehensive loss, net of income taxes				(42)	(42)
Dividends declared: $0.31 per share			(2,341)		(2,341)
Balance, March 31, 2015	$ 15,097	$ 140,232	$ 95,000	$ (871)	$ 249,458

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

For the Three Months Ended March 31,	2016	2015
Cash flows from operating activities:		
Net income	$ 4,882	$ 5,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	392	388
Amortization of deferred loan costs	169	132
Amortization of intangibles	305	305
Net accretion of purchase accounting adjustments on tangible assets	(275)	(292)
Amortization of loss on investment tax credits	125	151
Provision for loan losses	1,200	750
Net gain on sale of other real estate owned	(11)	(30)
Loans originated for sale	(5,268)	(5,300)
Proceeds from sale of loans originated for sale	5,394	5,907
Net gain on sale of loans originated for sale	(204)	(222)
Net amortization of investment securities	1,041	1,022
Net gain on sale of investment securities	(242)	(832)
Life insurance investment income	(193)	(189)
Deferred income tax expense (benefit)		(142)
Stock based compensation	18	18
Net change in:		
Accrued interest receivable	341	658
Other assets	(583)	559
Accrued interest payable	(54)	(114)
Other liabilities	(404)	(452)
Net cash provided by operating activities	6,633	7,361
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale	10,271	50,981
Proceeds from repayments of investment securities:		
Available-for-sale	10,453	9,835
Held-to-maturity	418	482
Purchases of investment securities:		
Available-for-sale		(1,774)
Held-to-maturity		
Net (purchase) redemption of restricted equity securities	(798)	1,555
Net increase in lending activities	(69,321)	(27,689)
Investment in low income housing investment tax credits	(2,050)	
Purchases of premises and equipment	(1,646)	(1,097)
Purchase of investment in life insurance	(1,500)	
Proceeds from sale of other real estate owned	83	338
Net cash (used in) provided by investing activities	(54,090)	32,631

Cash flows from financing activities:		
Net increase (decrease) in deposits	19,798	(9,081)
Repayment of long-term debt	(573)	(808)
Net increase (decrease) in short-term borrowings	22,025	(19,557)
Retirement of common stock	(417)	
Cash dividends paid	(2,295)	(2,341)
Net cash provided by financing activities	38,538	(31,787)
Net increase (decrease) in cash and cash equivalents	(8,919)	8,205
Cash and cash equivalents at beginning of year	32,917	31,426
Cash and cash equivalents at end of year	$ 23,998	$ 39,631

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

For the Three Months Ended March 31,	2016	2015
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ 1,931	$ 1,649
Income taxes		
Noncash items:		
Transfers of loans to other real estate	$ 524	$ 71
Acquisition:		
Fair value of assets acquired:		
Loans, net	$ 143	$ 104
Premises and equipment	(25)	(25)
Core deposit and other intangible assets	(267)	(304)
	$ (149)	$ (225)
Fair value of liabilities assumed:		
Deposits	$ 149	$ 199
Long-term debt	8	14
	$ 157	$ 213

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Peoples Financial Services Corp.

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(Dollars in thousands, except per share data)

1. Summary of significant accounting policies:

Nature of operations:

Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Security Bank and Trust Company ("Peoples Bank"), including its subsidiary, Peoples Advisors, LLC (collectively, the "Company" or "Peoples"). The Company services its retail and commercial customers through twenty-four full-service community banking offices located within the Bucks, Lackawanna, Lehigh, Luzerne, Monroe, Montgomery, Susquehanna, Wayne and Wyoming Counties of Pennsylvania and Broome County of New York.

Basis of presentation:

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP') for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Prior-period amounts are reclassified when necessary to conform to the current year's presentation. These reclassifications did not have any effect on the operating results or financial position of the Company. The operating results and financial position of the Company for the three months ended and as of March 31, 2016, are not necessarily indicative of the results of operations and financial position that may be expected in the future.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that are particularly susceptible to material change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of deferred tax assets, determination of other-than-temporary impairment losses on securities, impairment of goodwill and fair value of assets acquired and liabilities assumed in business combinations. Actual results could differ from those estimates. For additional information and disclosures required under GAAP, reference is made to the Company's Annual Report on Form 10-K for the period ended December 31, 2015.

Recent accounting standards:

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-03, "Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging: Effective Date and Transition Guidance." The mandate removes the effective dates from the private company accounting alternatives for goodwill, intangible assets, consolidation, and derivatives and hedging. This allows private companies to elect the accounting alternatives at any time without a preferability assessment. However, any subsequent change to an accounting policy election would require justification that the change is preferable under Topic 250. The ASU also extends certain favorable transition provisions of the accounting alternatives. The amendments became effective immediately upon issuance of the ASU. The adoption of this ASU has not had a significant impact on the Company's financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-04, "Liabilities—Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products" The standard amends exempting gift cards and other prepaid stored-value products from the guidance on extinguishing financial liabilities. Rather, they will be subject to breakage accounting consistent with the new revenue guidance in Topic 606. However, the exemption only applies to breakage liabilities that are not subject to unclaimed property laws or that are attached to segregated bank accounts (e.g., consumer debit cards). In this context, if an entity expects to be entitled to breakage, it should derecognize the amount of the liability in proportion to the pattern of rights expected to be exercised by the product holder. In addition, breakage should only be recognized to

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(Dollars in thousands, except per share data)

the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The amendments also require entities to update their estimates of breakage at the end of each reporting period, with changes accounted for as a change in accounting estimate. If an entity does not expect to be entitled to breakage, the entity should derecognize such liabilities within the scope of the ASU when the likelihood of the product holder exercising its remaining rights becomes remote. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments are effective for all other entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,” which requires an entity to discontinue a designated hedging relationship in certain circumstances, including termination of the derivative hedging instrument or if the entity wishes to change any of the critical terms of the hedging relationship. The mandate clarifies that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-06, “Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments”. The guidance in this ASU addresses how an entity should assess whether contingent call (put) options that can accelerate the payment of debt instruments are clearly and closely related to their debt hosts. This assessment is necessary to determine if the option(s) must be separately accounted for as a derivative. The ASU clarifies that an entity is required to assess the embedded call (put) options solely in accordance with a specific four-step decision sequence. This means entities are not also required to assess whether the contingency for exercising the option(s) is indexed to interest rates or credit risk. For example, when evaluating debt instruments puttable upon a change in control, the event triggering the change in control is not relevant to the assessment. Only the resulting settlement of debt is subject to the four-step decision sequence. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. However, if an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of that fiscal year. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-07, “Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting.” This mandate requires an investor to initially apply the equity method of accounting from the date it qualifies for that method, for example, the date the investor obtains significant influence over the operating and financial policies of an investee. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the application of the equity method. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-08 "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." This amendment updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance: (1) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (2) illustrate how

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an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer; (3) clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances; and (4) revise existing examples and add two new ones to more clearly depict how the guidance should be applied. The effective date and transition requirements for ASU 2016-08 are the same as the effective date and transition requirements of Topic 606. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” The new standard introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. Further, the ASU provides two accounting alternatives to nonpublic entities: A nonpublic entity can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain conditions and a nonpublic entity can make a one-time accounting policy election to switch from measuring all liability-classified awards at fair value to intrinsic value. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

2. Other comprehensive income (loss):

The components of other comprehensive loss and their related tax effects are reported in the Consolidated Statements of Income and Comprehensive Income. The accumulated other comprehensive loss included in the Consolidated Balance Sheets relates to net unrealized gains and losses on investment securities available-for-sale and benefit plan adjustments.

The components of accumulated other comprehensive loss included in stockholders' equity at March 31, 2016 and December 31, 2015 is as follows:

	March 31, 2016	December 31, 2015
Net unrealized gain on investment securities available-for-sale	$ 5,346	$ 4,593
Income tax expense	1,871	1,607
Net of income taxes	3,475	2,986
Benefit plan adjustments	(7,863)	(7,863)
Income tax benefit	(2,752)	(2,752)
Net of income taxes	(5,111)	(5,111)
Accumulated other comprehensive loss	$ (1,636)	$ (2,125)

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Other comprehensive income (loss) and related tax effects for the three months ended March 31, 2016 and 2015 is as follows:

Three Months Ended March 31,	2016	2015
Unrealized gain on investment securities available-for-sale	$ 995	$ 767
Net gain on the sale of investment securities available-for-sale(1)	(242)	(832)
Other comprehensive income (loss) gain before taxes	753	(65)
Income tax expense (benefit)	264	(23)
Other comprehensive income (loss)	$ 489	$ (42)

(1)Represents amounts reclassified out of accumulated comprehensive loss and included in gains on sale of investment securities on the consolidated statements of income and comprehensive income.

3. Earnings per share:

Basic earnings per share represent 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.

There were no shares considered anti-dilutive for the three month periods ended March 31, 2016 and 2015.

	2016		2015	
Three Months Ended March 31	Basic	Diluted	Basic	Diluted
Net Income	$ 4,882	$ 4,882	$ 5,044	$ 5,044
Average common shares outstanding	7,403,510	7,403,510	7,548,358	7,548,358
Earnings per share	$ 0.66	$ 0.66	$ 0.67	$ 0.67

4. Investment securities:

The amortized cost and fair value of investment securities aggregated by investment category at March 31, 2016 and December 31, 2015 are summarized as follows:

March 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government-sponsored enterprises	$ 64,562	$ 499	$ 7	$ 65,054
State and municipals:				
Taxable	14,801	993	11	15,783
Tax-exempt	120,232	3,815	33	124,014
Mortgage-backed securities:				
U.S. Government agencies	29,156	97	45	29,208
U.S. Government-sponsored enterprises	30,078	145	107	30,116
Total	$ 258,829	$ 5,549	$ 203	$ 264,175
Held-to-maturity:				
Tax-exempt state and municipals	$ 6,864	$ 333	$ 1	$ 7,196
Mortgage-backed securities:				
U.S. Government agencies	81	1		82
U.S. Government-sponsored enterprises	4,736	308		5,044
Total	$ 11,681	$ 642	$ 1	$ 12,322

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December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury securities	$ 10,030		$ 31	$ 9,999
U.S. Government-sponsored enterprises	68,831	$ 291	62	69,060
State and municipals:				
Taxable	15,842	735	32	16,545
Tax-exempt	121,099	3,915	90	124,924
Mortgage-backed securities:				
U.S. Government agencies	31,612	73	117	31,568
U.S. Government-sponsored enterprises	32,928	119	208	32,839
Total	$ 280,342	$ 5,133	$ 540	$ 284,935
Held-to-maturity:				
Tax-exempt state and municipals	$ 6,865	$ 186	$ 16	$ 7,035
Mortgage-backed securities:				
U.S. Government agencies	84	1		85
U.S. Government-sponsored enterprises	5,160	326		5,486
Total	12,109	$ 513	$ 16	$ 12,606

The maturity distribution of the fair value, which is the net carrying amount, of the debt securities classified as available-for-sale at March 31, 2016, is summarized as follows:

March 31, 2016	Fair Value
Within one year	$ 26,168
After one but within five years	91,064
After five but within ten years	49,258
After ten years	38,361
	204,851
Mortgage-backed securities	59,324
Total	$ 264,175

The maturity distribution of the amortized cost and fair value, of debt securities classified as held-to-maturity at March 31, 2016, is summarized as follows:

March 31, 2016	Amortized Cost	Fair Value
Within one year		
After one but within five years		
After five but within ten years		
After ten years	$ 6,864	$ 7,196
	6,864	7,196
Mortgage-backed securities	4,817	5,126
Total	$ 11,681	$ 12,322

Securities with a carrying value of $163,514 and $180,478 at March 31, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and repurchase agreements as required or permitted by law.

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Securities and short-term investment activities are conducted with a diverse group of government entities, corporations and state and local municipalities. The counterparty's creditworthiness and type of collateral is evaluated on a case-by-case basis. At March 31, 2016 and December 31, 2015, there were no significant concentrations of credit risk from any one issuer, with the exception of U.S. Government agencies and sponsored enterprises that exceeded 10.0 percent of stockholders' equity.

The fair value and gross unrealized losses of investment securities with unrealized losses for which an other-than-temporary impairment ("OTTI") has not been recognized at March 31, 2016 and December 31, 2015, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, are summarized as follows:

	Less Than 12 Months		12 Months or More		Total	
March 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored enterprises	$ 10,987	$ 7			$ 10,987	$ 7
State and municipals:						
Taxable			$ 551	$ 11	551	11
Tax-exempt	14,675	29	1,366	5	16,041	34
Mortgage-backed securities:						
U.S. Government agencies	5,435	11	5,164	34	10,599	45
U.S. Government-sponsored enterprises	13,479	27	2,902	80	16,381	107
Total	$ 44,576	$ 74	$ 9,983	$ 130	$ 54,559	$ 204

	Less Than 12 Months		12 Months or More		Total	
December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 9,999	$ 31			$ 9,999	$ 31
U.S. Government-sponsored enterprises	34,159	62			34,159	62
State and municipals:						

Taxable			$ 532	$ 32	532	32
Tax-exempt	21,341	87	1,952	19	23,293	106
Mortgage-backed securities:						
U.S. Government agencies	15,114	56	5,477	61	20,591	117
U.S. Government-sponsored enterprises	17,647	104	6,030	104	23,677	208
Total	$ 98,260	$ 340	$ 13,991	$ 216	$ 112,251	$ 556

The Company had 60 investment securities, consisting of 31 tax-exempt state and municipal obligations, one taxable state and municipal obligation, three U.S. Government-sponsored enterprise securities, and 25 mortgage-backed securities that were in unrealized loss positions at March 31, 2016. Of these securities, one taxable state and municipal obligation, six mortgage-backed securities and three tax-exempt state and municipal securities were in a continuous unrealized loss position for twelve months or more. Management does not consider the unrealized losses on the debt securities, as a result of changes in interest rates, to be OTTI based on historical evidence that indicates the cost of these securities is recoverable within a reasonable period of time in relation to normal cyclical changes in the market rates of interest. Moreover, because there has been no material change in the credit quality of the issuers or other events or circumstances that may cause a significant adverse impact on the fair value of these securities, and management does not intend to sell these securities and it is unlikely that the Company will be required to sell these securities before recovery of their amortized cost basis, which may be maturity, the Company does not consider the unrealized losses to be OTTI at March 31, 2016. There was no OTTI recognized for the three months ended March 31, 2016 and 2015.

The Company had 88 investment securities, consisting of 38 tax-exempt state and municipal obligations, one taxable state and municipal obligation, one U.S. Treasury security, 12 U.S. Government-sponsored enterprise securities and 36 mortgage-backed securities that were in unrealized loss positions at December 31, 2015. Of these securities, seven

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mortgage-backed securities, four tax-exempt state and municipal securities, and one taxable state and municipal obligation were in a continuous unrealized loss position for twelve months or more.

5. Loans, net and allowance for loan losses:

The major classifications of loans outstanding, net of deferred loan origination fees and costs at March 31, 2016 and December 31, 2015 are summarized as follows. Net deferred loan costs were $757 and $690 at March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
Commercial	$ 395,407	$ 365,767
Real estate:		
Commercial	598,875	567,277
Residential	301,686	306,218
Consumer	113,723	101,603
Total	$ 1,409,691	$ 1,340,865

The changes in the allowance for loan losses account by major classification of loan for the three months ended March 31, 2016 and 2015 are summarized as follows:

		Real estate				
March 31, 2016	Commercial	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning Balance	$ 3,042	$ 4,245	$ 4,082	$ 1,583	$ 23	$ 12,975
Charge-offs	(3)	(55)		(65)		(123)
Recoveries	2	16	25	63		106
Provisions	281	410	252	65	192	1,200
Ending balance	$ 3,322	$ 4,616	$ 4,359	$ 1,646	$ 215	$ 14,158

		Real estate				
March 31, 2015	Commercial	Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						

Beginning Balance	$ 2,321	$ 3,037	$ 3,690	$ 1,290	$	$ 10,338
Charge-offs	(37)	(49)	(199)	(80)		(365)
Recoveries	61	1	5	13		80
Provisions	75	98	413	164		750
Ending balance	$ 2,420	$ 3,087	$ 3,909	$ 1,387	$	$ 10,803

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The allocation of the allowance for loan losses and the related loans by major classifications of loans at March 31, 2016 and December 31, 2015 is summarized as follows:

March 31, 2016	Commercial	Real estate Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending balance	$ 3,322	$ 4,616	$ 4,359	$ 1,646	$ 215	$ 14,158
Ending balance: individually evaluated for impairment	1,040	434	533	89		2,096
Ending balance: collectively evaluated for impairment	2,282	4,075	3,826	1,557	215	11,955
Ending balance: loans acquired with deteriorated credit quality	$	$ 107	$	$	$	$ 107
Loans receivable:						
Ending balance	$ 395,407	$ 598,875	$ 301,686	$ 113,723	$	$ 1,409,691
Ending balance: individually evaluated for impairment	1,399	4,827	3,162	178		9,566
Ending balance: collectively evaluated for impairment	393,093	592,685	298,478	113,545		1,397,801
Ending balance: loans acquired with deteriorated credit quality	$ 915	$ 1,363	$ 46	$	$	$ 2,324

December 31, 2015	Commercial	Real estate Commercial	Residential	Consumer	Unallocated	Total
Allowance for loan losses:						

Ending balance	$ 3,042	$ 4,245	$ 4,082	$ 1,583	$ 23	$ 12,975
Ending balance: individually evaluated for impairment	759	126	1,138	117		2,140
Ending balance: collectively evaluated for impairment	2,283	4,012	2,944	1,466	23	10,728
Ending balance: loans acquired with deteriorated credit quality	$	$ 107	$	$	$	$ 107
Loans receivable:						
Ending balance	$ 365,767	$ 567,277	$ 306,218	$ 101,603	$	$ 1,340,865
Ending balance: individually evaluated for impairment	1,196	4,006	4,917	148		10,267
Ending balance: collectively evaluated for impairment	363,620	561,903	301,252	101,455		1,328,230
Ending balance: loans acquired with deteriorated credit quality	$ 951	$ 1,368	$ 49	$	$	$ 2,368

The Company segments loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are individually analyzed for credit risk by classifying them within the Company's internal risk rating system. The Company's risk rating classifications are defined as follows:

· Pass- A loan to borrowers with acceptable credit quality and risk that is not adversely classified as Substandard, Doubtful, Loss nor designated as Special Mention.

· Special Mention- A loan that has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan

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or in the institution's credit position at some future date. Special Mention loans are not adversely classified since they do not expose the Company to sufficient risk to warrant adverse classification.

- Substandard- A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

- Doubtful – A loan classified as Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- Loss- A loan classified as Loss is considered uncollectible and of such little value that its continuance as bankable loan is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following tables present the major classification of loans summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system at March 31, 2016 and December 31, 2015:

March 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 388,364	$ 3,564	$ 3,479	$	$ 395,407
Real estate:					
Commercial	559,346	20,401	19,128		598,875
Residential	293,467	1,775	6,444		301,686
Consumer	113,577		146		113,723
Total	$ 1,354,754	$ 25,740	$ 29,197	$	$ 1,409,691

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total

Commercial	$ 357,894	$ 3,566	$ 4,307	$	$ 365,767
Real estate:					
Commercial	538,130	10,150	18,997		567,277
Residential	296,587	983	8,648		306,218
Consumer	101,486		117		101,603
Total	$ 1,294,097	$ 14,699	$ 32,069	$	$ 1,340,865

Information concerning nonaccrual loans by major loan classification at March 31, 2016 and December 31, 2015 is summarized as follows:

	March 31, 2016	December 31, 2015
Commercial	$ 1,813	$ 1,632
Real estate:		
Commercial	4,683	3,859
Residential	2,977	4,732
Consumer	178	148
Total	$ 9,651	$ 10,371

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The major classifications of loans by past due status are summarized as follows:

March 31, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 383	$ 56	$ 1,813	$ 2,252	$ 393,155	$ 395,407	
Real estate:							
Commercial	2,837	381	4,683	7,901	590,974	598,875	
Residential	5,472	191	3,680	9,343	292,343	301,686	$ 703
Consumer	921	234	452	1,607	112,116	113,723	274
Total	$ 9,613	$ 862	$ 10,628	$ 21,103	$ 1,388,588	$ 1,409,691	$ 977

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Commercial	$ 126	$	$ 1,632	$ 1,758	$ 364,009	$ 365,767	
Real estate:							
Commercial	1,364	165	3,859	5,388	561,889	567,277	
Residential	3,891	1,067	5,257	10,215	296,003	306,218	$ 525
Consumer	705	353	386	1,444	100,159	101,603	238
Total	$ 6,086	$ 1,585	$ 11,134	$ 18,805	$ 1,322,060	$ 1,340,865	$ 763

The following tables summarize information concerning impaired loans as of and for the three months ended March 31, 2016 and March 31, 2015, and as of and for the year ended, December 31, 2015 by major loan classification:

				For the Quarter Ended	
March 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 1,173	$ 2,383		$ 1,263	$ 17
Real estate:					

Commercial	3,162	3,832		2,947	32
Residential	2,216	2,399		2,632	1
Consumer	89	89		60	
Total	6,640	8,703		6,902	50
With an allowance recorded:					
Commercial	1,141	1,141	$ 1,040	968	
Real estate:					
Commercial	3,028	3,028	541	2,836	
Residential	992	992	533	1,455	2
Consumer	89	89	89	103	
Total	5,250	5,250	2,203	5,362	2
Commercial	2,314	3,524	1,040	2,231	17
Real estate:					
Commercial	6,190	6,860	541	5,783	32
Residential	3,208	3,391	533	4,087	3
Consumer	178	178	89	163	
Total	$ 11,890	$ 13,953	$ 2,203	$ 12,264	$ 52

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December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the Year Ended Average Recorded Investment	For the Year Ended Interest Income Recognized
With no related allowance:					
Commercial	$ 1,352	$ 2,720		$ 1,848	$ 87
Real estate:					
Commercial	2,731	3,408		2,394	95
Residential	3,048	3,231		2,664	4
Consumer	31	31		17	
Total	7,162	9,390		6,923	186
With an allowance recorded:					
Commercial	795	795	$ 759	1,680	40
Real estate:					
Commercial	2,643				