CODORUS VALLEY BANCORP INC
Form 10-Q
August 07, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 June 30, 2017

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: 0-15536

CODORUS VALLEY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2428543**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Leader Heights Road, P.O. Box 2887, York, Pennsylvania 17405
(Address of principal executive offices) (Zip code)

717-747-1519

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,

if changed since the last report.)

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

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

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

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

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 each of the issuer's classes of common stock, as of the latest practicable date. On July 27, 2017, -------8,453,193 shares of common stock, par value $2.50, were outstanding.

Codorus Valley Bancorp, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Codorus Valley Bancorp, Inc.

Consolidated Balance Sheets

	(Unaudited)	
	June 30,	**December 31,**
(dollars in thousands, except per share data)	**2017**	**2016**
Assets		
Interest bearing deposits with banks	$ 42,964	$ 54,966
Cash and due from banks	18,365	19,066
Total cash and cash equivalents	61,329	74,032
Securities, available-for-sale	181,897	194,739
Restricted investment in bank stocks, at cost	6,866	6,926
Loans held for sale	2,034	1,548
Loans (net of deferred fees of $4,053 - 2017 and $3,685 - 2016)	1,353,648	1,270,771
Less-allowance for loan losses	(16,415)	(14,992)
Net loans	1,337,233	1,255,779
Premises and equipment, net	24,336	24,573
Goodwill	2,301	2,301
Other assets	54,335	51,689
Total assets	$ 1,670,331	$ 1,611,587
Liabilities		
Deposits		
Noninterest bearing	$ 216,779	$ 202,639
Interest bearing	1,108,886	1,061,538
Total deposits	1,325,665	1,264,177
Short-term borrowings	36,524	56,637
Long-term debt	135,310	125,310
Other liabilities	11,396	10,506
Total liabilities	1,508,895	1,456,630
Shareholders’ equity		
Preferred stock, par value $2.50 per share; 1,000,000 shares authorized; 0 shares issued and outstanding	0	0
Common stock, par value $2.50 per share; 15,000,000 shares authorized; shares issued and outstanding: 8,451,743 at June 30, 2017 and 8,426,873 at December 31, 2016	21,129	21,067

Additional paid-in capital	106,863	106,102
Retained earnings	33,737	28,909
Accumulated other comprehensive loss	(293)	(1,121)
Total shareholders’ equity	161,436	154,957
Total liabilities and shareholders’ equity	$ 1,670,331	$ 1,611,587

See accompanying notes.

Codorus Valley Bancorp, Inc.
Consolidated Statements of Income
Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
(dollars in thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Interest income				
Loans, including fees	$16,102	$14,221	$31,496	$28,032
Investment securities:				
Taxable	653	602	1,302	1,304
Tax-exempt	316	420	649	845
Dividends	82	54	158	122
Other	142	26	195	34
Total interest income	17,295	15,323	33,800	30,337
Interest expense				
Deposits	1,948	1,608	3,755	3,118
Federal funds purchased and other short-term borrowings	100	28	192	82
Long-term debt	619	488	1,165	973
Total interest expense	2,667	2,124	5,112	4,173
Net interest income	14,628	13,199	28,688	26,164
Provision for loan losses	825	800	1,475	1,600
Net interest income after provision for loan losses	13,803	12,399	27,213	24,564
Noninterest income				
Trust and investment services fees	741	621	1,400	1,238
Income from mutual fund, annuity and insurance sales	195	236	406	495
Service charges on deposit accounts	1,051	901	2,021	1,738
Income from bank owned life insurance	250	224	522	398
Other income	261	229	541	418
Gain on sales of loans held for sale	282	235	571	350
Gain on sales of securities	63	0	63	194
Total noninterest income	2,843	2,446	5,524	4,831
Noninterest expense				
Personnel	6,399	6,001	13,135	11,998
Occupancy of premises, net	807	824	1,678	1,721
Furniture and equipment	696	707	1,391	1,432
Postage, stationery and supplies	226	204	391	377
Professional and legal	173	167	322	330
Marketing	361	369	697	838
FDIC insurance	221	180	374	346
Debit card processing	271	265	486	562
Charitable donations	168	27	834	768

Telecommunications	200	164	404	326
External data processing	452	349	847	682
Foreclosed real estate including provision for (recovery of) losses	1	95	(28)	135
Other	1,192	1,061	1,699	1,356
Total noninterest expense	11,167	10,413	22,230	20,871
Income before income taxes	5,479	4,432	10,507	8,524
Provision for income taxes	1,794	1,392	3,403	2,667
Net income	3,685	3,040	7,104	5,857
Preferred stock dividends	0	0	0	16
Net income available to common shareholders	$3,685	$3,040	$7,104	$5,841
Net income per common share, basic	$0.43	$0.36	$0.84	$0.69
Net income per common share, diluted	$0.43	$0.36	$0.83	$0.69

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Comprehensive Income

Unaudited

(dollars in thousands)	**Three months ended June 30, 2017**	**2016**
Net income	$3,685	$3,040
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding gains arising during the period (net of tax expense of $226 and $321, respectively)	419	623
Reclassification adjustment for (gains) included in net income (net of tax expense of $22 and $0, respectively) (a) (b)	(41)	0
Net unrealized gains	378	623
Comprehensive income	$4,063	$3,663

(dollars in thousands)	**Six months ended June 30, 2017**	**2016**
Net income	$7,104	$5,857
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding gains arising during the period (net of tax expense of $468 and $834, respectively)	869	1,619
Reclassification adjustment for (gains) included in net income (net of tax expense of $22 and $66, respectively) (a) (b)	(41)	(128)
Net unrealized gains	828	1,491
Comprehensive income	$7,932	$7,348

(a) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income within noninterest income.
(b) Income tax amounts are included in provision for income taxes on the Consolidated Statements of Income.

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Cash Flows

Unaudited

(dollars in thousands)	**Six months ended June 30, 2017**	**2016**
Cash flows from operating activities		
Net income	$7,104	$5,857
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation/amortization	1,155	1,163
Net amortization of premiums on securities	376	452
Amortization of deferred loan origination fees and costs	(754)	(488)
Provision for loan losses	1,475	1,600
(Reversal of) losses on foreclosed real estate	(47)	(3)
Increase in bank owned life insurance	(522)	(398)
Originations of loans held for sale	(21,168)	(18,469)
Proceeds from sales of loans held for sale	20,824	18,316
Gain on sales of loans held for sale	(571)	(350)
Gain on disposal of premises and equipment	(7)	(2)
Gain on sales of securities, available-for-sale	(63)	(194)
(Gain) loss on sales of foreclosed real estate	(11)	1
Stock-based compensation	371	277
Decrease in interest receivable	113	85
(Decrease) increase in other assets	(1,106)	596
(Decrease) Increase in interest payable	(5)	42
Increase in other liabilities	907	1,874
Net cash provided by operating activities	8,071	10,359
Cash flows from investing activities		
Purchases of securities, available-for-sale	(9,532)	(12,910)
Maturities, repayments and calls of securities, available-for-sale	21,258	26,152
Sales of securities, available-for-sale	2,051	12,903
Net increase (decrease) in restricted investment in bank stock	60	(98)
Net increase in loans made to customers	(79,637)	(44,566)
Purchases of premises and equipment	(911)	(1,393)
Investment in bank owned life insurance	(4,000)	(6,987)
Proceeds from sales of foreclosed real estate	386	190
Net cash used in investing activities	(70,325)	(26,709)
Cash flows from financing activities		
Net increase in demand and savings deposits	60,369	83,184
Net increase in time deposits	1,119	21,417
Net (decrease) in short-term borrowings	(20,113)	(52,623)
Proceeds from issuance of long-term debt	10,000	0
Cash dividends paid to preferred shareholder	0	(46)

Cash dividends paid to common shareholders	(2,276)	(2,070)
Redemption of preferred stock	0	(12,000)
Issuance of common stock	452	337
Net cash provided by financing activities	49,551	38,199
Net (decrease) increase in cash and cash equivalents	(12,703)	21,849
Cash and cash equivalents at beginning of year	74,032	57,485
Cash and cash equivalents at end of period	$61,329	$79,334

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Changes in Shareholders' Equity

Unaudited

(dollars in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2017	$0	$21,067	$106,102	$28,909	$ (1,121)	$ 0	$154,957
Net income				7,104			7,104
Other comprehensive income, net of tax					828		828
Common stock cash dividends ($0.27 per share)				(2,276)			(2,276)
Stock-based compensation			371				371
Forfeiture of restricted stock			4			(4)	0
Issuance and reissuance of common stock:							
8,557 shares under the dividend reinvestment and stock purchase plan		21	215				236
5,976 shares under the stock option plan		15	86				101
7,037 shares of stock-based compensation awards		18	(18)				0
4,844 shares under employee stock purchase plan		8	103			4	115
Balance, June 30, 2017	$0	$21,129	$106,863	$33,737	$ (293)	$ 0	$161,436
Balance, January 1, 2016	$12,000	$19,893	$97,338	$28,539	$ 1,371	$ 0	$159,141
Net income				5,857			5,857
Other comprehensive income, net of tax					1,491		1,491
Common stock cash dividends ($0.248 per share, adjusted)				(2,070)			(2,070)
Preferred stock cash dividends				(16)			(16)
Redemption of preferred stock	(12,000)						(12,000)
Stock-based compensation			277				277
Forfeiture of restricted stock			4			(4)	0
Issuance and reissuance of common stock:							

10,380 shares under the dividend reinvestment and stock purchase plan		24	189			2	215
2,473 shares under the stock option plan		4	38			2	44
1,005 shares of stock-based compensation awards		3	(3)				0
4,447 shares under employee stock purchase plan		11	67				78
Balance, June 30, 2016	$0	$19,935	$97,910	$32,310	$ 2,862	$ 0	$153,017

See accompanying notes.

Note 1—Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The accompanying consolidated balance sheet at December 31, 2016 has been derived from audited financial statements, and the unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q, and FASB Accounting Standards Codification (ASC) 270. Accordingly, the interim financial statements do not include all of the financial information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim consolidated financial statements include all adjustments necessary to present fairly the financial condition and results of operations for the reported periods, and all such adjustments are of a normal and recurring nature.

Codorus Valley Bancorp, Inc. ("Corporation" or "Codorus Valley") is a one-bank holding company headquartered in York, Pennsylvania that provides a full range of banking services through its subsidiary, PeoplesBank, A Codorus Valley Company ("PeoplesBank" or "Bank"). PeoplesBank operates three wholly-owned subsidiaries as of June 30, 2017. Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors, which sells nondeposit investment products in Pennsylvania, SYC Settlement Services, Inc., which provides real estate settlement services and Codorus Valley Financial Advisors, Inc. d/b/a PeoplesWealth Advisors, which sells nondeposit investment products in Maryland. In addition, PeoplesBank may periodically create nonbank subsidiaries for the purpose of temporarily holding foreclosed properties pending the liquidation of these properties. PeoplesBank operates under a state charter and is subject to regulation by the Pennsylvania Department of Banking and Securities, and the Federal Deposit Insurance Corporation. The Corporation is subject to regulation by the Federal Reserve Board and the Pennsylvania Department of Banking and Securities.

The consolidated financial statements include the accounts of Codorus Valley and its wholly-owned bank subsidiary, PeoplesBank, and two wholly-owned nonbank subsidiaries, SYC Realty Company, Inc. and CVLY Subsidiary Corp. SYC Realty was inactive during the period ended June 30, 2017. CVLY Subsidiary Corp. was the surviving merged entity resulting from the acquisition of Madison Bancorp, Inc. ("Madison") and may be used, as needed, for the financial and legal management of future acquisition transactions. The accounts of CVB Statutory Trust No. 1 and No. 2 are not included in the consolidated financial statements as discussed in Note 7—Short-Term Borrowings and Long-Term Debt. All significant intercompany account balances and transactions have been eliminated in consolidation. The accounting and reporting policies of Codorus Valley and subsidiaries conform to accounting principles generally accepted in the United States of America and have been followed on a consistent basis.

These consolidated statements should be read in conjunction with the notes to the audited consolidated financial statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016.

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year.

In accordance with FASB ASC 855, the Corporation evaluated the events and transactions that occurred after the balance sheet date of June 30, 2017 and through the date these consolidated financial statements were issued, for items of potential recognition or disclosure.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances less amounts charged off, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Generally, loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) over the contractual life of the loan. The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following industry classes: builder & developer, commercial real estate investor, residential real estate investor, hotel/motel, wholesale & retail, agriculture, manufacturing and all other. Consumer loans consist of the following classes: residential mortgage, home equity and all other.

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

Acquired Loans

Acquired loans are initially recorded at their acquisition date fair values. The carryover of allowance for loan losses is prohibited as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

For acquired loans that are not deemed impaired at acquisition, credit discounts representing principal losses expected over the life of the loan are a component of the initial fair value and amortized over the life of the asset. Subsequent to the acquisition date, the methods used to estimate the required allowance for loan losses on these loans is similar to originated loans. However, the Corporation records a provision for loan losses only when the required allowance for loan losses exceeds any remaining credit discount. The remaining differences between the acquisition date fair value and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loan.

Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the Corporation will be unable to collect all contractually required payments are accounted for as impaired loans under ASC 310-30. The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require the Corporation to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the non-accretable discount which the Corporation then reclassifies as an accretable discount that is recognized into interest income over the remaining life of the loans using the interest method.

The following is a summary of acquired impaired loans from the merger with Madison Bancorp, Inc.:

(dollars in thousands)	**January 16, 2015**
Contractually required principal and interest at acquisition	$ 1,961
Contractual cash flows not expected to be collected	1,185
Expected cash flows at acquisition	776
Interest component of expected cash flows	160
Basis in acquired loans at acquisition - estimated fair value	$ 616

Allowance for Loan Losses

The allowance for loan losses represents the Corporation's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. While the Corporation attributes a portion of the allowance to individual loans and groups of loans that it evaluates and determines to be impaired, the allowance is available to cover all charge-offs that arise from the loan portfolio.

The allowance for loan losses is maintained at a level considered by management to be adequate to provide for losses that can be reasonably anticipated. The Corporation performs a quarterly evaluation of the adequacy of the allowance. The allowance 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, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, generally substandard and nonaccrual loans. For loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative (environmental) risk factors. Historical loss rates are based on a two year rolling average of net charge-offs. Qualitative risk factors that supplement historical losses in the evaluation of loan pools are shown below. Each factor is assigned a value to reflect improving, stable or declining conditions based on the Corporation's best judgment using relevant information available at the time of the evaluation.

Changes in national and local economies and business conditions

Changes in the value of collateral for collateral dependent loans

Changes in the level of concentrations of credit

Changes in the volume and severity of classified and past due loans

Changes in the nature and volume of the portfolio

Changes in collection, charge-off, and recovery procedures

Changes in underwriting standards and loan terms

Changes in the quality of the loan review system

Changes in the experience/ability of lending management and key lending staff

Regulatory and legal regulations that could affect the level of credit losses

Other pertinent environmental factors

The unallocated component is maintained to cover uncertainties that could affect the Corporation's estimate of probable losses. For example, increasing credit risks and uncertainties, not yet reflected in current leading indicators, associated with prolonged low economic growth, or recessionary business conditions for certain industries or the broad economy, or the erosion of real estate values, represent risk factors, the occurrence of any or all of which can adversely affect a borrowers' ability to service their loans. The unallocated component of the allowance also reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the loan portfolio, including the unpredictable timing and amounts of charge-offs and related historical loss averages, and specific-credit or broader portfolio future cash flow value and collateral valuation uncertainties which could negatively impact unimpaired portfolio loss factors.

As disclosed in Note 4—Loans, the Corporation engages in commercial and consumer lending. Loans are made within the Corporation's primary market area and surrounding areas, and include the purchase of whole loan or participation interests in loans from other financial institutions or private equity companies. Commercial loans, which pose the greatest risk of loss to the Corporation, whether originated or purchased, are generally secured by real estate. Within the broad commercial loan segment, the builder & developer and commercial real estate investor loan classes generally present a higher level of risk than other commercial loan classifications. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, unstable real estate prices and the dependency upon successful construction and sale or operation of the real estate project. Within the consumer loan segment, junior (i.e., second) liens present a higher risk to the Corporation because economic and housing market conditions can adversely affect the underlying value of the collateral, which could render the Corporation under-secured or unsecured. In addition, economic and housing market conditions can adversely affect the ability of some borrowers to service their debt.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered 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. The Corporation 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. Loans that are deemed impaired are evaluated for impairment loss based on the net realizable value of the collateral, as applicable. Loans that are not collateral dependent will rely on the present value of expected future cash flows discounted at the loan's effective interest rate to determine impairment loss. Large groups of smaller balance homogeneous loans such as residential mortgage loans, home equity loans and other consumer loans are collectively evaluated for impairment, unless they are classified as impaired.

An allowance for loan losses is established for an impaired commercial loan if its carrying value exceeds its estimated fair value. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals of the underlying collateral. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the most recent appraisal and the condition of the property. Appraisals are generally discounted to provide for selling costs and other factors to determine an estimate of the net realizable value of the property. For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In instances when specific consumer related loans become impaired, they may be partially or fully charged off, which obviates the need for a specific allowance.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted under a troubled debt restructuring may involve an interest rate that is below the market rate given the associated credit risk of the loan or an extension of a loan's stated maturity date. Loans classified as troubled debt restructurings are designated as impaired. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a reasonable period of time, generally six consecutive months after modification and future payments are reasonably assured.

Banking regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to the Corporation. Based on an analysis of the loan portfolio, the Corporation believes that the level of the allowance for loan losses at June 30, 2017 is adequate.

Foreclosed Real Estate

Foreclosed real estate, included in other assets, is comprised of property acquired through a foreclosure proceeding or property that is acquired through in-substance foreclosure. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any difference between the carrying value and the new cost basis is charged against the allowance for loan losses. Appraisals, obtained from an independent third party, are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell through a valuation allowance or a write-down. Costs related to the improvement of foreclosed real estate are generally capitalized until the real estate reaches a saleable condition subject to fair value limitations. Revenue and expense from operations and changes in the valuation allowance are included in noninterest expense. When a foreclosed real estate asset is ultimately sold, any gain or loss on the sale is included in the income statement as a component of noninterest expense. At June 30, 2017, foreclosed real estate, net of allowance, was $68,000, compared to $2,705,000 at December 31, 2016. Included within loans receivable as of June 30, 2017 was a recorded investment of $210,000 of consumer mortgage loans secured by residential real estate properties, for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Mortgage Servicing Rights

PeoplesBank retained servicing of sold mortgage loans beginning in 2016. The mortgage servicing rights (MSRs) associated with the sold loans are included in other assets on the consolidated balance sheets at an amount equal to the estimated fair value of the contractual rights to service the mortgage loans. The MSR asset is amortized as a reduction to servicing income. The MSR asset is evaluated periodically for impairment and carried at the lower of amortized cost or fair value. A third party calculates fair value by discounting the estimated cash flows from servicing income using a rate consistent with the risk associated with these assets and an expected life commensurate with the expected life of the underlying loans. In the event that the amortized cost of the MSR asset exceeds the fair value of the asset, a valuation allowance would be established through a charge against servicing income. Subsequent fair value evaluations may determine that impairment has been reduced or eliminated, in which case the valuation allowance would be reduced through a credit to earnings. On June 30, 2017, the MSR asset was $493,000 and the balance of residential mortgage loans serviced for third parties was $53,647,000. The MSR asset was $324,000 and the balance of residential mortgage loans serviced for third parties was $36,969,000 at December 31, 2016.

Goodwill and Core Deposit Intangible Assets

Goodwill arising from acquisitions is not amortized, but is subject to an annual impairment test. This test consists of a qualitative analysis. If the Corporation determines events or circumstances indicate that it is more likely than not that goodwill is impaired, a quantitative analysis must be completed. Analyses may also be performed between annual tests. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. The Corporation completes its annual goodwill impairment test on October 1st of each year. Based upon a qualitative analysis of goodwill, the Corporation concluded that the amount of recorded goodwill was not impaired as of October 1, 2016.

Core deposit intangibles represent the value assigned to demand, interest checking, money market, and savings accounts acquired as part of an acquisition. The core deposit intangible value represents the future economic benefit of potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and the alternative cost to grow a similar core deposit base. The core deposit intangible asset resulting from the merger with Madison Bancorp, Inc. was determined to have a definite life and is being amortized using the sum of the years' digits method over ten years. All intangible assets must be evaluated for impairment if certain events or changes in circumstances occur. Any impairment write-downs would be recognized as expense on the consolidated statements of income.

At June 30, 2017, the Corporation does not have any indicators of potential impairment of either goodwill or core deposit intangibles.

Per Common Share Data

All per share computations include the effect of stock dividends distributed. The computation of net income per common share is provided in the table below.

(in thousands, except per share data)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Net income available to common shareholders	$3,685	$3,040	$7,104	$5,841
Weighted average shares outstanding (basic)	8,440	8,365	8,435	8,361
Effect of dilutive stock options	96	68	95	68
Weighted average shares outstanding (diluted)	8,536	8,433	8,530	8,429
Basic earnings per common share	$0.43	$0.36	$0.84	$0.69
Diluted earnings per common share	$0.43	$0.36	$0.83	$0.69
Anti-dilutive stock options excluded from the computation of earnings per share	0	74	0	74

Comprehensive Income

Accounting principles generally accepted in the United States require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Cash Flow Information

For purposes of the statements of cash flows, the Corporation considers interest bearing deposits with banks, cash and due from banks, and federal funds sold to be cash and cash equivalents.

Supplemental cash flow information is provided in the table below.

(dollars in thousands)	Six months ended June 30, 2017	2016

Cash paid during the period for:		
Income taxes	$4,450	$1,205
Interest	$5,117	$4,131
Noncash investing activities:		
Transfer of loans held for sale to the held-to-maturity portfolio	$228	$117
Sale of foreclosed real estate through loans	$2,311	$0

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). This standard simplifies the test for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill, which currently is Step 2 of the goodwill impairment test. Instead, the goodwill impairment test will consist of a single quantitative step comparing the fair value of the reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and any interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted. The Corporation intends to adopt this standard effective with its October 1, 2020 goodwill impairment test and the adoption of this standard is not expected to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. This standard clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows to reduce diversity in practice. This standard contains guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Corporation intends to adopt this standard effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of the ASU to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). This standard adds a new Topic 326 which requires companies to measure and record impairment on financial instruments at the time of origination using the expected credit loss (CECL) model. The CECL model calculates impairment based on historical experience, current conditions, and reasonable and supportable forecasts, and reflects the organization's current estimate of all expected credit losses over the contractual term of its financial assets. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements and is in the initial stages of assessing and gathering the necessary data to implement the new standard.

In February 2016, the FASB issued ASU 2016-02, Leases. From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessees. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements and has determined that the provisions of ASU 2016-02 will result in an increase in assets to recognize the present value of the lease obligations (right-of-use assets) with a corresponding increase in liabilities. The initial measurement of the right-of-use asset and the corresponding liability will be affected by certain key assumptions such as expectations of renewals or extensions and the interest rate to be used to discount the future lease obligations. The Corporation is currently assessing its lease portfolio to determine the key assumptions; however, the total impact of the new standard will be affected by any new leases that are executed, leases that are terminated prior to the effective date, and any leases with changes to key assumptions or expectations such as renewals and extensions, and discount rates.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This standards update provides a framework that replaces most existing revenue recognition guidance. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. This ASU amends the new revenue standard to make minor technical corrections that affect narrow aspects of the guidance, including contract cost accounting, disclosures, and other matters. ASU 2014-09 and ASU 2016-20 are effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. The Corporation is evaluating the anticipated effects of these ASUs on its consolidated financial statements and related disclosures. The Corporation has determined that certain noninterest income financial statement line items, including trust and investment services fees, income from mutual fund, annuity and insurance sales, service charges on deposit accounts, and other noninterest income, contain revenue streams that are in scope of these updates. Preliminary findings indicate that there may be some changes in the presentation of certain revenues and expenses based on the principal versus agent guidance within these updates.

Note 2-Securities

A summary of securities available-for-sale at June 30, 2017 and December 31, 2016 is provided below. The securities available-for-sale portfolio is generally comprised of high quality debt instruments, principally obligations of the United States government or agencies thereof and investments in the obligations of states and municipalities. The majority of municipal bonds in the portfolio are general obligation bonds, which can draw upon multiple sources of revenue, including taxes, for payment. Only a few bonds are revenue bonds, which are dependent upon a single revenue stream for payment, but they are for critical services such as water and sewer. In many cases, municipal debt issues are insured or, in the case of school districts of selected states, backed by specific loss reserves. At June 30, 2017, the fair value of the municipal bond portfolio was concentrated in the state of Pennsylvania at 75 percent.

	Amortized	**Gross Unrealized**		**Fair**
(dollars in thousands)	**Cost**	**Gains**	**Losses**	**Value**
June 30, 2017				
Debt securities:				
U.S. Treasury notes	$ 14,743	$ 0	$ (583)	$ 14,160
U.S. agency	24,028	0	(632)	23,396
U.S. agency mortgage-backed, residential	85,945	658	(198)	86,405
State and municipal	57,632	394	(90)	57,936
Total debt securities	$ 182,348	$ 1,052	$ (1,503)	$ 181,897
December 31, 2016				
Debt securities:				
U.S. Treasury notes	$ 14,730	$ 0	$ (793)	$ 13,937
U.S. agency	26,045	1	(960)	25,086
U.S. agency mortgage-backed, residential	91,242	804	(285)	91,761
State and municipal	64,421	272	(738)	63,955
Total debt securities	$ 196,438	$ 1,077	$ (2,776)	$ 194,739

The amortized cost and estimated fair value of debt securities at June 30, 2017 by contractual maturity are shown below. Actual maturities may differ from contractual maturities if call options on select debt issues are exercised in the future. Mortgage-backed securities are included in the maturity categories based on average expected life.

	Available-for-sale	
	Amortized	**Fair**
(dollars in thousands)	**Cost**	**Value**
Due in one year or less	$ 16,947	$ 16,988
Due after one year through five years	105,633	106,230
Due after five years through ten years	56,064	54,908
Due after ten years	3,704	3,771

Total debt securities	$182,348	$181,897

Gross realized gains and losses on sales of securities available-for-sale are shown below. Realized gains and losses are computed on the basis of specific identification of the adjusted cost of each security and are shown net as a separate line item in the income statement.

	Three months ended June 30,		**Six months ended June 30,**	
(dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Realized gains	$63	$ 0	$63	$194
Realized losses	0	0	0	0
Net gains	$63	$ 0	$63	$194

Securities, issued by agencies of the federal government, with a carrying value of $130,346,000 and $160,357,000 on June 30, 2017 and December 31, 2016, respectively, were pledged to secure public and trust deposits, repurchase agreements and other short-term borrowings.

The table below shows gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position, at June 30, 2017 and December 31, 2016.

	Less than 12 months			**12 months or more**			**Total**		
(dollars in thousands)	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
June 30, 2017									
Debt securities:									
U.S. Treasury notes	3	$14,160	$ (583)	0	$0	$ 0	3	$14,160	$ (583)
U.S. agency	7	23,396	(632)	0	0	0	7	23,396	(632)
U.S. agency mortgage-backed, residential	11	23,521	(198)	0	0	0	11	23,521	(198)
State and municipal	31	17,069	(87)	1	501	(3)	32	17,570	(90)
Total temporarily impaired debt securities, available-for-sale	52	$78,146	$ (1,500)	1	$501	$ (3)	53	$78,647	$ (1,503)
December 31, 2016									
Debt securities:									
U.S. Treasury notes	3	$13,937	$ (793)	0	$0	$ 0	3	$13,937	$ (793)
U.S. agency	6	22,083	(960)	0	0	0	6	22,083	(960)
U.S. agency mortgage-backed, residential	15	36,473	(285)	0	0	0	15	36,473	(285)
State and municipal	83	40,092	(734)	1	501	(4)	84	40,593	(738)

Total temporarily impaired debt securities, available-for-sale	107	$112,585	$(2,772)	1	$501	$(4)	108	$113,086	$(2,776)

Securities available-for-sale are analyzed quarterly for possible other-than-temporary impairment. The analysis considers, among other factors: 1) whether the Corporation has the intent to sell its securities prior to market recovery or maturity; 2) whether it is more likely than not that the Corporation will be required to sell its securities prior to market recovery or maturity; 3) default rates/history by security type; 4) third-party securities ratings; 5) third-party guarantees; 6) subordination; 7) payment delinquencies; 8) nature of the issuer; and 9) current financial news.

The Corporation believes that unrealized losses at June 30, 2017 were primarily the result of changes in market interest rates and that the Corporation has the ability to hold these investments for a time necessary to recover the amortized cost. Through June 30, 2017 the Corporation has collected all interest and principal on its investment securities as scheduled. The Corporation believes that collection of the contractual principal and interest is probable and, therefore, all impairment is considered to be temporary.

Note 3—Restricted Investment in Bank Stocks

Restricted stock, which represents required investments in the common stock of correspondent banks, is carried at cost and, as of June 30, 2017 and December 31, 2016, consisted primarily of the common stock of the Federal Home Loan Bank of Pittsburgh (“FHLBP”) and, to a lesser degree, Atlantic Community Bancshares, Inc. (“ACBI”), the parent company of Atlantic Community Bankers Bank (“ACBB”). Under the FHLBP’s Capital Plan, PeoplesBank is required to maintain a minimum member stock investment, as a condition of becoming and remaining a member and as a condition of obtaining borrowings from the FHLBP. The FHLBP uses a formula to determine the minimum stock investment, which is based on the volume of loans outstanding, unused borrowing capacity and other factors.

The FHLBP paid dividends during the periods ended June 30, 2017 and 2016. The FHLBP restricts the repurchase of the excess capital stock of member banks. The amount of excess capital stock that can be repurchased from any member is currently the lesser of five percent of the member’s total capital stock outstanding or its excess capital stock outstanding.

Management evaluates the restricted stock for impairment in accordance with FASB ASC Topic 942. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. Using the FHLBP as an example, the determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLBP as compared to the capital stock amount for the FHLBP and the length of time this situation has persisted; (2) commitments by the FHLBP to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLBP; and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLBP. Management believes no impairment charge was necessary related to the restricted stock during the periods ended June 30, 2017 and 2016.

Note 4—Loans

Loan Portfolio Composition

The table below provides the composition of the loan portfolio at June 30, 2017 and December 31, 2016. The portfolio is comprised of two segments, commercial and consumer loans. The commercial loan segment is disaggregated by industry class which allows the Corporation to monitor risk and performance. Those industries representing the largest dollar investment and most risk are listed separately. The "Other" commercial loans category is comprised of various industries. The consumer related segment is comprised of residential mortgages, home equity and other consumer loans. The Corporation has not engaged in sub-prime residential mortgage originations.

(dollars in thousands)	**June 30, 2017**	**% Total Loans**	**December 31, 2016**	**% Total Loans**
Builder & developer	$171,389	12.7	$148,635	11.7
Commercial real estate investor	255,127	18.8	243,623	19.2
Residential real estate investor	203,315	15.0	183,623	14.4
Hotel/Motel	65,581	4.9	82,085	6.5
Wholesale & retail	93,609	6.9	88,062	6.9
Manufacturing	53,700	4.0	32,616	2.6
Agriculture	57,024	4.2	51,848	4.1
Other	257,222	19.0	242,872	19.1
Total commercial related loans	1,156,967	85.5	1,073,364	84.5
Residential mortgages	75,104	5.5	73,496	5.8
Home equity	94,129	7.0	94,222	7.4
Other	27,448	2.0	29,689	2.3
Total consumer related loans	196,681	14.5	197,407	15.5
Total loans	$1,353,648	100.0	$1,270,771	100.0

Loan Risk Ratings

The Corporation's internal risk rating system follows regulatory guidance as to risk classifications and definitions. Every approved loan is assigned a risk rating. Generally, risk ratings for commercial related loans and residential mortgages held for investment are determined by a formal evaluation of risk factors performed by the Corporation's underwriting staff. For consumer loans, and commercial loans up to $500,000, the Corporation uses third-party credit scoring software models for risk rating purposes. The loan portfolio is monitored on a continuous basis by loan officers, loan review personnel and senior management. Adjustments of loan risk ratings are generally performed by the Special Asset Committee, which includes senior management. The Committee, which meets at a minimum quarterly, makes changes, as appropriate, to risk ratings when it becomes aware of credit events such as payment delinquency, cessation of a business or project, bankruptcy or death of the borrower, or changes in collateral value.

The Corporation uses ten risk ratings to grade loans. The first seven ratings, representing the lowest risk, are combined and given a "pass" rating. A pass rating is a satisfactory credit rating, which applies to a loan that is expected to perform in accordance with the loan agreement and has a low probability of loss. A loan rated "special mention" has a potential weakness which may, if not corrected, weaken the loan or inadequately protect the Corporation's position at some future date. A loan rated "substandard" is inadequately protected by the current net worth or paying capacity of the borrower or of the collateral pledged. A substandard loan has a well-defined weakness or weaknesses that could jeopardize liquidation of the loan, which exposes the Corporation to loss if the deficiencies are not corrected. A loan classified "doubtful" has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and value highly improbable and the possibility of loss extremely high. When circumstances indicate that collection of the loan is doubtful, the loan is risk rated "nonaccrual," the accrual of interest income is discontinued, and any unpaid interest previously credited to income is reversed. The table below does not include the regulatory classification of "doubtful," which is subsumed within the nonaccrual risk rating category, nor does it include the regulatory classification of "loss" because the Corporation promptly charges off known loan losses.

The table below presents a summary of loan risk ratings by loan class at June 30, 2017 and December 31, 2016.

(dollars in thousands)	Pass	Special Mention	Substandard	Nonaccrual	Total
June 30, 2017					
Builder & developer	$162,179	$1,923	$ 2,999	$ 4,288	$171,389
Commercial real estate investor	248,939	368	5,571	249	255,127
Residential real estate investor	197,552	4,041	717	1,005	203,315
Hotel/Motel	65,581	0	0	0	65,581
Wholesale & retail	87,288	367	5,954	0	93,609
Manufacturing	48,685	0	5,015	0	53,700
Agriculture	55,345	1,342	0	337	57,024
Other	254,940	871	898	513	257,222
Total commercial related loans	1,120,509	8,912	21,154	6,392	1,156,967
Residential mortgage	75,011	0	85	8	75,104
Home equity	93,690	49	0	390	94,129
Other	27,063	103	9	273	27,448
Total consumer related loans	195,764	152	94	671	196,681
Total loans	$1,316,273	$9,064	$ 21,248	$ 7,063	$1,353,648
December 31, 2016					
Builder & developer	$138,653	$6,090	$ 3,508	$ 384	$148,635
Commercial real estate investor	236,240	1,490	5,893	0	243,623
Residential real estate investor	177,763	4,157	866	837	183,623
Hotel/Motel	81,724	0	0	361	82,085
Wholesale & retail	79,884	8,178	0	0	88,062
Manufacturing	27,564	4,439	613	0	32,616
Agriculture	50,123	796	0	929	51,848

Other	235,515	6,213	885	259	242,872
Total commercial related loans	1,027,466	31,363	11,765	2,770	1,073,364
Residential mortgage	73,340	14	85	57	73,496
Home equity	93,908	70	0	244	94,222
Other	29,420	97	129	43	29,689
Total consumer related loans	196,668	181	214	344	197,407
Total loans	$1,224,134	$ 31,544	$ 11,979	$ 3,114	$1,270,771

Impaired Loans

The table below presents a summary of impaired loans at June 30, 2017 and December 31, 2016. Generally, impaired loans are loans risk rated substandard and nonaccrual. An allowance is established for individual commercial loans where the Corporation has doubt as to full recovery of the outstanding principal balance. The recorded investment represents outstanding unpaid principal loan balances adjusted for charge-offs.

	With No Allowance		**With A Related Allowance**			**Total**	
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal**	**Recorded Investment**	**Unpaid Principal**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal**
June 30, 2017							
Builder & developer	$2,999	$3,134	$4,288	$4,288	$1,021	$7,287	$7,422
Commercial real estate investor	5,820	5,836	0	0	0	5,820	5,836
Residential real estate investor	1,423	1,423	299	299	136	1,722	1,722
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	6,211	6,211	0	0	0	6,211	6,211
Manufacturing	3,790	3,790	1,225	1,225	400	5,015	5,015
Agriculture	0	0	337	337	263	337	337
Other commercial	1,228	1,228	183	298	82	1,411	1,526
Total impaired commercial related loans	21,471	21,622	6,332	6,447	1,902	27,803	28,069
Residential mortgage	93	122	0	0	0	93	122
Home equity	390	390	0	0	0	390	390
Other consumer	282	282	0	0	0	282	282
Total impaired consumer related loans	765	794	0	0	0	765	794
Total impaired loans	$22,236	$22,416	$6,332	$6,447	$1,902	$28,568	$28,863
December 31, 2016							
Builder & developer	$3,508	$3,644	$384	$384	$200	$3,892	$4,028
Commercial real estate investor	5,893	5,908	0	0	0	5,893	5,908
Residential real estate investor	1,404	1,404	299	299	136	1,703	1,703
Hotel/Motel	361	361	0	0	0	361	361
Wholesale & retail	260	260	0	0	0	260	260
Manufacturing	613	613	0	0	0	613	613
Agriculture	568	568	361	361	263	929	929
Other commercial	961	961	183	298	82	1,144	1,259
Total impaired commercial related loans	13,568	13,719	1,227	1,342	681	14,795	15,061
Residential mortgage	142	222	0	0	0	142	222
Home equity	244	244	0	0	0	244	244
Other consumer	172	172	0	0	0	172	172
Total impaired consumer related loans	558	638	0	0	0	558	638
Total impaired loans	$14,126	$14,357	$1,227	$1,342	$681	$15,353	$15,699

The table below presents a summary of average impaired loans and related interest income that was included in net income for the three and six months ended June 30, 2017 and 2016.

	With No Related Allowance			With A Related Allowance			Total		
(dollars in thousands)	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income	Average Recorded Investment	Total Interest Income	Cash Basis Interest Income
Three months ended June 30, 2017									
Builder & developer	$3,029	$ 48	$ 0	$2,336	$ 0	$ 0	$5,365	$ 48	$ 0
Commercial real estate investor	5,292	60	4	0	0	0	5,292	60	4
Residential real estate investor	1,411	12	2	460	0	0	1,871	12	2
Hotel/Motel	0	0	0	18	0	0	18	0	0
Wholesale & retail	6,743	80	0	0	0	0	6,743	80	0
Manufacturing	2,869	76	0	1,250	18	0	4,119	94	0
Agriculture	0	0	0	344	0	0	344	0	0
Other commercial	1,160	14	0	183	0	0	1,343	14	0
Total impaired commercial related loans	20,504	290	6	4,591	18	0	25,095	308	6
Residential mortgage	93	0	0	0	0	0	93	0	0
Home equity	393	4	4	0	0	0	393	4	4
Other consumer	290	4	4	0	0	0	290	4	4
Total impaired consumer related loans	776	8	8	0	0	0	776	8	8
Total impaired loans	$21,280	$ 298	$ 14	$4,591	$ 18	$ 0	$25,871	$ 316	$ 14
Three months ended June 30, 2016									