EMCLAIRE FINANCIAL CORP
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2016**

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: **001-34527**

EMCLAIRE FINANCIAL CORP
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
612 Main Street, Emlenton, Pennsylvania	16373
(Address of principal executive offices)	(Zip Code)

(844) 767-2311
(Registrant's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since 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 x No ¨

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

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

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

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

The number of shares outstanding of the Registrant's common stock was 2,146,308 at November 14, 2016.

EMCLAIRE FINANCIAL CORP

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp

Consolidated Balance Sheets (Unaudited)

As of September 30, 2016 and December 31, 2015

(Dollar amounts in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 2,532	$ 2,359
Interest earning deposits with banks	24,272	9,187
Cash and cash equivalents	26,804	11,546
Securities available for sale	102,463	112,981
Loans held for sale	58	-
Loans receivable, net of allowance for loan losses of $5,514 and $5,205	508,183	429,891
Federal bank stocks, at cost	3,854	4,240
Bank-owned life insurance	11,304	11,056
Accrued interest receivable	1,969	1,501
Premises and equipment, net	18,382	16,114
Goodwill	10,291	3,664
Core deposit intangible, net	621	554
Prepaid expenses and other assets	9,743	9,048
Total Assets	$ 693,672	$ 600,595
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 124,144	$ 119,790
Interest bearing	468,456	370,097
Total deposits	592,600	489,887
Short-term borrowed funds	2,500	14,250

Long-term borrowed funds	34,750	35,000
Accrued interest payable	236	179
Accrued expenses and other liabilities	8,370	8,440
Total Liabilities	638,456	547,756
Commitments and Contingent Liabilities	-	-
Stockholders' Equity:		
Common stock, $1.25 par value, 12,000,000 shares authorized; 2,248,325 and 2,246,825 shares issued; 2,146,308 and 2,144,808 shares outstanding, respectively	2,810	2,808
Additional paid-in capital	27,853	27,701
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	29,322	28,206
Accumulated other comprehensive loss	(2,655)	(3,762)
Total Stockholders' Equity	55,216	52,839
Total Liabilities and Stockholders' Equity	$ 693,672	$ 600,595

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp

Consolidated Statements of Net Income (Unaudited)

For the three and nine months ended September 30, 2016 and 2015

(Dollar amounts in thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans receivable, including fees	$ 5,444	$ 4,382	$ 15,331	$ 13,051
Securities:				
Taxable	396	481	1,270	1,525
Exempt from federal income tax	157	205	473	640
Federal bank stocks	49	30	135	132
Interest earning deposits with banks	48	15	110	50
Total interest and dividend income	6,094	5,113	17,319	15,398
Interest expense:				
Deposits	781	532	2,091	1,613
Borrowed funds	308	155	847	514
Total interest expense	1,089	687	2,938	2,127
Net interest income	5,005	4,426	14,381	13,271
Provision for (recovery of) loan losses	168	(102)	470	269
Net interest income after provision for loan losses	4,837	4,528	13,911	13,002
Noninterest income:				
Fees and service charges	433	387	1,164	1,113
Commissions on financial services	1	14	2	24
Title premiums	10	13	29	29
Net gain on sales of available for sale securities	-	533	83	567
Net gain on sales of loans	121	-	121	-
Earnings on bank-owned life insurance	101	98	299	293
Other	346	334	1,036	980
Total noninterest income	1,012	1,379	2,734	3,006
Noninterest expense:				
Compensation and employee benefits	2,259	2,003	6,484	6,122
Premises and equipment	732	646	2,110	1,970
Intangible asset amortization	60	49	165	146

Professional fees	172	181	545	560
Federal deposit insurance	123	92	305	287
Acquisition costs	-	-	401	-
Other	1,148	956	2,965	2,817
Total noninterest expense	4,494	3,927	12,975	11,902
Income before provision for income taxes	1,355	1,980	3,670	4,106
Provision for income taxes	297	460	880	877
Net income	1,058	1,520	2,790	3,229
Preferred stock dividends	-	25	-	75
Net income available to common stockholders	$ 1,058	$ 1,495	$ 2,790	$ 3,154
Basic earnings per common share	$ 0.49	$ 0.70	$ 1.30	$ 1.64
Diluted earnings per common share	0.49	0.70	1.29	1.63
Average common shares outstanding - basic	2,146,308	2,136,749	2,145,761	1,928,789
Average common shares outstanding - diluted	2,158,273	2,148,713	2,155,902	1,939,708

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Comprehensive Income (Unaudited)

For the three and nine months ended September 30, 2016 and 2015

(Dollar amounts in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income	$ 1,058	$ 1,520	$ 2,790	$ 3,229
Other comprehensive income (loss)				
Unrealized gains/(losses) on securities:				
Unrealized holding gain/(loss) arising during the period	(271)	1,200	1,760	982
Reclassification adjustment for gains included in net income	-	(533)	(83)	(567)
	(271)	667	1,677	415
Tax effect	92	(227)	(570)	(141)
Net of tax	(179)	440	1,107	274
Comprehensive income	$ 879	$ 1,960	$ 3,897	$ 3,503

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2016 and 2015

(Dollar amounts in thousands)

	For the nine months ended September 30, 2016			2015		
Cash flows from operating activities						
Net income	$	2,790		$	3,229	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		835			751	
Provision for loan losses		470			269	
Amortization of premiums, net		300			246	
Amortization of intangible assets and mortgage servicing rights		179			146	
Realized gains on sales of available for sale securities, net		(83	)		(567	)
Net gains on sales of loans		(121	)		-	
Net gains on foreclosed real estate		(17	)		(25	)
Loss on sale of premises and equipment		10			-	
Loans originated for sale		(1,101	)		-	
Proceeds from the sale of loans originated for sale		1,078			-	

Write-down of foreclosed real estate	-		6	
Stock compensation expense	154		150	
Increase in bank-owned life insurance, net	(248	)	(245	)
Increase in accrued interest receivable	(234	)	(52	)
Increase in prepaid expenses and other assets	(271	)	(2,504	)
Increase (decrease) in accrued interest payable	28		(13	)
Decrease in accrued expenses and other liabilities	(465	)	(124	)
Net cash provided by operating activities	3,304		1,267	
Cash flows from investing activities				
Loan originations and principal collections, net	(8,071	)	(3,764	)
Purchase of residential mortgage loans	(6,911	)	(19,481	)
Proceeds from sales of loans held for sale previously classified as portfolio loans	1,944		-	
Settlement of syndicated national credits	-		(7,039	)
Available for sale securities:				
Sales	6,118		30,691	
Maturities, repayments and calls	15,478		19,382	
Purchases	(9,270	)	(20,540	)
Net cash paid for acquisition	(3,309	)	-	
Redemption of federal bank stocks	1,364		224	
Proceeds from the sale of foreclosed real estate	215		317	
Purchases of premises and	(1,943	)	(649	)

equipment						
Net cash used in investing activities		(4,385	)		(859	)
Cash flows from financing activities						
Net increase in deposits		30,013			3,340	
Repayments on long-term debt		(5,250	)		-	
Proceeds from other long-term debt		5,000			-	
Net change in short-term borrowings		(11,750	)		(5,100	)
Proceeds from exercise of stock options, including tax benefit		-			54	
Dividends paid		(1,674	)		(1,444	)
Proceeds from the issuance of common stock		-			8,151	
Redemption of preferred stock (Series B)		-			(5,000	)
Net cash provided by financing activities		16,339			1	
Increase in cash and cash equivalents		15,258			409	
Cash and cash equivalents at beginning of period		11,546			11,856	
Cash and cash equivalents at end of period	$	26,804		$	12,265	
Supplemental information:						
Interest paid	$	2,881		$	2,140	
Income taxes paid		600			525	
Supplemental noncash disclosure:						
Transfers from loans to foreclosed real estate		218			341	
Transfers from portfolio loans to loans held for sale		1,859			-	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the three and nine months ended September 30, 2016 and 2015

(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 54,851	$ 56,901	$ 52,839	$ 47,990
Net income	1,058	1,520	2,790	3,229
Other comprehensive income (loss)	(179)	440	1,107	274
Stock compensation expense	44	42	154	150
Dividends declared on preferred stock	-	(25)	-	(75)
Dividends declared on common stock	(558)	(513)	(1,674)	(1,369)
Exercise of stock options, including tax benefit	-	50	-	54
Issuance of common stock (350,000 shares)	-	(11)	-	8,151
Redemption of preferred stock (5,000 shares, Series B)	-	(5,000)	-	(5,000)
Balance at end of period	$ 55,216	$ 53,404	$ 55,216	$ 53,404
Cash dividend per common share	$ 0.26	$ 0.24	$ 0.78	$ 0.72

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclaire Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in Western Pennsylvania. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank and the Title Company. All significant intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's (SEC's) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2015, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Mergers and Acquisitions

On April 30, 2016, the Corporation completed its acquisition of United American Savings Bank (United American) in accordance with the terms of the Agreement and Plan of Merger, dated as of December 30, 2015, by and among the Corporation, the Bank and United American (the Merger Agreement). Pursuant to the Merger Agreement, the Corporation acquired United American through a reverse merger of a newly created, wholly-owned subsidiary of the Bank into United American. Immediately after the merger, United American merged with and into The Farmers National Bank of Emlenton, with The Farmers National Bank of Emlenton being the surviving bank. At December 31, 2015, United American had reported assets of $89.3 million. The Corporation acquired all of the outstanding shares of common stock of United American for cash consideration of $13.2 million ($42.67 per share).

The acquisition expanded the Corporation’s franchise into contiguous markets and increased the Corporation’s consolidated total assets, loans and deposits.

The assets and liabilities of United American were recorded on the Corporation’s consolidated balance sheet at their estimated fair value as of April 30, 2016, and their results of operations have been included in the consolidated income statement since such date.

2. Mergers and Acquisitions (continued)

Included in the purchase price was goodwill and a core deposit intangible of $6.6 million and $232,000, respectively. Goodwill is the excess of the purchase price over the fair value of the identifiable net assets acquired and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes. The goodwill will not be amortized, but will be measured annually for impairment or more frequently if circumstances require. The core deposit intangible will be amortized over a weighted average estimated life of ten years using the double declining balance method. Core deposit intangible expense projected for the succeeding five years beginning 2016 is estimated to be $31,000, $40,000, $32,000, $26,000 and $20,000 per year, respectively, and $83,000 in total for years after 2020.

While the Corporation believes that the accounting for the acquisition is complete, accounting guidance allows for adjustments to goodwill for a period of up to one year after the acquisition date for information that becomes available that reflects circumstances at the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

(Dollar amounts in thousands)

Assets acquired:	
Cash and cash equivalents	$9,899
Securities available for sale	60
Loans receivable	66,145
Federal bank stocks	978
Accrued interest receivable	234
Premises and equipment	1,169
Goodwill	6,626
Core deposit intangible	232
Prepaid expenses and other assets	989
Total assets acquired	86,332
Liabilities assumed:	
Deposits	72,700
Accrued interest payable	29
Accrued expenses and other liabilities	395
Total liabilities assumed	73,124
Consideration paid	$13,208

The fair value of loans was determined using discounted cash flows. The book balance of the loans at the time of the acquisition was $66.1 million before considering United American’s allowance for loan losses, which was not carried over. The fair value disclosed above reflects a credit-related adjustment of $(927,000) and an adjustment for other factors of $982,000. Loans evidencing credit deterioration since origination (purchased credit impaired loans) included in loans receivable were immaterial.

For the nine months ended September 30, 2016, costs related to the acquisition totaled $401,000 including legal fees, system conversion costs and other costs of $194,000, $132,000 and $75,000, respectively.

3. Issuance of Common Stock

On June 10, 2015, the Corporation sold 350,000 shares of common stock, par value of $1.25 per share, in a private offering to accredited individual and institutional investors at $23.50 per share. The Corporation realized $8.2 million in proceeds from the offering, net of $63,000 of direct costs relating to the offering.

4. Participation in the Small Business Lending Fund (SBLF) of the U.S. Treasury Department (U.S. Treasury)

On August 18, 2011, the Corporation entered into a Securities Purchase Agreement (the Agreement) with the U.S. Treasury Department, pursuant to which the Corporation issued and sold to the U.S. Treasury 10,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock), having a liquidation preference of $1,000 per share, for aggregate proceeds of $10.0 million, pursuant to the U.S. Treasury's SBLF program. On September 17, 2013, with the approval of the Corporation's primary federal banking regulator, the Corporation redeemed 5,000 shares, or 50%, of its Series B Preferred Stock held by the U.S. Treasury at an aggregate redemption price of $5.0 million, plus accrued but unpaid dividends. On September 30, 2015, the Corporation redeemed the remaining 5,000 shares of its Series B Preferred Stock held by the U.S. Treasury at an aggregate redemption price of $5.0 million, plus accrued but unpaid dividends. Following this redemption, the Corporation does not have any Series B Preferred Stock outstanding.

5. Earnings per Common Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

The factors used in the Corporation's earnings per common share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Earnings per common share - basic				
Net income	$ 1,058	$ 1,520	$ 2,790	$ 3,229
Less: Preferred stock dividends	-	25	-	75
.				
Net income available to common stockholders	$ 1,058	$ 1,495	$ 2,790	$ 3,154
Average common shares outstanding	2,146,308	2,136,749	2,145,761	1,928,789
Basic earnings per common share	$ 0.49	$ 0.70	$ 1.30	$ 1.64
Earnings per common share - diluted				

Net income available to common stockholders	$1,058	$1,495	$2,790	$3,154
Average common shares outstanding	2,146,308	2,136,749	2,145,761	1,928,789
Add: Dilutive effects of assumed issuance of restricted stock and exercise of stock options	11,965	11,964	10,141	10,919
Average shares and dilutive potential common shares	2,158,273	2,148,713	2,155,902	1,939,708
Diluted earnings per common share	$0.49	$0.70	$1.29	$1.63
Stock options not considered in computing earnings per share because they were antidilutive	57,000	67,000	57,000	67,000

6. Securities

The following table summarizes the Corporation's securities as of September 30, 2016 and December 31, 2015:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
September 30, 2016:				
U.S. Treasury and federal agency	$ 1,494	$ 11	$ -	$ 1,505
U.S. government sponsored entities and agencies	6,999	2	(3)	6,998
U.S. agency mortgage-backed securities: residential	27,181	868	-	28,049
U.S. agency collateralized mortgage obligations: residential	26,910	22	(231)	26,701
State and political subdivisions	28,736	445	(9)	29,172
Corporate debt securities	8,012	30	(24)	8,018
Equity securities	1,829	230	(39)	2,020
	$ 101,161	$ 1,608	$ (306)	$ 102,463
December 31, 2015:				
U.S. Treasury and federal agency	$ 1,493	$ -	$ (27)	$ 1,466
U.S. government sponsored entities and agencies	8,998	2	(47)	8,953
U.S. agency mortgage-backed securities: residential	32,947	256	(53)	33,150
U.S. agency collateralized mortgage obligations: residential	32,289	23	(872)	31,440
State and political subdivisions	28,352	264	(25)	28,591
Corporate debt securities	7,507	1	(21)	7,487
Equity securities	1,769	188	(63)	1,894
	$ 113,355	$ 734	$ (1,108)	$ 112,981

The following table summarizes scheduled maturities of the Corporation's debt securities as of September 30, 2016. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,710	$ 1,710
Due after one year through five years	17,664	17,767
Due after five through ten years	24,606	24,960
Due after ten years	1,261	1,256

Mortgage-backed securities: residential	27,181	28,049
Collateralized mortgage obligations: residential	26,910	26,701
	$99,332	$100,443

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6. Securities (continued)

Information pertaining to securities with gross unrealized losses at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2016:						
U.S. government sponsored entities and agencies	$ 3,996	$ (3)	$ -	$ -	$ 3,996	$ (3)
U.S. agency collateralized mortgage obligations: residential	6,787	(17)	12,663	(214)	19,450	(231)
State and political subdivisions	1,655	(9)	-	-	1,655	(9)
Corporate debt securities	1,986	(24)	-	-	1,986	(24)
Equity securities	1,161	(39)	-	-	1,161	(39)
	$ 15,585	$ (92)	$ 12,663	$ (214)	$ 28,248	$ (306)
December 31, 2015:						
U.S. Treasury and federal agency	$ -	$ -	$ 1,466	$ (27)	$ 1,466	$ (27)
U.S. government sponsored entities and agencies	4,962	(36)	1,989	(11)	6,951	(47)
U.S. agency mortgage-backed securities: residential	6,710	(53)	-	-	6,710	(53)
U.S. agency collateralized mortgage obligations: residential	4,283	(41)	25,336	(831)	29,619	(872)
State and political subdivisions	1,028	(2)	1,819	(23)	2,847	(25)
Corporate debt securities	3,484	(20)	500	(1)	3,984	(21)
Equity securities	1,137	(63)	-	-	1,137	(63)
	$ 21,604	$ (215)	$ 31,110	$ (893)	$ 52,714	$ (1,108)

Gains on sales of available for sale securities for the three and nine months ended September 30 were as follows:

(Dollar amounts in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Proceeds	$ -	$ 28,900	$ 6,118	$ 30,691
Gains	-	533	83	567
Tax provision related to gains	-	181	28	193

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. For equity securities determined to be other-than-temporarily impaired, the entire amount of impairment is recognized through earnings.

6. Securities (continued)

There were two equity securities in an unrealized loss position as of September 30, 2016, both of which were in an unrealized loss position for less than 12 months. Equity securities owned by the Corporation consist of common stock of various financial service providers. The investment security is in unrealized loss positions as a result of recent market volatility. The Corporation does not invest in these securities with the intent to sell them for a profit in the near term. For investments in equity securities, in addition to the general factors mentioned above for determining whether the decline in market value is other-than-temporary, the analysis of whether an equity security is other-than-temporarily impaired includes a review of the profitability, capital adequacy and other relevant information available to determine the financial position and near term prospects of each issuer. The results of analyzing the aforementioned metrics and financial fundamentals suggest recovery of amortized cost as the sector improves. Based on that evaluation, and given that the Corporation's current intention is not to sell any impaired security and it is more likely than not it will not be required to sell this security before the recovery of its amortized cost basis, the Corporation does not consider the equity security with an unrealized loss as of September 30, 2016 to be other-than-temporarily impaired.

There were 29 debt securities in an unrealized loss position as of September 30, 2016, of which 11 were in an unrealized loss position for more than 12 months. Of these 29 securities, 19 were government-backed collateralized mortgage obligations, 4 were corporate securities, 3 were U.S. government sponsored entity and agency securities and 3 were state and political subdivision securities. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that would likely result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the debt securities with unrealized losses as of September 30, 2016 to be other-than-temporarily impaired.

7. Loans Receivable and Related Allowance for Loan Losses

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	September 30, 2016	December 31, 2015
Mortgage loans on real estate:		
Residential first mortgages	$ 190,034	$ 139,305
Home equity loans and lines of credit	91,545	87,410

Commercial real estate	162,652	129,691
	444,231	356,406
Other loans:		
Commercial business	62,549	71,948
Consumer	6,917	6,742
	69,466	78,690
Total loans, gross	513,697	435,096
Less allowance for loan losses	5,514	5,205
Total loans, net	$ 508,183	$ 429,891

Included in total loans above are net deferred costs of $1.3 million and $835,000 at September 30, 2016 and December 31, 2015, respectively.

An allowance for loan losses (ALL) is maintained to absorb probable incurred losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience and the amount of nonperforming loans.

7. Loans Receivable and Related Allowance for Loan Losses (continued)

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The following table details activity in the ALL and the recorded investment by portfolio segment based on impairment method:

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
Three months ended September 30, 2016:						
Allowance for loan losses:						
Beginning Balance	$ 1,696	$ 645	$ 2,118	$ 920	$ 52	$ 5,431
Charge-offs	(22)	(19)	(11)	(11)	(31)	(94)
Recoveries	-	1	2	-	6	9
Provision	58	(1)	10	75	26	168
Ending Balance	$ 1,732	$ 626	$ 2,119	$ 984	$ 53	$ 5,514
Nine months ended September 30, 2016:						
Allowance for loan losses:						
Beginning Balance	$ 1,429	$ 586	$ 2,185	$ 960	$ 45	$ 5,205
Charge-offs	(63)	(52)	(11)	(11)	(45)	(182)
Recoveries	-	2	9	-	10	21
Provision	366	90	(64)	35	43	470
Ending Balance	$ 1,732	$ 626	$ 2,119	$ 984	$ 53	$ 5,514
At September 30, 2016:						
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 20	$ -	$ -	$ -	$ -	$ 20
Acquired loans	-	-	-	-	-	-
Collectively evaluated for impairment	1,712	626	2,119	984	53	5,494
Total	$ 1,732	$ 626	$ 2,119	$ 984	$ 53	$ 5,514

Total loans:						
Individually evaluated for impairment	$ 136	$ -	$ 791	$ 675	$ -	$ 1,602
Acquired loans	26,979	5,776	29,335	1,624	239	63,953
Collectively evaluated for impairment	162,919	85,769	132,526	60,250	6,678	448,142
Total	$ 190,034	$ 91,545	$ 162,652	$ 62,549	$ 6,917	$ 513,697
At December 31, 2015:						
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 29	$ -	$ 5	$ 76	$ -	$ 110
Collectively evaluated for impairment	1,400	586	2,180	884	45	5,095
Total	$ 1,429	$ 586	$ 2,185	$ 960	$ 45	$ 5,205
Total loans:						
Individually evaluated for impairment	$ 169	$ -	$ 839	$ 999	$ -	$ 2,007
Collectively evaluated for impairment	139,136	87,410	128,852	70,949	6,742	433,089
Total	$ 139,305	$ 87,410	$ 129,691	$ 71,948	$ 6,742	$ 435,096
Three months ended September 30, 2015:						
Allowance for loan losses:						
Beginning Balance	$ 1,258	$ 622	$ 2,161	$ 1,282	$ 47	$ 5,370
Charge-offs	(43)	(128)	(35)	-	(3)	(209)
Recoveries	-	-	6	12	2	20
Provision	173	122	(164)	(232)	(1)	(102)
Ending Balance	$ 1,388	$ 616	$ 1,968	$ 1,062	$ 45	$ 5,079
Nine months ended September 30, 2015:						
Allowance for loan losses:						
Beginning Balance	$ 955	$ 543	$ 2,338	$ 1,336	$ 52	$ 5,224
Charge-offs	(47)	(213)	(35)	(182)	(32)	(509)
Recoveries	-	30	18	31	16	95
Provision	480	256	(353)	(123)	9	269
Ending Balance	$ 1,388	$ 616	$ 1,968	$ 1,062	$ 45	$ 5,079

7. Loans Receivable and Related Allowance for Loan Losses (continued)

The allowance for loan losses is based on estimates and actual losses may vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

At September 30, 2016, there was no allowance for loan losses allocated to loans acquired in the April 2016 merger with United American.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2016:

(Dollar amounts in thousands)

Impaired Loans with Specific Allowance					
As of September 30, 2016			For the three months ended September 30, 2016		
Unpaid Principal Balance	Recorded Investment	Related	Average Recorded	Interest Income Recognized	Cash Basis Interest Recognized