CODORUS VALLEY BANCORP INC
Form 10-Q
May 07, 2018

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 March 31, 2018

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 27, 2018, 8,925,158 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

(dollars in thousands, except per share data)	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Interest bearing deposits with banks	$ 62,401	$ 55,566
Cash and due from banks	15,792	23,958
Total cash and cash equivalents	78,193	79,524
Securities, available-for-sale	151,786	158,591
Restricted investment in bank stocks, at cost	6,103	6,311
Loans held for sale	1,657	1,715
Loans (net of deferred fees of $3,832 - 2018 and $4,039 - 2017)	1,423,757	1,399,764
Less-allowance for loan losses	(16,866)	(16,689)
Net loans	1,406,891	1,383,075
Premises and equipment, net	24,311	24,382
Goodwill	2,301	2,301
Other assets	53,696	53,306
Total assets	$ 1,724,938	$ 1,709,205
Liabilities		
Deposits		
Noninterest bearing	$ 241,120	$ 246,866
Interest bearing	1,161,433	1,137,641
Total deposits	1,402,553	1,384,507
Short-term borrowings	24,715	20,495
Long-term debt	120,310	130,310
Other liabilities	11,679	9,674
Total liabilities	1,559,257	1,544,986
Shareholders' equity		
Preferred stock, par value $2.50 per share; 1,000,000 shares authorized; 0 shares issued and outstanding	0	0
	22,313	22,265

Common stock, par value $2.50 per share; 15,000,000 shares authorized; shares issued 8,925,002 at March 31, 2018 and 8,906,052 at December 31, 2017; and shares outstanding: 8,924,798 at March 31, 2018 and 8,906,052 at December 31, 2017		
Additional paid-in capital	120,558	120,052
Retained earnings	25,562	22,860
Accumulated other comprehensive loss	(2,746)	(958)
Treasury stock, at cost; 204 shares at March 31, 2018	(6)	0
Total shareholders’ equity	165,681	164,219
Total liabilities and shareholders’ equity	$ 1,724,938	$ 1,709,205

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Income

Unaudited

(dollars in thousands, except per share data)	Three months ended March 31, 2018	2017
Interest income		
Loans, including fees	$17,497	$15,394
Investment securities:		
Taxable	566	649
Tax-exempt	281	333
Dividends	123	76
Other	126	53
Total interest income	18,593	16,505
Interest expense		
Deposits	2,632	1,807
Federal funds purchased and other short-term borrowings	15	92
Long-term debt	601	546
Total interest expense	3,248	2,445
Net interest income	15,345	14,060
Provision for loan losses	200	650
Net interest income after provision for loan losses	15,145	13,410
Noninterest income		
Trust and investment services fees	790	659
Income from mutual fund, annuity and insurance sales	314	211
Service charges on deposit accounts	1,103	970
Income from bank owned life insurance	241	272
Other income	326	280
Gain on sales of loans held for sale	443	289
Total noninterest income	3,217	2,681
Noninterest expense		
Personnel	7,812	6,736
Occupancy of premises, net	871	871
Furniture and equipment	814	695
Postage, stationery and supplies	172	165
Professional and legal	180	149
Marketing	408	336
FDIC insurance	168	153

Debit card processing	288	215
Charitable donations	1,509	666
Telecommunications	237	204
External data processing	447	395
Foreclosed real estate including provision for (recovery of) losses	9	(29)
Other	342	507
Total noninterest expense	13,257	11,063
Income before income taxes	5,105	5,028
Provision for income taxes	1,022	1,609
Net income	$4,083	$3,419
Net income per share, basic	$0.46	$0.39
Net income per share, diluted	$0.45	$0.38

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Comprehensive Income

Unaudited

	Three months ended March 31,	
(dollars in thousands)	**2018**	**2017**
Net income	$4,083	$3,419
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding (losses) gains arising during the period (net of tax (benefit) expense of $(475) and $242, respectively)	(1,788)	450
Net unrealized (losses) gains	(1,788)	450
Comprehensive income	$2,295	$3,869

See accompanying notes.

Codorus Valley Bancorp, Inc.

Consolidated Statements of Cash Flows

Unaudited

(dollars in thousands)	Three months ended March 31, 2018	2017
Cash flows from operating activities		
Net income	$4,083	$3,419
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation/amortization	591	562
Net amortization of premiums on securities	120	200
Amortization of deferred loan origination fees and costs	(439)	(366)
Provision for loan losses	200	650
Recovery of foreclosed real estate	0	(47)
Increase in bank owned life insurance	(241)	(272)
Originations of mortgage loans held for sale	(7,683)	(8,645)
Originations of SBA loans held for sale	(4,403)	(623)
Proceeds from sales of mortgage loans held for sale	8,561	8,317
Proceeds from sales of SBA loans held for sale	3,957	1,037
Gain on sales of loans held for sale	(443)	(289)
Gain on disposal of premises and equipment	(18)	(7)
Net gain on sales of foreclosed real estate	0	(11)
Stock-based compensation	230	133
Decrease in interest receivable	349	477
Increase in other assets	(58)	(317)
(Decrease) increase in interest payable	(50)	14
Increase in other liabilities	2,062	1,966
Net cash provided by operating activities	6,818	6,198
Cash flows from investing activities		
Purchases of securities, available-for-sale	(1,519)	(4,875)
Maturities, repayments and calls of securities, available-for-sale	5,941	8,702
Net decrease (increase) in restricted investment in bank stock	208	(400)
Net increase in loans made to customers	(23,577)	(46,288)
Purchases of premises and equipment	(502)	(514)
Investment in bank owned life insurance	0	(4,000)
Proceeds from sales of foreclosed real estate	97	1,786
Net cash used in investing activities	(19,352)	(45,589)
Cash flows from financing activities		
Net increase in demand and savings deposits	19,781	41,873
Net decrease in time deposits	(1,735)	(4,842)
Net increase (decrease) in short-term borrowings	4,220	(3,033)

Proceeds from issuance of long-term debt	0	20,000
Repayment of long-term debt	(10,000)	0
Cash dividends paid to shareholders	(1,381)	(1,138)
Issuance of stock	318	118
Net cash provided by financing activities	11,203	52,978
Net (decrease) increase in cash and cash equivalents	(1,331)	13,587
Cash and cash equivalents at beginning of year	79,524	74,032
Cash and cash equivalents at end of period	$78,193	$87,619

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 Loss	Treasury Stock	Total
Balance, January 1, 2018	$ 0	$ 22,265	$ 120,052	$ 22,860	$ (958)	$ 0	$ 164,219
Net income				4,083			4,083
Other comprehensive loss, net of tax					(1,788)		(1,788)
Cash dividends ($0.155 per share)				(1,381)			(1,381)
Stock-based compensation			230				230
Forfeiture of restricted stock and withheld shares						(63)	(63)
Issuance and reissuance of stock:							
5,518 shares under the dividend reinvestment and stock purchase plan		9	76			57	142
13,736 shares under the stock option plan		34	205				239
1,816 shares of stock-based compensation awards		5	(5)				0
Balance, March 31, 2018	$ 0	$ 22,313	$ 120,558	$ 25,562	$ (2,746)	$ (6)	$ 165,681
Balance, January 1, 2017	$ 0	$ 21,067	$ 106,102	$ 28,909	$ (1,121)	$ 0	$ 154,957
Net income				3,419			3,419
Other comprehensive income, net of tax					450		450
Cash dividends ($0.129 per share, adjusted)				(1,138)			(1,138)
Stock-based compensation			133				133
Issuance and reissuance of stock:							
4,383 shares under the dividend reinvestment and stock purchase plan		11	107				118
2,445 shares of stock-based compensation awards		6	(6)				0
Balance, March 31, 2017	$ 0	$ 21,084	$ 106,336	$ 31,190	$ (671)	$ 0	$ 157,939

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, 2017 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 March 31, 2018. 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 a wholly-owned nonbank subsidiary, SYC Realty Company, Inc. SYC Realty was inactive during the period ended March 31, 2018. 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, 2017.

The results of operations for the three months ended March 31, 2018 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 March 31, 2018 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 FASB 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.

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 March 31, 2018 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 March 31, 2018, there was $119,000 of foreclosed real estate, which included no residential real estate, compared to $216,000, which included $96,000 of residential real estate, at December 31, 2017. Included within loans receivable as of March 31, 2018 was a recorded investment of $280,000 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. At March 31, 2018, the balance of residential mortgage loans serviced for third parties was $77,087,000 compared to $70,780,000 at December 31, 2017.

	Three months ended March 31,	
	2018	**2017**

(dollars in thousands)						
Amortized cost:						
Balance at beginning of year	$	672		$	324	
Originations of mortgage servicing rights		68			107	
Amortization expense		(25	)		(15	)
Balance at end of period	$	715		$	416	

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, 2017.

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 March 31, 2018, the Corporation does not have any indicators of potential impairment of either goodwill or core deposit intangibles.

Revenue from Contracts with Customers

Revenue from contracts with customers that are required to be recognized under FASB ASC Topic 606 - Revenue from Contracts with Customers (ASC 606) is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Corporation recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The majority of the Corporation's revenue-generating transactions are not within the scope of ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other U.S. Generally Accepted Accounting Principles (GAAP) discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our consolidated statements of income as components of non-interest income are as follows:

Trust and investment service fees - The Corporation provides trust, investment management custody and irrevocable life insurance trust services to customers. Such services are rendered in accordance with the underlying contracts for which fees are earned. Performance obligations are typically fulfilled on a monthly basis which is when revenue is recognized.

Income from mutual fund, annuity and insurance sales – The Corporation sells mutual funds, annuity and insurance products to its customers. The Corporation's performance obligation is met upon the signing of the product agreement and, in certain cases, a time component may exist when the customer has the right to rescind the agreement with or without penalty. The Corporation recognizes revenues upon delivery of the product or service unless there is a time component and revenues are recognized utilizing the expected value method.

Service charges on deposits accounts - These represent general service fees for monthly account maintenance and activity- or transaction based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed.

Per Share Data

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

(in thousands, except per share data)	**Three months ended March 31, 2018**	**2017**
Net income	$4,083	$3,419
Weighted average shares outstanding (basic)	8,913	8,851
Effect of dilutive stock options	92	99
Weighted average shares outstanding (diluted)	9,005	8,950
Basic earnings per share	$0.46	$0.39
Diluted earnings per share	$0.45	$0.38
Anti-dilutive stock options excluded from the computation of earnings per share	16	0

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)	**Three months ended March 31, 2018**	**2017**
Cash paid during the period for:		
Income taxes	$0	$0
Interest	$3,298	$2,432
Noncash investing activities:		
Transfer of loans held for sale to the held-to-maturity portfolio	$0	$228
Sale of foreclosed real estate through loans	$0	$910

Recent Accounting Pronouncements

Pronouncements Adopted in 2018

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. The Corporation adopted this standard effective with its March 31, 2018 quarterly report on Form 10-Q. The adoption of the new standard did not have a material impact on its consolidated financial statements.

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. 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. The Corporation adopted this standard on January 1, 2018 utilizing the modified retrospective method and the adoption of the new standard did not have a material impact on the recognition of revenue.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. In February 2018, the FASB issued ASU No. 2018-03 which includes technical corrections and improvements to clarify the guidance in ASU No. 2016-01. The Corporation adopted ASU 2016-01 on January 1, 2018 and it did not have a material effect on its accounting for fair value disclosures and other disclosure requirements.

Pronouncements Not Yet Effective

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 based on current circumstances.

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 and financial statement impact; 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.

Note 2-Securities

A summary of securities available-for-sale at March 31, 2018 and December 31, 2017 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 March 31, 2018, 84 percent of the fair value of the municipal bond portfolio was concentrated in the Commonwealth of Pennsylvania.

	Amortized	Gross Unrealized		Fair
(dollars in thousands)	**Cost**	**Gains**	**Losses**	**Value**
March 31, 2018				
Debt securities:				
U.S. Treasury notes	$ 14,764	$ 0	$ (993)	$ 13,771
U.S. agency	18,010	0	(1,044)	16,966
U.S. agency mortgage-backed, residential	72,124	88	(1,065)	71,147
State and municipal	50,364	126	(588)	49,902
Total debt securities	$ 155,262	$ 214	$ (3,690)	$ 151,786
December 31, 2017				
Debt securities:				
U.S. Treasury notes	$ 14,758	$ 0	$ (687)	$ 14,071
U.S. agency	18,015	0	(712)	17,303
U.S. agency mortgage-backed, residential	75,204	327	(356)	75,175
State and municipal	51,827	304	(89)	52,042
Total debt securities	$ 159,804	$ 631	$ (1,844)	$ 158,591

The amortized cost and estimated fair value of debt securities at March 31, 2018 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	$ 13,356	$ 13,381
Due after one year through five years	82,516	81,493
Due after five years through ten years	56,370	53,859
Due after ten years	3,020	3,053
Total debt securities	$ 155,262	$ 151,786

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. There were no realized gains or losses for the three months ended March 31, 2018 and 2017.

Securities, issued by agencies of the federal government, with a carrying value of $103,637,000 and $105,603,000 on March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017.

	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**
March 31, 2018									
Debt securities:									
U.S. Treasury notes	0	$0	$ 0	3	$13,771	$ (993)	3	$13,771	$ (993)
U.S. agency	1	968	(33)	4	15,998	(1,011)	5	16,966	(1,044)
U.S. agency mortgage-backed, residential	38	57,509	(908)	2	4,765	(157)	40	62,274	(1,065)
State and municipal	57	29,059	(446)	5	3,163	(142)	62	32,222	(588)
Total temporarily impaired debt securities, available-for-sale	96	$87,536	$ (1,387)	14	$37,697	$ (2,303)	110	$125,233	$ (3,690)
December 31, 2017									
Debt securities:									
U.S. Treasury notes	0	$0	$ 0	3	$14,071	$ (687)	3	$14,071	$ (687)
U.S. agency	1	989	(12)	4	16,314	(700)	5	17,303	(712)
U.S. agency mortgage-backed, residential	25	43,329	(261)	2	5,051	(95)	27	48,380	(356)
State and municipal	27	12,171	(60)	5	3,277	(29)	32	15,448	(89)
Total temporarily impaired debt securities, available-for-sale	53	$56,489	$ (333)	14	$38,713	$ (1,511)	67	$95,202	$ (1,844)

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 March 31, 2018 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 March 31, 2018 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 March 31, 2018 and December 31, 2017, 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 member banks, including PeoplesBank, are required to maintain a minimum stock investment. 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 March 31, 2018 and 2017. 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 March 31, 2018 and 2017.

Note 4—Loans

Loan Portfolio Composition

The table below provides the composition of the loan portfolio at March 31, 2018 and December 31, 2017. 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)	**March 31, 2018**	**% Total Loans**	**December 31, 2017**	**% Total Loans**
Builder & developer	$163,839	11.5	$184,402	13.2
Commercial real estate investor	230,981	16.2	230,827	16.5
Residential real estate investor	222,940	15.7	209,414	15.0
Hotel/Motel	75,074	5.3	63,195	4.5
Wholesale & retail	102,673	7.2	103,040	7.3
Manufacturing	67,466	4.7	62,510	4.5
Agriculture	62,565	4.4	59,931	4.3
Other	296,303	20.8	284,511	20.3
Total commercial related loans	1,221,841	85.8	1,197,830	85.6
Residential mortgages	80,826	5.7	79,325	5.6
Home equity	97,646	6.9	97,950	7.0
Other	23,444	1.6	24,659	1.8
Total consumer related loans	201,916	14.2	201,934	14.4
Total loans	$1,423,757	100.0	$1,399,764	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 March 31, 2018 and December 31, 2017.

(dollars in thousands)	**Pass**	**Special Mention**	**Substandard**	**Nonaccrual**	**Total**
March 31, 2018					
Builder & developer	$160,995	$546	$ 207	$ 2,091	$163,839
Commercial real estate investor	223,751	2,710	4,278	242	230,981
Residential real estate investor	216,408	5,008	683	841	222,940
Hotel/Motel	75,074	0	0	0	75,074
Wholesale & retail	96,259	394	6,020	0	102,673
Manufacturing	63,222	580	3,664	0	67,466
Agriculture	59,794	2,331	136	304	62,565
Other	294,438	736	1,129	0	296,303
Total commercial related loans	1,189,941	12,305	16,117	3,478	1,221,841
Residential mortgage	80,542	9	84	191	80,826
Home equity	97,189	0	0	457	97,646
Other	23,183	28	9	224	23,444
Total consumer related loans	200,914	37	93	872	201,916
Total loans	$1,390,855	$12,342	$ 16,210	$ 4,350	$1,423,757
December 31, 2017					
Builder & developer	$179,897	$1,832	$ 581	$ 2,092	$184,402
Commercial real estate investor	224,822	360	4,339	1,306	230,827
Residential real estate investor	204,139	4,065	711	499	209,414
Hotel/Motel	63,195	0	0	0	63,195
Wholesale & retail	95,128	254	7,658	0	103,040
Manufacturing	58,082	588	3,840	0	62,510
Agriculture	57,140	2,476	0	315	59,931
Other	283,086	507	918	0	284,511

Total commercial related loans	1,165,489	10,082	18,047	4,212	1,197,830
Residential mortgage	79,068	10	85	162	79,325
Home equity	97,498	0	0	452	97,950
Other	24,394	30	9	226	24,659
Total consumer related loans	200,960	40	94	840	201,934
Total loans	$1,366,449	$10,122	$ 18,141	$ 5,052	$1,399,764

Impaired Loans

The table below presents a summary of impaired loans at March 31, 2018 and December 31, 2017. Generally, impaired loans are certain loans risk rated substandard and all loans risk rated nonaccrual or classified as troubled debt restructurings. An allowance is established for individual loans that are commercial related where the Corporation has doubt as to full recovery of the outstanding principal balance. Typically, impaired consumer related loans are partially or fully charged-off eliminating the need for a specific allowance. 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**
March 31, 2018							
Builder & developer	$2,298	$ 2,634	$0	$ 0	$ 0	$2,298	$ 2,634
Commercial real estate investor	4,520	4,535	0	0	0	4,520	4,535
Residential real estate investor	1,524	1,824	0	0	0	1,524	1,824
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	6,273	6,273	0	0	0	6,273	6,273
Manufacturing	3,664	3,664	0	0	0	3,664	3,664
Agriculture	440	440	0	0	0	440	440
Other commercial	1,129	1,129	0	0	0	1,129	1,129
Total impaired commercial related loans	19,848	20,499	0	0	0	19,848	20,499
Residential mortgage	275	305	0	0	0	275	305
Home equity	457	457	0	0	0	457	457
Other consumer	233	233	0	0	0	233	233
Total impaired consumer related loans	965	995	0	0	0	965	995
Total impaired loans	$20,813	$ 21,494	$0	$ 0	$ 0	$20,813	$ 21,494
December 31, 2017							
Builder & developer	$2,673	$3,008	$0	$0	$0	$2,673	$3,008
Commercial real estate investor	4,585	4,601	1,060	1,060	243	5,645	5,661
Residential real estate investor	1,210	1,510	0	0	0	1,210	1,510
Hotel/Motel	0	0	0	0	0	0	0
Wholesale & retail	7,912	7,912	0	0	0	7,912	7,912
Manufacturing	3,840	3,840	0	0	0	3,840	3,840
Agriculture	315	315	0	0	0	315	315
Other commercial	918	918	0	0	0	918	918
Total impaired commercial related loans	21,453	22,104	1,060	1,060	243	22,513	23,164
Residential mortgage	247	276	0	0	0	247	276
Home equity	452	452	0	0	0	452	452
Other consumer	235	235	0	0	0	235	235
Total impaired consumer related loans	934	963	0	0	0	934	963
Total impaired loans	$22,387	$23,067	$1,060	$1,060	$243	$23,447	$24,127

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The table below presents a summary of average impaired loans and related interest income that was included in net income for the three months ended March 31, 2018 and 2017.

	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 March 31, 2018									
Builder & developer	$2,486	$ 6	$ 0	$0	$ 0	$ 0	$2,486	$ 6	$ 0
Commercial real estate investor	4,552	60	4	530	0	0	5,082	60	4
Residential real estate investor	1,366	12	3	0	0	0	1,366	12	3
Hotel/Motel	0	0	0	0	0	0	0	0	0
Wholesale & retail	7,092	100	0	0	0	0	7,092	100	0
Manufacturing	3,752	91	0	0	0	0	3,752	91	0
Agriculture	378	1	0	0	0	0	378	1	0
Other commercial	1,024	15	0	0	0	0	1,024	15	0
Total impaired commercial related loans	20,650	285	7	530	0	0	21,180	285	7
Residential mortgage	261	0	0	0	0	0	261	0	0
Home equity	454	2	2	0	0	0	454	2	2
Other consumer	235	5	5	0	0	0	235	5	5
Total impaired consumer related loans	950	7	7	0	0	0	950	7	7
Total impaired loans	$21,600	$ 292	$ 14	$530	$ 0	$ 0	$22,130	$ 292	$ 14
Three months ended March 31, 2017									