NORWOOD FINANCIAL CORP
Form 10-Q
November 08, 2018
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, 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 0-28364

Norwood Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2828306
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

717 Main Street, Honesdale, Pennsylvania	18431
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (570) 253-1455

N/A
Former name, former address and former fiscal year, if changed since last report.

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [X]

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 [X] No

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

Class	Outstanding as of November 1, 2018
Common stock, par value $0.10 per share	6,268,783

NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NORWOOD FINANCIAL CORP.
Consolidated Balance Sheets (unaudited)
(dollars in thousands, except share and per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$17,073	$16,212
Interest-bearing deposits with banks	295	485
Cash and cash equivalents	17,368	16,697
Securities available for sale, at fair value	247,517	281,121
Loans receivable	819,197	764,092
Less: Allowance for loan losses	8,280	7,634
Net loans receivable	810,917	756,458
Regulatory stock, at cost	3,261	3,505
Bank premises and equipment, net	13,797	13,864
Bank owned life insurance	37,718	37,060
Accrued interest receivable	3,792	3,716
Foreclosed real estate owned	1,209	1,661
Goodwill	11,331	11,331
Other intangibles	364	462
Deferred tax asset	6,268	4,781
Other assets	3,206	2,260
TOTAL ASSETS	$1,156,748	$1,132,916
LIABILITIES		
Deposits:		
Non-interest bearing demand	$218,979	$205,138
Interest-bearing	720,735	724,246
Total deposits	939,714	929,384
Short-term borrowings	52,820	42,530
Other borrowings	36,649	35,945
Accrued interest payable	1,705	1,434
Other liabilities	9,180	7,884
TOTAL LIABILITIES	1,040,068	1,017,177
STOCKHOLDERS' EQUITY		
Common stock, $.10 par value per share,		
authorized 10,000,000 shares; issued 2018: 6,274,513 shares, 2017: 6,256,063 shares	628	626
Surplus	48,087	47,431
Retained earnings	76,645	70,426
Treasury stock at cost: 2018: 5,729 shares,		
2017: 2,608 shares	(188)	(77)
Accumulated other comprehensive loss	(8,492)	(2,667)

TOTAL STOCKHOLDERS' EQUITY	116,680	115,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,156,748	$1,132,916

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Income (unaudited)
(dollars in thousan ds, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Loans receivable, including fees	$9,301	$8,289	$26,645	$24,020
Securities	1,483	1,605	4,543	4,856
Other	2	2	63	37
Total interest income	10,786	9,896	31,251	28,913
INTEREST EXPENSE				
Deposits	1,116	828	3,198	2,392
Short-term borrowings	111	82	201	138
Other borrowings	171	116	442	360
Total interest expense	1,398	1,026	3,841	2,890
NET INTEREST INCOME	9,388	8,870	27,410	26,023
PROVISION FOR LOAN LOSSES	375	600	1,350	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,013	8,270	26,060	24,223
OTHER INCOME				
Service charges and fees	1,129	1,105	3,211	3,056
Income from fiduciary activities	151	160	463	395
Net realized gains on sales of securities	13	129	213	167
Gain on sale of loans, net	15	-	15	67
Gain on sale of deposits	-	-	-	209
Earnings and proceeds on bank owned life insurance	297	320	848	850
Other	392	144	716	414
Total other income	1,997	1,858	5,466	5,158
OTHER EXPENSES				
Salaries and employee benefits	3,577	3,209	10,445	9,639
Occupancy, furniture & equipment, net	910	799	2,659	2,519
Data processing and related operations	368	354	1,027	1,022
Taxes, other than income	153	233	480	693
Professional fees	301	217	760	706
Federal Deposit Insurance Corporation insurance	87	97	265	283
Foreclosed real estate	(26)	303	68	1,028
Amortization of intangibles	29	35	97	115
Other	1,173	992	3,372	2,979
Total other expenses	6,572	6,239	19,173	18,984

INCOME BEFORE INCOME TAXES	4,438	3,889	12,353	10,397
INCOME TAX EXPENSE	728	948	2,001	2,356
NET INCOME	$3,710	$2,941	$10,352	$8,041
BASIC EARNINGS PER SHARE	$0.59	$0.47	$1.66	$1.29
DILUTED EARNINGS PER SHARE	$0.58	$0.47	$1.64	$1.28

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Comprehensive (Loss) Income (unaudited)
(dollars in thousands)

	Three Months Ended September 30,	
	2018	2017
Net income	$3,710	$2,941
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding (loss) gain	(1,830)	529
Tax effect	384	(180)
Reclassification of investment securities gains recognized in net income	(13)	(129)
Tax effect	3	43
Other comprehensive (loss) income	(1,456)	263
Comprehensive Income	$2,254	$3,204

	Nine Months Ended September 30,	
	2018	2017
Net income	$10,352	$8,041
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding (loss) gain	(7,160)	4,486
Tax effect	1,503	(1,526)
Reclassification of investment securities gains recognized in net income	(213)	(167)
Tax effect	45	57
Other comprehensive (loss) income	(5,825)	2,850
Comprehensive Income	$4,527	$10,891

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity (unaudited)
Nine Months Ended September 30, 2018
(dollars in thousands, except share and per share data)

	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Retained Earnings	Shares	Amount	Loss	Total
Balance, December 31, 2017	6,256,063	$ 626	$ 47,431	$ 70,426	2,608	$ (77)	$ (2,667)	$ 115,739
Net Income	-	-	-	10,352	-	-	-	10,352
Other comprehensive loss	-	-	-	-	-	-	(5,825)	(5,825)
Cash dividends declared ($0.66 per share)	-	-	-	(4,133)	-	-	-	(4,133)
Compensation expense related to restricted stock	-	-	154	-	-	-	-	154
Acquisition of treasury stock	-	-	-	-	5,446	(179)	-	(179)
Stock options exercised	18,450	2	325	-	(2,325)	68	-	395
Compensation expense related to stock options	-	-	177	-	-	-	-	177
Balance, September 30, 2018	6,274,513	$ 628	$ 48,087	$ 76,645	5,729	$ (188)	$ (8,492)	$ 116,680

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$10,352	$8,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,350	1,800
Depreciation	665	703
Amortization of intangible assets	97	115
Deferred income taxes	(198)	(783)
Net amortization of securities premiums and discounts	1,308	1,651
Net realized gain on sales of securities	(213)	(167)
Gain on sale of deposits	-	(209)
Earnings and proceeds on bank owned life insurance	(848)	(850)
(Gain) loss on sales and writedowns of fixed assets and foreclosed real estate owned	(42)	673
Gain on sale of loans	(15)	(67)
Loans originated for sale	(752)	(1,693)
Proceeds from sale of loans originated for sale	767	1,760
Compensation expense related to stock options	177	69
Compensation expense related to restricted stock	154	107
Decrease in accrued interest receivable	(76)	(86)
Increase in accrued interest payable	271	98
Other, net	1,062	1,278
Net cash provided by operating activities	14,059	12,440
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	17,745	13,027
Proceeds from maturities and principal reductions on mortgage-backed securities	22,848	20,570
Purchases	(15,458)	(13,905)
Purchase of regulatory stock	(3,865)	(3,737)
Redemption of regulatory stock	4,109	2,741
Net increase in loans	(56,275)	(42,783)
Purchase of premises and equipment	(598)	(484)
Proceeds from sales of fixed assets and foreclosed real estate owned	696	777
Net cash used in investing activities	(30,798)	(23,794)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	10,330	12,505
Deposits sold	-	(13,659)
Net increase in short-term borrowings	10,290	14,418
Repayments of other borrowings	(9,296)	(20,230)
Proceeds from other borrowings	10,000	20,000
Stock options exercised	395	766

Purchase of treasury stock	(179)	(1,290)
Cash dividends paid	(4,130)	(4,015)
Net cash provided by financing activities	17,410	8,495
Increase (decrease) in cash and cash equivalents	671	(2,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	16,697	17,174
CASH AND CASH EQUIVALENTS, END OF PERIOD	$17,368	$14,315

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	$3,570	$2,792
Income taxes paid, net of refunds	$1,547	$1,825
Supplemental Schedule of Noncash Investing Activities:		
Transfers of loans to foreclosed real estate and repossession of other assets	$333	$112
Cash dividends declared	$4,133	$4,037

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties, Inc. On June 13, 2017, the Company approved and adopted a Plan of Dissolution for Norwood Settlement Services, LLC. Effective May 29, 2018, the existence of Norwood Settlement Services, LLC was terminated. All activity prior to the dissolution is included in the consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the consolidated financial position and results of operations of the Company. The operating results for the three month and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other future interim period.

2. Revenue Recognition

Effective January 1, 2018, the Company adopted ASU 2014-09 Revenue from Contracts with Customers – Topic 606 and all subsequent ASCs that modified ASC 606. The Company has elected to apply the standard utilizing the modified retrospective approach with a cumulative effect of adoption for the impact from uncompleted contracts as the date of adoption. The implementation of the new standard had no material impact to the measurement or recognition of revenue of prior periods.

Management determined that the primary sources of revenue emanating from interest income on loans and investments along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans, commitment fees, and fees from financial guarantees are not within the scope of ASC 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 94.2% percent of the total revenue of the Company.

The main types of noninterest income within the scope of the standard are as follows:

Service charges on deposit accounts – The Company has contracts with its deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. The agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from the transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time or at the completion of the requested service/transaction.

Fiduciary/trust fees – Typical contracts for trust services are based on a fixed percentage of assets earned ratably over a defined period and billed on a monthly or quarterly basis. Fees charged to customers' accounts are recognized as revenue over the period during which the Company fulfills its performance obligation under the contract (i.e. holding client assets in a managed fiduciary trust account). For these accounts, the performance obligation of the Company is typically satisfied by holding and managing the customer's assets over time. Other fees related to specific customer requests are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time or at the completion of the requested service/transaction.

The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity.

3. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average shares outstanding	6,264	6,239	6,259	6,239
Less: Unvested restricted shares	(30)	(28)	(30)	(28)
Basic EPS weighted average shares outstanding	6,234	6,211	6,229	6,211
Basic EPS weighted average shares outstanding	6,234	6,211	6,229	6,211
Add: Dilutive effect of stock options	70	52	72	56
Diluted EPS weighted average shares outstanding	6,304	6,263	6,301	6,267

For the three and nine month periods ending September 30, 2018, there were no stock options that would be anti-dilutive to the earnings per share calculations based upon the closing price of Norwood common stock of $39.16 per share on September 30, 2018.

For the three and nine month periods ending September 30, 2017, there were no anti-dilutive options based on Norwood's closing price of $30.52 per share on September 30, 2017.

4. Stock-Based Compensation

No awards were granted during the nine-month period ending September 30, 2018. As of September 30, 2018, there was $59,000 of total unrecognized compensation cost related to non-vested options granted in 2017 under the 2014 Equity Incentive Plan, which will be fully amortized by December 31, 2018. Compensation costs related to stock options amounted to $177,000 and $69,000 during the nine-month periods ended September 30, 2018 and 2017, respectively.

A summary of the Company's stock option activity for the nine-month period ended September 30, 2018 is as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractural Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2018	212,725	$ 20.76	6.1 Yrs.	$ 2,604
Granted	-	-	-	-
Exercised	(20,775)	19.01	5.4 Yrs.	395
Forfeited	(1,500)	32.81	9.2 Yrs.	49
Outstanding at September 30, 2018	190,450	$ 20.85	5.3 Yrs.	$ 3,972
Exercisable at September 30, 2018	157,200	$ 18.33	4.5 Yrs.	$ 2,881

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was $39.16 per share as of September 30, 2018 and $33.00 per share as of December 31, 2017.

A summary of the Company's restricted stock activity for the nine-month periods ended September 30, 2018 and 2017 is as follows:

	2018			2017		
	Number of Restricted Stock	Weighted-Average Grant Date Fair Value		Number of Restricted Stock	Weighted-Average Grant Date Fair Value	
Non-vested, January 1,	30,415	$	24.46	28,035	$	20.64
Granted	-		-	-		-
Vested	-		-	-		-
Forfeited	-		-	-		-
Non-vested, September 30,	30,415	$	24.46	28,035	$	20.64

The expected future compensation expense relating to the 30,415 shares of non-vested restricted stock outstanding as of September 30, 2018 is $591,000. This cost will be recognized over the remaining vesting period of 4.25 years. Compensation costs related to restricted stock amounted to $154,000 and $107,000 during the nine-month periods ended September 30, 2018 and 2017, respectively.

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5. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive loss (in thousands) by component net of tax for the three months and nine months ended September 30, 2018 and 2017:

	Unrealized losses on available for sale securities (a)
Balance as of June 30, 2018	$ (7,036)
Other comprehensive loss before reclassification	(1,446)
Amount reclassified from accumulated other comprehensive loss	(10)
Total other comprehensive loss	(1,456)
Balance as of September 30, 2018	$ (8,492)

	Unrealized gains (losses) on available for sale securities (a)
Balance as of June 30, 2017	$ (1,532)
Other comprehensive income before reclassification	349
Amount reclassified from accumulated other comprehensive loss	(86)
Total other comprehensive income	263
Balance as of September 30, 2017	$ (1,269)

	Unrealized losses on available for sale securities (a)
Balance as of December 31, 2017	$ (2,667)
Other comprehensive loss before reclassification	(5,657)
Amount reclassified from accumulated other comprehensive loss	(168)
Total other comprehensive loss	(5,825)
Balance as of September 30, 2018	$ (8,492)

	Unrealized gains (losses) on available for sale securities (a)
Balance as of December 31, 2016	$ (4,119)
Other comprehensive income before reclassification	2,960
Amount reclassified from accumulated other comprehensive loss	(110)
Total other comprehensive income	2,850
Balance as of September 30, 2017	$ (1,269)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive loss (in thousands) for the three months and nine months ended September 30, 2018 and 2017:

Details about other comprehensive income	Amount Reclassified From Accumulated Other Comprehensive Loss (a)		Affected Line Item in Consolidated Statements of Income
	Three months ended September 30,		
	2018	2017	
Unrealized gains on available for sale securities	$ 13	$ 129	Net realized gains on sales of securities
	(3)	(43)	Income tax expense
	$ 10	$ 86	
	Nine months ended September 30,		
	2018	2017	
Unrealized gains on available for sale securities	$ 213	$ 167	Net realized gains on sales of securities
	(45)	(57)	Income tax expense
	$ 168	$ 110	

(a) Amounts in parentheses indicate debits to net income

6. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	September 30, 2018	2017
Commitments to grant loans	$51,225	$41,990
Unfunded commitments under lines of credit	78,024	60,153
Standby letters of credit	4,410	5,919
	$133,659	$108,062

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2018 for guarantees under standby letters of credit issued is not material.

7. Securities

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale were as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
States and political subdivisions	$100,850	$ 333	$(3,461)	$97,722
Corporate obligations	8,938	-	(254)	8,684
Mortgage-backed securities-government sponsored entities	148,951	-	(7,840)	141,111
Total debt securities	$258,739	$ 333	$(11,555)	$247,517

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for Sale:				
U.S. Treasury securities	$2,001	$ -	$ (3)	$1,998
States and political subdivisions	120,000	1,535	(1,057)	120,478
Corporate obligations	10,068	16	(95)	9,989
Mortgage-backed securities-government				

sponsored entities	152,901	17	(4,262)	148,656
Total debt securities	$284,970	$ 1,568	$ (5,417)	$281,121

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The following tables show the Company's investments' gross unrealized losses and fair value aggregated by length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
States and political subdivisions	$30,755	$(1,075)	$51,547	$(2,386)	$82,302	$(3,461)
Corporate obligations	2,054	(23)	6,630	(231)	8,684	(254)
Mortgage-backed securities-government sponsored entities	17,407	(303)	123,704	(7,537)	141,111	(7,840)
	$50,216	$(1,401)	$181,881	$(10,154)	$232,097	$(11,555)

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$-	$ -	$1,998	$(3)	$1,998	$(3)
States and political subdivisions	17,310	(228)	44,948	(829)	62,258	(1,057)
Corporate obligations	-	-	6,859	(95)	6,859	(95)
Mortgage-backed securities-government sponsored entities	22,250	(320)	125,846	(3,942)	148,096	(4,262)
	$39,560	$(548)	$179,651	$(4,869)	$219,211	$(5,417)

At September 30, 2018, the Company had 65 debt securities in an unrealized loss position in the less than twelve months category and 184 debt securities in the twelve months or more category. In Management's opinion the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. No other-than-temporary-impairment charges were recorded in 2018. Management believes that all unrealized losses represent temporary impairment of the securities as the Company does not have the intent to sell the securities and it is more likely than not that it will not have to sell the securities before recovery of its cost basis.

The amortized cost and fair value of debt securities as of September 30, 2018 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
	(In Thousands)	

Due in one year or less	$2,540	$2,546
Due after one year through five years	21,584	21,153
Due after five years through ten years	43,573	41,615
Due after ten years	42,091	41,092
Mortgage-backed securities-government sponsored entities	148,951	141,111
	$258,739	$247,517

Gross realized gains and gross realized losses on sales of securities available for sale were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross realized gains	$13	$129	$213	$173
Gross realized losses	-	-	-	(6)
Net realized gain	$13	$129	$213	$167
Proceeds from sales of securities	$3,162	$11,192	$17,745	$13,027

Securities with a carrying value of $169,984,000 and $205,678,000 at September 30, 2018 and 2017, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

8. Loans Receivable and Allowance for Loan Losses

Set forth below is selected data relating to the composition of the loan portfolio at the dates indicated (dollars in thousands):

	September 30, 2018		December 31, 2017	
Real Estate Loans:				
Residential	$233,768	28.5 %	$235,759	30.8 %
Commercial	363,358	44.4	342,934	44.9
Construction	16,217	2.0	17,228	2.3
Commercial, financial and agricultural	104,868	12.8	97,461	12.7
Consumer loans to individuals	101,068	12.3	70,953	9.3
Total loans	819,279	100.0%	764,335	100.0%
Deferred fees, net	(82)		(243)	
Total loans receivable	819,197		764,092	
Allowance for loan losses	(8,280)		(7,634)	
Net loans receivable	$810,917		$756,458	

The following table presents information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	September 30, 2018	December 31, 2017
Outstanding Balance	$ 1,106	$ 1,444
Carrying Amount	$ 925	$ 1,174

As a result of the acquisition of Delaware Bancshares, Inc. ("Delaware"), the Company added $1,397,000 of loans that were accounted for in accordance with ASC 310-30. Based on a review of the loans acquired by senior lending management, which included an analysis of credit deterioration of the loans since origination, the Company recorded a specific credit fair value adjustment of $499,000. For loans that were acquired with specific evidence of deterioration in credit quality, loan losses will be accounted for through a reduction of the specific reserve and will not impact the allowance for loan losses until actual losses exceed the allotted reserves. For loans acquired without a deterioration of credit quality, losses incurred will result in adjustments to the allowance for loan losses through the allowance for loan loss adequacy calculation.

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in foreclosed real estate owned on the Consolidated Balance Sheets. As of September 30, 2018 and December 31, 2017, foreclosed real estate owned totaled $1,209,000 and $1,661,000, respectively. During the nine months ended September 30, 2018, the Company acquired two properties via deed-in-lieu transactions with a carrying value of $202,000, and disposed of five properties with a carrying value of $579,000 through the sale of the properties. As of September 30, 2018, the Company has initiated formal foreclosure proceedings on four properties classified as consumer residential mortgages with a carrying value of $168,000.

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Real Estate Loans					
September 30, 2018	Residential (In thousands)	Commercial	Construction	Commercial Loans	Consumer Loans	Total
Individually evaluated for impairment	$23	$ 1,198	$ -	$ -	$-	$1,221
Loans acquired with deteriorated credit quality	658	267	-	-	-	925
Collectively evaluated for impairment	233,087	361,893	16,217	104,868	101,068	817,133
Total Loans	$233,768	$ 363,358	$ 16,217	$ 104,868	$101,068	$819,279

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	Real Estate Loans					
	Residential	Commercial	Construction	Commercial Loans	Consumer Loans	Total
	(In thousands)					
December 31, 2017						
Individually evaluated for impairment	$23	$ 1,224	$ -	$ -	$ -	