TF FINANCIAL CORP
Form 10-Q
August 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2014

- or -

o 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: 1-35163

TF FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	74-2705050 (I.R.S. Employer Identification No.)
3 Penns Trail, Newtown, Pennsylvania (Address of Principal Executive Offices)	18940 (Zip Code)

Registrant’s telephone number, including area code: (215) 579-4000

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

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 xNO o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: August 14, 2014

Class	Outstanding
$.10 par value common stock	3,155,762 shares

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The following Exhibits are being furnished as part of this report:

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART I-CONSOLIDATED FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	At	
	June 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Cash and cash equivalents	$48,291	$45,310
Investment securities		
Available for sale	129,686	124,012
Held to maturity (fair value of $1,515 and $1,680 as of June 30, 2014 and December 31, 2013, respectively)	1,340	1,490
Loans receivable, net	610,097	614,168
Loans receivable, held for sale	129	349
Federal Home Loan Bank ("FHLB") stock — at cost	3,544	3,370
Accrued interest receivable	2,523	2,520
Premises and equipment, net	8,351	8,616
Goodwill	4,324	4,324
Core deposit intangible	453	503
Bank owned life insurance	18,851	18,586
Other assets	11,977	12,441
TOTAL ASSETS	$839,566	$835,689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$685,988	$683,902
Advances from the FHLB	47,120	49,605
Advances from borrowers for taxes and insurance	3,284	3,228
Accrued interest payable	725	671
Other liabilities	4,274	3,408
Total liabilities	741,391	740,814
Stockholders' equity		
Preferred stock, no par value; 2,000,000 shares authorized at June 30, 2014 and December 31, 2013, none issued	—	—
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 3,151,562 and 3,149,239 shares outstanding at June 30, 2014 and December 31, 2013, respectively, net of shares in treasury of 2,138,438 and 2,140,761, respectively.	529	529
Additional paid-in capital	56,546	56,197
Unearned ESOP shares	(784)	(846)
Treasury stock — at cost	(44,454)	(44,502)

Retained earnings	85,907	84,675
Accumulated other comprehensive income (loss)	431	(1,178)
Total stockholders' equity	98,175	94,875
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$839,566	$835,689

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(in thousands, except share and per share data)			
Interest income				
Loans, including fees	$6,636	$5,963	$13,313	$12,029
Investment securities				
Fully taxable	550	355	1,051	724
Exempt from federal taxes	410	412	828	830
Interest-bearing deposits and other	4	14	7	18
TOTAL INTEREST INCOME	7,600	6,744	15,199	13,601
Interest expense				
Deposits	774	712	1,540	1,443
Borrowings	187	226	380	474
TOTAL INTEREST EXPENSE	961	938	1,920	1,917
NET INTEREST INCOME	6,639	5,806	13,279	11,684
Provision for loan losses	100	400	100	839
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,539	5,406	13,179	10,845
Noninterest income				
Service fees, charges and other operating income	552	650	1,068	1,177
Bank owned life insurance	134	137	265	280
Bank owned life insurance death benefit proceeds	—	934	—	934
Gain on sale of loans	101	226	175	531
Gain on sale of investment securities	16	—	17	—
Gain on disposition of premises and equipment	—	—	—	420
TOTAL NONINTEREST INCOME	803	1,947	1,525	3,342
Noninterest expense				
Compensation and benefits	3,206	2,842	6,589	5,659
Occupancy and equipment	829	709	1,736	1,406
Federal deposit insurance premiums	125	132	259	242
Professional fees	278	230	583	518
Merger-related costs	1,068	295	1,068	615
Marketing and advertising	76	132	220	171
Foreclosed real estate expense	35	235	48	459
Core deposit intangible amortization	25	—	50	—
Other operating	615	557	1,194	1,092
TOTAL NONINTEREST EXPENSE	6,257	5,132	11,747	10,162
INCOME BEFORE INCOME TAXES	1,085	2,221	2,957	4,025
Income tax expense	500	421	991	1,002
NET INCOME	$585	$1,800	$1,966	$3,023
Earnings per share—basic	$0.19	$0.66	$0.64	$1.10

Earnings per share—diluted	$0.19	$0.66	$0.63	$1.10
Dividends paid per share	$0.12	$0.05	$0.24	$0.10
Weighted average shares outstanding:				
Basic	3,066	2,743	3,064	2,741
Diluted	3,115	2,743	3,098	2,741

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
	(in thousands)			
Net income	$585	$1,800	$1,966	$3,023
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gains (losses)	1,099	(2,845)	2,330	(4,118)
Tax effect	(374)	967	(793)	1,400
Reclassification adjustment for gains realized in net income	(16)	—	(17)	—
Tax effect	6	—	6	—
Net of tax amount	715	(1,878)	1,526	(2,718)
Pension plan benefit adjustment:				
Related to actuarial losses and prior service cost	61	66	123	132
Tax effect	(20)	(22)	(40)	(45)
Net of tax amount	41	44	83	87
Total other comprehensive income (loss)	756	(1,834)	1,609	(2,631)
Comprehensive income (loss)	$1,341	$(34)	$3,575	$392

The accompanying notes are an integral part of these statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2014	2013
	(in thousands)	
OPERATING ACTIVITIES		
Net income	$1,966	$3,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment adjustment of mortgage loan servicing rights	117	(77)
Premiums and discounts on investment securities, net	149	144
Premiums and discounts on mortgage-backed securities, net	195	208
Accretion of premiums on certificates of deposit	(111)	—
Deferred loan origination costs, net	96	105
Provision for loan losses	100	839
Amortization of core deposit intangible	50	—
Depreciation of premises and equipment	337	334
Increase in value of bank owned life insurance	(265)	(280)
Income from life insurance death benefit	—	(934)
Stock-based compensation	450	380
Proceeds from sale of loans originated for sale	10,890	21,088
Origination of loans held for sale	(10,618)	(21,580)
Loss on foreclosed real estate	11	375
Gain on:		
Sale of loans	(175)	(531)
Sale of investment securities	(17)	—
Disposition of premises and equipment	—	(420)
(Increase) decrease in:		
Accrued interest receivable	(3)	38
Other assets	703	(93)
Increase in:		
Accrued interest payable	54	71
Other liabilities	39	157
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,968	2,847
INVESTING ACTIVITIES		
Loan originations	(33,512)	(56,636)
Loan principal payments	36,825	59,116
Proceeds from sale of foreclosed real estate	441	987
Proceeds from disposition of premises and equipment	—	417
Proceeds from maturities of investment securities available for sale	4,795	2,545
Proceeds from sale of investment securities available for sale	6,728	—
Proceeds from bank owned life insurance	—	2,183
Principal repayments on mortgage-backed securities held to maturity	149	294

Principal repayments on mortgage-backed securities available for sale	4,740	10,889
Purchase of investment securities available for sale	(4,584)	(10,902)
Purchase of mortgage-backed securities available for sale	(15,366)	(1,867)
Purchase of premises and equipment	(72)	(767)
Redemption of FHLB stock	56	1,585
Purchase of FHLB stock	(230)	—
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(30)	7,844

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30, 2014	2013
	(in thousands)	
FINANCING ACTIVITIES		
Net increase in customer deposits	2,197	11,097
Net decrease in short-term FHLB borrowings	(2,485)	(8,122)
Net increase in advances from borrowers for taxes and insurance	56	415
Exercise of stock options	8	13
Tax benefit arising from exercise of stock options	1	1
Common stock dividends paid	(734)	(274)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(957)	3,130
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,981	13,821
Cash and cash equivalents at beginning of period	45,310	31,137
Cash and cash equivalents at end of period	$48,291	$44,958
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest on deposits and borrowings	$1,916	$1,846
Income taxes	$750	$575
Noncash transactions:		
Capitalization of mortgage servicing rights	$123	$220
Transfers from loans to foreclosed real estate	$562	$257

The accompanying notes are an integral part of these statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of June 30, 2014 (unaudited) and December 31, 2013 and for the three and six-month periods ended June 30, 2014 and 2013 (unaudited) include the accounts of TF Financial Corporation (the "Company") and its wholly owned subsidiaries: 3rd Fed Bank (the "Bank") and Penns Trail Development Corporation. The accompanying consolidated balance sheet at December 31, 2013, has been derived from the audited consolidated balance sheet but does not include all of the information and notes required by accounting principles generally accepted in the United States of America ("US GAAP") for complete financial statements. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by US GAAP. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended June 30, 2014 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

NOTE 3 — RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This update is not expected to have a significant impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015.

Earlier adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This update is not expected to have a significant impact on the Company's financial statements.

NOTE 4 — CONTINGENCIES

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial position or results of operations.

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NOTE 5 — ACQUISITION OF ROEBLING FINANCIAL CORP, INC.

On July 2, 2013, the Company closed on a merger transaction pursuant to which the Company acquired Roebling Financial Corp, Inc. (“Roebling”), the parent company of Roebling Bank, in a stock and cash transaction.

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of Roebling for a total purchase price of approximately $14.9 million. As a result of the acquisition, the Company issued 306,873 common shares to former shareholders of Roebling. Roebling was merged with and into the Company, and Roebling Bank was merged with and into the Bank.

The acquired assets and assumed liabilities were measured at estimated fair values. Management made certain estimates and exercised judgment in accounting for the acquisition. The following condensed statement reflects the values assigned to Roebling’s net assets as of the acquisition date:

		At July 2, 2013 (in thousands)
Total purchase price		$14,926
Net assets acquired:		
Cash	$4,081	
Investment securities	37,339	
Loans receivable	102,026	
Premises and equipment	2,154	
Core deposit intangible	553	
Other assets	2,531	
Time deposits	(49,061)	
Deposits other than time deposits	(78,689)	
Other liabilities	(4,888)	
		16,046
Purchase gain on acquisition		$1,120

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NOTE 6 — EARNINGS PER SHARE

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except share and per share data):

	For the three months ended June 30, 2014		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$585	3,066,399	$0.19
Effect of dilutive securities			
Stock options and grants	—	49,037	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$585	3,115,436	$0.19

	For the six months ended June 30, 2014		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$1,966	3,064,107	$0.64
Effect of dilutive securities			
Stock options and grants	—	34,036	(0.01)
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$1,966	3,098,143	$0.63

There were no options outstanding during the three and six months ended June 30, 2014 to purchase shares of common stock excluded in the computation of diluted earnings per share as the options' exercise prices were less than the average market price of the common shares.

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	For the three months ended June 30, 2013		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$1,800	2,743,427	$0.66
Effect of dilutive securities			
Stock options and grants	—	—	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$1,800	2,743,427	$0.66

	For the six months ended June 30, 2013		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	$3,023	2,740,915	$1.10
Effect of dilutive securities			
Stock options and grants	—	—	—
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$3,023	2,740,915	$1.10

There were 30,388 options to purchase shares of common stock at a price range of $25.71 to $32.51 per share which were outstanding during the three and six months ended June 30, 2013 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

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NOTE 7 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive income (loss) for the three months ended June 30, 2014 and 2013 is as follows:

	Accumulated Other Comprehensive Income (Loss) (1), (2)		
	Unrealized gains (losses) on securities available for sale	Defined benefit pension plan	Total
	(in thousands)		
Balance at March 31, 2014	$987	$(1,312)	$(325)
Other comprehensive income before reclassifications	725	—	725
Amounts reclassified from accumulated other comprehensive income (loss)	(10)	41	31
Period change	715	41	756
Balance at June 30, 2014	$1,702	$(1,271)	$431
Balance at March 31, 2013	$2,965	$(2,792)	$173
Other comprehensive loss before reclassifications	(1,878)	—	(1,878)
Amounts reclassified from accumulated other comprehensive income	—	44	44
Period change	(1,878)	44	(1,834)
Balance at June 30, 2013	$1,087	$(2,748)	$(1,661)

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a Federal income tax rate of 34%.
(2) Amounts in parentheses indicate debits.

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	Amount reclassified from accumulated other comprehensive income For the three months ended June 30, (1) 2014	2013	Affected line item in the consolidated statements of net income
	(in thousands)		
Investment securities available for sale			
Net securities gains reclassified into earnings	$16	$—	Gain on sale of investment securities
Related income tax expense	(6)	—	Income tax expense
Net effect on accumulated other income for the period	10	—	Net of tax
Defined benefit pension plan (2)			
Amortization of net actuarial loss	$(61)	$(66)	Compensation and benefits
Related income tax expense	20	22	Income tax expense
Net effect on accumulated other comprehensive income for the period	(41)	(44)	Net of tax
Total reclassification for the period	$(31)	$(44)	Net income

(1) Amounts in parentheses indicate debits.
(2) Included in the computation of net periodic pension cost. See Note 12 – Employee Benefit Plans for additional detail.

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The activity in accumulated other comprehensive income (loss) for the six months ended June 30, 2014 and 2013 is as follows:

	Accumulated Other Comprehensive Income (Loss) (1), (2)		
	Unrealized gains (losses) on securities available for sale	Defined benefit pension plan	Total
		(in thousands)	
Balance at December 31, 2013	$176	$(1,354)	$(1,178)
Other comprehensive income before reclassifications	1,537	—	1,537
Amounts reclassified from accumulated other comprehensive income (loss)	(11)	83	72
Period change	1,526	83	1,609
Balance at June 30, 2014	$1,702	$(1,271)	$431
Balance at December 31, 2012	$3,805	$(2,835)	$970
Other comprehensive loss before reclassifications	(2,718)	—	(2,718)
Amounts reclassified from accumulated other comprehensive income	—	87	87
Period change	(2,718)	87	(2,631)
Balance at June 30, 2013	$1,087	$(2,748)	$(1,661)

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a Federal income tax rate of 34%.
(2) Amounts in parentheses indicate debits.

	Amount reclassified from accumulated other comprehensive income For the six months ended June 30, (1)		Affected line item in the consolidated statements of net income
	2014	2013	
	(in thousands)		
Investment securities available for sale			
Net securities gains reclassified into earnings	$17	$—	Gain on sale of investment securities
Related income tax expense	(6)	—	Income tax expense
Net effect on accumulated other income for the period	11	—	Net of tax
Defined benefit pension plan (2)			
Amortization of net actuarial loss and prior service cost	$(123)	$(132)	Compensation and benefits

Related income tax expense	40	45	Income tax expense
Net effect on accumulated other comprehensive income for the period	(83)	(87)	Net of tax
Total reclassification for the period	$(72)	$(87)	Net income

(1) Amounts in parentheses indicate debits.
(2) Included in the computation of net periodic pension cost. See Note 12 – Employee Benefit Plans for additional detail.

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NOTE 8 — INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of the Company’s investment securities are summarized as follows:

	At June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
U.S. Government and federal agencies	$11,884	$45	$(168)	$11,761
State and political subdivisions	59,775	2,179	(304)	61,650
Residential mortgage-backed securities issued by quasi-governmental agencies	55,448	966	(139)	56,275
Total investment securities available for sale	127,107	3,190	(611)	129,686
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	1,340	176	(1)	1,515
Total investment securities	$128,447	$3,366	$(612)	$131,201

	At December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Available for sale				
U.S. Government and federal agencies	$18,572	$4	$(513)	$18,063
State and political subdivisions	60,159	1,526	(1,016)	60,669
Residential mortgage-backed securities issued by quasi-governmental agencies	45,015	540	(275)	45,280
Total investment securities available for sale	123,746	2,070	(1,804)	124,012
Held to maturity				
Residential mortgage-backed securities issued by quasi-governmental agencies	1,490	191	(1)	1,680
Total investment securities	$125,236	$2,261	$(1,805)	$125,692

Gross realized gains were $22,000 from the sale proceeds of investment securities available for sale of $3.8 million for the three months ended June 30, 2014. Gross realized losses were $6,000 from the sale proceeds of investment securities available for sale of $948,000 for the three months ended June 30, 2014.

Gross realized gains were $27,000 from the sale proceeds of investment securities available for sale of $4.8 million for the six months ended June 30, 2014. Gross realized losses were $10,000 from the sale proceeds of investment securities available for sale of $1.9 million for the six months ended June 30, 2014.

There were no sales of investment securities during the three or six months ended June 30, 2013.

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The amortized cost and fair value of investment and mortgage-backed securities, by contractual maturity, are shown below.

	At June 30, 2014			
	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Investment securities				
Due in one year or less	$400	$401	$—	$—
Due after one year through five years	18,541	18,818	—	—
Due after five years through ten years	31,733	32,241	—	—
Due after ten years	20,985	21,951	—	—
	71,659	73,411	—	—
Mortgage-backed securities	55,448	56,275	1,340	1,515
Total investment and mortgage-backed securities	$127,107	$129,686	$1,340	$1,515

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2014:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
		(dollars in thousands)					
U.S. Government and federal agencies	3	$ 949	$ (5)	$ 6,837	$ (163)	$ 7,786	$ (168)
State and political subdivisions	16	4,176	(37)	8,726	(267)	12,902	(304)
Residential mortgage-backed securities issued by quasi-governmental agencies	39	9,543	(140)	—	—	9,543	(140)
Total temporarily impaired securities	58	$ 14,668	$ (182)	$ 15,563	$ (430)	$ 30,231	$ (612)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2013:

Description of Securities	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or longer Fair Value	12 months or longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
		(dollars in thousands)					
U.S. Government and federal agencies	13	$ 17,028	$ (513)	$ —	$ —	$ 17,028	$ (513)
State and political subdivisions	24	19,646	(1,016)	—	—	19,646	(1,016)

Residential mortgage-backed securities issued by quasi-governmental agencies	65	24,508	(276)	—	—	24,508	(276)
Total temporarily impaired securities	102	$ 61,182	$ (1,805)	$ —	$ —	$ 61,182	$ (1,805)

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On a quarterly basis, temporarily impaired securities are evaluated to determine whether such impairment is an other-than-temporary impairment ("OTTI"). The Company has performed this evaluation and has determined that the unrealized losses at
June 30, 2014 and December 31, 2013, respectively, are not considered other-than-temporary but are the result of changes in interest rates, and are therefore reflected in other comprehensive income (loss).

NOTE 9 — LOANS RECEIVABLE

Loans receivable are summarized as follows:

	At	
	June 30, 2014	December 31, 2013
	(in thousands)	
Held for investment:		
Residential		
Residential mortgages	$ 355,658	$ 371,961
Commercial		
Real estate-commercial	131,157	129,345
Real estate-residential	23,697	20,005
Real estate-multi-family	18,936	16,623
Construction loans	8,998	8,773
Commercial and industrial loans	8,965	6,849
Total commercial loans	191,753	181,595
Consumer		
Home equity and second mortgage	63,961	64,202
Other consumer	1,532	1,697
Total consumer loans	65,493	65,899
Total loans	612,904	619,455
Net deferred loan origination costs and unamortized premiums	1,341	1,288
Less allowance for loan losses	(4,148)	(6,575)
Total loans receivable	$ 610,097	$ 614,168
Held for sale:		
Residential		
Residential mortgages	$ 129	$ 349

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The following tables present by credit quality indicators the composition of the commercial loan portfolio:

	At June 30, 2014				
	Pass	Special mention	Substandard	Doubtful	Total
			(in thousands)		
Real estate-commercial	$119,552	$2,930	$ 8,675	$—	$131,157
Real estate-residential	21,238	861	1,598	—	23,697
Real estate-multi-family	15,457	—	3,479	—	18,936
Construction loans	8,765	—	233	—	8,998
Commercial and industrial loans	8,936	29	—	—	8,965
Total	$173,948	$3,820	$ 13,985	$—	$191,753

	At December 31, 2013				
	Pass	Special mention	Substandard	Doubtful	Total
			(in thousands)		
Real estate-commercial	$ 113,260	$ 7,142	$ 8,943	$ —	$ 129,345
Real estate-residential	17,182	487	2,336	—	20,005
Real estate-multi-family	13,114	—	3,509	—	16,623
Construction loans	5,596	—	3,177	—	8,773
Commercial and industrial loans	6,817	32	—	—	6,849
Total	$ 155,969	$ 7,661	$ 17,965	$ —	$ 181,595

In order to assess and monitor the credit risk associated with commercial loans, the Company employs a risk rating methodology whereby each commercial loan is initially assigned a risk grade. At least annually, all risk ratings are reviewed in light of information received such as tax returns, rent rolls, cash flow statements, appraisals, and any other information which may affect the then-current risk rating, which is adjusted upward or downward as needed. At the end of each quarter the risk ratings are summarized and become a component of the evaluation of the allowance for loan losses. The Company's risk rating definitions mirror those promulgated by banking regulators and are as follows:

Pass: A good quality loan characterized by satisfactory liquidity; reasonable debt capacity and coverage; acceptable management in all critical positions and normal operating results for its peer group. The Company has grades 1 through 6 within the Pass category which reflect the increasing amount of attention paid to the individual loan because of, among other things, trends in debt service coverage, management weaknesses, or collateral values.

Special mention: A loan that has potential weaknesses that deserves management's close attention. Although the loan is currently protected, if left uncorrected, potential weaknesses may result in the deterioration of the loan's repayment prospects or in the borrower's future credit position. Potential weaknesses include: weakening financial condition; an unrealistic repayment program; inadequate sources of funds; lack of adequate collateral; credit information; or documentation. There is currently the capacity to meet interest and principal payments, but further adverse business, financial, or economic conditions may impair the borrower's capacity or willingness to pay interest and repay principal.

Substandard: A loan that is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Although no loss of principal or interest is presently apparent, there is the distinct possibility that a partial loss of interest and/or principal will be sustained if the deficiencies are not corrected. There is a current identifiable vulnerability to default and the dependence upon favorable business, financial, or economic conditions to meet timely payment of interest and repayment of principal.

Doubtful: A loan which has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to strengthen the asset, classification as an estimated loss is deferred until a more exact status is determined. Pending factors include: proposed merger, acquisition, liquidation, capital injection, perfecting liens on additional collateral, and refinancing plans.

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Loss: Loans which are considered uncollectible and have been charged off. The Company has charged-off all loans classified as loss.

Loans classified as special mention, substandard or doubtful are evaluated for potential impairment. All impaired loans are placed on nonaccrual status and are classified as substandard or doubtful.

The following tables present by credit quality indicator the composition of the residential mortgage and consumer loan portfolios:

	At June 30, 2014		
	Performing	Nonperforming	Total
		(in thousands)	
Residential mortgages	$354,502	$ 1,156	$355,658
Home equity and second mortgage	63,836	125	63,961
Other consumer	1,532	—	1,532
Total	$419,870	$ 1,281	$421,151

	At December 31, 2013		
	Performing	Nonperforming	Total
		(in thousands)	
Residential mortgages	$368,967	$ 2,994	$371,961
Home equity and second mortgage	63,902	300	64,202
Other consumer	1,697	—	1,697
Total	$434,566	$ 3,294	$437,860

In order to assess and monitor the credit risk associated with residential mortgage loans and consumer loans which include second mortgage loans and home equity secured lines of credit, the Company relies upon the payment status of the loan. Residential mortgage and other consumer loans 90 days or more past due are placed on nonaccrual status, classified as nonperforming, and evaluated for impairment.

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The following table presents by class nonperforming loans including impaired loans and loan balances 90 days or more past due, for which the accrual of interest has been discontinued:

	At June 30, 2014	At December 31, 2013
	(in thousands)	
Residential		
Residential mortgages	$ 1,156	$ 2,994
Commercial		
Real estate-commercial	1,769	774
Real estate-residential	690	896
Real estate-multi-family	191	191
Construction loans	233	3,177
Consumer		
Home equity and second mortgage	125	300
Total nonperforming loans	$ 4,164	$ 8,332

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The following tables present loans individually evaluated for impairment by class:

	At June 30, 2014				
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
			(in thousands)		
With an allowance recorded:					
Residential					
Residential mortgages	$1,124	$1,124	$281	$1,129	$—
Commercial					
Real estate-commercial	132	132	64	44	—
Real estate-residential	496	496	200	569	
Construction loans	233	233	21	1,215	—
	1,985	1,985	566	2,957	—
With no allowance recorded:					
Residential					
Residential mortgages	$22	$33	—	$409	$—
Commercial					
Real estate-commercial	1,637	1,639	—	1,103	—
Real estate-residential	194	321	—	184	—
Real estate-multi-family	191	372	—	191	—
Consumer					
Home equity and second mortgage	15	16	—	39	—
	2,059	2,381	—	1,926	—
Total	$4,044	$4,366	$566	$4,883	$—

	At December 31, 2013				
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
			(in thousands)		
With an allowance recorded:					
Residential					
Residential mortgages	$1,135	$1,135	$128	$1,620	$—
Commercial					
Real estate-commercial	—	—	—	109	—
Real estate-residential	712	712	77	211	—
Construction loans	3,177	3,375	2,021	3,701	—
	5,024	5,222	2,226	5,641	—
With no allowance recorded:					
Residential					
Residential mortgages	1,184	1,184	—	241	—
Commercial					
Real estate-commercial	774	774	—	607	—
Real estate-residential	184	321	—	108	—
Real estate-multi-family	191	372	—	77	—
Consumer					
Home equity and second mortgage	47	81	—	7	—
	2,380	2,732	—	1,040	—

Total	$7,404	$7,954	$2,226	$6,681	$—

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The following tables present by class the contractual aging of delinquent loans :

At June 30, 2014	Current	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more	Total past due	Total loans	Recorded investment over 90 days and accruing interest
				(in thousands)			
Residential							
Residential mortgages	$ 353,227	$ 1,275	$ —	$ 1,156	$ 2,431	$ 355,658	$ —
Commercial							
Real estate-commercial	128,815	572	400	1,370	2,342	131,157	—
Real estate-residential	23,018	—	—	679	679	23,697	—
Real estate-multi-family	18,745	—	—	191	191	18,936	—
Construction loans	8,765	—	—	233	233	8,998	—
Commercial and industrial loans	8,957	—	8	—	8	8,965	—
Consumer							
Home equity and second mortgage	63,799	37	—	125	162	63,961	—
Other consumer	1,532	—	—	—	—	1,532	—
Total	$ 606,858	$ 1,884	$ 408	$ 3,754	$ 6,046	$ 612,904	$ —

At December 31, 2013	Current	30-59 Days past due	60-89 Days past due	Loans past due 90 days or more	Total past due	Total loans	Recorded investment over 90 days and accruing interest
				(in thousands)			
Residential							
Residential mortgages	$ 369,271	$ 111	$ —	$ 2,579	$ 2,690	$ 371,961	$ —
Commercial							
Real estate-commercial	127,786	785	—	774	1,559	129,345	—
Real estate-residential	18,589	180	340	896	1,416	20,005	—
Real estate-multi-family	16,432	—	—	191	191	16,623	—
Construction loans	5,596	—	—	3,177	3,177	8,773	—
Commercial and industrial loans	6,849	—	—	—	—	6,849	—
Consumer							
	63,543	355	4	300	659	64,202	—

Home equity and second mortgage													
Other consumer		1,686		7		4		—		11		1,697	—
Total	$	609,752	$	1,438	$	348	$	7,917	$	9,703	$	619,455	$ —

Activity in the allowance for loan losses for the three and six months ended June 30, 2014 is summarized as follows:

	Balance April 1, 2014	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2014
Residential					
Residential mortgages	$1,614	$(31)	$—	$—	$1,583
Commercial					
Real estate-commercial	950	103	—	—	1,053
Real estate-residential	412	(45)	—	—	367
Real estate-multi-family	137	(21)	—	—	116
Construction loans	355	104	—	—	459
Commercial and industrial loans	101	(46)	—	3	58
Consumer					
Home equity and second mortgage	227	18	(19)	—	226
Other consumer	34	(7)	(4)	6	29
Unallocated	232	25	—	—	257
Total	$4,062	$100	$(23)	$9	$4,148

	Balance January 1, 2014	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2014
Residential					
Residential mortgages	$1,722	$29	$(169)	$1	$1,583
Commercial					
Real estate-commercial	1,220	(167)	—	—	1,053
Real estate-residential	437	37	(107)	—	367
Real estate-multi-family	136	(20)	—	—	116
Construction loans	2,208	430	(2,179)	—	459
Commercial and industrial loans	97	(43)	—	4	58
Consumer					
Home equity and second mortgage	214	78	(66)	—	226
Other consumer	50	(10)	(18)	7	29
Unallocated	491	(234)	—	—	257
Total	$6,575	$100	$(2,539)	$12	$4,148

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Activity in the allowance for loan losses for the three and six months ended June 30, 2013 is summarized as follows:

	Balance April 1, 2013	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2013
Residential					
Residential mortgages	$1,800	$77	$(109)	$12	$1,780
Commercial					
Real estate-commercial	1,311	(74)	—	—	1,237
Real estate-residential	601	(241)	—	—	360
Real estate-multi-family	237	(65)	—	—	172
Construction loans	1,894	484	(39)	3	2,342
Commercial and industrial loans	125	(55)	—	1	71
Consumer					
Home equity and second mortgage	211	(1)	—	—	210
Other consumer	11	27	(16)	2	24
Unallocated	472	248	—	—	720
Total	$6,662	$400	$(164)	$18	$6,916

	Balance January 1, 2013	Provision	Charge-offs (in thousands)	Recoveries	Balance June 30, 2013
Residential					
Residential mortgages	$1,849	$126	$(207)	$12	$1,780
Commercial					
Real estate-commercial	1,754	(82)	(435)	—	1,237
Real estate-residential	608	(189)	(59)	—	360
Real estate-multi-family	245	(73)	—	—	172
Construction loans	1,697	781	(150)	14	2,342
Commercial and industrial loans	119	(52)	—	4	71
Consumer					
Home equity and second mortgage	251	(34)	(15)	8	210
Other consumer	11	30	(19)	2	24
Unallocated	388	332	—	—	720
Total	$6,922	$839	$(885)	$40	$6,916

Despite the above allocation, the allowance for credit losses is general in nature and is available to absorb losses from any portfolio segment.

Loans receivable include certain loans that have been modified as Troubled Debt Restructurings ("TDRs"), where economic concessions have been granted to borrowers experiencing financial difficulties. The objective for granting the concessions is to maximize the recovery of the investment in the loan and may include reductions in the interest rate, payment extensions, forgiveness

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of interest or principal, forbearance or other actions. TDRs are classified as nonperforming at the time of restructuring and typically return to performing status after considering the borrower's positive repayment performance for a reasonable period of time, usually six months.

Loans modified in a TDR are evaluated individually for impairment based on the present value of expected cash flows or the fair value of the underlying collateral less selling costs for collateral dependent loans. If the value of the modified loan is less than the recorded investment in the loan, impairment is recognized through an increase by an additional provision to the allowance for loan losses. In periods subsequent to modification, TDRs are evaluated for possible additional impairment.

There were no new loan modifications deemed TDRs during the three and six months ended June 30, 2014 and 2013.

The following table presents loans classified as TDRs that subsequently defaulted:

	For the three months ended June 30, 2014		For the six months ended June 30, 2014	
Residential	Number of Contracts	Recorded Investment (in thousands)	Number of Contracts	Recorded Investment (in thousands)
Residential mortgage	1	$787	1	$787
Total	1	$787	1	$787

No loans previously classified as TDRs defaulted during the six months ended June 30, 2013.

In 2013, the Company acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable that all contractually required payments would not be collected. The following table presents information regarding the outstanding principal balance and related carrying amount:

	At June 30, 2014	At December 31, 2013
	(in thousands)	
Outstanding principal balance	$ 742	$ 808
Carrying amount	412	444

The table below presents changes in the amortizable yield for purchased credit-impaired loans as follows for six months ended June 30, 2014:

	At June 30, 2014 (in thousands)
Balance at beginning of period	$154
Acquisition of impaired loans	—
Accretion	(12)
Balance at end of period	$142

There was no accretion during the three months ended June 30, 2014.

An impairment reserve of $64,000 has been assigned to acquired loans with or without specific evidence of deterioration in credit quality at June 30, 2014. There was no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality at December 31, 2013.

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The following tables present by class the ending balance of the allowance for loan losses and ending loan balance based on impairment method as of June 30, 2014. Acquired loans were recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

	Evaluated for impairment				
Allowance for loan losses	Loans acquired without credit deterioration	Loans acquired with credit deterioration	Individually	Collectively	Total
			(in thousands)		
Residential					
Residential mortgages	$—	$ —	$ 281	$ 1,302	$ 1,583
Commercial					
Real estate-commercial	64	—	—	989	1,053
Real estate-residential	—	—	200	167	367
Real estate-multi-family	—	—	—	116	116
Construction loans	—	—	21	438	459
Commercial and industrial loans	—	—	—	58	58
Consumer					
Home equity and second mortgage	—	—	—	226	226
Other consumer	—	—	—	29	29
Unallocated	—	—	—	257	257
Total	$ 64	$ —	$ 502	$ 3,582	$ 4,148

	Evaluated for impairment				
Loans receivable	Loans acquired without credit deterioration	Loans acquired with credit deterioration	Individually	Collectively	Total
		(in thousands)			
Residential					
Residential mortgages	$ 46,448	$ 22	$ 1,124	$ 308,064	$ 355,658
Commercial					
Real estate-commercial	11,774	—	1,771	117,612	131,157
Real estate-residential	4,781	184	496	18,236	23,697
Real estate-multi-family	1,070	191	—	17,675	18,936
Construction loans	—	—	233	8,765	8,998
Commercial and industrial loans	239	—	—	8,726	8,965
Consumer					
Home equity and second mortgage	22,661	15	—	41,285	63,961
Other consumer	107	—	—	1,425	1,532
Total	$ 87,080	$ 412	$ 3,624	$ 521,788	$ 612,904

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The following tables present by class the ending balance of the allowance for loan losses and ending loan balance based on impairment method as of December 31, 2013. Acquired loans were recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

	Evaluated for impairment				
Allowance for loan losses	Loans acquired without credit deterioration	Loans acquired with credit deterioration	Individually (in thousands)	Collectively	Total
Residential					
Residential mortgages	$—	$ —	$ 128	$ 1,594	$ 1,722
Commercial					
Real estate-commercial	—	—	—	1,220	1,220
Real estate-residential	—	—	77	360	437
Real estate-multi-family	—	—	—	136	136
Construction loans	—	—	2,021	187	2,208
Commercial and industrial loans	—	—	—	97	97
Consumer					
Home equity and second mortgage	—	—	—	214	214
Other consumer	—	—	—	50	50
Unallocated	—	—	—	491	491
Total	$—	$ —	$ 2,226	$ 4,349	$ 6,575

	Evaluated for impairment				
Loans receivable	Loans acquired without credit deterioration	Loans acquired with credit deterioration	Individually (in thousands)	Collectively	Total
Residential					
Residential mortgages	$ 50,985	$ 22	$ 2,297	$ 318,657	$ 371,961
Commercial					
Real estate-commercial	12,787	—	774	115,784	129,345
Real estate-residential	4,913	184	712	14,196	20,005
Real estate-multi-family	1,116	191	—	15,316	16,623
Construction loans	—	—	3,177	5,596	8,773
Commercial and industrial loans	279	—	—	6,570	6,849
Consumer					
Home equity and second mortgage	24,806	47	—	39,349	64,202
Other consumer	126	—	—	1,571	1,697
Total	$ 95,012	$ 444	$ 6,960	$ 517,039	$ 619,455

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NOTE 10 — FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present information about the Company's financial instruments measured at fair value as of June 30, 2014 and December 31, 2013. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement hierarchy has been established for inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Determination of the appropriate level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement for the instrument or security.

The fair value hierarchy levels are summarized below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable and contain assumptions of the party assessing the fair value of the asset or liability.

Assets measured at fair value on a recurring basis segregated by fair value hierarchy level are summarized below:

	Fair value hierarchy levels			Balance as of June 30, 2014
	Level 1	Level 2	Level 3	
		(in thousands)		
Assets				
Investment securities available for sale				
U.S. Government and federal agencies	$—	$11,761	$—	$11,761
State and political subdivisions	—	61,650	—	61,650
Residential mortgage-backed securities issued by quasi-governmental agencies	—	56,275	—	56,275
Total investment securities available for sale	$—	$129,686	$—	$129,686
Loans receivable, held for sale	$—	$129	$—	$129

	Fair value hierarchy levels			Balance as of December 31, 2013
	Level 1	Level 2	Level 3	
		(in thousands)		
Assets				
Investment securities available for sale				
U.S. Government and federal agencies	$—	$18,063	$—	$18,063
State and political subdivisions	—	60,669	—	60,669
Residential mortgage-backed securities issued by quasi-	—	45,280	—	45,280

governmental agencies				
Total investment securities available for sale	$—	$124,012	$—	$124,012