FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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 No. 000-53869

FIRST NATIONAL COMMUNITY BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2900790**
(State or Other Jurisdiction	(I.R.S. Employer
of Incorporation or Organization)	Identification No.)
102 E. Drinker St., Dunmore, PA	**18512**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code **(570) 346-7667**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller reporting company

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

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

Common Stock, $1.25 par value	**16,500,945 shares**
(Title of Class)	(Outstanding at November 6, 2015)

Contents

Part I - Financial Information

Item 1 - Financial Statements

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(unaudited)

(dollars in thousands, except share data)	**September 30, 2015**	**December 31, 2014**
Assets		
Cash and cash equivalents:		
Cash and due from banks	$20,631	$22,657
Interest-bearing deposits in other banks	10,383	13,010
Total cash and cash equivalents	31,014	35,667
Securities available for sale, at fair value	249,228	218,989
Stock in Federal Home Loan Bank of Pittsburgh, at cost	4,298	2,803
Loans held for sale	4,634	603
Loans, net of allowance for loan and lease losses of $9,825 and $11,520	713,341	658,747
Bank premises and equipment, net	11,258	11,003
Accrued interest receivable	2,618	2,075
Intangible assets	179	302
Bank-owned life insurance	29,232	28,817
Other real estate owned	1,618	2,255
Other assets	7,799	8,768
Total assets	$1,055,219	$970,029
Liabilities		
Deposits:		
Demand (non-interest-bearing)	$152,038	$124,064
Interest-bearing	700,004	671,272
Total deposits	852,042	795,336
Borrowed funds		
Federal Home Loan Bank of Pittsburgh advances	93,058	61,194
Subordinated debentures	14,000	25,000
Junior subordinated debentures	10,310	10,310
Total borrowed funds	117,368	96,504
Accrued interest payable	11,187	10,262
Other liabilities	14,989	16,529

Total liabilities	995,586	918,631
Shareholders' equity		
Preferred shares ($1.25 par)		
Authorized: 20,000,000 shares at September 30, 2015 and December 31, 2014		
Issued and outstanding: 0 shares at September 30, 2015 and December 31, 2014	-	-
Common shares ($1.25 par)		
Authorized: 50,000,000 shares at September 30, 2015 and December 31, 2014		
Issued and outstanding: 16,500,945 shares, September 30, 2015 and 16,484,419 shares, December 31, 2014	20,626	20,605
Additional paid-in capital	61,939	61,781
Accumulated deficit	(25,495)	(32,126)
Accumulated other comprehensive income	2,563	1,138
Total shareholders' equity	59,633	51,398
Total liabilities and shareholders’ equity	$1,055,219	$970,029

The accompanying notes to consolidated financial statements are an integral part of these statements.

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except share data)	**2015**	**2014**	**2015**	**2014**
Interest income				
Interest and fees on loans	$6,693	$6,852	$19,640	$19,958
Interest and dividends on securities:				
U.S. government agencies	1,061	893	3,044	2,496
State and political subdivisions, tax-free	19	409	91	1,679
State and political subdivisions, taxable	324	76	447	271
Other securities	92	74	331	206
Total interest and dividends on securities	1,496	1,452	3,913	4,652
Interest on interest-bearing deposits in other banks	10	8	42	44
Total interest income	8,199	8,312	23,595	24,654
Interest expense				
Interest on deposits	677	751	2,003	2,435
Interest on borrowed funds:				
Interest on Federal Home Loan Bank of Pittsburgh advances	128	125	367	334
Interest on subordinated debentures	162	575	1,290	1,706
Interest on junior subordinated debentures	50	50	150	149
Total interest on borrowed funds	340	750	1,807	2,189
Total interest expense	1,017	1,501	3,810	4,624
Net interest income before credit for loan and lease losses	7,182	6,811	19,785	20,030
Credit for loan and lease losses	(191)	(54)	(340)	(5,629)
Net interest income after credit for loan and lease losses	7,373	6,865	20,125	25,659
Non-interest income				
Deposit service charges	799	781	2,218	2,217
Net gain on the sale of securities	4	2,958	2,302	6,006
Net gain on the sale of mortgage loans held for sale	13	57	69	223
Net loss on the sale of education loans	-	-	-	(13)
Net gain on the sale of other real estate owned	129	35	145	103
Gain on branch divestitures	-	-	-	607
Loan-related fees	94	101	290	292
Income from bank-owned life insurance	145	165	415	496
Legal settlements	-	-	184	2,127
Other	195	345	720	799
Total non-interest income	1,379	4,442	6,343	12,857
Non-interest expense				
Salaries and employee benefits	3,240	3,316	9,582	9,809

Occupancy expense	500	438	1,665	1,554
Equipment expense	408	355	1,234	1,068
Advertising expense	86	109	335	353
Data processing expense	471	508	1,420	1,556
Regulatory assessments	203	266	711	1,389
Bank shares tax	217	21	652	372
Expense of other real estate owned	91	514	338	2,495
Legal expense	80	268	331	1,428
Professional fees	193	306	780	1,240
Insurance expenses	128	196	528	757
Other operating expenses	798	1,486	2,301	2,718
Total non-interest expense	6,415	7,783	19,877	24,739
Income before income taxes	2,337	3,524	6,591	13,777
Provision (credit) for income taxes	-	166	(40)	326
Net income	$2,337	$3,358	$6,631	$13,451
Earnings per share				
Basic	$0.14	$0.20	$0.40	$0.82
Diluted	$0.14	$0.20	$0.40	$0.82
Cash dividends declared per common share	$-	$-	$-	$-
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	16,500,945	16,471,569	16,497,373	16,471,569
Diluted	16,500,945	16,471,569	16,497,373	16,471,851

The accompanying notes to consolidated financial statements are an integral part of these statements.

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Net income	$2,337	$3,358	$6,631	$13,451
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale	3,465	(482)	4,461	10,528
Taxes	(1,178)	163	(1,516)	(3,580)
Net of tax amount	2,287	(319)	2,945	6,948
Reclassification adjustment for gains included in net income	(4)	(2,958)	(2,302)	(5,638)
Taxes	1	1,006	782	1,917
Net of tax amount	(3)	(1,952)	(1,520)	(3,721)
Total other comprehensive income (loss)	2,284	(2,271)	1,425	3,227
Total comprehensive income	$4,621	$1,087	$8,056	$16,678

The accompanying notes to consolidated financial statements are an integral part of these statements.

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30, 2015 and 2014

(unaudited)

(in thousands, except per share data)	**Number of Common Shares**	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Comprehensive (Loss) Income**	**Total Shareholders' Equity**
Balances, December 31, 2013	16,471,569	$ 20,589	$ 61,627	$ (45,546)	$ (3,092)	$ 33,578
Net income for the period	-	-	-	13,451	-	13,451
Restricted stock awards	-	-	65	-	-	65
Other comprehensive income, net of tax of $1,663	-	-	-	-	3,227	3,227
Balances, September 30, 2014	16,471,569	$ 20,589	$ 61,692	$ (32,095)	$ 135	$ 50,321
Balances, December 31, 2014	16,484,419	$ 20,605	$ 61,781	$ (32,126)	$ 1,138	$ 51,398
Net income for the period	-	-	-	6,631	-	6,631
Common shares issued under long-term incentive compensation plan	16,526	21	(21)	-	-	-
Restricted stock awards	-	-	179	-	-	179
Other comprehensive income, net of tax of $734	-	-	-	-	1,425	1,425
Balances, September 30, 2015	16,500,945	$ 20,626	$ 61,939	$ (25,495)	$ 2,563	$ 59,633

The accompanying notes to consolidated financial statements are an integral part of these statements.

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30,	
(in thousands)	**2015**	**2014**
Operating activities:		
Net income	$6,631	$13,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	1,173	953
Equity in trust	(5)	(4)
Depreciation and amortization	1,168	1,068
Stock-based compensation	179	65
Credit for loan and lease losses	(340)	(5,629)
Credit for off-balance sheet commitments	(27)	(201)
Gain on the sale of available-for-sale securities	(2,302)	(5,638)
Gain on the sale of held-to-maturity securities	-	(368)
Gain on the sale of loans held for sale	(69)	(223)
Loss on the sale of education loans	-	13
Gain on branch divestitures	-	(607)
Loss on the disposition of bank premises and equipment and other assets	-	352
Gain on the sale of other real estate owned	(145)	(103)
Valuation adjustment of other real estate owned	208	2,199
Income from bank-owned life insurance	(415)	(496)
Proceeds from the sale of loans held for sale	1,982	6,806
Funds used to originate loans held for sale	(1,352)	(5,934)
(Increase) decrease in accrued interest receivable	(543)	33
Decrease (increase) in other assets	829	(64)
Increase in accrued interest payable	925	1,783
Decrease in other liabilities	(2,221)	(333)
Total adjustments	(955)	(6,328)
Net cash provided by operating activities	5,676	7,123
Cash flows from investing activities:		
Maturities, calls and principal payments of available-for-sale securities	7,326	5,965
Proceeds from the sale of available-for-sale securities	78,765	78,582
Proceeds from the sale of held-to-maturity securities	-	2,686
Purchases of available-for-sale securities	(113,042)	(88,528)
Purchase of Federal Home Loan Bank of Pittsburgh stock	(1,495)	(2,210)
Proceeds from the sale of education loans	-	2,537
Net increase in loans to customers	(58,975)	(33,095)
Proceeds from the sale of other real estate owned	697	1,268
Proceeds from the sale of bank premises and equipment	-	2,504

Purchases of property and equipment	(1,175)	(982)
Net cash used in investing activities	(87,899)	(31,273)
Cash flows from financing activities:		
Net increase (decrease) in deposits	56,706	(81,076)
Net proceeds from Federal Home Loan Bank of Pittsburgh advances - overnight	19,500	-
Proceeds from Federal Home Loan Bank of Pittsburgh advances - term	142,947	194,235
Repayment of Federal Home Loan Bank of Pittsburgh advances - term	(130,583)	(152,572)
Principal reduction on subordinated debentures	(11,000)	-
Net cash provided by (used in) financing activities	77,570	(39,413)
Net decrease in cash and cash equivalents	(4,653)	(63,563)
Cash and cash equivalents at beginning of period	35,667	103,556
Cash and cash equivalents at end of period	$31,014	$39,993
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$2,885	$2,841
Income taxes	22	238
Other transactions:		
Principal balance of loans transferred to other real estate owned	149	13
Principal balance of loans transferred to held for sale	4,592	-
Bank premises transferred to other real estate owned	-	1,749
Change in deferred gain on sale of other real estate owned	(26)	27

The accompanying notes to consolidated financial statements are an integral part of these statements.

FIRST NATIONAL COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

The consolidated financial statements are comprised of the accounts of First National Community Bancorp, Inc., and its wholly owned subsidiary, First National Community Bank (the “Bank”), as well as the Bank’s wholly owned subsidiaries (collectively, the “Company”). The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. In the opinion of management, all adjustments necessary for a fair presentation of the results for the three and nine month periods ended September 30, 2015 have been included in the consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. Prior period amounts have been reclassified when necessary to conform to the current period’s presentation. These reclassifications did not have an impact on the operating results or financial position of the Company. The operating results and financial position of the Company for the three and nine months ended September 30, 2015 may not be indicative of its future results of operations and financial position.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term are the allowance for loan and lease losses (“ALLL”), investment security valuations, the evaluation of investment securities and other real estate owned (“OREO”) for impairment, and the evaluation of deferred income taxes.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s audited financial statements, included in its Annual Report filed on Form 10-K as of and for the year ended December 31, 2014 (the “2014 Form 10-K”) and the Company’s Quarterly Reports filed on Form 10-Q for the periods ended March 31, 2015 and June 30, 2015.

Note 2. New Authoritative Accounting Guidance

Accounting Standards Update ("ASU") 2014-04, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The adoption of this guidance on January 1, 2015 did not have a material effect on the operating results or financial position of the Company.

ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," changes the criteria for reporting a discontinued operation. Under the new guidance, a disposal of a component of an entity or group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. This new guidance reduces complexity by removing the complex and extensive implementation guidance and illustrations that are necessary to apply the current definition of a discontinued operation. The new guidance also requires expanded disclosures about discontinued operations that will provide users with more information about the assets, liabilities, revenues and expenses of a discontinued operation and will require pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting, which will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The adoption of this guidance on January 1, 2015 did not have a material effect on the operating results or financial position of the Company.

ASU 2014-11, Transfers and Servicing (Topic 860): "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements by aligning the accounting for these transactions with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial assets and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward arrangement, which has resulted in outcomes referred to as off-balance sheet accounting. ASU 2014-11 also requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction, and requires expanded disclosure about the nature of the collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The adoption of this guidance on January 1, 2015 did not have a material effect on the operating results or financial position of the Company.

ASU 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): “Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure,” requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The adoption of this guidance on January 1, 2015 did not have a material effect on the operating results or financial position of the Company.

Accounting Guidance to be Adopted in Future Periods

ASU 2014-09, Revenue from Contracts with Customers (Topic 606): Section A, “Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contract with Customers (Subtopic 340-40);” Section B, “Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables;” and Section C, “Background Information and Basis for Conclusions,” provides a robust framework for addressing revenue recognition issues, upon its effective date, replaces almost all existing revenue recognition guidance, including industry specific guidance, in current GAAP. The core principle of ASU 2014-09 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced interim and annual disclosures, both qualitative and quantitative, about revenue in order to help financial statement users understand the nature, amount, timing and uncertainty of revenue and related cash flows. ASU 2014-09 is effective in annual reporting periods beginning after December 15, 2016 and the interim periods within that year for public business entities, not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or over-the-counter market and employee benefit plans that file or furnish financial statements to the SEC. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): “Deferral of the Effective Date,” which defers the adoption of ASU 2014-09 for one year for all entities. Accordingly, the Company will adopt this guidance on January 1, 2018 in accordance with ASU 2015-14, and is currently evaluating the effect this guidance may have on its operating results or financial position.

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,” requires a performance target that affects vesting and that can be achieved after the requisite service period to be treated as a performance condition. To account for such awards, an entity should apply existing guidance as it relates to awards with performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent compensation cost attributable to the period(s) for which the requisite service already has been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service periods. The total amount of compensation cost should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," defines management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide guidance for related footnote disclosures. ASU 2014-15 requires an entity's management to assess the entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically ASU 2014-15: (1) provides a definition of the term substantial doubt; (2) requires an evaluation as to whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable); (3) provides principles for considering the mitigating effect of management's plans; (4) requires certain disclosures when substantial doubt is alleviated; and (5) require an express statement and other disclosures when substantial doubt is not alleviated. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance on December 31, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items," will alleviate uncertainty for preparers, auditors and regulators because auditors and regulators will no longer be required to evaluate whether a preparer presented an unusual and/or infrequent item appropriately. Although ASU 2015-01 eliminates the concept of extraordinary items, the presentation and disclosure guidance for items that are unusual in nature or infrequent in occurrence has been retained and has been expanded to include items that are both unusual in nature or infrequent in occurrence. The nature and financial effects of each event or transaction is required to be presented as a separate component of income from continuing operations or, alternatively, in the notes to the financial statements. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption of this guidance is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance on January 1, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

ASU 2015-02, Consolidation (Topic 810): "Amendments to the Consolidation Analysis," improves targeted areas of the consolidation guidance and reduces the number of consolidation models. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. ASU 2015-02 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): "Simplifying the Presentation of Debt Issuance Costs," more closely aligns the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS standards. Under ASU 2015-03, debt issuance costs related to a recognized debt liability will no longer be recorded as a separate asset, but will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. ASU 2015-03 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and requires retrospective application to all prior periods presented in the financial statements. Early adoption of this guidance is permitted. The adoption of this guidance on January 1, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

ASU 2015-05, Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," provides explicit guidance on a customer's accounting for fees paid in a cloud computing environment. Specifically, the amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption of this guidance is permitted. The adoption of this guidance on January 1, 2016 is not expected to have a material effect on the operating results or financial position of the Company.

Note 3. Regulatory Matters

The Bank was under a Consent Order (the “Order”) from the Office of the Comptroller of the Currency (“OCC”) dated September 1, 2010. On March 25, 2015, after meeting all of the requirements of the Order, the Bank was fully and completely released from the Order. The Company was subject to a Written Agreement (the “Written Agreement”) with the Federal Reserve Bank of Philadelphia (the “Reserve Bank”) dated November 24, 2010. On September 8, 2015, the Company was notified by the Reserve Bank that effective September 2, 2015 it had been fully and completely released from the Written Agreement.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the Federal Reserve, the OCC and the FDIC approved the final Basel III capital framework for U.S. banking organizations (the “Regulatory Capital Rules”) implementing regulatory capital reforms and changes required by the Dodd-Frank Act.

The Regulatory Capital Rules are effective on January 1, 2014; however, the mandatory compliance date for the Company and the Bank as “standardized approach” banking organizations began on January 1, 2015 and is subject to transitional provisions extending to January 1, 2019. The Regulatory Capital Rules include new risk-based capital and leverage ratios and refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank under the Regulatory Capital Rules are:

a total risk-based capital ratio of 8.00% (unchanged from current rules);
a Tier I risk-based capital ratio of 6.00% (increased from 4.00%);
a new common equity Tier I risk-based capital ratio of 4.50%; and
a Tier I capital to average assets (“Tier I leverage ratio”) of 4.00% for all institutions.

The Regulatory Capital Rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier I capital and result in the following minimum ratios effective January 1, 2019:

a total risk-based capital ratio of 10.50%.
a Tier I risk-based capital ratio of 8.50%; and
a common equity Tier I risk-based capital ratio of 7.00%;

The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019 at 2.50%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

The Regulatory Capital Rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier I capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier I capital, some of which will be phased out over time.

The Regulatory Capital Rules also revise the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as “well capitalized”:

a total risk-based capital ratio of 10.00% (unchanged from current rules);

a Tier I risk-based capital ratio of 8.00% (increased from 6.00%);
a new common equity Tier I risk-based capital ratio of 6.50%; and
a Tier I leverage ratio of 5.00%.

The Regulatory Capital Rules set forth certain changes for the calculation of risk-weighted assets, which are required to be utilized beginning January 1, 2015. The provisions applicable to banking organizations under the "standardized approach" include changes with respect to risk weights for commercial real estate loans, past due exposures and conversion factors for commitments with an original maturity of one year or less.

Current quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier I capital, and Tier I common equity (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

The Company's and the Bank's actual capital positions at September 30, 2015 and December 31, 2014 are presented in the following table:

Capital Analysis

(in thousands)	**September 30, 2015**	**December 31, 2014**
Company:		
Tier I common equity	$56,964	N/A
Tier I capital	66,964	$59,930
Tier II capital:		
Subordinated notes	9,800	25,000
Allowable portion of allowance for loan and lease losses	9,650	8,591
Total tier II capital	19,450	33,591
Total risk-based capital	86,414	93,521
Total risk-weighted assets	$771,395	$683,956
Total average assets (for Tier I leverage ratio)	$1,019,307	$990,346
Bank:		
Tier I common equity	$92,821	N/A
Tier I capital	92,821	$96,816
Tier II capital:		
Allowable portion of allowance for loan and lease losses	9,645	8,587
Total tier II capital	9,645	8,587
Total risk-based capital	102,466	105,403
Total risk-weighted assets	$771,002	$683,576