CNB FINANCIAL CORP/PA
Form 10-Q
November 03, 2016
Table of Contents

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 quarterly period ended September 30, 2016

or

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

For the transition period from _________ to _________

Commission File Number 000-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1450605**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive offices)

Registrant s telephone number, including area code, (814) 765-9621

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. x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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	x
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 x No

The number of shares outstanding of the issuer s common stock as of November 1, 2016

COMMON STOCK NO PAR VALUE PER SHARE: 14,465,942 SHARES

Table of Contents

INDEX

PART I.

FINANCIAL INFORMATION

PART II.

OTHER INFORMATION

Table of Contents

Forward-Looking Statements

This quarterly report on form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, liquidity, results of operations, future performance and our business. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that are not historical facts. Forward-looking statements include statements with respect to beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (some of which are beyond our control). Forward-looking statements often include the words believes, expects, anticipates, estimates, forecasts, intends, targets, potentially, probably, projects, outlook or similar expressions or future conditional verbs such as may, will, should, would Such known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, include, but are not limited to, (i) changes in general business, industry or economic conditions or competition; (ii) changes in any applicable law, rule, regulation, policy, guideline or practice governing or affecting financial holding companies and their subsidiaries or with respect to tax or accounting principles or otherwise; (iii) adverse changes or conditions in capital and financial markets; (iv) changes in interest rates; (v) higher than expected costs or other difficulties related to integration of combined or merged businesses; (vi) the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions; (vii) changes in the quality or composition of our loan and investment portfolios; (viii) adequacy of loan loss reserves; (ix) increased competition; (x) loss of certain key officers; (xi) continued relationships with major customers; (xii) deposit attrition; (xiii) rapidly changing technology; (xiv) unanticipated regulatory or judicial proceedings and liabilities and other costs; (xv) changes in the cost of funds, demand for loan products or demand for financial services; (xvi) other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices; and (xvii) our success at managing the foregoing items. Some of these and other factors are discussed in our annual and quarterly reports filed with the Securities and Exchange Commission (SEC). Such factors could have an adverse impact on our financial position and our results of operations.

The forward-looking statements contained herein are based upon management s beliefs and assumptions. Any forward-looking statement made herein speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Table of Contents

Part I Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	(unaudited) September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 34,787	$ 23,302
Interest bearing deposits with other banks	2,117	3,959
Total cash and cash equivalents	36,904	27,261
Securities available for sale	506,744	546,043
Trading securities	4,644	4,576
Loans held for sale	2,814	1,381
Loans	1,804,472	1,582,354
Less: unearned discount	(3,614)	(4,556)
Less: allowance for loan losses	(15,703)	(16,737)
Net loans	1,785,155	1,561,061
FHLB and other equity interests	18,334	15,921
Premises and equipment, net	46,335	39,370
Bank owned life insurance	43,998	41,039
Mortgage servicing rights	1,052	962
Goodwill	38,967	27,194
Core deposit intangible	3,200	2,395
Accrued interest receivable and other assets	51,797	17,933
Total Assets	$ 2,539,944	$ 2,285,136
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 293,049	$ 263,639
Interest bearing deposits	1,730,732	1,551,414
Total deposits	2,023,781	1,815,053
FHLB and other long-term borrowings	129,202	104,243
Other short-term borrowings	76,000	116,272
Subordinated debentures	70,620	20,620
Accrued interest payable and other liabilities	24,852	27,035
Total liabilities	2,324,455	2,083,223
Common stock, $0 par value; authorized 50,000,000 shares; issued 14,473,482 shares	0	0
Additional paid in capital	77,543	77,827
Retained earnings	131,643	123,301
Treasury stock, at cost (8,272 shares at September 30, 2016 and 65,052 shares at December 31, 2015)	(163)	(1,114)
Accumulated other comprehensive income	6,466	1,899

Total shareholders equity	215,489	201,913
Total Liabilities and Shareholders Equity	$ 2,539,944	$ 2,285,136

See Notes to Consolidated Financial Statements

1

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Three months ended September 30, 2016	Three months ended September 30, 2015
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 21,749	$ 18,459
Securities:		
Taxable	2,257	2,692
Tax-exempt	825	972
Dividends	127	114
Total interest and dividend income	24,958	22,237
INTEREST EXPENSE:		
Deposits	2,195	2,169
Borrowed funds	633	841
Subordinated debentures (includes $84 and $95 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2016 and 2015, respectively)	197	189
Total interest expense	3,025	3,199
NET INTEREST INCOME	21,933	19,038
PROVISION FOR LOAN LOSSES	622	463
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,311	18,575
NON-INTEREST INCOME:		
Wealth and asset management fees	795	711
Service charges on deposit accounts	1,162	1,171
Other service charges and fees	653	838
Net realized gains on available-for-sale securities (includes $0 and $73 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2016 and 2015, respectively)	0	73
Net realized and unrealized gains (losses) on trading securities	235	(260)
Mortgage banking	388	164
Bank owned life insurance	281	288
Card processing and interchange income	876	873
Other	81	136
Total non-interest income	4,471	3,994
NON-INTEREST EXPENSES:		
Salaries and benefits	8,506	7,572
Net occupancy expense	2,212	1,764
Amortization of core deposit intangible	347	259
Data processing	1,022	1,095
State and local taxes	595	474
Legal, professional, and examination fees	464	438
Advertising	427	414

FDIC insurance premiums	387	338
Core processing conversion costs	42	0
Merger costs	266	0
Card processing and interchange expenses	587	579
Other	2,241	2,073
Total non-interest expenses	17,096	15,006
INCOME BEFORE INCOME TAXES	8,686	7,563
INCOME TAX EXPENSE (includes ($28) and ($7) income tax expense from reclassification items in 2016 and 2015, respectively)	2,270	2,041
NET INCOME	$ 6,416	$ 5,522
EARNINGS PER SHARE:		
Basic	$ 0.44	$ 0.38
Diluted	$ 0.44	$ 0.38
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.165	$ 0.165

See Notes to Consolidated Financial Statements

2

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Nine months ended September 30, 2016	2015
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 59,478	$ 53,294
Securities:		
Taxable	7,026	8,542
Tax-exempt	2,575	2,859
Dividends	418	489
Total interest and dividend income	69,497	65,184
INTEREST EXPENSE:		
Deposits	6,288	6,381
Borrowed funds	2,341	2,464
Subordinated debentures (includes $260 and $284 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2016 and 2015, respectively)	590	560
Total interest expense	9,219	9,405
NET INTEREST INCOME	60,278	55,779
PROVISION FOR LOAN LOSSES	2,038	1,892
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	58,240	53,887
NON-INTEREST INCOME:		
Wealth and asset management fees	2,298	2,228
Service charges on deposit accounts	3,149	3,282
Other service charges and fees	1,837	2,223
Net realized gains on available-for-sale securities (includes $1,005 and $564 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2016 and 2015, respectively)	1,005	564
Net realized and unrealized gains (losses) on trading securities	265	(321)
Mortgage banking	706	484
Bank owned life insurance	807	853
Card processing and interchange income	2,499	2,542
Other	501	523
Total non-interest income	13,067	12,378
NON-INTEREST EXPENSES:		
Salaries and benefits	23,905	21,710
Net occupancy expense	5,932	5,357
Amortization of core deposit intangible	779	777
Data processing	3,395	3,223
State and local taxes	1,645	1,498
Legal, professional, and examination fees	1,202	1,088
Advertising	1,306	1,167

FDIC insurance premiums	1,049	957
Prepayment penalties long-term borrowings	1,506	0
Core processing conversion costs	1,597	0
Merger costs	481	0
Card processing and interchange income	1,670	1,725
Other	6,196	5,864
Total non-interest expenses	50,663	43,366
INCOME BEFORE INCOME TAXES	20,644	22,899
INCOME TAX EXPENSE (includes $262 and $98 income tax expense from reclassification items in 2016 and 2015, respectively)	5,144	6,210
NET INCOME	$ 15,500	$ 16,689
EARNINGS PER SHARE:		
Basic	$ 1.07	$ 1.16
Diluted	$ 1.07	$ 1.16
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.495	$ 0.495

See Notes to Consolidated Financial Statements

3

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
NET INCOME	$ 6,416	$ 5,522	$ 15,500	$ 16,689
Other comprehensive income, net of tax:				
Net change in fair value of interest rate swap agreements designated as cash flow hedges:				
Unrealized gain (loss) on interest rate swaps, net of tax of ($17) and $44 for the three months ended September 30, 2016 and 2015, and $42 and $86 for the nine months ended September 30, 2016 and 2015	32	(81)	(77)	(160)
Reclassification adjustment for losses recognized in earnings, net of tax of ($29) and ($33) for the three months ended September 30, 2016 and 2015, and ($91) and ($99) for the nine months ended September 30, 2016 and 2015	55	62	169	185
	87	(19)	92	25
Net change in unrealized gains on securities available for sale:				
Unrealized gains (losses) on other-than-temporarily impaired securities available for sale:				
Unrealized gains (losses) arising during the period, net of tax of $0 and $0 for the three months ended September 30, 2016 and 2015, and $276 and ($90) for the nine months ended September 30, 2016 and 2015	0	0	(513)	165
Reclassification adjustment for realized gains included in net income, net of tax of $0 and $0 for the three months ended September 30, 2016 and 2015, and $323 and $0 for the nine months ended September 30, 2016 and 2015	0	0	(599)	
	0	0	(1,112)	165
Unrealized gains on other securities available for sale:				
Unrealized gains arising during the period, net of tax of ($103) and ($2,059) for the three months ended September 30, 2016 and 2015, and ($3,039) and ($1,221) for the nine months ended September 30, 2016 and 2015	187	3,822	5,641	2,268
Reclassification adjustment for realized gains included in net income, net of tax of $0 and $26 for the three months ended September 30, 2016 and 2015, and $29 and $197 for the nine months ended September 30, 2016 and 2015	0	(47)	(54)	(367)
	187	3,775	5,587	1,901
Other comprehensive income	274	3,756	4,567	2,091
COMPREHENSIVE INCOME	$ 6,690	$ 9,278	$ 20,067	$ 18,780

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Nine months ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,500	$ 16,689
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	2,038	1,892
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	3,246	3,051
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	(1,051)	202
Net realized gains on sales of available-for-sale securities	(1,005)	(564)
Net realized and unrealized losses (gains) on trading securities	(265)	321
Proceeds from sale of trading securities	468	618
Purchase of trading securities	(271)	(923)
Gain on sale of loans	(516)	(402)
Net losses on dispositions of premises and equipment and foreclosed assets	117	16
Proceeds from sale of loans	22,329	11,222
Origination of loans held for sale	(23,335)	(10,704)
Income on bank owned life insurance	(807)	(853)
Stock-based compensation expense	628	474
Contribution of treasury stock	106	84
Changes in:		
Accrued interest receivable and other assets	(31,192)	898
Accrued interest payable and other liabilities	(7,085)	3,097
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(21,095)	25,118
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, prepayments and calls of available-for-sale securities	44,360	59,935
Proceeds from sales of available-for-sale securities	4,420	86,554
Purchase of available-for-sale securities	(2,221)	(46,542)
Net cash paid for Lake National Bank acquisition	(2,866)	0
Loan origination and payments, net	(102,014)	(161,300)
Purchase of FHLB and other equity interests	(1,776)	(6,743)
Purchase of premises and equipment	(6,082)	(5,182)
Proceeds from the sale of premises and equipment and foreclosed assets	466	708
NET CASH USED IN INVESTING ACTIVITIES	(65,713)	(72,570)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Checking, money market and savings accounts	70,678	(19,375)
Certificates of deposit	(1,733)	19,988
Purchase of treasury stock	(23)	(868)
Cash dividends paid	(7,158)	(7,138)
Repayment of long-term borrowings	(55,041)	(189)
Proceeds from long-term borrowings	80,000	0

Proceeds from issuance of subordinated debtentures		50,000		0
Net change in short-term borrowings		(40,272)		54,524
NET CASH PROVIDED BY FINANCING ACTIVITIES		96,451		46,942
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		9,643		(510)
CASH AND CASH EQUIVALENTS, Beginning		27,261		27,928
CASH AND CASH EQUIVALENTS, Ending	$	36,904	$	27,418
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	9,506	$	9,291
Income taxes	$	3,966	$	5,431
SUPPLEMENTAL NONCASH DISCLOSURES:				
Transfers to other real estate owned	$	49	$	484
Grant of restricted stock awards from treasury stock	$	875	$	821
Net assets acquired from Lake National Bank, excluding cash and cash equivalents	$	2,866		0

See Notes to Consolidated Financial Statements

Table of Contents

CNB Financial Corporation

Notes To Consolidated Financial Statements

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the SEC and in compliance with accounting principles generally accepted in the United States of America (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of management of the registrant, the accompanying consolidated financial statements as of September 30, 2016 and for the three and nine month periods ended September 30, 2016 and 2015 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the periods presented. The financial performance reported for CNB Financial Corporation (the Corporation) for the three and nine month periods ended September 30, 2016 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Corporation s Annual Report on Form 10-K for the period ended December 31, 2015. All dollar amounts are stated in thousands, except share and per share data and other amounts as indicated. Certain prior period amounts have been reclassified to conform to the current period presentation.

2. BUSINESS COMBINATION

On July 15, 2016, the Corporation completed its previously announced acquisition of Lake National Bank (LNB) of Mentor, Ohio for $22.50 per share in cash, resulting in consideration paid to LNB shareholders of $24.75 million. Following completion of the merger, the two branches of LNB in Mentor, Ohio are operating as part of the ERIEBANK division of CNB Bank.

As disclosed in the accompanying consolidated statements of income, the Corporation incurred merger costs of $266 thousand and $481 thousand for the three and nine months ended September 30, 2016. All merger costs have been expensed as incurred.

The following table summarizes the consideration paid for LNB and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date:

Consideration paid:	
Cash	$ 24,750
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	21,884
Securities available for sale	450
Loans	122,036
FHLB and other equity interests	637
Premises and equipment	3,242
Bank owned life insurance	2,152
Mortgage servicing rights	109
Core deposit intangible	1,583
Accrued interest receivable and other assets	3,301

Total assets acquired	155,394
Demand deposits	81,472
Time deposits	58,311
Accrued interest payable and other liabilities	2,634
Total liabilities assumed	142,417
Total identifiable net assets	12,977
Goodwill	$ 11,773

Table of Contents

Valuation of some assets acquired or created including, but not limited to, goodwill are preliminary and could be subject to change.

Included in accrued interest receivable and other assets is a deferred tax asset of $249 which represents the tax effect of temporary differences between the tax basis and fair values assigned to the assets and liabilities.

Acquired loans were recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of loans involved estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The Corporation acquired $126,134 of gross loans and recognized a net combined yield and credit mark of $4,098.

Goodwill of $11,773 arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the Corporation and Lake National Bank. None of the goodwill is expected to be deductible for income tax purposes.

3. STOCK COMPENSATION

The Corporation has a stock incentive plan for key employees and independent directors. The stock incentive plan, which is administered by a committee of the Board of Directors, provides for aggregate grants of up to 500,000 shares of common stock in the form of nonqualified options or restricted stock. For key employees, the plan vesting is one-fourth of the granted options or restricted stock per year beginning one year after the grant date, with 100% vested on the fourth anniversary of the grant date. For independent directors, the vesting schedule is one-third of the granted options or restricted stock per year beginning one year after the grant date, with 100% vested on the third anniversary of the grant date.

At September 30, 2016, there was no unrecognized compensation cost related to nonvested stock options granted under this plan and no stock options were granted during the three and nine month periods ended September 30, 2016 and 2015.

Compensation expense for the restricted stock awards is recognized over the requisite service period noted above based on the fair value of the shares at the date of grant. Nonvested restricted stock awards are recorded as a reduction of additional paid-in-capital in shareholders equity until earned. Compensation expense resulting from these restricted stock awards was $216 and $628 for the three and nine months ended September 30, 2016 and $169 and $474 for the three and nine months ended September 30, 2015. As of September 30, 2016, there was $1,359 of total unrecognized compensation cost related to unvested restricted stock awards to be recognized over the next five years.

Table of Contents

A summary of changes in nonvested restricted stock awards for the three months ended September 30, 2016 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	103,228	$ 17.35
Granted	750	18.40
Vested	(150)	17.80
Nonvested at end of period	103,828	$ 17.35

A summary of changes in nonvested restricted stock awards for the nine months ended September 30, 2016 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	84,600	$ 17.01
Granted	52,250	17.65
Vested	(33,022)	16.92
Nonvested at end of period	103,828	$ 17.35

The fair value of shares vested was $3 and $559 during the three and nine month periods ended September 30, 2016.

4. FAIR VALUE

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has also been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs are used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most trading securities and securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

The Corporation s structured pooled trust preferred securities are priced using Level 3 inputs. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely, and the once-active market has become comparatively inactive. The Corporation engaged a third party consultant who has developed a model for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral and default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a

Table of Contents

market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies are utilized in determining the security valuation. Due to the current market conditions as well as the limited trading activity of these types of securities, the market value of the Corporation s structured pooled trust preferred securities are highly sensitive to assumption changes and market volatility.

The Corporation s derivative instruments are interest rate swaps that are similar to those that trade in liquid markets. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgments (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at September 30, 2016 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 139,902	$ 0	$ 139,902	$ 0
States and political subdivisions	161,210	0	161,210	0
Residential and multi-family mortgage	139,022	0	139,022	0
Corporate notes and bonds	17,279	0	17,279	0
Pooled trust preferred	1,702	0	0	1,702
Pooled SBA	46,635	0	46,635	0
Other equity securities	994	994	0	0
Total Securities Available For Sale	$ 506,744	$ 994	$ 504,048	$ 1,702
Interest rate swaps	$ 766	$ 0	$ 766	$ 0
Trading Securities:				
Corporate equity securities	$ 3,148	$ 3,148	$ 0	$ 0
Mutual funds	964	964	0	0
Certificates of deposit	255	255	0	0
Corporate notes and bonds	221	221	0	0
U.S. Government sponsored entities	55	0	55	0
Total Trading Securities	$ 4,644	$ 4,589	$ 55	$ 0
Liabilities,				
Interest rate swaps	$ (1,361)	$ 0	$ (1,361)	$ 0

		Fair Value Measurements at December 31, 2015 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 141,751	$ 0	$ 141,751	$ 0
States and political subdivisions	171,819	0	171,819	0
Residential and multi-family mortgage	157,982	0	157,982	0

Corporate notes and bonds	18,688	0	18,688	0
Pooled trust preferred	3,413	0	0	3,413
Pooled SBA	51,409	0	51,409	0
Other equity securities	981	981	0	0
Total Securities Available For Sale	$ 546,043	$ 981	$ 541,649	$ 3,413
Interest rate swaps	$ 131	$ 0	$ 131	$ 0
Trading Securities:				
Corporate equity securities	$ 3,389	$ 3,389	$ 0	$ 0
Mutual funds	750	750	0	0
Certificates of deposit	253	253	0	0
Corporate notes and bonds	130	130	0	0
U.S. Government sponsored entities	54	0	54	0
Total Trading Securities	$ 4,576	$ 4,522	$ 54	$ 0
Liabilities,				
Interest rate swaps	$ (867)	$ 0	$ (867)	$ 0

Table of Contents

The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2016 and September 30, 2015:

	2016	2015
Balance, July 1	$ 1,702	$ 1,160
Proceeds from sale of securities	0	0
Total gains or (losses):		
Included in other comprehensive income (unrealized)	0	0
Balance, September 30	$ 1,702	$ 1,160

The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and September 30, 2015:

	2016	2015
Balance, January 1	$ 3,413	$ 905
Proceeds from sale of securities	(922)	0
Total gains or (losses):		
Included in other comprehensive income (unrealized)	(789)	255
Balance, September 30	$ 1,702	$ 1,160

The following table presents quantitative information about Level 3 fair value measurements at September 30, 2016:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 1,702	Discounted cash flow	Collateral default rate	0.5% in 2016 and thereafter
			Yield (weighted average)	10.0%
			Prepayment speed	2.0% constant prepayment rate in 2016 and thereafter

The following table presents quantitative information about Level 3 fair value measurements at December 31, 2015:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 3,413	Discounted cash flow	Collateral default rate	1% in 2015; 0.5% in 2016 and thereafter
			Yield (weighted average)	9.0%
			Prepayment speed	2.0% constant prepayment rate in 2015 and thereafter

Table of Contents

At September 30, 2016 and December 31, 2015, the significant unobservable inputs used in the fair value measurement of the Corporation s pooled trust preferred securities are collateral default rate, yield, and prepayment speed. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

Assets and liabilities measured at fair value on a non-recurring basis are as follows at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at September 30, 2016 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 2,002	0	0	$2,002

		Fair Value Measurements at December 31, 2015 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 2,247	0	0	$2,247

Impaired loans, measured for impairment using the fair value of collateral for collateral dependent loans, had a recorded investment of $3,202 with a valuation allowance of $1,200 as of September 30, 2016, resulting in an additional negative provision for loan losses of $(95) and $(42) for the corresponding three and nine month period ended September 30, 2016. Impaired loans had a recorded investment of $3,489 with a valuation allowance of $1,242 as of December 31, 2015. Impaired loans carried at fair value resulted in an additional provision for loan losses of $(361) and $(298) for the corresponding three and nine month period ended September 30, 2015.

The estimated fair values of impaired collateral dependent loans such as commercial or residential mortgages are determined primarily through third-party appraisals. When a collateral dependent loan, such as a commercial or residential mortgage loan, becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal, and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral and a further reduction for estimated costs to sell the property is applied, which results in an amount that is considered to be the estimated fair value. If a loan becomes impaired and the appraisal of related loan collateral is outdated, management applies an appropriate adjustment factor based on its experience with current valuations of similar collateral in determining the loan s estimated fair value and resulting allowance for loan losses. Third-party appraisals are not customarily obtained in respect of unimpaired loans, unless in management s view changes in circumstances warrant obtaining an updated appraisal.

Table of Contents

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2016:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$2,002	Sales comparison approach	Adjustment for differences between the comparable sales	19% - 99% (37%)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2015:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$2,247	Sales comparison approach	Adjustment for differences between the comparable sales	25% - 69% (36%)

Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of financial instruments at September 30, 2016:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 36,904	$ 36,904	$ 0	$ 0	$ 36,904
Securities available for sale	506,744	994	504,048	1,702	506,744
Trading securities	4,644	4,589	55	0	4,644
Loans held for sale	2,814	0	2,829	0	2,829
Net loans	1,785,155	0	0	1,783,814	1,783,814
FHLB and other equity interests	18,334	n/a	n/a	n/a	n/a
Interest rate swaps	766	0	766	0	766
Accrued interest receivable	8,387	6	3,105	5,276	8,387
LIABILITIES					
Deposits	$ (2,023,781)	$ (1,783,037)	$ (240,275)	$ 0	$ (2,023,312)
FHLB and other borrowings	(205,202)	0	(204,314)	0	(204,314)
Subordinated debentures	(70,620)	0	(61,432)	0	(61,432)
Interest rate swaps	(1,361)	0	(1,361)	0	(1,361)
Accrued interest payable	(479)	0	(479)	0	(479)

The following table presents the carrying amount and fair value of financial instruments at December 31, 2015:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 27,261	$ 27,261	$ 0	$ 0	$ 27,261
Securities available for sale	546,043	981	541,649	3,413	546,043

Trading securities	4,576	4,522	54	0	4,576
Loans held for sale	1,381	0	1,438	0	1,438
Net loans	1,561,061	0	0	1,554,502	1,554,502
FHLB and other equity interests	15,921	n/a	n/a	n/a	n/a
Interest rate swaps	131	0	131	0	131
Accrued interest receivable	7,312	5	2,875	4,432	7,312
LIABILITIES					
Deposits	$ (1,815,053)	$ (1,630,888)	$ (183,028)	$ 0	(1,813,916)
FHLB and other borrowings	(220,515)	0	(218,808)	0	(218,808)
Subordinated debentures	(20,620)	0	(11,761)	0	(11,761)
Interest rate swaps	(867)	0	(867)	0	(867)
Accrued interest payable	(766)	(344)	(422)	0	(766)

Table of Contents

The methods and assumptions, not otherwise presented, used to estimate fair values are described as follows:

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values, resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality, resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB and other equity interests: It is not practical to determine the fair value of Federal Home Loan Bank stock and other equity interests due to restrictions placed on the transferability of these instruments.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates fair value. The Level classification of accrued interest receivable is matched to the corresponding Level of the asset with which it is associated.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 1 classification. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

FHLB and other borrowings: The fair values of the Corporation s FHLB and other borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements, resulting in a Level 2 classification.

Subordinated debentures: The fair value of the Corporation s subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of arrangements, resulting in a Level 2 classification.

Accrued interest payable: The carrying amount of accrued interest payable approximates fair value resulting in a classification that is consistent with the liability with which it is associated.

While estimates of fair value are based on management s judgment of the most appropriate factors as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets had been disposed of or the liabilities settled at that date, since market values may differ depending on various circumstances. The estimated fair values would also not apply to subsequent dates.

In addition, other assets and liabilities that are not financial instruments, such as premises and equipment, are not included in the disclosures. Also, non-financial assets such as, among other things, the estimated earning power of core deposits, the earnings potential of trust accounts, the trained workforce, and customer goodwill, which typically are not recognized on the balance sheet, may have value but are not included in the fair value disclosures.

Table of Contents

5. SECURITIES

Securities available for sale at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016				December 31, 2015			
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
U.S. Gov t sponsored entities	$ 136,945	$ 2,958	$ (1)	$ 139,902	$ 141,300	$ 1,579	$ (1,128)	$ 141,751
State & political subdivisions	153,762	7,643	(195)	161,210	165,828	6,234	(243)	171,819
Residential & multi-family mortgage	137,639	1,894	(511)	139,022	160,316	1,060	(3,394)	157,982
Corporate notes & bonds	18,299	177	(1,197)	17,279	19,794	165	(1,271)	18,688
Pooled trust preferred	800	902	0	1,702	800	2,613	0	3,413
Pooled SBA	45,964	793	(122)	46,635	51,556	760	(907)	51,409
Other equity securities	1,020	0	(26)	994	1,020	0	(39)	981
Total	$ 494,429	$ 14,367	$ (2,052)	$ 506,744	$ 540,614	$ 12,411	$ (6,982)	$ 546,043

At September 30, 2016 and December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of shareholders equity. The Corporation s residential and multi-family mortgage securities are issued by government sponsored entities.

Trading securities at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Corporate equity securities	$ 3,148	$ 3,389
Mutual funds	965	750
Certificates of deposit	255	253
Corporate notes and bonds	221	130
U.S. Government sponsored entities	55	54
Total	$ 4,644	$ 4,576

Securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

September 30, 2016

	Less than 12 Months		**12 Months or More**		**Total**	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	$ 0	$ 0	$ 3,001	$ (1)	$ 3,001	$ (1)
State & political subdivisions	1,669	(2)	272	(193)	1,941	(195)
Residential & multi-family mortgage	10,975	(78)	40,280	(433)	51,255	(511)
Corporate notes & bonds	1,977	(23)	8,251	(1,174)	10,228	(1,197)
Pooled SBA	0	0	22,441	(122)	22,441	(122)
Other equity securities	0	0	994	(26)	994	(26)
	$ 14,621	$ (103)	$ 75,239	$ (1,949)	$ 89,860	$ (2,052)

Table of Contents

December 31, 2015

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	$ 65,675	$ (640)	$ 31,923	$ (488)	$ 97,598	$ (1,128)
State & political subdivisions	9,103	(234)	2,478	(9)	11,581	(243)
Residential & multi-family mortgage	69,631	(1,562)	50,351	(1,832)	119,982	(3,394)
Corporate notes & bonds	5,027	(2)	8,144	(1,269)	13,171	(1,271)
Pooled SBA	2,908	(28)	27,127	(879)	30,035	(907)
Other equity securities	0	0	981	(39)	981	(39)
	$ 152,344	$ (2,466)	$ 121,004	$ (4,516)	$ 273,348	$ (6,982)

The Corporation evaluates securities for other-than-temporary impairment on a quarterly basis, or more frequently when economic or market conditions warrant such an evaluation.

A roll-forward of the other-than-temporary impairment amount related to credit losses for the three and nine months ended September 30, 2016 and 2015 is as follows:

	2016	2015
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, beginning of period	$ 4,054	$ 4,054
Credit losses previously recognized on securities sold during the period	(1,983)	0
Additional credit loss for which other-than-temporary impairment was not previously recognized	0	0
Additional credit loss for which other-than-temporary impairment was previously recognized	0	0
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, end of period	$ 2,071	$ 4,054

During the quarter ended June 30, 2016 the Corporation sold two structured pooled trust preferred securities which had been charged off in their entirety in prior periods. The original cost basis of these securities was $1,983 and the proceeds received totaled $922, which is reported in net realized gains on available-for-sale securities for the three and nine months ended September 30, 2016. Due to the insignificance of the Corporation s adjusted amortized cost balance of the remaining structured pooled trust securities, no further disclosures are required.

For the securities that comprise corporate notes and bonds and the securities that are issued by state and political subdivisions, management monitors publicly available financial information, such as filings with the Securities and Exchange Commission, in order to evaluate the securities for other-than-temporary impairment. For financial institution issuers, management monitors information from quarterly call report filings that are used to generate Uniform Bank Performance Reports. All other securities that were in an unrealized loss position at the balance sheet date were reviewed by management, and issuer-specific documents were reviewed, as appropriate given the following considerations. When reviewing securities for other-than-temporary impairment, management considers the financial condition and near-term prospects of the issuer and whether downgrades by bond rating agencies have occurred. Management also considers the length of time and extent to which fair value has been less than cost, and whether management does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

As of September 30, 2016 and December 31, 2015, management concluded that the securities described in the previous paragraph were not other-than-temporarily impaired for the following reasons:

There is no indication of any significant deterioration of the creditworthiness of the institutions that issued the securities.

All contractual interest payments on the securities have been received as scheduled, and no information has come to management s attention through the processes previously described which would lead to a conclusion that future contractual payments will not be timely received.

The Corporation does not intend to sell and it is not more likely than not that it will be required to sell the securities in an unrealized loss position before recovery of its amortized cost basis.

Table of Contents

Information pertaining to security sales on available for sale securities is as follows:

	Proceeds	Gross Gains	Gross Losses
Three months ended September 30, 2016	$ 0	$ 0	$ 0
Nine months ended September 30, 2016	4,420	1,005	0
Three months ended September 30, 2015	38,025	244	(171)
Nine months ended September 30, 2015	86,554	852	(288)

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at September 30, 2016:

	Amortized Cost	Fair Value
1 year or less	$ 41,920	$ 41,532
1 year 5 years	179,919	186,380
5 years 10 years	70,832	73,920
After 10 years	17,135	18,261
	309,806	320,093
Residential and multi-family mortgage	137,639	139,022
Pooled SBA	45,964	46,635
Total debt securities	$ 493,409	$ 505,750

Mortgage and asset backed securities and pooled SBA securities are not due at a single date; periodic payments are received based on the payment patterns of the underlying collateral.

On September 30, 2016 and December 31, 2015, securities carried at $347,196 and $312,669, respectively, were pledged to secure public deposits and for other purposes as provided by law.

6. LOANS

Total net loans at September 30, 2016 and December 31, 2015 are summarized as follows:

	September 30, 2016	December 31, 2015
Commercial, industrial, and agricultural	$ 569,267	$ 475,364
Commercial mortgages	507,340	448,179
Residential real estate	644,545	574,225
Consumer	77,405	78,345
Credit cards	5,842	5,201
Overdrafts	73	1,040
Less: unearned discount	(3,614)	(4,556)
allowance for loan losses	(15,703)	(16,737)
Loans, net	$ 1,785,155	$ 1,561,061

At September 30, 2016 and December 31, 2015, net unamortized loan fees of $(824) and $(636), respectively, have been included in the carrying value of loans.

The Bank attempts to limit concentrations within specific industries by utilizing dollar limitations to single industries or customers, and by entering into participation agreements with third parties. Collateral requirements are established based on management s assessment of the customer. The Corporation maintains lending policies to control the quality of the loan portfolio. These policies delegate the authority to extend loans under specific guidelines and underwriting standards. These policies are prepared by the Corporation s management and reviewed and ratified annually by the Corporation s Board of Directors.

Table of Contents

All relevant documentation, such as the loan application, financial statements and tax returns, required under the lending policies is summarized and provided to management and/or the Corporation s Board of Directors in connection with the loan approval process. Such documentation is subsequently electronically archived in the Corporation s document management system. Pursuant to the Corporation s lending policies, management considers a variety of factors when determining whether to extend credit to a customer, including loan-to-value ratios, FICO scores, quality of the borrower s financial statements, and the ability to obtain personal guarantees.

Commercial, industrial, and agricultural loans comprised 32% and 30% of the Corporation s total loan portfolio at September 30, 2016 and December 31, 2015. Commercial mortgage loans comprised 28% of the Corporation s total loan portfolio at September 30, 2016 and December 31, 2015. Management assigns a risk rating to all commercial loans at loan origination. The loan-to-value policy guidelines for commercial, industrial, and agricultural loans are generally a maximum of 80% of the value of business equipment, a maximum of 75% of the value of accounts receivable, and a maximum of 60% of the value of business inventory. The loan-to-value policy guideline for commercial mortgage loans is generally a maximum of 85% of the appraised value of the real estate.

Residential real estate loans comprised 36% of the Corporation s total loan portfolio at September 30, 2016 and December 31, 2015. The loan-to-value policy guidelines for residential real estate loans vary depending on the collateral position and the specific type of loan. Higher loan-to-value terms may be approved with the appropriate private mortgage insurance coverage. The Corporation also originates and prices loans for sale into the secondary market through Freddie Mac. Loans originated for sale into the secondary market are classified as loans held for sale and are excluded from residential real estate loans reported above. The rationale for these sales is to mitigate interest rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio and to generate fee revenue from sales and servicing the loan. The Corporation also offers a variety of unsecured and secured consumer loan and credit card products which represent less than 10% of the total loan portfolio at both September 30, 2016 and December 31, 2015. Terms and collateral requirements vary depending on the size and nature of the loan.

CNB has not underwritten any hybrid loans, payment option loans, or low documentation/no documentation loans. Variable rate loans are generally underwritten at the fully indexed rate. Loan underwriting policies and procedures have not changed materially between any periods presented.

Transactions in the allowance for loan losses for the three months ended September 30, 2016 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, July 1, 2016	$ 5,218	$ 6,207	$ 2,299	$ 2,066	$ 50	$ 148	$ 15,988
Charge-offs	(86)	0	(95)	(709)	(17)	(86)	(993)
Recoveries	37	2	10	20	3	14	86
Provision (benefit) for loan losses	(24)	27	(65)	545	36	103	622
Allowance for loan losses, September 30, 2016	$ 5,145	$ 6,236	$ 2,149	$ 1,922	$ 72	$ 179	$ 15,703

Transactions in the allowance for loan losses for the nine months ended September 30, 2016 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2016	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737
Charge-offs	(519)	(20)	(244)	(2,397)	(54)	(167)	(3,401)
Recoveries	84	7	72	94	18	54	329
Provision (benefit) for loan losses	(455)	644	(154)	1,854	18	131	2,038
Allowance for loan losses, September 30, 2016	$ 5,145	$ 6,236	$ 2,149	$ 1,922	$ 72	$ 179	$ 15,703

17

Table of Contents

Transactions in the allowance for loan losses for the three months ended September 30, 2015 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, July 1, 2015	$ 6,598	$ 5,928	$ 2,612	$ 2,118	$ 98	$ 150	$ 17,504
Charge-offs	(80)	0	(191)	(448)	(17)	(54)	(790)
Recoveries	12	1	4	21	3	18	59
Provision (benefit) for loan losses	89	(384)	115	585	14	44	463
Allowance for loan losses, September 30, 2015	$ 6,619	$ 5,545	$ 2,540	$ 2,276	$ 98	$ 158	$ 17,236

Transactions in the allowance for loan losses for the nine months ended September 30, 2015 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2015	$ 7,114	$ 5,310	$ 2,479	$ 2,205	$ 71	$ 194	$ 17,373
Charge-offs	(219)	0	(347)	(1,448)	(103)	(159)	(2,276)
Recoveries	39	51	5	76	8	68	247
Provision (benefit) for loan losses	(315)	184	403	1,443	122	55	1,892
Allowance for loan losses, September 30, 2015	$ 6,619	$ 5,545	$ 2,540	$ 2,276	$ 98	$ 158	$ 17,236

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation s impairment method as of September 30, 2016 and December 31, 2015. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

September 30, 2016

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 193	$ 0	$ 0	$ 0	$ 0	$ 0	$ 193
Collectively evaluated for impairment	4,824	3,811	2,149	1,922	72	179	12,957
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	128	2,425	0	0	0	0	2,553
Total ending allowance balance	$ 5,145	$ 6,236	$ 2,149	$ 1,922	$ 72	$ 179	$ 15,703
Loans:							
Individually evaluated for impairment	$ 820	$ 0	$ 0	$ 0	$ 0	$ 0	$ 820
Collectively evaluated for impairment	565,737	497,318	644,545	77,405	5,842	73	1,790,920
Acquired with deteriorated credit quality	0	660	0	0	0	0	660
Modified in a troubled debt restructuring	2,710	9,362	0	0	0	0	12,072

Total ending loans balance	$ 569,267	$ 507,340	$ 644,545	$ 77,405	$ 5,842	$ 73	$ 1,804,472

December 31, 2015

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 239	$ 0	$ 39	$ 0	$ 0	$ 0	$ 278
Collectively evaluated for impairment	4,909	3,580	2,436	2,371	90	161	13,547
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	887	2,025	0	0	0	0	2,912
Total ending allowance balance	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737

Table of Contents

Loans:							
Individually evaluated for impairment	$ 1,196	$ 393	$ 248	$ 0	$ 0	$ 0	$ 1,837
Collectively evaluated for impairment	469,128	437,200	573,977	78,345	5,201	1,040	1,564,891
Acquired with deteriorated credit quality	0	685	0	0	0	0	685
Modified in a troubled debt restructuring	5,040	9,901	0	0	0	0	14,941
Total ending loans balance	$ 475,364	$ 448,179	$ 574,225	$ 78,345	$ 5,201	$ 1,040	$ 1,582,354

The following tables present information related to loans individually evaluated for impairment, including loans modified in troubled debt restructurings, by portfolio segment as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015:

September 30, 2016

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 1,689	$ 1,689	$ 321
Commercial mortgage	10,148	9,362	2,425
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,763	1,841	0
Commercial mortgage	0	0	0
Residential real estate	0	0	0
Total	$ 14,600	$ 12,892	$ 2,746

December 31, 2015

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,448	$ 3,448	$ 1,126
Commercial mortgage	5,985	5,343	2,025
Residential real estate	351	248	39
With no related allowance recorded:			
Commercial, industrial, and agricultural	3,716	2,788	0
Commercial mortgage	5,001	4,951	0
Residential real estate	0	0	0
Total	$ 18,501	$ 16,778	$ 3,190

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						

Commercial, industrial, and agricultural	$ 2,340	$ 34	$ 34	$ 2,859	$ 36	$ 36
Commercial mortgage	7,253	57	57	6,331	61	61
Residential real estate	0	0	0	83	6	6
With no related allowance recorded:						
Commercial, industrial, and agricultural	2,148	24	24	2,420	26	26
Commercial mortgage	2,214	17	17	3,467	20	20
Residential real estate	0	0	0	0	0	0
Total	$ 13,955	$ 132	$ 132	$ 15,160	$ 149	$ 149

Table of Contents

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial, industrial, and agricultural	$ 6,463	$ 0	$ 0	$ 6,129	$ 42	$ 42
Commercial mortgage	7,474	0	0	8,069	0	0
Residential real estate	400	5	5	400	18	18
With no related allowance recorded:						
Commercial, industrial, and agricultural	1,549	0	0	1,496	10	10
Commercial mortgage	4,656	0	0	4,822	0	0
Residential real estate	0	0	0	129	6	6
Total	$ 20,542	$ 5	$ 5	$ 21,045	$ 76	$ 76

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing interest by class of loans as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	$ 2,830	$ 0	$ 3,560	$ 3
Commercial mortgages	5,592	0	3,651	0
Residential real estate	5,733	27	3,671	87
Consumer	1,170	15	1,277	15
Credit cards	0	28	0	0
Total	$ 15,325	$ 70	$ 12,159	$ 105

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The following table presents the aging of the recorded investment in past due loans as of September 30, 2016 and December 31, 2015 by class of loans.

September 30, 2016

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 1,641	$ 269	$ 1,910	$ 3,820	$ 565,447	$ 569,267
Commercial mortgages	2	727	2,043	2,772	504,568	507,340
Residential real estate	1,680	354	2,451	4,485	640,060	644,545
Consumer	286	150	1,185	1,621	75,784	77,405
Credit cards	24	39	28	91	5,751	5,842

Overdrafts	0	0	0	0	73	73
Total	$ 3,633	$ 1,539	$ 7,617	$ 12,789	$ 1,791,683	$ 1,804,472

Table of Contents

December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 131	$ 622	$ 698	$ 1,451	$ 473,913	$ 475,364
Commercial mortgages	7	343	3,651	4,001	444,178	448,179
Residential real estate	2,834	378	3,001	6,213	568,012	574,225
Consumer	216	179	1,292	1,687	76,658	78,345
Credit cards	0	0	0	0	5,201	5,201
Overdrafts	0	0	0	0	1,040	1,040
Total	$ 3,188	$ 1,522	$ 8,642	$ 13,352	$ 1,569,002	$ 1,582,354